AGCO CORP /DE
Form 424B5
November 27, 2006

Table of Contents

The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities, and we are not soliciting offers to buy these securities, in any state where such offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-138964

SUBJECT TO COMPLETION, DATED NOVEMBER 27, 2006

PRELIMINARY PROSPECTUS SUPPLEMENT
to Prospectus dated November 27, 2006

$175,000,000
% Convertible Senior Subordinated Notes due 2036

Holders may convert their % Convertible Senior Subordinated Notes due December 15, 2036 based on a conversion rate of shares of common stock per $1,000 principal amount of notes (which is equal to an initial conversion price of approximately $ per share of common stock), subject to adjustment, on or prior to the close of business on the scheduled trading day immediately preceding September 15, 2036 only under the following circumstances: (1) if the closing sale price of our common stock reaches a specified threshold within a specified period, (2) during the five business days after any five consecutive trading day period in which the trading price per $1,000 principal amount of notes for each day of that period was less than 98% of the product of the closing sale price of our common stock and the then applicable conversion rate, (3) if the notes have been called for redemption, or (4) if specified corporate events occur. On and after September 15, 2036, until the close of business on the scheduled trading day immediately preceding the December 15, 2036 maturity date, holders may convert their notes at any time, regardless of the fulfillment of any of the foregoing conditions.

Upon conversion, we will deliver cash and shares of our common stock, if applicable, based on a daily conversion value, as described in this prospectus supplement, calculated on a proportionate basis for each day of the relevant ten trading-day observation period. If a holder elects to convert its notes in connection with a fundamental change (as defined in this prospectus supplement), we will, in certain circumstances, pay a make-whole premium by increasing the conversion rate for notes converted in connection with such fundamental change.

We may redeem the notes beginning December 19, 2013. Holders may require us to repurchase for cash all or a portion of their notes upon a designated event at a price equal to 100% of the principal amount of the notes, plus any accrued and unpaid interest to, but excluding, the repurchase date. In addition, on each of December 15, 2013, December 15, 2016, December 15, 2021, December 15, 2026, and December 15, 2031, holders may require us to repurchase for cash all or a portion of their notes at a repurchase price equal to

100% of the principal amount of the notes, plus any accrued and unpaid interest to, but excluding, the repurchase date.

The notes will be our senior subordinated obligations and will be subordinated to all of our existing and future senior indebtedness and effectively subordinated to all debt and other liabilities of our subsidiaries. The notes will be pari passu in right of payment with our 67/8% Senior Subordinated Notes due 2014 and our 13/4% Convertible Senior Subordinated Notes due 2033. For a more detailed description of the notes, see Description of Notes beginning on page S-23.

The notes will not be listed on any securities exchange nor included in any automatic quotation system. Our common stock is listed on the New York Stock Exchange under the symbol AG. On November 24, 2006, the last reported sale price of our common stock was $32.78 per share.

Investing in the notes involves risks. See Risk Factors beginning on page S-6 of this prospectus supplement and in the documents we incorporate by reference.

PRICE % AND ACCRUED INTEREST, IF ANY

	Price to Public	Underwriting Discount	Proceeds to AGCO
Per Note	%	%	%
Total	$175,000,000	$	$

We have granted the underwriters the right to purchase up to an additional $26,250,000 principal amount of the notes, solely to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities, or determined if this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the notes to purchasers on December , 2006.

Joint Book-Running Managers

MORGAN STANLEY GOLDMAN, SACHS & CO.

RABO SECURITIES USA, INC. LAZARD CAPITAL MARKETS

November , 2006

PROSPECTUS SUPPLEMENT

PROSPECTUS

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus we authorize to be delivered to you. We have not, and the underwriters have not, authorized anyone to provide you with additional information or information different from that contained in this prospectus supplement, the accompanying prospectus and any such free writing prospectus. We are not making an offer to sell the notes in any jurisdiction where the offer or sale of the notes is not permitted. You should not assume that the information appearing in this prospectus supplement, the accompanying prospectus, any such free writing prospectus or the documents incorporated therein by reference is accurate as of any date other than their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

PRESENTATION OF INFORMATION

These offering materials consist of two documents: (1) this prospectus supplement, which describes the terms of the notes that we currently are offering, and (2) the accompanying prospectus, which provides general information about us. The information in this prospectus supplement replaces any inconsistent information included or incorporated by reference in the accompanying prospectus.

Table of Contents

SUMMARY

This summary highlights information contained or incorporated by reference into this prospectus supplement or the accompanying prospectus. Because this is a summary, it does not contain all of the information that you should consider before investing in our securities. You should read the entire prospectus supplement and the accompanying prospectus and the documents incorporated by reference carefully, including the section entitled Risk Factors.

Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus supplement to AGCO, we, us, our or similar references mean AGCO Corporation and its subsidiaries.

AGCO CORPORATION

We are the third largest manufacturer and distributor of agricultural equipment and related replacement parts in the world based on annual net sales. We sell a full range of agricultural equipment, including tractors, combines, self-propelled sprayers, hay tools, forage equipment and implements, and a line of diesel engines. Our products are widely recognized in the agricultural equipment industry and are marketed under a number of brand names including AGCO®, Challenger®, Fendt®, Gleaner®, Hesston®, Massey Ferguson®, New Idea®, RoGator®, Spra-Coupe®, Sunflower®, Terra-Gator®, Valtra®, and White™ Planters. We distribute most of our products through a combination of approximately 3,600 independent dealers and distributors in more than 140 countries. In addition, we provide retail financing in North America, the United Kingdom, Australia, France, Germany, Ireland and Brazil through our finance joint ventures with Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.

Since our formation in June 1990, we have grown substantially through a series of over 20 acquisitions. We have been able to expand and strengthen our independent dealer network, introduce new tractor product lines and complementary non-tractor products in new markets and expand our replacement parts business to meet the needs of our customers.

The address of our principal executive offices is 4205 River Green Parkway, Duluth, Georgia 30096, and our telephone number is (770) 813-9200. Our internet site is www.agcocorp.com. Information contained on our internet site is not incorporated by reference into this prospectus supplement, and you should not consider that information to be a part of this prospectus supplement.

Table of Contents

THE OFFERING

Issuer	AGCO Corporation, a Delaware corporation.
Notes	$175,000,000 aggregate principal amount of % Convertible Senior Subordinated Notes due December 15, 2036 (plus up to an additional $26,250,000 principal amount for purchase by the underwriters, solely to cover over-allotments).
Maturity	The notes will mature on December 15, 2036, unless earlier redeemed, repurchased or converted.
Interest Payment Dates	% interest per year on the principal amount, payable semiannually in arrears on December 15 and June 15 of each year, beginning on June 15, 2007.
Conversion Rights	Holders may surrender their notes for conversion prior to the close of business on the scheduled trading day immediately preceding September 15, 2036, only under the following circumstances: during any calendar quarter beginning after December 31, 2006, if the closing sale price of our common stock for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is more than 120% of the then applicable conversion price; during the five business days after any five consecutive trading day period in which the trading price per $1,000 principal amount of notes for each trading day of that measurement period was less than 98% of the product of the closing sale price of our common stock and the then applicable conversion rate of the notes; if the notes have been called for redemption; or upon the occurrence of specified corporate events described under Description of Notes Conversion Rights. Holders may surrender their notes for conversion regardless of the fulfillment of any of the foregoing conditions at any time on or after September 15, 2036, until the close of business on the scheduled trading day immediately preceding December 15, 2036. The initial conversion rate for the notes is shares of common stock per $1,000 principal amount of notes. This is equivalent to an initial conversion price of approximately $ per share of common stock. Upon the conversion of notes, for each day of a specified ten trading day period following conversion, we will pay an amount in cash equal to the lesser of (i) the principal portion and (ii) the daily conversion value of the

notes converted, each calculated as described herein. If the daily conversion value exceeds the principal portion of the notes converted on any trading day during that period, we also will deliver shares of our common stock in an amount equal to the excess of the daily conversion value over the principal portion of the notes converted. See Description of Notes Conversion Rights Payment Upon Conversion. Upon any conversion, subject to certain exceptions, you will not receive any cash payment representing accrued and unpaid interest. See Description of Notes Conversion Rights.

Table of Contents

	Holders who convert their notes in connection with a fundamental change, as defined herein, may be entitled to a make-whole premium in the form of an increase in the conversion rate for notes converted in connection with such fundamental change transaction. See Description of Notes Conversion Rights Adjustment to Conversion Rate in Make-Whole Fundamental Change Transactions.
Ranking	The notes will be our general, unsecured obligations and will be subordinated to all of our existing and future senior indebtedness and effectively subordinated to all debt and other liabilities of our subsidiaries. The notes also will be effectively subordinated to all of our secured indebtedness to the extent of the collateral securing such indebtedness. The notes will be *pari passu* in right of payment with our 67/8% Senior Subordinated Notes due 2014 and our 13/4% Convertible Senior Subordinated Notes due 2033.
Optional Redemption by AGCO	We may redeem any of the notes beginning December 19, 2013, by giving you at least 30 but not more than 60 days notice. We may redeem the notes either in whole or in part at a redemption price equal to 100% of their principal amount, plus any accrued and unpaid interest to, but excluding, the redemption date. See Description of Notes Optional Redemption by AGCO.
Repurchase at Option of the Holder	On each of December 15, 2013, December 15, 2016, December 15, 2021, December 15, 2026 and December 15, 2031, holders may require us to repurchase all or a portion of their notes at a purchase price in cash equal to 100% of the principal amount of the notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the repurchase date. See Description of Notes Repurchase at Option of the Holder.
Designated Event	Subject to certain exceptions, if a designated event (as described under Description of Notes Repurchase at Option of the Holder Upon a Designated Event) occurs prior to maturity, holders may require us to repurchase all or a portion of their notes for cash at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the repurchase date.
Use of Proceeds	We estimate that the net proceeds to us from this offering will be approximately $ million (or approximately $ million if the underwriters exercise their over-allotment option in full), after deducting the underwriters discount and estimated offering expenses payable by us. We intend to use the net proceeds of this offering to prepay a portion of the term loans outstanding under our bank credit agreement. See Use of Proceeds.
Certain U.S. Federal Income Tax Considerations	For a discussion of the U.S. federal income tax treatment of the conversion of the notes, as well as the purchase, ownership and disposition of the notes and the common stock into which the notes may

	be converted, see Certain U.S. Federal Income Tax Considerations.
DTC Eligibility	The notes will be issued in book-entry-only form and will be represented by one or more global certificates, without interest coupons,

Table of Contents

	deposited with, or on behalf of, DTC and registered in the name of a nominee of DTC. Beneficial interests in the notes will be shown on, and transfers will be effected only through, records maintained by DTC and its direct and indirect participants. Except in limited circumstances, holders may not exchange interests in their notes for certificated securities. See Description of Notes Global Notes; Book-Entry; Form.
Form and Denomination	The notes will be issued in minimum denominations of $1,000 and any integral multiple of $1,000.
Absence of Trading Market for the Notes	The notes will not be listed on any securities exchange nor included in any automated quotation system. The notes will be new securities for which there is no trading market, and we cannot guarantee that an active or liquid market will develop. Our common stock is listed on the New York Stock Exchange, or NYSE, under the symbol AG.
Risk Factors	See Risk Factors and other information included or incorporated by reference in this prospectus supplement for a discussion of factors you should carefully consider before deciding to invest in the notes.

For a more complete description of the terms of the notes, see Description of Notes. For a more complete description of our common stock, see Description of Capital Stock.

Table of Contents

SUMMARY CONSOLIDATED FINANCIAL DATA

The following table sets forth summary financial data and other data as of and for each of the years in the five-year period ended December 31, 2005 and as of September 30, 2006 and for the nine months ended September 30, 2005 and 2006. This summary financial data has been derived from, and is qualified by reference to, our consolidated financial statements. You should read the information set forth below in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2005 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, which reports are incorporated by reference into this prospectus supplement and are on file with the SEC.

	Year Ended December 31,					Nine Months Ended September 30,	
	2001	2002	2003	2004	2005	2005	2006
						(unaudited)	
	(in millions, except per share data)						
Operating Data:							
Net sales	$ 2,545.9	$ 2,922.7	$ 3,495.3	$ 5,273.3	$ 5,449.7	$ 4,064.8	$ 3,801.2
Gross profit	439.2	531.8	616.4	952.9	933.6	709.7	661.9
Income from operations	97.1	103.5	184.3	323.5	274.7	221.0	158.7
Net income (loss)	$ 22.6	$ (84.4)	$ 74.4	$ 158.8	$ 31.6	$ 95.4	$ 63.6
Net income (loss) per common share diluted	$ 0.33	$ (1.14)	$ 0.98	$ 1.71	$ 0.35	$ 1.01	$ 0.69
Weighted average shares outstanding diluted	68.5	74.2	75.8	95.6	90.7	96.6	91.5
Dividends declared per common share	$0.01	$	$	$	$	$	$

	As of December 31,					As of September 30,
	2001	2002	2003	2004	2005	2006
						(unaudited)
	(in millions, except ratios)					
Balance Sheet Data:						
Cash and cash Equivalents	$ 28.9	$ 34.3	$ 147.0	$ 325.6	$ 220.6	$ 166.5
Working capital	539.7	599.4	755.4	1,045.5	825.8	926.8
Total assets	2,173.3	2,349.0	2,839.4	4,297.3	3,861.2	4,061.2
Total long-term debt, excluding current portion	617.7	636.9	711.1	1,151.7	841.8	863.4
Stockholders equity	799.4	717.6	906.1	1,422.4	1,416.0	1,562.6
Other Data:						
Ratio of earnings to fixed charges[(1)]	1.4	1.5	2.5	3.3	2.5	2.7

(1)

For purposes of computing the ratio of earnings to fixed charges, earnings consist of income before income taxes and distributed earnings of less-than-50%-owned affiliates, plus fixed charges. Fixed charges consist of interest costs (whether expensed or capitalized), amortization of debt issuance costs, an estimate of the interest cost in rental expense and the proportionate share of fixed charges of 50% or greater owned affiliates.

RISK FACTORS

Investing in our securities involves risks. Prior to making a decision about investing in our notes, you should carefully consider the risks described below and all other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. The risks and uncertainties described below and in our other filings incorporated by reference are not the only ones facing our company. Additional risks and uncertainties not currently known to us or that we currently consider immaterial may also adversely affect us. If any of the events underlying the following risks occurs, our business, financial condition or results of operations could be materially harmed.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

Our financial results depend entirely upon the agricultural industry, and factors that adversely affect the agricultural industry generally will adversely affect us.

Our success depends heavily on the vitality of the agricultural industry. Historically, the agricultural industry, including the agricultural equipment business, has been cyclical and subject to a variety of economic factors, governmental regulations and legislation, and weather conditions. Sales of agricultural equipment generally are related to the health of the agricultural industry, which is affected by farm income, debt levels and land values, all of which reflect levels of commodity prices, acreage planted, crop yields, demand, government policies and government subsidies. Sales also are influenced by economic conditions, interest rate and exchange rate levels, and the availability of retail financing. Trends in the industry, such as farm consolidations, may affect the agricultural equipment market. In addition, weather conditions, such as heat waves or droughts, and pervasive livestock diseases can affect farmers buying decisions. Downturns in the agricultural industry due to these or other factors are likely to result in decreases in demand for agricultural equipment, which would adversely affect our sales, growth, results of operations and financial condition. During previous downturns in the farm sector, we experienced significant and prolonged declines in sales and profitability, and we expect our business to remain subject to similar market fluctuations in the future.

The agricultural equipment industry is highly seasonal, and seasonal fluctuations significantly impact results of operations and cash flows.

The agricultural equipment business is highly seasonal, which causes our quarterly results and our available cash flow to fluctuate during the year. December is also typically a large month for retail sales because of our customers tax planning considerations, the increase in availability of funds from completed harvests and the timing of dealer incentives. In addition, farmers purchase agricultural equipment in the Spring and Fall in conjunction with the major planting and harvesting seasons. Our net sales and income from operations have historically been the lowest in the first quarter and have increased in subsequent quarters as dealers increase inventory in anticipation of increased retail sales in the third and fourth quarters.

Our success depends on the introduction of new products, which requires substantial expenditures.

Our long-term results depend upon our ability to introduce and market new products successfully. The success of our new products will depend on a number of factors, including:

- customer acceptance;

- the efficiency of our suppliers in providing component parts;

- the economy;
- competition; and
- the strength of our dealer networks.

As both we and our competitors continuously introduce new products or refine versions of existing products, we cannot predict the level of market acceptance or the amount of market share our new products will achieve. Any manufacturing delays or problems with our new product launches could adversely affect our operating results. We

Table of Contents

have experienced delays in the introduction of new products in the past, and we cannot assure you that we will not experience delays in the future. In addition, introducing new products could result in a decrease in revenues from our existing products. Consistent with our strategy of offering new products and product refinements, we expect to continue to use a substantial amount of capital for further product development and refinement. We may need more capital for product development and refinement than is available to us, which could adversely affect our business, financial condition or results of operations.

We face significant competition and, if we are unable to compete successfully against other agricultural equipment manufacturers, we would lose customers and our net sales and profitability would decline.

The agricultural equipment business is highly competitive, particularly in North America, Europe and Latin America. We compete with several large national and international companies that, like us, offer a full line of agricultural equipment. We also compete with numerous short-line and specialty manufacturers and suppliers of farm equipment products. Our two key competitors, Deere & Company and CNH Global N.V., are substantially larger than we are and may have greater financial and other resources. In addition, in some markets, we compete with smaller regional competitors with significant market share in a single country or group of countries. Our competitors may substantially increase the resources devoted to the development and marketing, including discounting, of products that compete with our products. If we are unable to compete successfully against other agricultural equipment manufacturers, we could lose customers and our net sales and profitability may decline. There also can be no assurances that consumers will continue to regard our agricultural equipment favorably, and we may be unable to develop new products that appeal to consumers or unable to continue to compete successfully in the agricultural equipment business. In addition, competitive pressures in the agricultural equipment business may affect the market prices of new and used equipment, which, in turn, may adversely affect our sales margins and results of operations.

Rationalization of manufacturing facilities may cause production capacity constraints and inventory fluctuations.

The rationalization of our manufacturing facilities has at times resulted in, and similar rationalizations in the future may result in, temporary constraints upon our ability to produce the quantity of products necessary to fill orders and thereby complete sales in a timely manner. A prolonged delay in our ability to fill orders on a timely basis could affect customer demand for our products and increase the size of our product inventories, causing future reductions in our manufacturing schedules and adversely affecting our results of operations. Moreover, our continuous development and production of new products will often involve the retooling of existing manufacturing facilities. This retooling may limit our production capacity at certain times in the future, which could adversely affect our results of operations and financial condition.

We depend on suppliers for raw materials, components and parts for our products, and any failure by our suppliers to provide products as needed, or by us to promptly address supplier issues, will adversely impact our ability to timely and efficiently manufacture and sell products. We also are subject to raw material price fluctuations, which can adversely affect our manufacturing costs.

Our products include components and parts manufactured by others. As a result, our ability to timely and efficiently manufacture existing products, to introduce new products and to shift manufacturing of products from one facility to another depends on the quality of these components and parts and the timeliness of their delivery to our facilities. At any particular time, we depend on many different suppliers, and the failure by one or more of our suppliers to perform as needed will result in fewer products being manufactured, shipped and sold. If the quality of the components or parts provided by our suppliers is less than required and we do not recognize that failure prior to the shipment of our products, we will incur higher warranty costs. The timely supply of component parts for our products also depends on our ability to manage our relationships with suppliers, to identify and replace suppliers that fail to meet our schedules or quality standards, and to monitor the flow of components and accurately project our needs. A significant increase in the price of any component or raw material could adversely affect our profitability. We cannot avoid exposure to global price fluctuations, such as occurred in 2004 with the costs of steel and related products, and our profitability depends on, among other things, our ability to raise equipment and parts prices sufficiently enough to recover any such material or component cost increases.

We may be required to write down the value of our goodwill and other intangible assets.

During the fourth quarter of 2006, we will be performing our annual impairment testing of goodwill and other intangible assets under Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. Net sales and results of operations of our sprayer business have been below our expectations. Accordingly, there is a possibility that a portion or all of the goodwill and other intangible assets associated with the sprayer business might be impaired. As of September 30, 2006, goodwill and other intangible assets related to the sprayer business totaled approximately $192 million.

Our business routinely is subject to claims and legal actions, some of which could be material.

We routinely are a party to claims and legal actions incidental to our business. These include claims for personal injuries by users of farm equipment, disputes with distributors, vendors and others with respect to commercial matters, and disputes with taxing and other governmental authorities regarding the conduct of our business. In February 2006, we received a subpoena from the Securities and Exchange Commission in connection with a non-public, fact-finding inquiry entitled In the Matter of Certain Participants in the Oil for Food Program. This subpoena requested documents concerning transactions under the United Nations Oil for Food Program by AGCO Corporation and certain of our subsidiaries. The subpoena arises from sales by our subsidiaries of farm equipment to the Iraq ministry of agriculture. We are cooperating fully with the inquiry. The subpoena does not imply that there have been any violations of the federal securities or other laws. However, should the SEC (or the U.S. Department of Justice, which is participating in the SEC s inquiry) determine that we have violated federal law, we could be subject to civil or criminal fines and penalties, or both. A similar proceeding has been initiated against one of our subsidiaries in Denmark. It is not possible to predict the outcome of these two inquiries or their impact, if any, on us.

A majority of our sales and manufacturing take place outside the United States, and, as a result, we are exposed to risks related to foreign laws, taxes, economic conditions, labor supply and relations, political conditions and governmental policies. These risks may delay or reduce our realization of value from our international operations.

For the year ended December 31, 2005, we derived approximately $4.2 billion or 76% of our net sales from sales outside the United States. The primary foreign countries in which we do business are Germany, France, Brazil, the United Kingdom and Finland. In addition, we have significant manufacturing operations in France, Germany, Brazil, Finland and Denmark. Our results of operations and financial condition may be adversely affected by the laws, taxes, economic conditions, labor supply and relations, political conditions and governmental policies of the foreign countries in which we conduct business. Some of our international operations also are subject to various risks that are not present in domestic operations, including restrictions on dividends and the repatriation of funds. Foreign developing markets may present special risks, such as unavailability of financing, inflation, slow economic growth and price controls.

Domestic and foreign political developments and government regulations and policies directly affect the international agricultural industry, which affects the demand for agricultural equipment. If demand for agricultural equipment declines, our sales, growth, results of operations and financial condition may be adversely affected. The application, modification or adoption of laws, regulations, trade agreements or policies adversely affecting the agricultural industry, including the imposition of import and export duties and quotas, expropriation and potentially burdensome taxation, could have an adverse effect on our business. The ability of our international customers to operate their businesses and the health of the agricultural industry, in general, are affected by domestic and foreign government programs that provide economic support to farmers. As a result, farm income levels and the ability of farmers to obtain advantageous financing and other protections would be reduced to the extent that any such programs are curtailed or eliminated. Any such reductions would likely result in a decrease in demand for agricultural equipment. For example, a decrease or elimination of current price protections for commodities or of subsidy payments for farmers in the European Union, the United States, Brazil or elsewhere in South America could negatively impact the operations of farmers in those regions, and, as a result, our sales may decline if these farmers delay, reduce or cancel purchases of our products.

Currency exchange rate and interest rate changes can adversely affect the pricing and profitability of our products.

We conduct operations in many areas of the world involving transactions denominated in a variety of currencies. Our production costs, profit margins and competitive position are affected by the strength of the currencies in countries where we manufacture or purchase goods relative to the strength of the currencies in countries where our products are sold. In addition, we are subject to currency exchange rate risk to the extent that our costs are denominated in currencies other than those in which we earn revenues and to risks associated with translating the financial statements of our foreign subsidiaries from local currencies into United States dollars. Similarly, changes in interest rates affect our results of operations by increasing or decreasing borrowing costs and finance income. Our most significant transactional foreign currency exposures are the Euro, Brazilian real and the Canadian dollar in relation to the United States dollar. Where naturally offsetting currency positions do not occur, we attempt to manage these risks by economically hedging some, but not all, of our exposures through the use of foreign currency forward exchange contracts. As with all hedging instruments, there are risks associated with the use of foreign currency forward exchange contracts, interest rate swap agreements and other risk management contracts. While the use of such hedging instruments provides us with protection from certain fluctuations in currency exchange and interest rates, we potentially forego the benefits that might result from favorable fluctuations in currency exchange and interest rates. In addition, any default by the counterparties to these transactions could adversely affect us. Despite our use of economic hedging transactions, currency exchange rate or interest rate fluctuations may adversely affect our results of operations, cash flow or financial condition.

We are subject to extensive environmental laws and regulations, and our compliance with, or our failure to comply with, existing or future laws and regulations could delay production of our products or otherwise adversely affect our business.

We are subject to increasingly stringent environmental laws and regulations in the countries in which we operate. These regulations govern, among other things, emissions into the air, discharges into water, the use, handling and disposal of hazardous substances, waste disposal and the remediation of soil and groundwater contamination. Our costs of complying with these or any other current or future environmental regulations may be significant. For example, the European Union and the United States have adopted more stringent environmental regulations regarding emissions into the air. As a result, we will likely incur increased capital expenses to modify our products to comply with these regulations. Further, we may experience production delays if we or our suppliers are unable to design and manufacture components for our products that comply with environmental standards established by regulators. For example, our SisuDiesel engine division and our engine suppliers are subject to air quality standards, and production at our facilities could be impaired if SisuDiesel and these suppliers are unable to timely respond to any changes in environmental laws and regulations affecting engine emissions. Compliance with environmental and safety regulations has added, and will continue to add, to the cost of our products and increase the capital-intensive nature of our business. We may be adversely impacted by costs, liabilities or claims with respect to our operations under existing laws or those that may be adopted in the future. If we fail to comply with existing or future laws and regulations, we may be subject to governmental or judicial fines or sanctions and our business and results of operations could be adversely affected.

Our labor force is heavily unionized, and our contractual and legal obligations under collective bargaining agreements and labor laws subject us to the risks of work interruption or stoppage and could cause our costs to be higher.

Most of our employees, most notably at our manufacturing facilities, are represented by collective bargaining agreements and union contracts with terms that expire on varying dates. Several of our collective bargaining agreements and union contracts are of limited duration and, therefore, must be re-negotiated frequently. As a result, we could incur significant administrative expenses associated with union representation of our employees. Furthermore, we are at greater risk of work interruptions or stoppages than non-unionized companies, and any work interruption or stoppage could significantly impact the volume of goods we have available for sale. In

Table of Contents

addition, collective bargaining agreements, union contracts and labor laws may impair our ability to reduce our labor costs by streamlining existing manufacturing facilities and in restructuring our business because of limitations on personnel and salary changes and similar restrictions.

We have significant pension obligations with respect to our employees and our available cash flow may be adversely affected in the event that payments became due under any pension plans that are unfunded or underfunded.

A portion of our active