AGCO CORP /DE
Form 10-Q
August 07, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
For the quarter ended June 30, 2009
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 is not yet required to submit electronically and post on its corporate web site Interactive Data Files required to be submitted and posted pursuant to Rule 405 of regulation S-T.

As of July 31, 2009, AGCO Corporation had 92,449,535 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 share amounts)

	June 30, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 190.2	$ 512.2
Restricted cash	7.3	33.8
Accounts and notes receivable, net	916.7	815.6
Inventories, net	1,443.0	1,389.9
Deferred tax assets	40.5	56.6
Other current assets	185.5	197.1
Total current assets	2,783.2	3,005.2
Property, plant and equipment, net	878.9	811.1
Investment in affiliates	306.6	275.1
Deferred tax assets	44.1	29.9
Other assets	91.5	69.6
Intangible assets, net	172.0	176.9
Goodwill	610.1	587.0
Total assets	$ 4,886.4	$ 4,954.8
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ 0.1	$ 0.1
Convertible senior subordinated notes	189.1	
Accounts payable	670.3	1,027.1
Accrued expenses	781.2	799.8
Other current liabilities	94.6	151.5
Total current liabilities	1,735.3	1,978.5
Long-term debt, less current portion	444.6	625.0
Pensions and postretirement health care benefits	177.1	173.6
Deferred tax liabilities	105.6	108.1
Other noncurrent liabilities	74.0	49.6
Total liabilities	2,536.6	2,934.8

Commitments and contingencies (Note 16)

Temporary Equity:

Equity component of redeemable convertible senior subordinated notes	12.2	
Stockholders Equity:		
AGCO Corporation stockholders equity:		
Preferred stock; $0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding in 2009 and 2008		
Common stock; $0.01 par value, 150,000,000 shares authorized, 92,449,535 and 91,844,193 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	0.9	0.9
Additional paid-in capital	1,058.3	1,067.4
Retained earnings	1,473.2	1,382.1
Accumulated other comprehensive loss	(202.3)	(436.1)
Total AGCO Corporation stockholders equity	2,330.1	2,014.3
Noncontrolling interests	7.5	5.7
Total stockholders equity	2,337.6	2,020.0
Total liabilities, temporary equity and stockholders equity	$ 4,886.4	$ 4,954.8

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 June 30,	
	2009	2008
Net sales	$ 1,795.2	$ 2,395.4
Cost of goods sold	1,503.7	1,967.2
Gross profit	291.5	428.2
Selling, general and administrative expenses	154.2	181.0
Engineering expenses	52.1	53.0
Restructuring and other infrequent expenses	2.8	0.1
Amortization of intangibles	4.6	5.0
Income from operations	77.8	189.1
Interest expense, net	11.7	9.0
Other expense, net	8.3	9.6
Income before income taxes and equity in net earnings of affiliates	57.8	170.5
Income tax provision	14.4	55.5
Income before equity in net earnings of affiliates	43.4	115.0
Equity in net earnings of affiliates	13.6	14.6
Net income	57.0	129.6
Net loss attributable to noncontrolling interests	0.4	
Net income attributable to AGCO Corporation and subsidiaries	$ 57.4	$ 129.6
Net income per common share attributable to AGCO Corporation and subsidiaries:		
Basic	$ 0.62	$ 1.41
Diluted	$ 0.61	$ 1.31

Weighted average number of common and common equivalent shares outstanding:		
Basic	92.3	91.7
Diluted	93.8	99.1

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net sales	$ 3,374.2	$ 4,182.0
Cost of goods sold	2,810.4	3,438.6
Gross profit	563.8	743.4
Selling, general and administrative expenses	315.8	351.6
Engineering expenses	100.1	98.4
Restructuring and other infrequent expenses	2.8	0.2
Amortization of intangibles	8.7	9.9
Income from operations	136.4	283.3
Interest expense, net	23.4	17.6
Other expense, net	14.8	15.6
Income before income taxes and equity in net earnings of affiliates	98.2	250.1
Income tax provision	28.8	85.3
Income before equity in net earnings of affiliates	69.4	164.8
Equity in net earnings of affiliates	21.9	23.6
Net income	91.3	188.4
Net income attributable to noncontrolling interests	(0.2)	
Net income attributable to AGCO Corporation and subsidiaries	$ 91.1	$ 188.4
Net income per common share attributable to AGCO Corporation and subsidiaries:		
Basic	$ 0.99	$ 2.05
Diluted	$ 0.98	$ 1.90
Weighted average number of common and common equivalent shares outstanding:		

Basic	92.1	91.7
Diluted	92.9	99.2

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)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Cash flows from operating activities:		
Net income attributable to AGCO Corporation and subsidiaries	$ 91.1	$ 188.4
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	58.2	63.5
Deferred debt issuance cost amortization	1.4	1.8
Amortization of intangibles	8.7	9.9
Amortization of debt discount	7.5	7.0
Stock compensation	8.4	15.0
Equity in net earnings of affiliates, net of cash received	(14.2)	(15.8)
Deferred income tax provision	(7.2)	17.2
Gain on sale of property, plant and equipment	(0.2)	(0.1)
Changes in operating assets and liabilities:		
Accounts and notes receivable, net	(40.6)	(9.2)
Inventories, net	2.2	(320.4)
Other current and noncurrent assets	(0.4)	(39.7)
Accounts payable	(344.6)	85.9
Accrued expenses	(28.1)	69.3
Other current and noncurrent liabilities	(9.7)	(11.5)
Total adjustments	(358.6)	(127.1)
Net cash (used in) provided by operating activities	(267.5)	61.3
Cash flows from investing activities:		
Purchases of property, plant and equipment	(101.5)	(99.7)
Proceeds from sale of property, plant and equipment	1.4	1.8
Investments in unconsolidated affiliates	(0.2)	(0.4)
Restricted cash and other	29.0	
Net cash used in investing activities	(71.3)	(98.3)
Cash flows from financing activities:		
(Repayment of) proceeds from debt obligations, net	(19.4)	1.6
Proceeds from issuance of common stock		0.2
Payment of minimum tax withholdings on stock compensation	(5.2)	(3.1)
Payment of debt issuance costs		(1.3)
Investments by noncontrolling interests	1.3	
Net cash used in financing activities	(23.3)	(2.6)
Effect of exchange rate changes on cash and cash equivalents	40.1	15.7

Decrease in cash and cash equivalents	(322.0)	(23.9)
Cash and cash equivalents, beginning of period	512.2	582.4
Cash and cash equivalents, end of period	$ 190.2	$ 558.5

See accompanying notes to condensed consolidated financial statements.

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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 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, 2008. Results for interim periods are not necessarily indicative of the results for the year.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162 (SFAS No. 168), which stipulates that the FASB Accounting Standards Codification is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company will adopt SFAS No. 168 for its third quarter ending September 30, 2009. The implementation of this standard will not have an impact on the Company s consolidated financial position or results of operations.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS No. 167). SFAS No. 167 amends FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities (FIN 46(R)), to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and requires a qualitative analysis to determine whether an enterprise s variable interest gives it a controlling financial interest in a variable interest entity. SFAS No. 167 amends certain guidance in FIN 46(R) for determining whether an entity is a variable interest entity. This standard also requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. SFAS No. 167 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2009. Earlier adoption of SFAS No. 167 is prohibited. The adoption of the standard could impact the consolidation or deconsolidation of certain of the Company s joint ventures. The Company is currently evaluating the potential impact of the adoption of SFAS No. 167 on its consolidated financial position and results of operations.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets, an amendment to SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS No. 166). SFAS No. 166 eliminates the concept of a qualifying special-purpose entity (QSPE), changes the requirements for derecognizing financial assets and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity s continuing involvement in and exposure to the risks related to transferred financial assets. SFAS No. 166 is effective for fiscal years and interim periods beginning after November 15, 2009. Earlier adoption is prohibited. The Company is currently evaluating the potential

Notes to Condensed Consolidated Financial Statements Continued
(unaudited)

impact of the adoption of SFAS No. 166 on its accounts receivable securitization facilities in the United States, Canada and Europe, as well as other financing facilities around the world (as are more fully described in Notes 13 and 16). Upon adoption of SFAS No. 166, the Company may be required to recognize such receivables within its consolidated balance sheets with a corresponding liability equivalent to the funded balance of the facilities.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (SFAS No. 165). SFAS No. 165 provides guidance on management s assessment of subsequent events and incorporates this guidance into accounting literature. SFAS No. 165 is effective prospectively for interim and annual periods ending after June 15, 2009. The implementation of this standard did not have an impact on the Company s financial position or results of operations. The Company evaluated subsequent events through August 7, 2009.

In April 2009, the FASB issued FASB Staff Position (FSP) SFAS No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP SFAS 157-4). FSP SFAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased in relation to normal market activity. Additionally, FSP SFAS 157-4 provides guidance on identifying circumstances that indicate a transaction is not orderly. FSP SFAS 157-4 requires interim disclosures of the inputs and valuation techniques used to measure fair value reflecting changes in the valuation techniques and related inputs. FSP SFAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and is to be applied prospectively. The adoption of FSP SFAS 157-4 did not have an impact on the Company s results of operations or financial position.

In April 2009, the FASB issued FSP SFAS No. 107-1 and Accounting Principles Board (APB) No. 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). This FSP amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments (SFAS No. 107) and APB No. 28, Interim Financial Reporting , to require disclosures about fair value of financial instruments not measured on the balance sheet at fair value in interim financial statements as well as in annual financial statements. Prior to this FSP, fair value for these assets and liabilities was only disclosed annually. FSP FAS 107-1 and APB 28-1 applies to all financial instruments within the scope of SFAS No. 107 and requires all entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments. FSP FAS 107-1 and APB 28-1 is effective for interim periods ending after June 15, 2009. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. The adoption of FSP FAS 107-1 and APB 28-1 did not have an impact on the Company s results of operations or financial position (Note 6).

In December 2008, the FASB affirmed FSP No. SFAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP FAS 132(R)-1). FSP FAS 132(R)-1 requires additional disclosures about assets held in an employer s defined benefit pension or postretirement plan, primarily related to categories and fair value measurements of plan assets. FSP FAS 132(R)-1 is effective for fiscal years ending after December 15, 2009. The Company will adopt the disclosure requirements for its fiscal year ended December 31, 2009.

In May 2008, the FASB issued FSP APB No. 14-1, Accounting for Convertible Debt Instruments That May be Settled in Cash upon Conversion (including Partial Cash Settlement) (FSP APB 14-1). The FSP requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement), commonly referred to as an Instrument C under Emerging Issues Task Force (EITF) Issue No. 90-19, Convertible Bonds with Issuer Options to Settle for Cash upon Conversion (EITF Issue No. 90-19), be separated to account for

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the fair value of the debt and equity components as of the date of issuance to reflect the issuer s nonconvertible debt borrowing rate. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and is to be applied retrospectively to all periods presented (retroactive restatement) pursuant to the guidance in SFAS No. 154, Accounting Changes and Error Corrections. The adoption of the FSP on January 1, 2009 impacted the accounting treatment of the Company s $1\frac{3}{4}$% convertible senior subordinated notes due 2033 and its $1\frac{1}{4}$% convertible senior subordinated notes due 2036 by reclassifying a portion of the convertible notes balances to additional paid-in capital representing the estimated fair value of the conversion feature as of the date of issuance and creating a discount on the convertible notes that will be amortized through interest expense over the lives of the convertible notes. The resulting amortization resulted in a significant increase in interest expense and, therefore, reduced net income and basic and diluted earnings per share within the Company s Condensed Consolidated Statements of Operations. On January 1, 2009, the Company reduced its Retained earnings and convertible senior subordinated notes balance included within Long-term debt by approximately $37.2 million and $57.0 million, respectively, and increased its Additional paid-in capital balance by approximately $94.2 million. Due to a tax valuation allowance established in the United States, there was no deferred tax impact upon adoption. In accordance with the provisions of FSP APB 14-1, prior periods have been retroactively restated to reflect the adoption of the standard.

In March 2008, the 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. The Company adopted SFAS No. 161 on January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160). 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 statements of operations. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. The Company adopted SFAS No. 160 on January 1, 2009 (Note 2).

2. CONSOLIDATED JOINT VENTURES

The Company has analyzed the provisions of FIN 46(R) as they relate to the accounting for its investments in joint ventures and determined that it is the primary beneficiary of two of its joint ventures.

GIMA is a joint venture between AGCO and Claas Tractor SAS to cooperate in the field of purchasing, design and manufacturing of components for agricultural tractors. Each party has a 50% ownership interest in the joint venture and has an investment of approximately 4.2 million in the joint venture. Both parties purchase all of the production output of the joint venture. In analyzing the provisions of FIN 46(R), the Company determined that it was the primary beneficiary of the joint venture due to the fact that the Company purchases a majority of the production output, and thus absorbs a majority of the gains or losses associated with the joint venture.

The Company adopted the provisions of SFAS No.160 on January 1, 2009 and, thus, reclassified the noncontrolling interest related to GIMA of approximately $6.0 million as of January 1, 2009 from Other noncurrent liabilities to a component of equity within the Company s Condensed Consolidated Financial Statements. The Company s other consolidated joint venture was established in January 2009 and is immaterial to the Company s financial position and results of operations. Refer to Note 12 for further

Notes to Condensed Consolidated Financial Statements Continued
(unaudited)

details of the Company s other comprehensive income (loss) attributable to AGCO Corporation and the noncontrolling interests discussed above.

3. RESTRUCTURING AND OTHER INFREQUENT EXPENSES

During the second quarter of 2009, the Company recorded restructuring and other infrequent expenses of approximately $2.8 million. These charges primarily related to severance and other related costs associated with the Company s rationalization of its operations in the United States, the United Kingdom and Finland. The rationalization will result in the termination of approximately 246 employees. Approximately $2.0 million of severance and other related costs had been paid as of June 30, 2009, and 138 of the employees had been terminated. The $0.8 million of severance and other related costs accrued at June 30, 2009 are expected to be paid during 2009.

During the second quarter of 2008, the Company recorded and incurred employee relocation costs of approximately $0.1 million associated with the closure of one of its German sales offices initiated in 2006.

4. STOCK COMPENSATION PLANS

The Company recorded stock compensation expense as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Cost of goods sold	$	$ 0.2	$ 0.5	$ 0.4
Selling, general and administrative expenses	2.3	8.4	8.2	14.8
Total stock compensation expense	$ 2.3	$ 8.6	$ 8.7	$ 15.2

Stock Incentive Plans

Under the 2006 Long Term Incentive Plan (the 2006 Plan), up to 5.0 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, stock options 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, 2009 and 2008 was $21.45 and $57.22, respectively.

During the six months ended June 30, 2009, the Company granted 1,222,000 awards for the three-year performance period commencing in 2009 and ending in 2011, assuming the maximum target level of performance is achieved. Performance award transactions during the six months ended June 30, 2009 were as follows and are presented as if the Company were to achieve its maximum levels of performance under the plan:

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Notes to Condensed Consolidated Financial Statements Continued
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Shares awarded but not earned at January 1	1,446,168
Shares awarded	1,222,000
Shares forfeited or unearned	(55,112)
Shares earned	
Shares awarded but not earned at June 30	2,613,056

As of June 30, 2009, 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 $16.6 million, and the weighted average period over which it is expected to be recognized is approximately one year.

During the three and six months ended June 30, 2009, the Company recorded stock compensation expense of approximately $0.7 million and $1.2 million, respectively, associated with stock settled stock appreciation rights (SSAR) awards. During the three and six months ended June 30, 2008, the Company recorded stock compensation expense of approximately $0.4 million and $0.8 million, respectively, associated with SSAR awards. The Company estimated the fair value of the grants using the Black-Scholes option pricing model. The Company utilized the simplified method for estimating the expected term of granted SSARs during the six months ended June 30, 2009 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 SSAR. As the Company has only been granting SSARs 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 and the weighted average assumptions under the Black-Scholes option model were as follows for the six months ended June 30, 2009 and 2008:

	Six Months Ended June 30,	
	2009	2008
Weighted average grant date fair value	$7.39	$17.93
Weighted average assumptions under Black-Scholes option model:		
Expected life of awards (years)	5.5	5.5
Risk-free interest rate	1.6%	2.6%
Expected volatility	45.2%	38.0%
Expected dividend yield		

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Notes to Condensed Consolidated Financial Statements Continued
(unaudited)

SSAR transactions during the six months ended June 30, 2009 were as follows:

SSARs outstanding at January 1	415,791
SSARs granted	295,000
SSARs exercised	
SSARs canceled or forfeited	(6,750)
SSARs outstanding at June 30	704,041
SSAR price ranges per share:	
Granted	$ 21.45
Exercised	
Canceled or forfeited	23.80-56.98
Weighted average SSAR exercise prices per share:	
Granted	$ 21.45
Exercised	
Canceled or forfeited	32.52
Outstanding at June 30	31.09

At June 30, 2009, the weighted average remaining contractual life of SSARs outstanding was approximately five years. As of June 30, 2009, the total compensation cost related to unvested SSARs not yet recognized was approximately $4.8 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 lives 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 June 30, 2009	Weighted Average Exercise Price
$21.45 $24.61	422,250	5.7	$22.17	86,812	