AGCO CORP /DE
Form 10-Q
May 09, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
For the quarter ended March 31, 2008
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.

As of May 5, 2008, AGCO Corporation had 91,730,487 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
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2008	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 250.5	$ 582.4
Accounts and notes receivable, net	867.1	766.4
Inventories, net	1,498.2	1,134.2
Deferred tax assets	51.1	52.7
Other current assets	211.2	186.0
Total current assets	2,878.1	2,721.7
Property, plant and equipment, net	806.7	753.0
Investment in affiliates	302.8	284.6
Deferred tax assets	83.1	89.1
Other assets	68.0	67.9
Intangible assets, net	208.7	205.7
Goodwill	706.4	665.6
Total assets	$ 5,053.8	$ 4,787.6
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current portion of long-term debt	$	$ 0.2
Convertible senior subordinated notes	402.5	402.5
Accounts payable	923.2	827.1
Accrued expenses	769.9	773.2
Other current liabilities	80.2	80.3
Total current liabilities	2,175.8	2,083.3
Long-term debt, less current portion	315.9	294.1
Pensions and postretirement health care benefits	150.6	150.3
Deferred tax liabilities	162.1	163.6
Other noncurrent liabilities	57.0	53.3
Total liabilities	2,861.4	2,744.6
Stockholders Equity:		
Preferred stock; $0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding in 2008 and 2007		
	0.9	0.9

Common stock; $0.01 par value, 150,000,000 shares authorized, 91,717,150 and 91,609,895 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively		
Additional paid-in capital	946.6	942.7
Retained earnings	1,081.6	1,020.4
Accumulated other comprehensive income	163.3	79.0
Total stockholders equity	2,192.4	2,043.0
Total liabilities and stockholders equity	$ 5,053.8	$ 4,787.6

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2008	2007
Net sales	$ 1,786.6	$ 1,332.6
Cost of goods sold	1,471.4	1,113.2
Gross profit	315.2	219.4
Selling, general and administrative expenses	170.6	137.2
Engineering expenses	45.4	32.4
Restructuring and other infrequent expenses	0.1	
Amortization of intangibles	4.9	4.2
Income from operations	94.2	45.6
Interest expense, net	5.1	6.7
Other expense, net	6.0	8.6
Income before income taxes and equity in net earnings of affiliates	83.1	30.3
Income tax provision	29.8	12.8
Income before equity in net earnings of affiliates	53.3	17.5
Equity in net earnings of affiliates	9.0	7.0
Net income	$ 62.3	$ 24.5
Net income per common share:		
Basic	$ 0.68	$ 0.27
Diluted	$ 0.63	$ 0.26
Weighted average number of common and common equivalent shares outstanding:		
Basic	91.6	91.3
Diluted	99.3	94.8

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Cash flows from operating activities:		
Net income	$ 62.3	$ 24.5
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	31.0	26.2
Deferred debt issuance cost amortization	1.0	1.1
Amortization of intangibles	4.9	4.2
Stock compensation	6.6	1.7
Equity in net earnings of affiliates, net of cash received	(5.3)	(3.1)
Deferred income tax provision	3.4	2.4
Gain on sale of property, plant and equipment	(0.1)	
Changes in operating assets and liabilities:		
Accounts and notes receivable, net	(66.2)	(58.8)
Inventories, net	(309.9)	(150.9)
Other current and noncurrent assets	(19.1)	17.2
Accounts payable	47.6	(29.0)
Accrued expenses	(29.3)	(64.7)
Other current and noncurrent liabilities	(9.0)	(6.8)
Total adjustments	(344.4)	(260.5)
Net cash used in operating activities	(282.1)	(236.0)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(45.9)	(23.7)
Proceeds from sales of property, plant and equipment	0.2	0.3
Investments in unconsolidated affiliates	(0.2)	
Net cash used in investing activities	(45.9)	(23.4)
Cash flows from financing activities:		
(Repayment of) proceeds from debt obligations, net	(2.7)	10.1
Proceeds from issuance of common stock	0.1	6.0
Payment of minimum tax withholdings on stock compensation	(2.4)	
Payment of debt issuance costs		(0.2)
Net cash (used in) provided by financing activities	(5.0)	15.9
Effect of exchange rate changes on cash and cash equivalents	1.1	(0.2)
Decrease in cash and cash equivalents	(331.9)	(243.7)
Cash and cash equivalents, beginning of period	582.4	401.1

Cash and cash equivalents, end of period	$ 250.5	$ 157.4

See accompanying notes to condensed consolidated financial statements.

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

1. BASIS OF PRESENTATION

The condensed consolidated financial statements of AGCO Corporation and subsidiaries (the Company or AGCO) included herein have been prepared in accordance with U.S. generally accepted accounting principles 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 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 financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. Results for interim periods are not necessarily indicative of the results for the year.

Stock Compensation Plans

During the first quarter of 2008 and 2007, the Company recorded approximately $6.6 million and $1.9 million, respectively, of stock compensation expense in accordance with Statement of Financial Accounting Standards (SFAS) No. 123R (Revised 2004), Share-Based Payment. The stock compensation expense was recorded as follows (in millions):

	Three Months Ended March 31,	
	2008	2007
Cost of goods sold	$ 0.2	$ 0.1
Selling, general and administrative expenses	6.4	1.8
Total stock compensation expense	$ 6.6	$ 1.9

Stock Incentive Plans

In 2006, the Company obtained stockholder approval for the 2006 Long Term Incentive Plan (the 2006 Plan) under which up to 5,000,000 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, stock options and stock awards to employees, officers and non-employee directors of the Company. The Company s Board of Directors approves grants of awards under the employee and director stock incentive plans described below.

Employee Plans

The 2006 Plan encompasses two stock incentive plans to Company executives and key managers. The primary long-term incentive plan is a performance share plan that provides for awards of shares of the Company s common stock based on achieving financial targets, such as targets for earnings per share and return on invested capital, as determined by the Company s Board of Directors. The stock awards are earned over a performance period, and the number of shares earned is determined based on the cumulative or average results for the period, depending on the measurement. Performance periods are consecutive and overlapping three-year cycles and performance targets are set at the beginning of each cycle. The plan provides for participants to earn from 33% to 200% of the target awards depending on the actual performance achieved, with no shares earned if performance is below the established minimum target. Awards earned under the performance share plan are paid in shares of common stock at the end of each performance period. The compensation expense associated with these awards is being 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. During the first quarter of 2008, the Company granted 262,200 awards under the 2006 Plan for the three-year performance period commencing in 2008 and ending in 2010. Compensation expense recorded with respect to these awards was based upon the stock price as of the grant date. The weighted average grant-date fair value of performance

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Notes to Condensed Consolidated Financial Statements Continued
(unaudited)

awards granted under the 2006 Plan during the three months ended March 31, 2008 was $57.03. Performance award transactions during the three months ended March 31, 2008 were as follows and are presented as if the Company were to achieve its target levels of performance under the plan:

Shares awarded but not earned at January 1	942,000
Shares awarded	262,200
Shares forfeited or unearned	(22,016)
Shares earned	
Shares awarded but not earned at March 31	1,182,184

As of March 31, 2008, 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 $41.2 million, and the weighted average period over which it is expected to be recognized is approximately two years.

In addition to the performance share plan, certain executives and key managers are eligible to receive grants of stock settled stock appreciation rights (SSARs) or incentive stock options depending on the participant s country of employment. The SSARs provide a participant with the right to receive the aggregate appreciation in stock price over the market price of the Company s common stock at the date of grant, payable in shares of the Company s common stock. The participant may exercise his or her SSAR at any time after the grant is vested but no later than seven years after the date of grant. The SSARs vest ratably over a four-year period from the date of grant. SSAR award grants made to certain executives and key managers under the 2006 Plan are made with the base price equal to the price of the Company s common stock on the date of grant. During the first quarter of 2008, the Company granted 103,400 SSAR awards. During the three months ended March 31, 2008 and 2007, the Company recorded stock compensation expense of approximately $0.4 million and $0.2 million, respectively. The compensation expense associated with these awards is being amortized ratably over the vesting period. The Company estimated the fair value of the grants using the Black-Scholes option pricing model. The Company has utilized the simplified method for estimating the expected term of granted SSARs during the three months ending March 31, 2008 as afforded by SEC Staff Accounting Bulletin (SAB) No. 107, Share-Based Payment (SAB Topic 14), and SAB No. 110, Share-Based Payment (SAB Topic 14.D.2). The expected term used to value a grant under the simplified method is the mid-point between the vesting date and the contractual term of the option or SSAR. As the Company has been granting SSARs under the 2006 Plan only since April 2006, it does not believe it has sufficient relevant experience regarding employee exercise behavior. 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 three months ended March 31, 2008:

	Three Months Ended March 31, 2008
SSARs weighted average grant date fair value	$ 17.89
Weighted average assumptions under Black-Scholes option model:	
Expected life of awards (years)	5.5
Risk-free interest rate	2.6%
Expected volatility	38.0%
Expected dividend yield	

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Notes to Condensed Consolidated Financial Statements Continued
(unaudited)

SSAR transactions during the three months ended March 31, 2008 were as follows:

SSARs outstanding at January 1	383,500
SSARs granted	103,400
SSARs exercised	(11,875)
SSARs canceled or forfeited	(10,000)
SSARs outstanding at March 31	465,025

SSAR price ranges per share:	
Granted	$ 56.98
Exercised	23.80-37.38
Canceled or forfeited	23.80-37.38
Weighted average SSAR exercise prices per share:	
Granted	$ 56.98
Exercised	32.72
Canceled or forfeited	30.59
Outstanding at March 31	36.98

At March 31, 2008, the weighted average remaining contractual life of SSARs outstanding was six years and there were 61,438 SSARs currently exercisable with prices ranging from $23.80 to $37.38, with a weighted average exercise price of $33.48 and an aggregate intrinsic value of $1.6 million. As of March 31, 2008, the total compensation cost related to unvested SSARs not yet recognized was approximately $5.0 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, remaining contractual lives and weighted average exercise price by groups of similar price:

	SSARs Outstanding			SSARs Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Exercisable as of March 31, 2008	Weighted Average Exercise Price
$23.80 - $24.51	158,500	5.1	$23.82	17,688	$23.82
$26.00 - $37.38	203,125	5.9	$37.06	43,750	$37.38
$56.98	103,400	6.8	$56.98		
	465,025			61,438	

The total intrinsic value of SSARs exercised during the three months ended March 31, 2008 was $0.4 million and the total fair value of shares vested during the same period was $0.7 million. The Company did not realize a tax benefit from the exercise of these SSARs. There were 403,587 SSARs that were not vested as of March 31, 2008. The total intrinsic value of outstanding SSARs as of March 31, 2008 was approximately $10.7 million.

Director Restricted Stock Grants

The 2006 Plan provides $25,000 in annual restricted stock grants of the Company s common stock to all non-employee directors effective on the first day of each calendar year. The shares are restricted as to transferability for a period of three years, but are not subject to forfeiture. In the event a director departs from the Board of Directors, the non-transferability period would expire immediately. The plan allows for the 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 which would be payable at the time of grant. The January 1, 2007 grant equated to 8,080 shares of common stock, of which 6,346 shares of common stock were issued, after shares were withheld for withholding taxes. The Company recorded stock compensation expense of approximately $0.3 million during the first quarter of 2007 associated with these grants.

On December 6, 2007, the Board of Directors approved an increase in the annual restricted stock grant to non-employee directors of the Company under the 2006 Plan from $25,000 to $75,000. The 2008 grant was made on April 24, 2008 and equated to 11,320 shares of common stock, of which 8,608 shares of common stock

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Notes to Condensed Consolidated Financial Statements Continued
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were issued, after shares were withheld for withholding taxes. The Company will record stock compensation expense of approximately $0.8 million during the second quarter of 2008 associated with these grants.

As of March 31, 2008, of the 5,000,000 shares reserved for issuance under the 2006 Plan, 2,076,151 shares were available for grant, assuming the maximum number of shares are earned related to the performance award grants discussed above.

Stock Option Plan

The Company s Option Plan provides for the granting of nonqualified and incentive stock options to officers, employees, directors and others. The stock option exercise price is determined by the Company s Board of Directors except in the case of an incentive stock option for which the purchase price shall not be less than 100% of the fair market value at the date of grant. Each recipient of stock options is entitled to immediately exercise up to 20% of the options issued to such person, and the remaining 80% of such options vest ratably over a four-year period and expire no later than ten years from the date of grant.

There were no grants under the Company s Option Plan during the three months ended March 31, 2008. The Company does not intend to make any grants under the Option Plan in the future. Stock option transactions during the three months ended March 31, 2008 were as follows:

Options outstanding at January 1		75,500
Options granted		
Options exercised		(10,075)
Options canceled or forfeited		(5,000)
Options outstanding at March 31		60,425
Options available for grant at March 31		1,935,437
Option price ranges per share:		
Granted	$	
Exercised		10.06-15.12
Canceled or forfeited		15.12
Weighted average option exercise prices per share:		
Granted	$	
Exercised		12.58
Canceled or forfeited		15.12
Outstanding at March 31		15.22

At March 31, 2008, the outstanding options had a weighted average remaining contractual life of approximately three years and there were 60,425 options currently exercisable with option prices ranging from $10.06 to $22.31, with a weighted average exercise price of $15.22 and an aggregate intrinsic value of $2.7 million.

The following table sets forth the exercise price range, number of shares, remaining contractual lives and weighted average exercise price by groups of similar price:

	Options Outstanding			Options Exercisable	
	Number of	Weighted Average Remaining	Weighted Average Exercise	Exercisable as of March 31,	Weighted Average Exercise

Range of Exercise Prices	Shares	Contractual Life (Years)	Price	2008	Price
$10.06 - $11.88	16,100	2.5	$11.49	16,100	$11.49
$15.12 - $22.31	44,325	3.7	$16.57	44,325	$16.57
	60,425			60,425	

The total intrinsic value of options exercised during the three months ended March 31, 2008 was $0.5 million, and the total fair value of options vested during the same period was less than $0.1 million. Cash received from stock option exercises was approximately $0.1 million for the three months ended March 31, 2008. The Company did not realize a tax benefit from the exercise of these options.

Notes to Condensed Consolidated Financial Statements Continued
(unaudited)

Recent Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. The Company will adopt SFAS No. 161 on January 1, 2009.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141R), and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160). SFAS No. 141R requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 141R also requires the fair value measurement of certain other assets and liabilities related to the acquisition, such as contingencies and research and development. SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in a company s consolidated financial statements. Consolidated net income should include the net income for both the parent and the noncontrolling interest, with disclosure of both amounts on a company s consolidated statement of operations. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. The Company is required to adopt SFAS No. 141R and SFAS 160 on January 1, 2009.

In March 2007, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements (EITF 06-10), which requires that an employer recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions (SFAS No. 106) (if, in substance, a postretirement benefit plan exists), or Accounting Principles Board Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract) if the employer has agreed to maintain a life insurance policy during the employee s retirement or provide the employee with a death benefit based on the substantive agreement with the employee. In addition, the EITF reached a consensus that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The EITF observed that in determining the nature and substance of the arrangement, the employer should assess what future cash flows the employer is entitled to, if any, as well as the employee s obligation and ability to repay the employer. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The adoption of EITF 06-10 on January 1, 2008 did not have a material effect on the Company s consolidated results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value and to provide additional information that will help investors and other users of financial statements to understand more easily the effect on earnings of a company s choice to use fair value. It also requires companies to display the fair value of those assets and liabilities for which they have chosen to use fair value on the face of their balance sheets. The adoption of SFAS No. 159 on January 1, 2008 did not have a material effect on the Company s consolidated results of operations or financial position.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value to be applied to guidance regarding U.S. generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fair value measures already required or permitted by other standards for fiscal years beginning after November 15, 2007. In November 2007, the FASB proposed a one-year deferral of SFAS No. 157 s fair value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value

Notes to Condensed Consolidated Financial Statements Continued
(unaudited)

on a recurring basis. The adoption of SFAS No. 157 on January 1, 2008 did not have a material effect on the Company s consolidated results of operations or financial position.

In June 2006, the EITF reached a consensus on EITF Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (EITF 06-4), which requires the application of the provisions of SFAS No. 106 to endorsement split-dollar life insurance arrangements. SFAS No. 106 would require the Company to recognize a liability for the discounted future benefit obligation that the Company will have to pay upon the death of the underlying insured employee. An endorsement-type arrangement generally exists when the Company owns and controls all incidents of ownership of the underlying policies. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The adoption of EITF 06-4 on January 1, 2008 did not have a material effect on the Company s consolidated results of operations or financial position.

2. RESTRUCTURING AND OTHER INFREQUENT EXPENSES

During the second quarter of 2007, the Company announced the closure of its Valtra sales office located in France. The closure will result in the termination of approximately 15 employees. The Company recorded severance and other facility closure costs of approximately $0.8 million associated with the closure during 2007 and approximately $0.1 million of severance and other facility closure costs during the first quarter of 2008. Approximately $0.7 million of severance and other facility closure costs had been paid as of March 31, 2008, and 12 of the employees had been terminated. The $0.2 million of severance costs accrued at March 31, 2008 are expected to be paid during 2008.

During the fourth quarter of 2004, the Company initiated the restructuring of certain administrative functions within its Finnish operations, resulting in the termination of 58 employees. As of March 31, 2006, all of the 58 employees had been terminated. As of December 31, 2007, $0.4 million of severance payments were accrued related to possible government-required payments payable to aged terminated employees who would be eligible for such benefits if they did not secure alternative employment prior to the age of 62. During the first quarter of 2008, the Company was notified that it could offset such payments against future pension-related refunds from the Finnish government and thus reversed the accrual.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of acquired intangible assets during the three months ended March 31, 2008 are summarized as follows (in millions):

	Trademarks and Tradenames	Customer Relationships	Patents and Technology	Total
Gross carrying amounts:				
Balance as of December 31, 2007	$ 33.4	$ 103.0	$ 55.2	$ 191.6
Foreign currency translation	0.1	4.4	4.5	9.0
Balance as of March 31, 2008	$ 33.5	$ 107.4	$ 59.7	$ 200.6

	Trademarks and Tradenames	Customer Relationships	Patents and Technology	Total
Accumulated amortization:				
Balance as of December 31, 2007	$ 7.2	$ 42.6	$ 32.3	$ 82.1

Amortization expense		0.3		2.7		1.9	4.9
Foreign currency translation		0.1		1.7		2.8	4.6
Balance as of March 31, 2008	$	7.6	$	47.0	$	37.0	$ 91.6

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