

AGCO CORP /DE  
Form 10-Q  
August 08, 2014

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

FORM 10-Q

For the quarter ended June 30, 2014

of

AGCO CORPORATION

A Delaware Corporation

IRS Employer Identification No. 58-1960019

SEC File Number 1-12930

4205 River Green Parkway

Duluth, GA 30096

(770) 813-9200

AGCO Corporation (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 and (2) has been subject to such filing requirements for the past 90 days.

AGCO Corporation has submitted electronically and posted on its corporate website every Interactive Data File for the periods required to be submitted and posted pursuant to Rule 405 of regulation S-T.

As of July 31, 2014, AGCO Corporation had 93,795,360 shares of common stock outstanding. AGCO Corporation is a large accelerated filer.

AGCO Corporation is a well-known seasoned issuer and is not a shell company.

---

AGCO CORPORATION AND SUBSIDIARIES  
INDEX

Page  
Numbers

PART I. FINANCIAL INFORMATION:

Item 1. Financial Statements (unaudited)

Condensed Consolidated Balance Sheets as of  
June 30, 2014 and December 31, 2013 3

Condensed Consolidated Statements of Operations for the  
Three Months Ended June 30, 2014 and 2013 4

Condensed Consolidated Statements of Operations for the  
Six Months Ended June 30, 2014 and 2013 5

Condensed Consolidated Statements of Comprehensive Income for the  
Three and Six Months Ended June 30, 2014 and 2013 6

Condensed Consolidated Statements of Cash Flows for the  
Six Months Ended June 30, 2014 and 2013 7

Notes to Condensed Consolidated Financial Statements 8

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 26

Item 3. Quantitative and Qualitative Disclosures about Market Risk 35

Item 4. Controls and Procedures 36

PART II. OTHER INFORMATION:

Item 1. Legal Proceedings 37

Item 6. Exhibits 38

SIGNATURES 39

EX-10.1

EX-31.1

EX-31.2

EX-32.1

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT



Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

AGCO CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(unaudited and in millions, except share amounts)

	June 30, 2014	December 31, 2013
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$323.3	\$1,047.2
Accounts and notes receivable, net	1,233.4	940.6
Inventories, net	2,437.9	2,016.1
Deferred tax assets	219.3	241.2
Other current assets	319.7	272.0
Total current assets	4,533.6	4,517.1
Property, plant and equipment, net	1,603.5	1,602.3
Investment in affiliates	448.2	416.1
Deferred tax assets	23.6	24.4
Other assets	128.2	134.6
Intangible assets, net	541.6	565.6
Goodwill	1,190.6	1,178.7
Total assets	\$8,469.3	\$8,438.8
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Current portion of long-term debt	\$94.4	\$110.5
Convertible senior subordinated notes	151.5	201.2
Accounts payable	948.7	960.3
Accrued expenses	1,375.1	1,389.2
Other current liabilities	221.0	150.8
Total current liabilities	2,790.7	2,812.0
Long-term debt, less current portion	979.2	938.5
Pensions and postretirement health care benefits	234.3	246.4
Deferred tax liabilities	241.8	251.2
Other noncurrent liabilities	160.9	145.9
Total liabilities	4,406.9	4,394.0
Commitments and contingencies (Note 14)		
Stockholders' Equity:		
AGCO Corporation stockholders' equity:		
Preferred stock; \$0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding in 2014 and 2013	—	—
Common stock; \$0.01 par value, 150,000,000 shares authorized, 93,946,186 and 97,362,466 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	0.9	1.0
Additional paid-in capital	823.0	1,117.9
Retained earnings	3,649.2	3,402.0
Accumulated other comprehensive loss	(445.3	) (510.7
Total AGCO Corporation stockholders' equity	4,027.8	4,010.2

Edgar Filing: AGCO CORP /DE - Form 10-Q

Noncontrolling interests	34.6	34.6
Total stockholders' equity	4,062.4	4,044.8
Total liabilities and stockholders' equity	\$8,469.3	\$8,438.8

See accompanying notes to condensed consolidated financial statements.

3

---

Table of Contents

AGCO CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (unaudited and in millions, except per share data)

	Three Months Ended June 30,	
	2014	2013
Net sales	\$2,750.3	\$3,048.2
Cost of goods sold	2,118.8	2,337.9
Gross profit	631.5	710.3
Selling, general and administrative expenses	262.3	279.7
Engineering expenses	92.5	91.4
Amortization of intangibles	10.0	12.1
Income from operations	266.7	327.1
Interest expense, net	15.7	13.5
Other expense, net	12.9	10.2
Income before income taxes and equity in net earnings of affiliates	238.1	303.4
Income tax provision	83.2	104.4
Income before equity in net earnings of affiliates	154.9	199.0
Equity in net earnings of affiliates	11.1	14.1
Net income	166.0	213.1
Net loss attributable to noncontrolling interests	2.2	0.6
Net income attributable to AGCO Corporation and subsidiaries	\$168.2	\$213.7
Net income per common share attributable to AGCO Corporation and subsidiaries:		
Basic	\$1.79	\$2.20
Diluted	\$1.77	\$2.15
Cash dividends declared and paid per common share	\$0.11	\$0.10
Weighted average number of common and common equivalent shares outstanding:		
Basic	93.9	97.3
Diluted	95.1	99.3

See accompanying notes to condensed consolidated financial statements.

Table of Contents

AGCO CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (unaudited and in millions, except per share data)

	Six Months Ended June 30,	
	2014	2013
Net sales	\$5,083.7	\$5,451.3
Cost of goods sold	3,937.3	4,207.9
Gross profit	1,146.4	1,243.4
Selling, general and administrative expenses	529.3	535.4
Engineering expenses	174.7	179.4
Amortization of intangibles	20.0	24.1
Income from operations	422.4	504.5
Interest expense, net	29.6	26.1
Other expense, net	24.1	13.9
Income before income taxes and equity in net earnings of affiliates	368.7	464.5
Income tax provision	129.6	157.3
Income before equity in net earnings of affiliates	239.1	307.2
Equity in net earnings of affiliates	26.1	23.0
Net income	265.2	330.2
Net loss attributable to noncontrolling interests	2.6	1.5
Net income attributable to AGCO Corporation and subsidiaries	\$267.8	\$331.7
Net income per common share attributable to AGCO Corporation and subsidiaries:		
Basic	\$2.83	\$3.41
Diluted	\$2.79	\$3.34
Cash dividends declared and paid per common share	\$0.22	\$0.20
Weighted average number of common and common equivalent shares outstanding:		
Basic	94.6	97.2
Diluted	95.9	99.2

See accompanying notes to condensed consolidated financial statements.

Table of Contents

AGCO CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (unaudited and in millions)

	Three Months Ended June 30,	
	2014	2013
Net income	\$166.0	\$213.1
Other comprehensive income (loss), net of reclassification adjustments:		
Foreign currency translation adjustments	23.1	(98.5 )
Defined benefit pension plans, net of tax	1.9	2.4
Unrealized loss on derivatives, net of tax	(1.2	) (2.0 )
Other comprehensive income (loss), net of reclassification adjustments	23.8	(98.1 )
Comprehensive income	189.8	115.0
Comprehensive loss attributable to noncontrolling interests	2.2	0.9
Comprehensive income attributable to AGCO Corporation and subsidiaries	\$192.0	\$115.9

	Six Months Ended June 30,	
	2014	2013
Net income	\$265.2	\$330.2
Other comprehensive income (loss), net of reclassification adjustments:		
Foreign currency translation adjustments	61.5	(142.9 )
Defined benefit pension plans, net of tax	3.7	4.8
Unrealized loss on derivatives, net of tax	(0.1	) (1.8 )
Other comprehensive income (loss), net of reclassification adjustments	65.1	(139.9 )
Comprehensive income	330.3	190.3
Comprehensive loss attributable to noncontrolling interests	2.9	1.7
Comprehensive income attributable to AGCO Corporation and subsidiaries	\$333.2	\$192.0

See accompanying notes to condensed consolidated financial statements.



Table of Contents

AGCO CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (unaudited and in millions)

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$265.2	\$330.2
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	119.3	101.4
Deferred debt issuance cost amortization	1.8	1.8
Amortization of intangibles	20.0	24.1
Amortization of debt discount	—	4.6
Stock compensation	11.8	28.1
Equity in net earnings of affiliates, net of cash received	(19.6	) (12.2
Deferred income tax provision	8.6	27.7
Other	2.1	0.1
Changes in operating assets and liabilities:		
Accounts and notes receivable, net	(271.4	) (389.8
Inventories, net	(418.1	) (404.7
Other current and noncurrent assets	(37.2	) 2.9
Accounts payable	12.6	214.9
Accrued expenses	8.6	107.4
Other current and noncurrent liabilities	42.1	28.5
Total adjustments	(519.4	) (265.2
Net cash (used in) provided by operating activities	(254.2	) 65.0
Cash flows from investing activities:		
Purchases of property, plant and equipment	(155.5	) (174.2
Proceeds from sale of property, plant and equipment	1.5	2.2
Purchase of business	(0.1	) (0.1
Net cash used in investing activities	(154.1	) (172.1
Cash flows from financing activities:		
Purchases and retirement of common stock	(290.0	) (1.0
Proceeds from debt obligations, net	51.9	91.7
Repurchase or conversion of convertible senior subordinated notes	(49.7	) —
Payment of dividends to stockholders	(20.6	) (19.4
Payment of minimum tax withholdings on stock compensation	(11.9	) (15.9
Distribution to noncontrolling interests, net	(2.0	) (2.1
Payment of debt issuance costs	(1.3	) —
Net cash (used in) provided by financing activities	(323.6	) 53.3
Effects of exchange rate changes on cash and cash equivalents	8.0	(46.9
Decrease in cash and cash equivalents	(723.9	) (100.7
Cash and cash equivalents, beginning of period	1,047.2	781.3
Cash and cash equivalents, end of period	\$323.3	\$680.6

See accompanying notes to condensed consolidated financial statements.



Table of Contents

AGCO CORPORATION AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (unaudited)

## 1. BASIS OF PRESENTATION

The condensed consolidated financial statements of AGCO Corporation and its subsidiaries (the “Company” or “AGCO”) included herein have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary to present fairly the Company’s financial position, results of operations, comprehensive income and cash flows at the dates and for the periods presented. These condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. Results for interim periods are not necessarily indicative of the results for the year.

### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”), which supersedes existing revenue recognition guidance under current U.S. GAAP. ASU 2014-09 outlines a comprehensive single revenue recognition model that provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers at an amount that reflects the consideration expected to be received in exchange for those goods or services. Additional disclosures will also be required to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for reporting periods beginning after December 15, 2016 using either a full retrospective or a modified retrospective approach. Early adoption is not permitted. The Company is currently evaluating the impact of adopting this standard on the Company’s results of operations and financial condition.

In July 2013, the FASB issued ASU 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists” (“ASU 2013-11”). ASU 2013-11 requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit is presented in the financial statements as a liability and is not combined with deferred tax assets. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption was permitted. The adoption of ASU 2013-11 did not have a material impact on the Company’s results of operations or financial condition.

## 2. STOCK COMPENSATION PLANS

The Company recorded stock compensation expense as follows for the three and six months ended June 30, 2014 and 2013 (in millions):

Three Months		Six Months Ended	
Ended June 30,		June 30,	
2014	2013	2014	2013

Edgar Filing: AGCO CORP /DE - Form 10-Q

Cost of goods sold	\$0.3	\$1.3	\$0.8	\$1.9
Selling, general and administrative expenses	5.3	18.5	11.2	26.4
Total stock compensation expense	\$5.6	\$19.8	\$12.0	\$28.3

8

---

Table of Contents

Notes to Condensed Consolidated Financial Statements - Continued  
(unaudited)

## Stock Incentive Plan

Under the Company's 2006 Long Term Incentive Plan (the "2006 Plan"), up to 10.0 million shares of AGCO common stock may be issued. The 2006 Plan allows the Company, under the direction of the Board of Directors' Compensation Committee, to make grants of performance shares, stock appreciation rights and restricted stock awards to employees, officers and non-employee directors of the Company.

## Employee Plans

The weighted average grant-date fair value of performance awards granted under the 2006 Plan during the six months ended June 30, 2014 and 2013 was \$53.93 and \$50.65, respectively.

During the six months ended June 30, 2014, the Company granted 864,600 awards related to the three-year performance period commencing in 2014 and ending in 2016, assuming the maximum target level of performance is achieved. The compensation expense associated with all awards granted under the 2006 Plan is amortized ratably over the vesting or performance period based on the Company's projected assessment of the level of performance that will be achieved and earned. Performance award transactions during the six months ended June 30, 2014 were as follows and are presented as if the Company were to achieve its maximum levels of performance under the plan:

Shares awarded but not earned at January 1	2,808,519	
Shares awarded	864,600	
Shares forfeited or unearned	(78,272	)
Shares earned	—	
Shares awarded but not earned at June 30	3,594,847	

As of June 30, 2014, the total compensation cost related to unearned performance awards not yet recognized, assuming the Company's current projected assessment of the level of performance that will be achieved and earned, was approximately \$40.5 million, and the weighted average period over which it is expected to be recognized is approximately two years.

During the three and six months ended June 30, 2014, the Company recorded stock compensation expense of approximately \$1.3 million and \$2.6 million, respectively, associated with stock-settled appreciation rights ("SSAR") awards. During the three and six months ended June 30, 2013, the Company recorded stock compensation expense of approximately \$1.2 million and \$2.3 million, respectively, associated with SSAR awards. The Company estimated the fair value of the grants using the Black-Scholes option pricing model. The weighted average grant-date fair value of SSARs granted under the 2006 Plan and the weighted average assumptions under the Black-Scholes option model were as follows for the six months ended June 30, 2014 and 2013:

	Six Months Ended June 30,		
	2014	2013	
Weighted average grant-date fair value	\$13.13	\$22.22	
Weighted average assumptions under Black-Scholes option model:			
Expected life of awards (years)	3.0	5.5	
Risk-free interest rate	0.9	% 0.8	%
Expected volatility	35.7	% 50.6	%
Expected dividend yield	0.8	% 0.8	%



Table of Contents

Notes to Condensed Consolidated Financial Statements - Continued  
(unaudited)

SSAR transactions during the six months ended June 30, 2014 were as follows:

SSARs outstanding at January 1	1,094,836
SSARs granted	297,900
SSARs exercised	(12,550 )
SSARs canceled or forfeited	(20,181 )
SSARs outstanding at June 30	1,360,005
SSAR price ranges per share:	
Granted	\$55.23
Exercised	21.45-52.94
Canceled or forfeited	21.45-56.98
Weighted average SSAR exercise prices per share:	
Granted	\$55.23
Exercised	35.97
Canceled or forfeited	52.51
Outstanding at June	48.30

At June 30, 2014, the weighted average remaining contractual life of SSARs outstanding was approximately four years. As of June 30, 2014, the total compensation cost related to unvested SSARs not yet recognized was approximately \$11.2 million and the weighted-average period over which it is expected to be recognized is approximately three years.

The following table sets forth the exercise price range, number of shares, weighted average exercise price, and remaining contractual life by groups of similar price as of June 30, 2014:

Range of Exercise Prices	SSARs Outstanding		Weighted Average Exercise Price	SSARs Exercisable	
	Number of Shares	Weighted Average Remaining Contractual Life (Years)		Number of Shares	Weighted Average Exercise Price
\$ 21.45 – \$32.01	156,125	1.6	\$21.88	154,000	\$21.74
\$ 33.65 – \$43.39	125,525	2.6	\$33.88	124,075	\$33.76
\$ 47.89 – \$63.64	1,078,355	5.0	\$53.80	378,950	\$53.42
	1,360,005			657,025	\$42.28

The total fair value of SSARs vested during the six months ended June 30, 2014 was approximately \$4.2 million. There were 702,980 SSARs that were not vested as of June 30, 2014. The total intrinsic value of outstanding and exercisable SSARs as of June 30, 2014 was \$11.0 million and \$9.2 million, respectively. The total intrinsic value of SSARs exercised during the six months ended June 30, 2014 was approximately \$0.2 million. The Company realized an insignificant tax benefit from the exercise of these SSARs.

#### Director Restricted Stock Grants

The 2006 Plan provides for annual restricted stock grants of the Company's common stock to all non-employee directors. The shares are restricted as to transferability for a period of one year. In the event a director departs from the Company's Board of Directors, the non-transferability period expires immediately. The plan allows each director to have the option of forfeiting a portion of the shares awarded in lieu of a cash payment contributed to the participant's tax withholding to satisfy the statutory minimum federal, state and employment taxes that would be payable at the

time of grant. The 2014 grant was made on April 24, 2014 and equated to 18,846 shares of common stock, of which 14,907 shares of common stock were issued after shares were withheld for taxes. The Company recorded stock compensation expense of approximately \$1.1 million during the six months ended June 30, 2014 associated with these grants.



Table of Contents

Notes to Condensed Consolidated Financial Statements - Continued  
(unaudited)

As of June 30, 2014, of the 10.0 million shares reserved for issuance under the 2006 Plan, approximately 2.5 million shares were available for grant, assuming the maximum number of shares are earned related to the performance award grants discussed above.

### 3. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of acquired intangible assets during the six months ended June 30, 2014 are summarized as follows (in millions):

	Trademarks and Tradenames	Customer Relationships	Patents and Technology	Land Use Rights	Total
Gross carrying amounts:					
Balance as of December 31, 2013	\$ 118.6	\$ 502.7	\$ 89.1	\$ 14.9	\$ 725.3
Adjustment	—	—	—	(4.8	) (4.8
Foreign currency translation	0.3	3.7	(0.1	) (0.4	) 3.5
Balance as of June 30, 2014	\$ 118.9	\$ 506.4	\$ 89.0	\$ 9.7	\$ 724.0
Accumulated amortization:					
Balance as of December 31, 2013	\$ 31.0	\$ 160.7	\$ 59.0	\$ 2.7	\$ 253.4
Amortization expense	3.0				