NAVISITE INC
Form 10-Q
December 17, 2008

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended October 31, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number: 000-27597

NAVISITE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**52-2137343**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
400 Minuteman Road Andover, Massachusetts	**01810**
(Address of principal executive offices)	(Zip Code)

(978) 682-8300

(Registrant s telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer þ (Do not check if a smaller reporting company) Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

As of December 9, 2008, there were 35,395,038 shares outstanding of the registrant s common stock, par value $.01 per share.

NAVISITE, INC.
TABLE OF CONTENTS
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED OCTOBER 31, 2008

	Page Number
Part I. FINANCIAL INFORMATION	
Item 1. Financial Statements	3
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3. Quantitative and Qualitative Disclosures About Market Risk	32
Item 4. Controls and Procedures	33
Part II. OTHER INFORMATION	
Item 1. Legal Proceedings	33
Item 1A. Risk Factors	35
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	35
Item 5. Other Information	36
Item 6. Exhibits	36

Ex-10.4 Amendment No. 5 to Lease dated August 15, 2008
Ex-31.1 Section 302 Certification of CEO
Ex-31.2 Section 302 Certification of CFO
Ex-32.1 Section 906 Certification of CEO
Ex-32.2 Section 906 Certification of CFO

Table of Contents

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

NAVISITE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except par value)

	October 31, 2008	July 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,020	$ 3,261
Accounts receivable, less allowance for doubtful accounts of $999 and $897 at October 31, 2008 and July 31, 2008, respectively	20,777	18,927
Unbilled accounts receivable	1,596	1,711
Prepaid expenses and other current assets	7,923	11,557
Total current assets	35,316	35,456
Property and equipment, net	36,471	38,141
Intangible assets	27,452	29,290
Goodwill	66,566	66,683
Other assets	5,227	4,258
Restricted cash	1,760	1,885
Total assets	$ 172,792	$ 175,713
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Notes payable, current portion	$ 4,792	$ 6,100
Capital lease obligations, current portion	3,271	3,166
Accounts payable	8,343	7,033
Accrued expenses and other current liabilities	13,554	13,336
Deferred revenue, deferred other income and customer deposits	6,167	4,163
Total current liabilities	36,127	33,798
Capital lease obligations, less current portion	12,515	14,922
Accrued lease abandonment costs, less current portion	334	428
Deferred tax liability	6,096	5,597
Other long-term liabilities	3,873	4,361
Note payable, less current portion	107,575	107,850
Total liabilities	166,520	166,956
Series A Convertible Preferred Stock, $0.01 par value; Authorized 5,000 shares; Issued and outstanding: 3,386 at October 31, 2008 and 3,320 at July 31, 2008	28,331	27,529
Commitments and contingencies (Note 11)		

Stockholders deficit:		
Common stock, $0.01 par value; Authorized 395,000 shares; Issued and outstanding: 35,390 at October 31, 2008 and 35,232 at July 31, 2008	354	352
Accumulated other comprehensive income (loss)	(831)	253
Additional paid-in capital	485,428	485,086
Accumulated deficit	(507,010)	(504,463)
Total stockholders deficit	(22,059)	(18,772)
Total liabilities and stockholders deficit	$ 172,792	$ 175,713

See accompanying notes to condensed consolidated financial statements.

Table of Contents

NAVISITE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended	
	October 31, 2008	**October 31 2007**
Revenue, net	$39,778	$36,032
Revenue, related parties	83	75
Total revenue, net	39,861	36,107
Cost of revenue, excluding restructuring charge, depreciation and amortization	21,731	20,858
Depreciation and amortization	5,703	4,187
Restructuring charge	214	
Cost of revenue	27,648	25,045
Gross profit	12,213	11,062
Operating expenses:		
Selling and marketing	5,440	5,164
General and administrative	5,963	5,622
Restructuring charge	262	
Total operating expenses	11,665	10,786
Income from operations	548	276
Other income (expense):		
Interest income	4	114
Interest expense	(3,044)	(2,657)
Loss on debt extinguishment		(1,651)
Other income (expense), net	461	275
Loss from continuing operations before income taxes and discontinued operations	(2,031)	(3,643)
Income taxes	(499)	(413)
Loss from continuing operations before discontinued operations	(2,530)	(4,056)
Loss from discontinued operations, net of income taxes	(17)	(314)
Net loss	(2,547)	(4,370)

Accretion of preferred stock dividends	(802)	(384)
Net loss attributable to common stockholders	$ (3,349)	$ (4,754)
Basic and diluted net loss per common share:		
Loss from continuing operations before discontinued operations attributable to common stockholders	$ (0.09)	$ (0.13)
Loss from discontinued operations, net of income taxes		(0.01)
Net loss attributable to common stockholders	$ (0.09)	$ (0.14)
Basic and diluted weighted average number of common shares outstanding	35,344	33,917
Stock-based compensation expense:		
Cost of revenue	$ 379	$ 556
Selling and marketing	182	252
General and administrative	408	429
Restructuring	51	
Total stock-based compensation expense	$ 1,020	$ 1,237

See accompanying notes to condensed consolidated financial statements.

Table of Contents

NAVISITE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Three Months Ended	
	October 31, 2008	October 31, 2007
Cash flows from operating activities of continuing operations:		
Net loss	$(2,547)	$ (4,370)
Loss from discontinued operations	17	314
Loss from continuing operations before discontinued operations	(2,530)	(4,056)
Adjustments to reconcile net loss to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	5,876	4,387
Mark to market for interest rate cap	4	70
Stock based compensation	1,020	1,237
Provision for bad debts	168	92
Deferred income tax expense	499	413
Loss on debt extinguishment		1,651
Changes in operating assets and liabilities:		
Accounts receivable	(2,401)	1,687
Unbilled accounts receivable	(160)	(79)
Prepaid expenses and other current assets, net	3,864	(1,383)
Long term assets	(106)	(10)
Accounts payable	1,421	(363)
Long-term liabilities	(486)	(202)
Accrued expenses, deferred revenue and customer deposits	2,368	(3,359)
Net cash provided by operating activities of continuing operations	9,537	85
Cash flows from investing activities of continuing operations:		
Purchase of property and equipment	(3,736)	(2,853)
Cash used for acquisitions, net of cash acquired		(31,277)
Releases of (transfers to) restricted cash	(1)	8,708
Net cash used for investing activities of continuing operations	(3,737)	(25,422)
Cash flows from financing activities of continuing operations:		
Proceeds from exercise of stock options and warrants	126	1,210
Borrowings on notes payable	905	22,801
Repayment of notes payable	(2,488)	(2,465)
Debt issuance costs	(1,184)	(1,072)
Payments on capital lease obligations	(1,213)	(1,073)
Net cash provided by financing activities of continuing operations	(3,854)	19,401

Cash provided by (used for) operating activities of discontinued operations	12	(286)
Effect of exchange rate changes on cash and cash equivalents	(199)	
Net increase (decrease) in cash and cash equivalents	1,759	(6,222)
Cash and cash equivalents, beginning of period	3,261	11,701
Cash and cash equivalents, end of period	$ 5,020	$ 5,479
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 2,902	$ 2,415
Supplemental disclosure of non-cash transactions:		
Equipment and leasehold improvements acquired under capital leases	$ 1,357	$ 1,242
Issuance of Series A Convertible Preferred Stock in connection with netASPx acquisition	$	$ 24,873
Accretion of Preferred Stock	$ 802	$ 384

See accompanying notes to condensed consolidated financial statements.

5

Table of Contents

NAVISITE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Description of Business

NaviSite, Inc. (NaviSite , the Company , we , us or our) provides application management, managed hosting solutions and professional services for mid-market organizations. Leveraging our set of technologies and subject matter expertise, we deliver cost-effective, flexible solutions that provide responsive and predictable levels of service for our customers businesses. Over 1,400 companies across a variety of industries rely on NaviSite to build, implement and manage their mission-critical systems and applications. NaviSite is a trusted advisor committed to ensuring the long-term success of our customers business applications and technology strategies. At October 31, 2008, NaviSite had 16 state-of-the-art data centers in the United States and United Kingdom and a network operations center in India. Substantially all revenue is generated from customers in the United States.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts and operations of the Company and its wholly-owned subsidiaries and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements and thus should be read in conjunction with the audited consolidated financial statements included in our Annual Report on Form 10-K filed on November 6, 2008. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary for a fair presentation of the Company s financial position, results of operations and cash flows at the dates and for the periods indicated. The results of operations for the three months ended October 31, 2008 are not necessarily indicative of the results expected for the remainder of the fiscal year ending July 31, 2009.

All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates. Significant estimates made by management include the useful lives of fixed assets and intangible assets, the recoverability of long-lived assets, the collectability of receivables, the determination and valuation of goodwill and acquired intangible assets, the determination of revenue and related revenue reserves, the determination of the fair value of stock-based compensation, the determination of the deferred tax valuation allowance, the determination of certain accrued liabilities and other assumptions for sublease and lease abandonment reserves.

(c) Revenue Recognition

Revenue, net consists of monthly fees for application management services, managed hosting solutions, co-location and professional services. Reimbursable expenses charged to clients are included in revenue, net and cost of revenue. Application management, managed hosting solutions and co-location services are billed and recognized as revenue over the term of the contract, generally one to five years. Installation and up-front fees associated with application management, managed hosting solutions and co-location services are billed at the time the installation service is provided and recognized as revenue over the longer of the expected term or the term of the related contract. Payments received in advance of providing services are deferred until the period such services are delivered.

Revenue from professional services is recognized as services are delivered for time and materials type contracts and using the percentage of completion method for fixed price contracts. For fixed price contracts, progress towards completion is measured by a comparison of the total hours incurred on the project to date to the total estimated hours

NAVISITE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

required upon completion of the project. When current contract estimates indicate that a loss is probable, a provision is made for the total anticipated loss in the current period. Contract losses are determined to be the amount by which the estimated service delivery costs of the contract exceed the estimated revenue that will be generated by the contract. Unbilled accounts receivable represent revenue for services performed that have not yet been billed as of the balance sheet date. Billings in excess of revenue recognized are recorded as deferred revenue until the applicable revenue recognition criteria are met.

In accordance with Emerging Issues Task Force (EITF) Issue No. 00-21, Revenue Arrangements with Multiple Deliverables , when more than one element such as professional services, installation and hosting services are contained in a single arrangement, the Company allocates revenue between the elements based on acceptable fair value allocation methodologies, provided that each element meets the criteria for treatment as a separate unit of accounting. An item is considered a separate unit of accounting if it has value to the customer on a stand alone basis and there is objective and reliable evidence of the fair value of the undelivered items. The fair value of the undelivered elements is determined by the price charged when the element is sold separately, or in cases when the item is not sold separately, by using other acceptable objective evidence. Management applies judgment to ensure appropriate application of EITF 00-21, including the determination of fair value for multiple deliverables, determination of whether undelivered elements are essential to the functionality of delivered elements, and timing of revenue recognition, among others. For those arrangements where the deliverables do not qualify as a separate unit of accounting, revenue from all deliverables are treated as one accounting unit and generally is recognized ratably over the term of the arrangement.

(d) Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid securities with original maturities of three months or less to be cash equivalents. The Company had restricted cash of $1.9 million as of October 31, 2008 and July 31, 2008, including $0.1 million that was classified as short-term in the October 31, 2008 Condensed Consolidated Balance Sheet and is included in Prepaid expenses and other current assets . At October 31, 2008, restricted cash consists of cash collateral requirements for standby letters of credit associated with several of the Company s facility and equipment leases.

(e) Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Leasehold improvements and assets acquired under capital leases that transfer ownership are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset. Assets acquired under capital leases that do not transfer ownership or contain a bargain purchase option are amortized over the lease term. Expenditures for maintenance and repairs are charged to expense as incurred.

Renewals and betterments, which materially extend the life of assets, are capitalized and depreciated. Upon disposal, the asset cost and related accumulated depreciation are removed from their respective accounts and any gain or loss is reflected within Other income (expense), net in our Condensed Consolidated Statements of Operations.

(f) Long-lived Assets, Goodwill and Other Intangibles

The Company follows the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* . SFAS No. 144 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed

NAVISITE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

of are reported at the lower of the carrying amount or fair value less cost to sell.

The Company reviews the valuation of goodwill in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* . Under the provisions of SFAS No. 142, goodwill is required to be tested for impairment annually in lieu of being amortized. This testing is generally done in the fourth fiscal quarter of each year. Furthermore, goodwill is required to be tested for impairment on an interim basis if an event or circumstance indicates that it is more likely than not that an impairment loss has been incurred. An impairment loss shall be recognized to the extent that the carrying amount of goodwill exceeds its fair value. Impairment losses are recognized in operations. The Company s valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and projections of future operating performance. If these assumptions differ materially from future results, the Company may record additional impairment charges in the future.

(g) Concentration of Credit Risk

Our financial instruments include cash, accounts receivable, obligations under capital leases, debt agreements, derivative instruments, preferred stock, accounts payable, and accrued expenses. As of October 31, 2008, the carrying cost of these instruments approximated their fair value. Financial instruments that may subject us to concentrations of credit risk consist primarily of accounts receivable. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers across many industries that comprise our customer base. No customer accounted for more than 5% of total revenues for the three months ended October 31, 2008 or more than 5% of total accounts receivable balance as of October 31, 2008.

(h) Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period of time from transactions and other events and circumstances from non-owner sources. The Company records the components of comprehensive income (loss), primarily foreign currency translation adjustments, in the Condensed Consolidated Balance Sheets as a component of Stockholders Deficit, Accumulated other comprehensive income (loss). For the three months ended October 31, 2008 and 2007, comprehensive income (loss) totaled approximately $3.6 million and $4.3 million, respectively.

(i) Advertising Costs

The Company charges advertising costs to expense in the period incurred. Advertising expense for the three months ended October 31, 2008 and 2007 were approximately $100,000 and $141,000, respectively.

(j) Income Taxes

We account for income taxes under the asset and liability method in accordance with SFAS No. 109, *Accounting for Income Taxes"*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(k) Stock Based Compensation

Stock Options

The Company maintains three stock incentive plans under which employees and outside directors have been granted nonqualified stock options to purchase the Company s common stock. Only one plan, the NaviSite 2003

Table of Contents

NAVISITE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Stock Incentive Plan (2003 Plan), is currently available for new equity award grants. For the Company s employees, options granted are generally exercisable as to 25% of the original number of shares on the sixth month anniversary of the option holder s grant date and, thereafter, in equal amounts monthly over the three year period commencing on the sixth month anniversary of the option holder s grant date. Options granted under the 2003 Plan have a maximum term of ten years.

The Company s current practice is to grant all options with an exercise price equal to the fair market value of the Company s common stock on the date of grant. During the three months ended October 31, 2008, the Company issued stock options for the purchase of approximately 0.4 million shares of common stock at a weighted average exercise price per share of $2.08. During the three months ended October 31, 2007, the Company issued stock options for the purchase of approximately 1.1 million shares of common stock at a weighted average exercise price per share of $7.62.

The fair value of each option issued under the 2003 Plan is estimated on the date of grant using the Black-Scholes Model, based upon the following weighted average assumptions:

	Three Months Ended October 31,	
	2008	**2007**
Expected life (years)	2.5	2.5
Expected volatility	79.53%	85.56%
Expected dividend rate	0.00%	0.00%
Risk-free interest rate	2.02%	4.05%

Stock compensation expense related to stock options recognized in the Condensed Consolidated Statements of operations is as follows:

	Three Months Ended October 31, (in thousands)	
	2008	**2007**
Cost of revenue	$320	$ 556
Selling and marketing	147	252
General and administrative	181	339
Total	$648	$1,147

There is a total of $51,000 of stock compensation which relates to an acceleration of stock compensation expense due to a change in status pursuant to separation agreements. Of this total, $40,000 is a general and administrative expense and $11,000 is a cost of revenue expense.

Non-vested Shares

During the three months ended October 31, 2008, the Company granted approximately 0.8 million non-vested shares of common stock to certain executives under the 2003 Plan, at a weighted average grant date fair value of $3.29 per share. The grant date fair value of the non-vested shares was determined using Monte Carlo simulations allowing for the incorporation of market based hurdles. These shares are subject to certain vesting criteria: (i) for the first third of the shares, 50% vests upon the Company exceeding a market capitalization of $182,330,695 for 20 consecutive trading days and the remaining 50% of such one third vests on the one year anniversary thereafter, (ii)

NAVISITE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

for the second third of the shares, 50% vests upon the company exceeding a market capitalization of $232,330,695 for 20 consecutive trading days and the remaining 50% of such one third vests on the one year anniversary thereafter, (iii) for the final third of the shares, 50% vests upon the Company exceeding a market capitalization of $282,330,695 for 20 consecutive trading days and the remaining 50% of such one third vests on the one year anniversary thereafter. If the vesting criteria is not met at the tenth anniversary of the grant date all unvested shares shall automatically be forfeited to the Company. Compensation expense will be recognized over the derived service period.

During the three months ended October, 31, 2007, the Company granted approximately 0.2 million non-vested shares of common stock to certain executives, under the 2003 Plan, at a weighted average grant date fair value of $7.93 per share. These non-vested shares carry restrictions which lapse as the employees provide service as to one-third of the shares per annum on each of the first, second, and third anniversaries of the date of grant. With respect to 0.1 million of the non-vested shares, there was a potential for the restrictions to lapse on an earlier date as to 100% of the shares if the Company achieved certain revenue and EBITDA targets for its 2008 fiscal year. The targets were not met and the restrictions did not lapse on an accelerated basis. The grant date fair value of the non-vested shares was determined based on the market price of the Company s common stock on the date of grant.

The following table summarizes stock based compensation expense related to non-vested shares under SFAS 123R for the three months ended October 31, 2008 and October 31, 2007.

	Three Months Ended October 31, (in thousands)	
	2008	2007
Cost of revenue	$ 42	$
Selling and marketing	21	
General and administrative	256	90
Total	$319	$90

The non-vested shares are excluded from our issued and outstanding share amounts presented in our Condensed Consolidated Balance Sheet at October 31, 2008.

Employee Stock Purchase Plan

Under the ESPP, employees who elect to participate instruct the Company to withhold a specified amount through payroll deductions during the offering period of six months. On the last business day of each offering period, the amount withheld is used to purchase the Company s common stock at an exercise price equal to 85% of the lower of the market price on the first or last business day of the offering period. During the three months ended October 31, 2008 and October 31, 2007, the Company did not issue any shares under the ESPP.

Compensation expense for the ESPP is recognized over the offering period. The following table summarizes stock based compensation expense related to the ESPP under SFAS 123R for the three months ended October 31, 2008 and October 31, 2007.

	Three Months Ended October 31, (in thousands)	
	2008	2007
Cost of revenue	$28	$

Selling and marketing	14	
General and administrative	11	
Total	$53	$

10

NAVISITE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(l) Net Loss Per Common Share

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted net loss per share is computed using the weighted average number of common and diluted common equivalent shares outstanding during the period. The Company utilizes the treasury stock method for options, warrants, and non-vested shares and the if-converted method for convertible preferred stock and notes, unless such amounts are anti-dilutive.

The following table sets forth common stock equivalents that are not included in the calculation of diluted net loss per share available to common stockholders because to do so would be anti-dilutive for the periods indicated.

	Three Months Ended October 31	
	2008	2007
Common stock options	623,136	2,961,330
Common stock warrants	1,194,884	1,422,997
Nonvested stock	26,496	123,970
Series A convertible preferred stock	3,432,639	3,159,722
Total	5,277,155	7,668,019

(m) Segment Reporting

We currently operate in one segment, managed IT services. The Company s chief operating decision maker reviews financial information at a consolidated level.

(n) Foreign Currency

The functional currencies of our wholly-owned subsidiaries are the local currencies. The financial statements of the subsidiaries are translated into U.S. dollars using period end exchange rates for assets and liabilities and average exchange rates during corresponding periods for revenue, net, cost of revenue and expenses. Translation gains and losses are recorded as a separate component of stockholders deficit.

(o) Derivative Financial Instruments

Derivative instruments are recorded in the balance sheet as either assets or liabilities, measured at fair value. Changes in fair value are recognized currently in earnings. The Company has utilized interest rate derivatives to mitigate the risk of rising interest rates on a portion of its floating rate debt and has not qualified for hedge accounting. The interest rate differentials to be received under such derivatives are recognized as adjustments to interest expense and the changes in the fair value of the instruments is recognized over the life of the agreements as Other income (expense), net. The principal objectives of the derivative instruments are to minimize the risks and reduce the expenses associated with financing activities. The Company does not use derivative financial instruments for trading purposes.

Fair Value - Effective August 1, 2008, the Company adopted Statement of Financial Accounting Standard No. 157 (SFAS No. 157), (*Fair Value Measurements*), which establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS 157 requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows:

Level 1 quoted prices in active markets for identical assets or liabilities;

Level 2 quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or

Level 3 unobservable inputs, such as discounted cash flow models or valuations.
The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company s interest rate derivatives required to be measured at fair value on a recurring basis and where they are classifed within the hierachy as of October 31, 2008.

	Level 1	Level 2	Level 3	Total
Interest Rate Derivatives			$ 86,000	$ 86,000
			$ 86,000	$ 86,000

Interest Rate Derivatives: The initial fair values of these instruments were determined by our counterparties and we continue to value these securities based on quotes from our counterparties. Since the inputs used to value these instruments are unobservable, we have classified them as level 3.

(p) Recent Accounting Pronouncements

In November 2008, the SEC issued for comment a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards (IFRS). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board

Table of Contents

NAVISITE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(IASB). Under the proposed roadmap, the Company could be required in fiscal 2015 to prepare financial statements in accordance with IFRS, and the SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. We are currently assessing the impact that this potential change would have on our consolidated financial statements, and we will continue to monitor the development of the potential implementation of IFRS.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162), which identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. SFAS 162 is effective for the Company 60 days following the SEC s approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The adoption of SFAS 162 is not expected to have a material impact on our results of operations or financial position.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Asset. FSP FAS 142-3 is effective for the Company beginning in fiscal 2010. The Company is currently evaluating FSP FAS 142-3 and the impact, if any, that it may have on its results of operations or financial position.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 (SFAS 161), Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 . SFAS 161 requires enhanced disclosures about an entity s derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS 161 is effective for fiscal years beginning on or after November 15, 2008. The Company is currently evaluating the impact that the adoption of SFAS 161 will have on its financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB NO. 151, (SFAS 160), which requires non-controlling interests (previously referred to as minority interest) to be treated as a separate component of equity, not as a liability as is current practice. SFAS 160 applies to non-controlling interests and transactions with non-controlling interest holders in consolidated financial statements. SFAS 160 is effective for periods beginning on or after December 15, 2008. We are currently evaluating the effect that SFAS 160 will have on our consolidated financial condition and results of operations.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, (SFAS 141R), which requires most identifiable assets, liabilities, non-controlling interests, and goodwill acquired in a business combination to be recorded at full fair value. Under SFAS 141R, all business combinations will be accounted for under the acquisition method. Significant changes, among others, from current guidance resulting from SFAS 141R include the requirement that contingent assets and liabilities and contingent consideration shall be recorded at estimated fair value as of the acquisition date, with any subsequent changes in fair value charged or credited to earnings. Further, acquisition-related costs will be expensed rather than treated as part of the acquisition. SFAS 141R is effective for periods beginning on or after December 15, 2008. The Company is currently evaluating the effect, if any, that SFAS 141R will have on our consolidated financial condition and results of operations.

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Liabilities . SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 was adopted by the Company beginning August 1, 2008. The adoption of SFAS 159 did not have a material impact on the Company s consolidated financial position or results of operation.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 was adopted by the

NAVISITE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Company beginning August 1, 2008. The adoption of SFAS 157 did not have a material impact on the Company s consolidated financial position or results of operation.

(3) Reclassifications

Certain fiscal year 2008 amounts have been reclassified to conform to the current year presentation.

(4) Discontinued Operations

In August 2007, the Company launched America s Job Exchange (AJE), an employment services web site. This site utilizes technology developed in connection with the provision of services to a former customer. Upon termination of the use of the service by our customer, AJE was launched as an independent employment services site utilizing an advertising revenue and premium enhanced services model. In August 2007, the Company determined that AJE is not core to its business and pursuant to a plan developed in August 2007, the Company is actively seeking to dispose of AJE and, accordingly, the results of its operations, its assets and liabilities and its cash flows have been presented as discontinued operations in these condensed consolidated financial statements. The Company expects that AJE will be disposed of during fiscal year 2009. Subsequent to disposal, the Company does not expect to have any on-going involvement in the operations of AJE. Operating results related to AJE for the three months ended October 31, 2008 and 2007 were as follows:

	Three months ended October 31	
	2008	2007
	(In thousands)	
Revenue	$304	$
Cost of revenues	71	247
Depreciation and amortization	29	28
Total cost of revenues	100	275
Gross profit (loss)	204	(275)
Operating expenses:		
Selling and marketing	221	39
Loss from discontinued operations before income taxes	(17)	(314)
Income taxes		
Loss from discontinued operations, as reported	$ (17)	$(314)

The recorded assets and liabilities of AJE at October 31, 2008 and July 31, 2008 were not material.

(5) Restructuring Charge

During the three months ended October 31, 2008, the Company initiated the restructuring of its professional services organization in an effort to realign resources. As a result of this initiative, the Company terminated several employees resulting in a restructuring charge for severance and related costs of $0.5 million.

Table of Contents

NAVISITE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following is a roll forward of the restructuring accrual:

Restructuring accrual balance at July 31, 2008	$
Restructuring and other related charges	476
Cash payments and other settlements	(160)
Restructuring accrual balance at October 31, 2008	$ 316

The balance at October 31, 2008 is included in Accrued expenses and other current liabilities in the Company s Condensed Consolidated Balance Sheets. The remaining balance is expected to be paid during fiscal 2009.

(6) Property and Equipment

Property and equipment at October 31, 2008 and July 31, 2008 are summarized as follows:

	October 31, 2008	July 31, 2008
	(In thousands)	
Office furniture and equipment	$ 4,482	$ 4,522
Computer equipment	72,219	68,968
Software licenses	15,330	15,270
Leasehold improvements	25,113	26,981
	117,144	115,741
Less: Accumulated depreciation and amortization	(80,673)	(77,600)
Property and equipment, net	$ 36,471	$ 38,141

The estimated useful lives of our fixed assets are as follows: office furniture and equipment, 5 years; computer equipment, 3 years; software licenses, 3 years or life of the license; and leasehold improvements, lesser of the lease term or the asset s estimated useful life.

(7) Goodwill and Intangible Assets

Goodwill balance at July 31, 2008	$ 66,683
Adjustments to goodwill	(117)
Goodwill balance at October 31, 2008	$ 66,566

Goodwill was adjusted during the three months ending October 31, 2008, reflecting the finalization of purchase accounting reserves made within one year of the acquisition date.

Intangible assets, net consisted of the following:

	October 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer lists	$ 39,670	$ (24,270)	$ 15,400

Customer contract backlog	14,600	(5,547)	9,053
Developed technology	3,140	(1,101)	2,039
Vendor contracts	700	(395)	305
Trademarks	670	(137)	533
Non-compete agreements	206	(84)	122
Intangible assets, net	$58,986	$(31,534)	$27,452

Table of Contents

NAVISITE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	July 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer lists	$39,670	$(23,400)	$16,270
Customer contract backlog	14,600	(4,845)	9,755
Developed technology	3,140	(966)	2,174
Vendor contracts	700	(314)	386
Trademarks	670	(105)	565
Non-compete agreements	206	(66)	140
Intangible assets, net	$58,986	$(29,696)	$29,290

Intangible asset amortization expense for the three months ended October 31, 2008 and 2007 aggregated $1.8 million and $1.7 million, respectively. Intangible assets are being amortized over estimated useful lives ranging from two to eight years.

The amount reflected in the table below for fiscal year 2009 includes year to date amortization. Amortization expense related to intangible assets for the next five years is projected to be as follows:

Year Ending July 31,	(In thousands)
2009	$ 7,198
2010	$ 6,068
2011	$ 5,921
2012	$ 5,776
2013	$ 2,307

(8) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	October 31 2008	July 31, 2008
	(In thousands)	
Accrued payroll, benefits and commissions	$ 5,111	$ 4,561
Accrued accounts payable	3,202	3,256
Accrued interest	1,382	1,367
Accrued lease abandonment costs, current portion	658	857
Accrued sales/use, property and miscellaneous taxes	504	599
Accrued legal	390	229
Other accrued expenses and current liabilities	2,307	2,467
	$13,554	$13,336

(9) Debt

Debt consists of the following:

	October 31, 2008	July 31, 2008
	(In thousands)	
Total Debt	$ 112,367	$ 113,950
Less other notes payable	692	
Total Term Loan and Revolver	111,675	113,950
Less current portion Term Loan and Revolver	4,100	6,100
Long-term debt Term Loan	$ 107,575	$ 107,850

Senior Secured Credit Facility

In June 2007, the Company entered into a senior secured credit agreement (the Credit Agreement) with a syndicated lending group. The Credit Agreement consisted of a six year single draw term loan (the Term Loan)

Table of Contents

NAVISITE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

totaling $90.0 million and a five year $10.0 million revolving credit facility (the Revolver). Proceeds from the Term Loan were used to pay our obligations to Silver Point Finance LLC, to pay fees and expenses totaling approximately $1.5 million related to the closing of the Credit Agreement, to provide financing for data center expansion (totaling approximately $8.7 million) and for general corporate purposes. Borrowings under the Credit Agreement were guaranteed by the Company and certain of its subsidiaries.

Under the Term Loan, the Company is required to make principal amortization payments during the six year term of the loan in amounts totaling $0.9 million per annum, paid quarterly on the first day of the Company s fiscal quarters. In April 2013, the balance of the Term Loan becomes due and payable. The outstanding principal under the Credit Agreement is subject to prepayment in the case of an Event of Default, as defined in the Credit Agreement. In addition, amounts outstanding under the Credit Agreement are subject to mandatory pre-payment in certain cases including, among others, a change in control of the Company, the incurrence of new debt and the issuance of equity of the Company. In the case of a mandatory pre-payment resulting from a debt issuance, 100% of the proceeds must be used to prepay amounts owed under the Credit Agreement. In the case of an equity offering, the Company was entitled to retain the first $20.0 million raised and would prepay amounts owed under the Credit Agreement with 50% of the proceeds from an equity offering that exceed $20.0 million.

Amounts outstanding under the Credit Agreement bore interest at either the LIBOR rate plus 3.5% or the Base Rate, as defined in the Credit Agreement, plus the Federal Funds Effective Rate plus 0.5%, at the Company s option. Upon the attainment of a Consolidated Leverage Ratio, as defined, of no greater than 3:1, the interest rate under the LIBOR option can decrease to LIBOR plus 3.0%. Interest becomes due and is payable quarterly in arrears. The Credit Agreement requires us to maintain interest rate arrangements to minimize exposure to interest rate fluctuations on an aggregate notional principal amount of 50% of amounts borrowed under the Term Loan.

The Credit Agreement requires us to maintain certain financial and non-financial covenants. Financial covenants include a minimum fixed charge coverage ratio, a maximum total leverage ratio and an annual capital expenditure limitation. At July 31, 2007 we had exceeded the maximum allowable annual capital expenditures under the terms of the Credit Agreement for the fiscal year ended July 31, 2007. In September 2007, in connection with the Amended Credit Agreement (defined below), we received an increase in the maximum allowable annual capital expenditures for the fiscal year ended July 31, 2007, which waived the violation as of July 31, 2007. Non-financial covenants include restrictions on our ability to pay dividends, make investments, sell assets, enter into merger or acquisition transactions, incur indebtedness or liens, enter into leasing transactions, alter our capital structure or issue equity, among others. In addition, under the Credit Agreement, we are allowed to borrow, through one or more of our foreign subsidiaries, up to $10.0 million to finance data center expansion in the United Kingdom.

Proceeds from the Term Loan were used to extinguish all of the Company s outstanding debt with Silver Point Finance LLC. At the closing of the Credit Agreement, the Company had $75.5 million outstanding with Silver Point Finance LLC, which was paid in full. In addition, the Company incurred a $3.0 million pre-payment penalty which was paid with the proceeds of the Term Loan.

In August 2007, the Company entered into Amendment, Waiver and Consent Agreement No. 1 to the Credit Agreement (the Amendment). The Amendment permitted us to use approximately $8.7 million of cash originally borrowed under the Credit Agreement, which was restricted for data center expansion to partially fund the acquisition of Jupiter and Alabanza and amended the Credit Agreement to permit the issuance of up to $75.0 million of Permitted Indebtedness, as defined. Permitted Indebtedness must be unsecured, require no amortization payment and not become due or payable until 180 days after the maturity date of the Credit Agreement in June 2013.

In September 2007, the Company entered into an Amended and Restated Credit Agreement (Amended Credit Agreement). The Amended Credit Agreement provided the Company with an incremental $20.0 million in term loan borrowings and amended the rate of interest to LIBOR plus 4.0%, with a step-down to LIBOR plus 3.5% upon attainment of a 3:1 leverage ratio. All other terms of the Credit Agreement remained substantially the same. The Company recorded a loss on debt extinguishment of approximately $1.7 million for the six months ended January 31,

2008 to reflect this extinguishment of the Credit Agreement, in accordance with EITF 96-19 Debtor s Accounting for a Modification or Exchange of Debt Instruments.

NAVISITE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In January 2008, the Company entered into Amendment, Waiver and Consent Agreement No. 3 to the Amended Credit Agreement (the January Amendment). The January Amendment amended the definition of Permitted UK Datasite Buildout Indebtedness (as that term is defined in the Amended Credit Agreement) to total $16.5 million as compared to $10.0 million and requires the reduction of the $16.5 million to no less than $10.0 million as such indebtedness is repaid as to principal.

In June 2008, the Company entered into Amendment and Consent Agreement No. 4 to the Amended Credit Agreement (the June Amendment). The June Amendment (i) amended the definition of Permitted UK Datasite Buildout Indebtedness (as that term is defined in the Amended Credit Agreement) to total $33.0 million as compared to $16.5 million, (ii) increased to $20.0 million the maximum amount of contingent obligations relating to all leases for any period of twelve months, and (iii) increased the rate of interest to either (x) LIBOR rate plus 5.0% or (y) Base Rate, as defined in the Amended Credit Agreement, plus 4.0%.

At July 31, 2008, the Company was not in compliance with its financial covenants of leverage, fixed charges and annual capital expenditures. In October 2008, the Company entered into Amendment, Waiver and Consent Agreement No. 5 to the Amended Credit Agreement (the October Amendment). The October Amendment (i) waived the existing covenant violations as of July 31, 2008, (ii) increased the rate of interest to either (x) LIBOR rate plus 6% or (y) Base Rate, as defined in the Amended Credit Agreement, plus 5%, (iii) added a 2% accruing payment-in-kind (PIK) interest until the leverage ratio has been lowered to 3:1, (iv) changed the excess cash flow sweep to 75% to be performed quarterly, (v) required certain settlement and asset sale proceeds to be used for debt repayment, (vi) modified certain financial covenants for future periods, and (vii) requires a payment to the lenders of 3% the outstanding term and revolving loans if a leverage ratio of 3:1 is not achieved by January 31, 2010.

At October 31, 2008, $111.7 million was outstanding under the Amended Credit Agreement of which $3.0 million was outstanding under the Revolver.

(10) Derivative Instruments

In May 2006, the Company purchased an interest rate cap on a notional amount of 70% of the then outstanding principal of the Silver Point Debt. The Company paid approximately $320,000 to lock in a maximum variable interest rate of 6.5% that could be charged on the notional amount during the term of the agreement. In June 2007, upon refinancing of the Silver Point Debt, the Company maintained the interest rate cap, as the Credit Agreement required a minimum notional amount of 50% of the outstanding principal of the Credit Agreement. In October 2007, in connection with the execution of the Amended Credit Agreement in September 2007 (see Note 9), the Company purchased a second interest rate cap totaling $10.0 million of notional amount, as the Amended Credit Agreement required a minimum notional amount of 50% of all Indebtedness, as defined in the Amended Credit Agreement. As of October 31, 2008 the fair value of these interest rate derivatives (representing a notional amount of approximately $54 million at October 31, 2008) was approximately $86,000 which is included in Other Assets in the Company s Condensed Consolidated Balance Sheets. The change in fair value for the three months ended October 31, 2008 and 2007, respectively was approximately $4,000 and $70,000. The change in fair value was charged to Other income, net in the accompanying Condensed Consolidated Statements of Operation.

(11) Commitments and Contingencies

(a) Leases

Abandoned Leased Facilities. During fiscal year 2008, in connection with the acquisitions of Jupiter and netASPx, the Company recorded impairment accruals for four facilities two in Santa Clara, CA, one in Herndon, VA and one in Minneapolis, MN. The Santa Clara facilities and the Herndon, VA facility were vacated shortly after the acquisition of Jupiter and netASPx, respectively, pursuant to a plan of closure and relocation. The Minneapolis office space was underutilized as of the date of acquisition of netASPx and the recorded impairment accrual reflects this underutilized space. The initial impairment accruals related to these facilities was approximately $1.1 million.

Table of Contents

NAVISITE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

During the three months ended October 31, 2008, we recorded no lease impairment.

Details of activity in the lease exit accrual by geographic region for the three months ended October 31, 2008 are as follows (in thousands):

Lease Abandonment Costs for:	Balance July 31, 2008	Expense (Recovery)	Purchase Accounting and Other Adjustments	Payments, less accretion of interest	Balance October 31, 2008
Andover, MA	$ 262	$	$	$ (32)	$ 230
Chicago, IL	250			(72)	178
Houston, TX	113			(84)	29
Syracuse, NY	21			(6)	15
Santa Clara, CA	77			(23)	54
Herndon, VA	56			(6)	50
Minneapolis, MN	506			(70)	436
	$ 1,285	$	$	$ (293)	$ 992

Minimum annual rental commitments under operating leases and other commitments are as follows as of October 31, 2008:

Description	Total	Less than 1 Year	Year 2	Year 3	Year 4	Year 5	After Year 5
				(In thousands)			
Short/Long-term debt	$ 115,412	$ 4,792	$ 1,100	$ 1,100	$ 1,100	$ 107,320	$
Interest on debt[(a)]	46,777	10,063	10,186	10,126	10,028	6,374	
Capital leases[(a)]	25,675	5,081	3,686	2,382	2,374	2,427	9,725
Bandwidth commitments	2,858	2,135	723				
Property leases[(a) (b) (c) (d)]	81,991	11,881	9,759	8,697	8,752	8,900	34,002
Total	$ 272,713	$ 33,952	$ 25,454	$ 22,305	$ 22,254	$ 125,021	$ 43,727

(a) Interest on debt assumes Libor is fixed at 3.16% and that Company s leverage ratio drops below 3:1 as of January

2010. Based on this the interest rate drops by 2%. Future commitments denominated in foreign currency are fixed at the exchange rate as of October 31, 2008.

(b) Amounts exclude certain common area maintenance and other property charges that are not included within the lease payment.

(c) On February 9, 2005, the Company entered into an Assignment and Assumption Agreement with a Las Vegas-based company, whereby this company purchased from us the right to use 29,000 square feet in our Las Vegas data center, along with the infrastructure and equipment associated with this space. In exchange, we received an initial payment of $600,000 and were to receive

$55,682 per month over two years. On May 31, 2006, we received full payment for the remaining unpaid balance. This agreement shifts the responsibility for management of the data center and its employees, along with the maintenance of the facility s infrastructure, to this Las Vegas-based company. Pursuant to this agreement, we have subleased back 2,000 square feet of space, allowing us to continue servicing our existing customer base in this market. Commitments related to property leases include an amount related to the 2,000 square feet sublease.

(d) In July 2008, the Company entered into a lease agreement for approximately 11,000 square feet of data center space in

the U.K. (see Note 13). The Company has not yet accepted delivery of the data center and therefore the future committed property lease amounts are not reflected as of October 31, 2008.

Total bandwidth expense was $1.4 million and $1.5 million for the three months ended October 31, 2008 and 2007, respectively.

Total rent expense for property leases was $3.3 million and $3.1 million for the three months ended October 31, 2008 and 2007, respectively.

With respect to the property lease commitments listed above, certain cash amounts are restricted pursuant to terms of lease agreements with landlords. At October 31, 2008, restricted cash of approximately $1.9 million

NAVISITE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

related to these lease agreements and consisted of certificates of deposit and a treasury note and are recorded at cost, which approximates fair value.

(b) Legal Matters

IPO Securities Litigation

In 2001, lawsuits naming more than 300 issuers and over 50 investment banks were filed in the United States District Court for the Southern District of New York and assigned to the Honorable Shira A. Scheindlin (the Court) for all pretrial purposes (the IPO Securities Litigation). Between June 13, 2001 and July 10, 2001 five purported class action lawsuits seeking monetary damages were filed against us, Joel B. Rosen, our then chief executive officer, Kenneth W. Hale, our then chief financial officer, Robert E. Eisenberg, our then president, and the underwriters of our initial public offering of October 22, 1999. On September 6, 2001, the Court consolidated the five similar cases and a consolidated, amended complaint was filed on April 19, 2002 (the Class Action Litigation) against us and Messrs. Rosen, Hale and Eisenberg (collectively, the NaviSite Defendants) and against underwriter defendants Robertson Stephens (as successor-in-interest to BancBoston), BancBoston, J.P. Morgan (as successor-in-interest to Hambrecht & Quist), Hambrecht & Quist and First Albany. The plaintiffs uniformly alleged that all defendants, including the NaviSite Defendants, violated Sections 11 and 15 of the Securities Act of 1933, Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 by issuing and selling our common stock in the offering, without disclosing to investors that some of the underwriters, including the lead underwriters, allegedly had solicited and received undisclosed agreements from certain investors to purchase aftermarket shares at pre-arranged, escalating prices and also to receive additional commissions and/or other compensation from those investors. The Class Action Litigation seeks certification of a plaintiff class consisting of all persons who acquired shares of our common stock between October 22, 1999 and December 6, 2000. The claims against Messrs. Rosen, Hale and Eisenberg were dismissed without prejudice on November 18, 2002, in return for their agreement to toll any statute of limitations applicable to those claims. At this time, plaintiffs have not specified the amount of damages they are seeking in the Class Action Litigation. On October 13, 2004, the Court certified a class in a sub-group of cases (the Focus Cases) in the IPO Securities Litigation, which was vacated on December 5, 2006 by the United States Court of Appeals for the Second Circuit (the Second Circuit). The Class Action Litigation is not one of the Focus Cases. Plaintiffs-appellees January 5, 2007 petition with the Second Circuit for rehearing and rehearing en banc was denied by the Second Circuit on April 6, 2007. Plaintiffs renewed their certification motion in the Focus Cases on September 27, 2007 as to redefined classes pursuant to Fed. R. Civ. P. 23(b)(3) and 23(c)(4). On October 3, 2008, after briefing, in connection with the renewed class certification proceedings was completed, plaintiffs withdrew without prejudice the renewed certification motion in the Focus Cases. On October 10, 2008, the Court confirmed plaintiffs request and directed the clerk to close the renewed certification motion. Additionally, on August 14, 2007, plaintiffs filed amended class action complaints in the Focus Cases, along with an accompanying set of Amended Master Allegations (collectively, the Amended Complaints). Plaintiffs therein (i) revise their allegations with respect to (1) the issue of investor knowledge of the alleged undisclosed agreements with the underwriter defendants and (2) the issue of loss causation; (ii) include new pleadings concerning alleged governmental investigations of certain underwriters; and (iii) add additional plaintiffs to certain of the Amended Complaints. On March 26, 2008, the Court entered an order granting in part and denying in part the motions to dismiss filed by the defendants named in the Focus Cases. Specifically, the Court dismissed the Section 11 claims brought by plaintiffs (1) who lacked recoverable Section 11 damages and (2) whose claims were time barred, but otherwise denied the motions as to the other claims alleged in the Amended Complaints.

On October 12, 2007, a purported shareholder of the Company filed a complaint for violation of Section 16(b) of the Securities Exchange Act of 1934, which prohibits short-swing trading, against two of the underwriters of the public offering at issue in the Class Action Litigation. The complaint is pending in the United States District Court for the Western District of Washington and is captioned Vanessa Simmonds v. Bank of America Corp., et al. An amended complaint was filed on February 28, 2008. Plaintiff seeks the recovery of short-swing profits from the underwriters on behalf of the Company, which is named only as a nominal defendant and from whom no recovery is sought. Similar

complaints have been filed against the underwriters of the public offerings of approximately 55 other issuers also involved in the IPO Securities Litigation. A joint status conference was held on April 28, 2008, at which the Court stayed discovery and ordered the parties to file motions to dismiss by July 25, 2008. On July 25, 2008, the

NAVISITE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Company joined 29 other nominal defendant issuers and filed Issuer Defendants Joint Motion to Dismiss the Amended Complaint. On the same date, the Underwriter Defendants also filed a Joint Motion to Dismiss. On September 8, 2008, plaintiff filed her oppositions to the motions. The replies in support of the motions to dismiss were filed on October 23, 2008. Oral arguments on all motions to dismiss are scheduled for January 16, 2009.

We believe that the allegations against us are without merit and we intend to vigorously defend against the plaintiffs claims. Due to the inherent uncertainty of litigation, we are not able to predict the possible outcome of the suits and their ultimate effect, if any, on our business, financial condition, results of operations or cash flows.

Other litigation

In October 2007, the Company, pursuant to its integration plans, closed the former Alabanza data center in Baltimore, Maryland and moved all equipment to the Company s data center in Andover, Massachusetts (the Data Migration). In connection with the Data Migration, the Company encountered unforeseen circumstances which led to extended down-time for certain of its customers.

On November 14, 2007, Pam Kagan Marketing, Inc., d/b/a Earthplaza, filed a complaint in the United States District Court for the District of Maryland (the Court) against the Company and Alabanza Corporation seeking a class status for the customers who experienced web hosting service interruptions as a result of the Data Migration (the November Class Action Litigation). The total damages claimed approximate $5.0 million. On January 4, 2008, Palmatec, LLC, NYC Merchandise and Taglogic RFID, Ltd. filed a complaint in the Maryland State Court, Circuit Court for Baltimore against the Company seeking a class status for the direct customers (the Direct Subclass) and the entities that purchased hosting services from those direct customers (the Non-Privity Subclass) (the January Class Action Litigation). The total damages claimed approximate $10.0 million. The January Class Action Litigation was removed to the Court by the Company. On May 11, 2008, the Court issued an order consolidating the two cases. On August 5, 2008, the plaintiffs in the January Class Action Litigation voluntarily withdrew their case, without prejudice, because of the inadequacy of their class representative. The claims of the Direct Subclass continue to be litigated in the November Class Action Litigation. The Company believes that the potential plaintiffs in the combined class action may be denied class status and further, that the plaintiffs claims are without merit. The Company plans to defend itself vigorously; however, at this time, due to the inherent uncertainty of litigation, we are not able to predict the possible outcome of the suit and its ultimate effect, if any, on our business, financial condition, results of operations or cash flows.

(12) Income Tax Expense

The Company recorded $0.5 million and $0.4 million of deferred income tax expense during the three months ended October 31, 2008 and 2007, respectively. No deferred tax benefit was recorded for the losses incurred due to a valuation allowance recognized against deferred tax assets. The deferred tax expense results from tax goodwill amortization related to the acquisitions of Surebridge, Inc., AppliedTheory Corporation, netASPx, Alabanza and iCommerce, Inc. For financial statement purposes, goodwill is not amortized for any acquisitions but is tested for impairment annually. Tax amortization of goodwill results in a taxable temporary difference, which will not reverse until the goodwill is impaired or written off. The resulting taxable temporary difference may not be offset by deductible temporary differences currently available, such as net operating loss carryforwards which expire within a definite period.

On August 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). The purpose of FIN 48 is to increase the comparability in financial reporting of income taxes. FIN 48 requires that in order for a tax benefit to be recorded in the income statement, the item in question must meet the more-likely-than-not (greater than 50% likelihood of being sustained upon examination by the taxing authorities) threshold. The adoption of FIN 48 did not have a material effect on the Company s financial statements. No cumulative effect was booked through beginning retained earnings.

NAVISITE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Company is not currently under audit by the Internal Revenue Service or a similar equivalent for the foreign jurisdictions in which the Company files tax returns. The Company conducts business in multiple locations throughout the world resulting in tax filings outside of the United States. The Company is subject to tax examinations regularly as part of the normal course of business. The Company s major jurisdictions are the United States, the United Kingdom and India. With few exceptions, the Company is no longer subject to United States federal, state and local, or non-U.S. income tax examinations for fiscal years before 2004. However, years prior to fiscal 2004 remain open to examination by United States federal and state revenue authorities to the extent of future utilization of net operating losses generated in each preceding year.

The Company records interest and penalty charges related to income taxes, if incurred, as a component of general and administrative expenses.

(13) Related Party Transactions

During the three months ended October 31, 2008 and 2007, respectively the Company generated revenue from three related parties, ClearBlue Technologies (UK) Limited, and two separate entities who are affiliated with our Chief Executive Officer, totaling approximately $83,000 and $75,000, respectively. As of October 31, 2008, the net amount due from Clearblue Technologies (UK) Limited was not significant and the amount owed from the remaining two related parties totaled approximately $0.1 million. ClearBlue Technologies (UK) Limited is controlled by the Company s Chairman of the Board of Directors.

On February 4, 2008, our subsidiary NaviSite Europe Limited, with the Company as guarantor, entered into a Lease Agreement (the Lease) for approximately 10,000 square feet of data center space located in Watford, Hertfordshire, England (the Data Center) with Sentrum III Limited. The Lease has a ten year term. NaviSite Europe Limited and the Company are also parties to a Services Agreement with Sentrum Services Limited for the provision of services within the data center. At October 31, 2008, the Company had capital lease obligations totaling $11.7 million related to equipment under the lease agreements. During the three months ended October 31, 2008, the Company paid $0.6 million under these arrangements. Our Chairman of the Board of Directors has a financial interest in each of Sentrum III Limited and Sentrum Services Limited.

In November 2007, our subsidiary NaviSite Europe Limited, with the Company as guarantor, entered into a lease option agreement for data center space in Woking, Surrey, England with Sentrum IV Limited. As part of this lease option agreement the Company made a fully refundable deposit of $5.0 million in order to secure the right to lease the space upon the completion of the building construction. In July 2008, the final lease agreement was completed for approximately 11,000 square feet of data center space. In August 2008, the deposit was returned to the Company. Our Chairman of the Board of Directors has a financial interest in Sentrum IV Limited.

(14) Subsequent Event

On November 6, 2008, the Company was notified by the NASDAQ Listing Qualification Staff (the Staff) that it was not in compliance with the NASDAQ Marketplace Rule 4310(c)(3) (the Rule), which requires the Company to have a minimum of $2,500,000 in stockholders equity, $35,000,000 market value of listed securities or $500,000 in income from continuing operations for the most recently completed fiscal year or two of the three most recently completed fiscal years. On November 21, 2008, the Company responded to the Staff summarizing the Company s plan to achieve and sustain compliance with all NASDAQ Capital Market listing requirements and on December 12, 2008, the Staff granted the Company an extension to February 19, 2009 to regain compliance with the Rule.

Table of Contents

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, that involve risks and uncertainties. All statements other than statements of historical information provided herein are forward-looking statements and may contain information about financial results, economic conditions, trends and known uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements as a result of a number of factors, which include those discussed in this section and elsewhere in this report under Item 1A. Risk Factors and in our annual report on Form 10-K under Item 1A. Risk Factors and the risks discussed in our other filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management s analysis, judgment, belief or expectation only as of the date hereof. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof.

Overview

NaviSite is an enterprise hosting and application service provider to middle market companies. We offer a range of hosting and Enterprise Resource Planning (ERP) application solutions to our customer, helping them to achieve a scalable, outsourced technology solution at lower total cost of ownership. Leveraging our set of technologies and subject matter expertise, we deliver cost-effective, flexible solutions that provide responsive and predictable levels of service for our customers businesses. We provide services throughout the information technology lifecycle and are dedicated to delivering quality services and meeting rigorous standards, including maintenance of SAS 70 Type II compliance and Microsoft Gold, and Oracle Certified Partner certifications.

We believe that by leveraging economies of scale utilizing our global delivery approach, industry best practices and process automation, our services enable our customers to achieve significant cost savings. In addition to delivering enterprise hosting and application services, we are able to leverage our infrastructure and application management platform, NaviView[tm], to enable our partners software to be delivered on-demand, providing an alternative delivery model to the traditional licensed software model. As the platform provider for an increasing number of independent software vendors (ISV), we enable solutions and services to a wider and growing customer base.

Our services include:

Enterprise Hosting Services

Platform as a Service Hardware and software support delivered from one of our 16 data centers. Services include dedicated and virtualized hosting, business continuity and disaster recovery, connectivity, content distribution, database administration and performance tuning, hardware management, monitoring, network management, security management, server and operating system management and storage management.

Software as a Service (SaaS) Enablement of SaaS to the ISV community. Services include SaaS starter kits and services specific to the needs of ISVs who offer their software in an on-demand or subscription model.

Co-location Physical space offered in a data center. In addition to providing the physical space, NaviSite offers environmental support, specified power with back-up power generation and network connectivity options.

Application Services

ERP Application and Messaging Management Services Customer defined services for specific packaged applications.

Applications include:

- Oracle e-Business Suite

- PeopleSoft Enterprise

- Siebel
- JD Edwards
- Hyperion
- Lawson
- Kronos
- Microsoft Dynamics
- Microsoft Exchange
- Lotus Notes

Services include implementation, upgrade support, monitoring, diagnostics, problem resolution and functional end-user support.

- ERP Professional Services Planning, implementation, optimization, enhancement and upgrade support for third party ERP applications we support.
- Custom Development Services Planning, implementation, optimization and enhancement for custom applications that we or our customers have developed.

We provide these services to a range of vertical industries, including financial services, healthcare and pharmaceutical, manufacturing and distribution, publishing, media and communications, business services and public sector and software, through both our own sales force and sales channel relationships.

Our managed application and hosting services are facilitated by our proprietary NaviView^{tm} collaborative infrastructure and application management platform. Our NaviView^{tm} platform enables us to provide highly efficient, effective and customized management of enterprise applications and hosted infrastructure. Comprised of a suite of third-party and proprietary products, NaviView^{tm} provides tools designed specifically to meet the needs of customers who outsource their IT needs.

Supporting both our managed hosting services and applications services is a range of hardware and software technologies designed for the specific needs of our customers. NaviSite is a leader in using virtualized processing, storage and networking as a platform to optimize services for performance, cost and operational efficiency. Utilizing both hardware and software based virtualization strategies, NaviSite continues to innovate as technology develops.

We believe that the combination of NaviView^{tm}, our dedicated and virtual platform, with our physical infrastructure and technical staff gives us a unique ability to provide complex enterprise hosting and application services for mid-market customers. NaviView^{tm} is application and operating system neutral. Designed to enable enterprise hosting and software applications to be monitored and managed, the NaviView^{tm} technology allows us to offer new solutions to our software vendors and new products to our current customers.

We provide our services from a global platform of 14 data centers in the United States, two in the United Kingdom and a Network Operations Center (NOC) in India. We believe that our data centers and infrastructure have the capacity necessary to expand our business for the foreseeable future. Further, trends in hardware virtualization and the density of computing resources, which reduce footprint in the data center, are favorable to NaviSite s services-oriented offerings as compared with traditional co-location or managed hosting providers. Our services combine our developed infrastructure with established processes and procedures for delivering hosting and application management services. Our high availability infrastructure, high performance monitoring systems, and proactive and collaborative problem resolution and change management processes are designed to identify and address potentially crippling problems before they disrupt our customers operations.

We currently service over 1,400 customers. Our hosted customers typically enter into service agreements for a term of one to five years, which provide for monthly payment installments, providing us with a base of recurring revenue. Our revenue growth comes from adding new customers or delivering additional services to existing customers. Our recurring revenue base is affected by new customers, renewals and terminations of agreements with existing customers.

During fiscal 2008 and in past years, we have grown through business acquisitions and have restructured our operations. Specifically, in December 2002, we completed a common control merger with ClearBlue Technologies

Table of Contents

Management, Inc.; in February 2003, we acquired Avasta, Inc.; in April 2003, we acquired Conxion Corporation; in May 2003, we acquired assets of Interliant, Inc. in August 2003 and April 2004, we completed a common control merger with certain subsidiaries of ClearBlue Technologies, Inc.; and in June 2004, we acquired substantially all of the assets and liabilities of Surebridge (now known as Waythere, Inc.). In January 2005, we formed NaviSite India Private Limited (NaviSite India), a New Delhi-based operation which is intended to expand our international capability. NaviSite India provides a range of software services, including design and development of custom and E-commerce solutions, application management, problem resolution management and the deployment and management of IT networks, customer specific infrastructure and data center infrastructure. We expect to make additional acquisitions to take advantage of our available capacity, which will have significant effects on our financial results in the future.

In August 2007, we acquired the assets of Alabanza, LLC and Hosting Ventures, LLC (collectively Alabanza) and all of the issued and outstanding stock of Jupiter Hosting, Inc. (Jupiter). These acquisitions provided additional managed hosting customers, proprietary software for provisioning and additional data center space in the Bay Area market. In September 2007, we acquired netASPx, Inc. (netASPx), an application management service provider, and in October 2007, we acquired the assets of iCommerce, Inc., a re-seller of dedicated hosting services.

Results of Operations for the Three Months Ended October 31, 2008 and 2007

The following table sets forth the percentage relationships of certain items from our Condensed Consolidated Statements of Operations as a percentage of total revenue for the periods indicated.

	Three Months Ended October 31,	
	2008	2007
Revenue, net	99.8%	99.8%
Revenue, related parties	0.2%	0.2%
Total revenue	100.0%	100.0%
Cost of revenue, excluding restructuring charge, depreciation and amortization	54.5%	57.8%
Depreciation and amortization	14.3%	11.6%
Restructuring charge	0.5%	
Total cost of revenue	69.3%	69.4%
Gross profit	30.7%	30.6%
Operating expenses:		
Selling and marketing	13.7%	14.3%
General and administrative	15.0%	15.6%
Restructuring Charge	0.6%	
Total operating expenses	29.3%	29.9%
Income from operations	1.4%	0.7%
Other income (expense):		
Interest income		0.3%
Interest expense	(7.7)%	(7.3)%
Loss on debt extinguishment		(4.6)%

Other income (expense), net	1.2%	0.8%
Loss from continuing operations before income taxes and discontinued operations	(5.1)%	(10.1)%
Income taxes	(1.2)%	(1.1)%

Table of Contents

	Three Months Ended October 31,					
	2008	2007				
Loss from continuing operations before discontinued operations	(6.3)%	(11.2)%				
Discontinued operations, net of income taxes	( )%	(0.9)%				
Net loss	(6.3)%	(12.1)%				
Accretion of preferred stock dividends	(2.0)%	(1.1)%				
78.11	$ 100.63	$ 125.28	$ 98.60			
S&P Midcap 400 Index	100.00	109.77	107.38	129.65	150.71	134.01
Peer Group Index	100.00	99.50	77.12	109.87	158.91	135.19

The total return assumes that dividends were reinvested and is based on a $100 investment on December 31, 2013.
The Peer Group Index is a self-constructed peer group of companies that includes: Caterpillar Inc., CNH Industrial NV, Cummins Inc., Deere & Company, Eaton Corporation Plc., Ingersoll-Rand Plc., Navistar International Corporation, PACCAR Inc., Parker-Hannifin Corporation and Terex Corporation.

18

Table of Contents

Issuer Purchases of Equity Securities

The table below sets forth information with respect to purchases of our common stock made by or on behalf of us during the three months ended December 31, 2018:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)[1][3]
October 1, 2018 through October 31, 2018[2]	197,848	$ 59.75	197,848	$ 247.1
November 1, 2018 through November 30, 2018[3]	1,422,222	$ 57.18	1,422,222	$ 147.1
December 1, 2018 through December 31, 2018[3]	326,733	$ 57.18	326,733	$ 147.1
Total	1,946,803	$ 58.01	1,946,803	$ 147.1

(1) The remaining authorized amount to be repurchased is $147.1 million, of which $115.7 million expires in December 2019 and $31.4 million has no expiration date.

(2) In August 2018, we entered into an accelerated share repurchase (“ASR”) agreement with a third-party financial institution to repurchase $50.0 million of our common stock. The ASR agreement resulted in the initial delivery of 638,978 shares of our common stock, representing approximately 80% of the shares expected to repurchased in connection with the transaction. In October 2018, the remaining 197,848 shares under the ASR agreement were delivered. As reflected in the table above, the average price paid per share for the ASR agreement was the volume-weighted average stock price of our common stock over the term of the ASR agreement. Refer to Note 9 of our Consolidated Financial Statements contained in Item 8, “Financial Statements and Supplementary Data,” for a further discussion of this matter.

(3) In November 2018, we entered into an ASR agreement with a third-party financial institution to repurchase $100.0 million of shares of our common stock. The ASR agreement resulted in the initial delivery of 1,422,222 shares of our common stock, representing 80% of the shares expected to be repurchased in connection with the transaction. In December 2018, the remaining 326,733 shares under the ASR agreement were delivered. As reflected in the table above, the average price paid per share for the ASR agreement was the volume-weighted average stock price of our common stock over the term of the ASR agreement. Refer to Note 9 of our Consolidated Financial Statements contained in Item 8, “Financial Statements and Supplementary Data,” for a further discussion of this matter.

Table of Contents

Item 6. Selected Financial Data

The following tables present our selected consolidated financial data. The data set forth below should be read together with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our historical Consolidated Financial Statements and the related notes. The Consolidated Financial Statements as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016 and the reports thereon are included in Item 8, "Financial Statements and Supplementary Data." The historical financial data may not be indicative of our future performance.

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(In millions, except per share data)				
Operating Data:					
Net sales	$9,352.0	$8,306.5	$7,410.5	$7,467.3	$9,723.7
Gross profit	1,996.7	1,765.3	1,515.5	1,560.6	2,066.3
Income from operations	489.0	404.4	287.0	358.6	651.0
Net income	283.7	189.3	160.2	264.0	404.2
Net loss (income) attributable to noncontrolling interests	1.8	(2.9)	(0.1)	2.4	6.2
Net income attributable to AGCO Corporation and subsidiaries	$285.5	$186.4	$160.1	$266.4	$410.4
Net income per common share — diluted	$3.58	$2.32	$1.96	$3.06	$4.36
Cash dividends declared and paid per common share	$0.60	$0.56	$0.52	$0.48	$0.44
Weighted average shares outstanding — diluted	79.7	80.2	81.7	87.1	94.2

	As of December 31,				
	2018	2017	2016	2015	2014
	(In millions, except number of employees)				
Balance Sheet Data:					
Cash and cash equivalents	$ 326.1	$ 367.7	$ 429.7	$ 426.7	$ 363.7
Total assets	7,626.4	7,971.7	7,168.4	6,497.7	7,364.5
Total long-term debt, excluding current portion and debt issuance costs	1,275.3	1,618.1	1,610.0	925.2	993.3
Stockholders' equity	2,993.5	3,095.3	2,837.2	2,883.3	3,496.9
Other Data:					
Number of employees	21,232	20,462	19,795	19,588	20,828

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

We are a leading manufacturer and distributor of agricultural equipment and related replacement parts throughout the world. We sell a full range of agricultural equipment, including tractors, combines, self-propelled sprayers, hay tools, forage equipment, seeding and tillage equipment, implements, and grain storage and protein production systems. Our products are widely recognized in the agricultural equipment industry and are marketed under a number of well-known brand names, including: Challenger®, Fendt®, GSI®, Massey Ferguson® and Valtra®. We distribute most of our products through a combination of approximately 4,050 dealers and distributors as well as associates and licensees. In addition, we provide retail financing through our finance joint ventures with Rabobank.

Financial Highlights

We sell our equipment and replacement parts to our independent dealers, distributors and other customers. A large majority of our sales are to independent dealers and distributors that sell our products to end users. To the extent practicable, we attempt to sell products to our dealers and distributors on a level basis throughout the year to reduce the effect of seasonal demands on our manufacturing operations and to minimize our investment in inventories. However, retail sales by dealers to farmers are highly seasonal and are linked to the planting and harvesting seasons. In certain markets, particularly in North America, there is often a time lag, which varies based on the timing and level of retail demand, between our sale of the equipment to the dealer and the dealer's sale to a retail customer.

The following table sets forth, for the periods indicated, the percentage relationship to net sales of certain items included in our Consolidated Statements of Operations:

	Years Ended December 31,		
	2018[(1)]	2017[(1)]	2016[(1)]
Net sales	100.0%	100.0 %	100.0 %
Cost of goods sold	78.6	78.7	79.5
Gross profit	21.4	21.3	20.5
Selling, general and administrative expenses	11.4	11.6	11.7
Engineering expenses	3.8	3.9	4.0
Restructuring expenses	0.1	0.1	0.2
Amortization of intangibles	0.7	0.7	0.7
Bad debt expense	0.1	0.1	—
Income from operations	5.3	4.9	3.9
Interest expense, net	0.6	0.5	0.7
Other expense, net	0.8	0.9	0.4
Income before income taxes and equity in net earnings of affiliates	3.9	3.4	2.8
Income tax provision	1.2	1.6	1.2
Income before equity in net earnings of affiliates	2.7	1.8	1.5
Equity in net earnings of affiliates	0.4	0.5	0.6
Net income	3.0	2.3	2.2
Net loss (income) attributable to noncontrolling interests	—	—	—
Net income attributable to AGCO Corporation and subsidiaries	3.1 %	2.2 %	2.2 %

(1) Rounding may impact summation of amounts.

2018 Compared to 2017

Net income attributable to AGCO Corporation and subsidiaries for 2018 was $285.5 million, or $3.58 per diluted share, compared to $186.4 million, or $2.32 per diluted share for 2017.

Net sales for 2018 were approximately $9,352.0 million, or 12.6% higher than 2017, primarily due to sales growth in all regions and the positive impact of acquisitions. Income from operations was $489.0 million in 2018 compared to $404.4

million in 2017. The increase in income from operations during 2018 was primarily a result of higher net sales and improved operating margins.

Regionally, income from operations in the Europe/Middle East (“EME”) region increased by approximately $107.8 million in 2018 compared to 2017, driven primarily by higher net sales and improved margins. In our North American region, income from operations improved by approximately $36.2 million. Higher net sales levels as well as the benefit from our Precision Planting acquisition completed in September 2017 contributed to the improvement in the region. In South America, income from operations decreased approximately $25.5 million in 2018 compared to 2017. The decline was due to lower margins resulting from material cost inflation and higher costs associated with localizing newer product technology into our Brazilian factories. Income from operations in our Asia/Pacific/Africa (“APA”) region increased approximately $0.8 million in 2018 compared to 2017, primarily due to the growth in net sales.

Industry Market Conditions

Robust global crop production has kept commodity prices at relatively low levels and pressured farm income during 2018. Global industry demand for farm equipment was mixed across key markets during 2018, with future demand dependent on factors such as commodity price development, as well as government trade and farm support policies. In North America, retail sales increased in 2018 in the row crop segment as farmers replaced their equipment after years of weaker demand. In addition, industry unit retail sales of lower-horsepower tractors remained strong in 2018. Industry unit retail sales of tractors increased by approximately 2%, while industry unit retail sales of combines increased approximately 10% in 2018 compared to 2017. Industry retail sales of tractors in Western Europe decreased slightly during 2018 where demand was lower across most European markets, offset by growth in the United Kingdom. Farm income was impacted by a weak wheat harvest due to a dry, hot summer, pressuring the arable farming segment demand. Industry unit retail sales of combines in Western Europe increased approximately 13% during 2018 over prior year. Industry retail sales in South America were mixed during the full year of 2018. Equipment demand in Brazil improved in the second half of 2018 after more positive terms for the government’s financing programs were announced. Market growth in Brazil was offset by weak demand in Argentina due to a poor first harvest and weak general economic conditions. Industry unit retail sales of tractors in South America were flat and industry unit retail sales of combines increased by approximately 9% in 2018 compared to 2017.

Results of Operations

Net sales for 2018 were $9,352.0 million compared to $8,306.5 million for 2017, with growth achieved in all regions, on a constant currency basis. Net sales growth was also the result of the positive impacts of acquisitions and foreign currency translation. The following table sets forth, for the year ended December 31, 2018, the impact to net sales of currency translation and acquisitions by geographical segment (in millions, except percentages):

			Change		Change due to Currency Translation		Change due to Acquisitions	
	2018	2017	$	%	$	%	$	%
North America	$2,180.1	$1,876.7	$303.4	16.2 %	$0.9	— %	$107.7	5.7%
South America	959.0	1,063.5	(104.5)	(9.8)%	(152.4)	(14.3)%	12.6	1.2%
EME	5,385.1	4,614.3	770.8	16.7 %	158.5	3.4 %	104.1	2.3%
APA	827.8	752.0	75.8	10.1 %	(0.6)	(0.1)%	12.6	1.7%
	$9,352.0	$8,306.5	$1,045.5	12.6 %	$6.4	0.1 %	$237.0	2.9%

Regionally, net sales in North America increased during 2018 compared to 2017, with sales growth driven by the positive impacts of our Precision Planting acquisition as well as increased sales of tractors, sprayers, hay tools and

grain storage equipment. Net sales grew in South America in 2018 compared to 2017, excluding the negative impact of currency translation. Sales growth in Brazil, primarily in the second half of 2018, was partially offset by sales declines in Argentina. In the EME region, net sales increased during 2018 compared to 2017, with growth strongest in the key markets of the United Kingdom, Germany and France. In the APA region, net sales increased in 2018 compared to 2017, primarily due to a growth in sales in China and Australia. We estimate that worldwide average price increases were approximately 1.4% and 1.1% in 2018 and 2017, respectively. Consolidated net sales of tractors and combines, which comprised approximately 61% of our net sales in 2018, increased approximately 11% in 2018 compared to 2017. Unit sales of tractors and combines increased approximately 7.6% during 2018 compared to 2017. The unit sales increase and the increase in net sales can differ due to foreign currency translation, pricing and sales mix changes.

Table of Contents

The following table sets forth, for the years ended December 31, 2018 and 2017, the percentage relationship to net sales of certain items included in our Consolidated Statements of Operations (in millions, except percentages):

	2018		2017	
	$	% of Net Sales(1)	$	% of Net Sales
Gross profit	$1,996.7	21.4 %	$1,765.3	21.3%
Selling, general and administrative expenses	1,069.4	11.4 %	964.7	11.6%
Engineering expenses	355.2	3.8 %	323.4	3.9 %
Restructuring expenses	12.0	0.1 %	11.2	0.1 %
Amortization of intangibles	64.7	0.7 %	57.0	0.7 %
Bad debt expense	6.4	0.1 %	4.6	0.1 %
Income from operations	$489.0	5.3 %	$404.4	4.9 %

(1) Rounding may impact summation of amounts.

Gross profit as a percentage of net sales increased during 2018 compared to 2017, primarily due to higher sales and production volumes as well as pricing and cost containment initiatives, partially offset by increased material costs (including steel) and negative currency impacts. Production hours increased approximately 7% during 2018 compared to 2017. We recorded stock compensation expense of approximately $2.3 million and $2.8 million during 2018 and 2017, respectively, within cost of goods sold, as is more fully explained in Note 10 of our Consolidated Financial Statements.

Selling, general and administrative expenses (“SG&A expenses”) and engineering expenses increased in dollars but were lower as a percentage of net sales during 2018 compared to 2017. The increases in SG&A and engineering expenses were primarily the result of labor cost increases, the impact of acquisitions and negative foreign currency translation impacts during 2018. Engineering expenses also increased during 2018 to support investments in future new product introductions. We recorded stock compensation expense of approximately $44.3 million and $35.6 million during 2018 and 2017, respectively, within SG&A expenses, as is more fully explained in Note 10 of our Consolidated Financial Statements.

We recorded restructuring expenses of approximately $12.0 million and $11.2 million during 2018 and 2017, respectively. The restructuring expenses primarily related to severance and related costs associated with the rationalization of employee headcount at various manufacturing facilities and administrative offices located in Europe, China, South America and the United States.

Interest expense, net was $53.8 million for 2018 compared to $45.1 million for 2017. During 2018, we repurchased approximately $300.0 million of our outstanding 5 % senior notes. The repurchase resulted in a loss on extinguishment of debt of approximately $24.5 million, including associated fees, offset by approximately $4.7 million of accelerated amortization of a deferred gain related to a terminated interest rate swap instrument associated with the senior notes. In addition, we repaid our outstanding term loan under our former revolving credit and term loan facility. We recorded approximately $0.7 million associated with the write-off of deferred debt issuance costs and a loss of approximately $3.9 million from a terminated interest rate swap instrument related to the term loan. See “Liquidity and Capital Resources” for further information.

Other expense, net was $74.9 million in 2018 compared to $75.5 million in 2017. Losses on sales of receivables, primarily related to our accounts receivable sales agreements with our finance joint ventures in North America, Europe and Brazil, were approximately $36.0 million and $39.2 million in 2018 and 2017, respectively. "Other expense, net" also includes hedging costs and foreign exchange losses which included losses associated with the devaluation of the Argentine peso incurred during 2018.

We have a wholly-owned subsidiary in Argentina that manufactures and distributes agricultural equipment and replacement parts within Argentina. As of June 30, 2018, on the basis of currently available data related to inflation indices and as a result of the devaluation of the Argentine peso relative to the United States dollar, the Argentinian economy was determined to be highly inflationary. A highly inflationary economy is one where the cumulative inflation rate for the three years preceding the beginning of the reporting period, including interim reporting periods, is in excess of 100 percent. As a result of this designation and based on the guidance in ASC 830, "Foreign Currency Matters," we changed the functional

currency of our wholly-owned subsidiary from the Argentinian peso to the U.S. dollar effective July 1, 2018. For the six months ended December 31, 2018, our wholly-owned subsidiary in Argentina had net sales of approximately $92.2 million, and it had total assets of approximately $104.5 million as of December 31, 2018. The monetary assets and liabilities were remeasured based on current published exchange rates.

We recorded an income tax provision of $110.9 million in 2018 compared to $133.6 million in 2017. Our tax provision and effective tax rate are impacted by the differing tax rates of the various tax jurisdictions in which we operate, permanent differences for items treated differently for financial accounting and income tax purposes and for losses in jurisdictions where no income tax benefit is recorded. During 2017, we recorded a tax provision of approximately $42.0 million resulting from an estimate of the impact of the U.S. tax reform legislation enacted on December 22, 2017. During 2018, we finalized our calculations related to the U.S. tax reform legislation and recorded a tax benefit of approximately $8.5 million. At December 31, 2018 and 2017, we had gross deferred tax assets of $350.2 million and $354.9 million, respectively, including $74.5 million and $83.4 million, respectively, related to net operating loss carryforwards. At December 31, 2018, we had total valuation allowances as an offset to our gross deferred tax assets of approximately $83.9 million, which included allowances against net operating loss carryforwards in Brazil, China, the United Kingdom and the Netherlands, as well as allowances against our net deferred taxes in the U.S. At December 31, 2017, we had total valuation allowances as an offset to the gross deferred tax assets of approximately $81.9 million, primarily related to net operating loss carryforwards in Brazil, China, the United Kingdom and the Netherlands, as well as allowances against our net deferred taxes in the U.S. Realization of the remaining deferred tax assets as of December 31, 2018 will depend on generating sufficient taxable income in future periods, net of reversing deferred tax liabilities. We believe it is more likely than not that the remaining net deferred tax assets will be realized. Refer to Note 6 of our Consolidated Financial Statements for further information.

Equity in net earnings of affiliates, which is primarily comprised of income from our finance joint ventures, was $34.3 million in 2018 compared to $39.1 million in 2017, primarily due to lower net earnings from certain finance joint ventures and other affiliates. Refer to “Finance Joint Ventures” for further information regarding our finance joint ventures and their results of operations and to Note 5 of our Consolidated Financial Statements.

2017 Compared to 2016

Net income attributable to AGCO Corporation and subsidiaries for 2017 was $186.4 million, or $2.32 per diluted share, compared to net income for 2016 of $160.1 million, or $1.96 per diluted share for 2016.

Net sales for 2017 were approximately $8,306.5 million, or 12.1% higher than 2016, primarily due to sales growth in all regions, the positive impact of acquisitions and the benefit of currency translations impacts. Income from operations was $404.4 million in 2017 compared to $287.0 million in 2016. The increase in income from operations in 2017 was primarily a result of higher net sales and improved margins resulting from higher production levels and other cost reduction initiatives.

Regionally, income from operations in the EME region increased by approximately $93.1 million in 2017 compared to 2016, driven primarily by higher net sales and improved margins resulting from increased production levels. In our North American region, income from operations improved by approximately $25.3 million. Higher net sales, improved factory productivity and expense reduction efforts resulted in the improvement in operating margins. In South America, income from operations decreased approximately $5.0 million in 2017 compared to 2016. The decline was due to lower margins resulting from decreased production levels, material cost inflation and costs associated with transitioning our higher horsepower products to new tier 3 emission technology. Income from operations in our APA region increased approximately $29.1 million in 2017 compared to 2016 primarily due to the growth in net sales and improved margins.

Industry Market Conditions

In North America, tractor and combine demand improved over 2016 levels, but demand in the other row crop segments remains weak. Specifically, industry unit retail sales of higher horsepower tractors were relatively flat, while industry unit retail sales of combines increased approximately 10% in 2017 compared to 2016. In addition, industry unit retail sales of lower-horsepower tractors grew modestly, while unit retail sales of hay and forage equipment deteriorated. Industry retail sales in Western Europe improved during 2017 with the strongest growth in Germany, Italy and the United Kingdom. Recovery in the dairy sector helped to support retail sales and improve overall confidence in the region. Lower commodity prices however pressured market demand in the arable farming segment. Industry unit retail sales of tractors increased approximately 4% in 2017 compared to 2016 in the region, while combine industry unit retail sales decreased approximately 6% over the same period. Industry retail sales in South America rose during the full year of 2017 as demand in Brazil grew strongly from depressed first half levels experienced in 2016. Brazilian sales slowed in the second half of 2017 as ongoing political and economic uncertainty dampened farmer confidence. The Argentine market was robust in 2017 as supportive government

policies stimulated growth. Industry unit retail sales of tractors and combines both increased in the region by approximately 13% in 2017 compared to 2016.

Results of Operations

Net sales for 2017 were $8,306.5 million compared to $7,410.5 million for 2016, primarily due to stable growth in all regions, acquisitions and the favorable impact of foreign currency translation. The following table sets forth, for the year ended December 31, 2017, the impact to net sales of currency translation by geographical segment (in millions, except percentages):

			Change		Change due to Currency Translation		Change due to Acquisitions	
	2017	2016	$	%	$	%	$	%
North America	$1,876.7	$1,807.7	$69.0	3.8 %	$4.7	0.3%	$38.8	2.1%
South America	1,063.5	917.5	146.0	15.9%	41.3	4.5%	4.1	0.4%
EME	4,614.3	4,089.7	524.6	12.8%	57.6	1.4%	110.6	2.7%
APA	752.0	595.6	156.4	26.3%	13.9	2.3%	24.1	4.0%
	$8,306.5	$7,410.5	$896.0	12.1%	$117.5	1.6%	$177.6	2.4%

Regionally, net sales in North America increased during 2017 compared to 2016, driven by positive acquisition impacts. Mixed industry demand and dealer inventory reduction efforts pressured sales volumes in the region. Tractor sales growth due to new product introductions was mostly offset by sales declines in hay tools, sprayers and grain storage equipment. Net sales grew in South America in 2017 compared to 2016. The increase was driven by robust demand in Argentina as well as modest growth in Brazil. In the EME region, net sales increased during 2017 compared to 2016, with growth strongest in the key markets of the United Kingdom, Germany and Italy. In the APA region, net sales increased in 2017 compared to 2016, primarily due to a growth in sales in China and Australia. We estimate that worldwide average price increases were approximately 1.1% and 1.5% in 2017 and 2016, respectively. Consolidated net sales of tractors and combines, which comprised approximately 62% of our net sales in 2017, increased approximately 13% in 2017 compared to 2016. Unit sales of tractors and combines increased approximately 3.6% during 2017 compared to 2016. The unit sales increase and the increase in net sales can differ due to foreign currency translation, pricing and sales mix changes.

The following table sets forth, for the years ended December 31, 2017 and 2016, the percentage relationship to net sales of certain items included in our Consolidated Statements of Operations (in millions, except percentages):

	2017		2016	
	$	% of Net Sales	$	% of Net Sales
Gross profit	$1,765.3	21.3%	$1,515.5	20.5%
Selling, general and administrative expenses	964.7	11.6%	864.6	11.7%
Engineering expenses	323.4	3.9 %	297.6	4.0 %
Restructuring expenses	11.2	0.1 %	11.9	0.2 %
Amortization of intangibles	57.0	0.7 %	51.2	0.7 %
Bad debt expense	4.6	0.1 %	3.2	— %
Income from operations	$404.4	4.9 %	$287.0	3.9 %

Gross profit as a percentage of net sales increased during 2017 compared to 2016, primarily due to higher sales and production volumes, reduced warranty costs and the benefits from material cost containment and productivity

initiatives. Production hours increased approximately 3% during 2017 compared to 2016. We recorded stock compensation expense of approximately $2.8 million and $1.5 million during 2017 and 2016, respectively, within cost of goods sold, as is more fully explained in Note 10 of our Consolidated Financial Statements.

SG&A expenses and engineering expenses increased in dollars but were relatively flat as a percentage of net sales during 2017 compared to 2016. The increases in SG&A and engineering expenses were primarily the result of labor cost increases and the impact of acquisitions as well as negative foreign currency translation impacts during 2017. Engineering expenses also increased during 2016 to support investments in future new product introductions. We recorded stock

compensation expense of approximately $35.6 million and $16.9 million during 2017 and 2016, respectively, within SG&A expenses, as is more fully explained in Note 10 of our Consolidated Financial Statements.

We recorded restructuring expenses of approximately $11.2 million and $11.9 million during 2017 and 2016, respectively. The restructuring expenses recorded in 2017 and 2016 primarily related to severance and related costs associated with the rationalization of employee headcount at various manufacturing facilities and administrative offices located in Europe, China, South America and the United States.

Interest expense, net was $45.1 million for 2017 compared to $52.1 million for 2016. See “Liquidity and Capital Resources” for further information.

Other expense, net was $75.5 million in 2017 compared to $30.0 million in 2016. Losses on sales of receivables, primarily related to our accounts receivable sales agreements with our finance joint ventures in North America, Europe and Brazil, were approximately $39.2 million and $19.5 million in 2017 and 2016, respectively, due to an increase in the volume of receivables sold during 2017 as compared to 2016. In addition, higher hedging costs and foreign exchange losses in 2017 as compared to 2016 contributed to the increase in other expense, net.

We recorded an income tax provision of $133.6 million in 2017 compared to $92.2 million in 2016. Our tax provision and effective tax rate are impacted by the differing tax rates of the various tax jurisdictions in which we operate, permanent differences for items treated differently for financial accounting and income tax purposes and for losses in jurisdictions where no income tax benefit is recorded. During 2017, we recorded a tax provision of approximately $42.0 million resulting from an estimate of the impact of the U.S. tax reform legislation enacted on December 22, 2017. During 2016, we recorded a non-cash deferred tax adjustment to establish a valuation allowance against our U.S. net deferred income tax assets. A valuation allowance is established when it is more likely than not that some portion or all of a company’s deferred tax assets will not be realized. We assessed the likelihood that our deferred tax assets would be recovered from estimated future taxable income and available income tax planning strategies at that time and concluded a valuation allowance should be established. At December 31, 2017 and 2016, we had gross deferred tax assets of $354.9 million and $447.4 million, respectively, including $83.4 million and $85.5 million, respectively, related to net operating loss carryforwards. At December 31, 2017, we had total valuation allowances as an offset to our gross deferred tax assets of approximately $81.9 million, which included allowances against net operating loss carryforwards in Brazil, China, Russia and the Netherlands, as well as allowances against our net deferred taxes in the U.S., as previously discussed. At December 31, 2016, we had total valuation allowances as an offset to the gross deferred tax assets of approximately $116.0 million, primarily related to net operating loss carryforwards in Brazil, China, Russia and the Netherlands, as well as allowances against our net deferred taxes in the U.S.

Equity in net earnings of affiliates, which is primarily comprised of income from our finance joint ventures, was $39.1 million in 2017 compared to $47.5 million in 2016 primarily due to lower net earnings from certain finance joint ventures and other affiliates. Refer to “Finance Joint Ventures” for further information regarding our finance joint ventures and their results of operations and to Note 5 of our Consolidated Financial Statements.

Table of Contents

Quarterly Results

The following table presents unaudited interim operating results. We believe that the following information includes all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our results of operations for the periods presented.

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(In millions, except per share data)			
2018:				
Net sales	$2,007.5	$2,537.6	$ 2,214.7	$ 2,592.2
Gross profit	428.0	556.3	473.7	538.7
Income from operations	50.5	168.1	111.3	159.1
Net income	25.0	90.4	70.7	97.6
Net (income) loss attributable to noncontrolling interests	(0.7)	1.0	0.4	1.1
Net income attributable to AGCO Corporation and subsidiaries	24.3	91.4	71.1	98.7
Net income per common share attributable to AGCO Corporation and subsidiaries — diluted	0.30	1.14	0.89	1.26
2017:				
Net sales	$1,627.6	$2,165.2	$ 1,986.3	$ 2,527.4
Gross profit	330.3	475.4	428.6	531.0
Income from operations	15.7	148.3	97.1	143.3
Net (loss) income	(8.2)	91.6	60.8	45.1
Net income attributable to noncontrolling interests	(1.9)	(0.1)	(0.1)	(0.8)
Net (loss) income attributable to AGCO Corporation and subsidiaries	(10.1)	91.5	60.7	44.3
Net (loss) income per common share attributable to AGCO Corporation and subsidiaries — diluted	(0.13)	1.14	0.76	0.55

Finance Joint Ventures

Our AGCO Finance joint ventures provide both retail financing and wholesale financing to our dealers in the United States, Canada, Europe, Brazil, Argentina and Australia. The joint ventures are owned by AGCO and by a wholly-owned subsidiary of Rabobank, a financial institution based in the Netherlands. The majority of the assets of the finance joint ventures consist of finance receivables. The majority of the liabilities consist of notes payable and accrued interest. Under the various joint venture agreements, Rabobank or its affiliates provide financing to the finance joint ventures, primarily through lines of credit. We do not guarantee the debt obligations of the joint ventures. As of December 31, 2018, our capital investment in the finance joint ventures, which is included in “Investment in affiliates” on our Consolidated Balance Sheets, was approximately $358.7 million compared to $373.7 million as of December 31, 2017. The total finance portfolio in our finance joint ventures was approximately $8.8 billion as of December 31, 2018 and 2017, respectively. The total finance portfolio as of December 31, 2018 and 2017 included approximately $7.2 billion and $7.3 billion, respectively, of retail receivables and $1.6 billion and $1.5 billion, respectively, of wholesale receivables from AGCO dealers. The wholesale receivables either were sold directly to AGCO Finance without recourse from our operating companies or AGCO Finance provided the financing directly to the dealers. During 2018 and 2017, we did not make additional investments in our finance joint ventures. During 2018 and 2017, we received dividends of approximately $29.4 million and $78.5 million, respectively, from certain of our finance joint ventures. Our share in the earnings of the finance joint ventures, included in “Equity in net earnings of affiliates” within our Consolidated Statements of Operations, was $34.7 million and $39.1 million for the years ended December 31, 2018 and 2017, respectively, with the decrease in earnings primarily due to lower income in the U.S.

and Brazilian finance joint ventures during 2018 as compared to 2017.

27

Table of Contents

Outlook

Our operations are subject to the cyclical nature of the agricultural industry. Sales of our equipment have been and are expected to continue to be affected by changes in net cash farm income, farm land values, weather conditions, the demand for agricultural commodities, farm industry related legislation and policies, availability of financing and general economic conditions.

Global industry demand is projected to improve modestly during 2019. Our net sales are expected to increase in 2019 compared to 2018, primarily due to improved sales volumes and positive pricing impacts, offset by unfavorable foreign currency translation. Gross and operating margins are expected to improve from 2018 levels, reflecting the positive impact of pricing and cost reduction efforts.

Recent Acquisitions

On October 2, 2017, we acquired the forage division of the Lely Group (“Lely”) for approximately €80.2 million (or approximately $94.6 million), net of cash acquired of approximately €10.1 million (or approximately $11.9 million). The Lely acquisition, with manufacturing locations in northern Germany, allowed the Company to expand its product offering of hay and forage equipment, including balers, loader wagons and other harvesting tools. The acquisition was financed through our credit facility (see Note 7 of our Consolidated Financial Statements for further information). We allocated the purchase price to the assets acquired and liabilities assumed based on their fair values as of the acquisition date. The acquired net assets primarily consisted of accounts receivable, inventories, accounts payable and accrued expenses, property, plant and equipment, and customer relationship, technology and trademark indentifiable intangible assets. We recorded approximately $7.6 million of customer relationship, technology and trademark identifiable intangible assets and approximately $25.8 million of goodwill associated with the acquisition.

On September 1, 2017, we acquired Precision Planting LLC (“Precision Planting”) for approximately $198.1 million, net of cash acquired of approximately $1.6 million. Precision Planting, headquartered in Tremont, Illinois, is a leading manufacturer of high-tech planting equipment. The acquisition of Precision Planting provided us an opportunity to expand our precision farming technology offerings on a global basis. The acquisition was financed through our credit facility (see Note 7 of our Consolidated Financial Statements for further information). We allocated the purchase price to the assets acquired and liabilities assumed based on their fair values as of the acquisition date. The acquired assets primarily consisted of accounts receivable, inventories, accounts payable and accrued expenses, property, plant and equipment, and customer relationship, technology and trademark identifiable intangible assets. We recorded approximately $64.4 million of customer relationship, technology and trademark identifiable intangible assets and approximately $67.2 million of goodwill associated with the acquisition.

On September 12, 2016, we acquired Cimbria Holdings Limited (“Cimbria”) for DKK 2,234.9 million (or approximately $337.5 million), net of cash acquired of approximately DKK 83.4 million (or approximately $12.6 million). Cimbria, headquartered in Thisted, Denmark, is a leading manufacturer of products and solutions for the processing, handling and storage of seed and grain. The acquisition was financed through our credit facility (see Note 7 of our Consolidated Financial Statements for further information). We allocated the purchase price to the assets acquired and liabilities assumed based on their fair values as of the acquisition date. The acquired assets primarily consisted of accounts receivable, inventories, accounts payable and accrued expenses, customer advances, property, plant and equipment, and customer relationship, technology and trademark identifiable intangible assets. We recorded approximately $128.9 million of customer relationship, technology and trademark identifiable intangible assets and approximately $237.9 million of goodwill associated with the acquisition.

On February 2, 2016, we acquired Tecno Poultry Equipment S.p.A ("Tecno") for approximately €58.7 million (or approximately $63.8 million). We acquired cash of approximately €17.6 million (or approximately $19.1 million) associated with the acquisition. Tecno, headquartered in Ronchi Di Villafranca, Italy, manufactures and supplies poultry housing and related products, including egg collection equipment and trolley feeding systems. The acquisition was financed through our credit facility (refer to Note 7 of our Consolidated Financial Statements for further information). We allocated the purchase price to the assets acquired and liabilities assumed based on their fair values as of the acquisition date. The acquired net assets primarily consisted of accounts receivable, inventories, accounts payable and accrued expenses, deferred revenue, property, plant and equipment and customer relationship, technology and trademark identifiable intangible assets. We recorded approximately $27.5 million of customer relationship, technology and trademark identifiable intangible assets and approximately $20.4 million of goodwill associated with the acquisition.

Liquidity and Capital Resources

Our financing requirements are subject to variations due to seasonal changes in inventory and receivable levels. Internally generated funds are supplemented when necessary from external sources, primarily our credit facility and accounts receivable sales agreement facilities. We believe that the following facilities, together with available cash and internally generated funds, will be sufficient to support our working capital, capital expenditures and debt service requirements for the foreseeable future (in millions):

	December 31, 2018
Senior term loan due 2022	$171.5
Credit facility, expires 2023	114.4
Senior term loans due between 2019 and 2028	815.3
1.056% Senior term loan due 2020	228.7
Other long-term debt	132.2
Debt issuance costs	(2.6)
	$1,459.5

In October 2018, we entered into a term loan agreement with Rabobank in the amount of €150.0 million (or approximately $171.5 million as of December 31, 2018). We have the ability to prepay the term loan before its maturity date on October 28, 2022. Interest is payable on the term loan quarterly in arrears at an annual rate equal to the EURIBOR plus a margin ranging from 0.875% to 1.875% based on our credit rating. We also have to fulfill financial covenants with respect to a total debt to EBITDA ratio and an interest coverage ratio. In connection with this new term loan agreement, in October 2018, we repaid our €100.0 million (or approximately $113.2 million) term loan outstanding under a former term loan agreement with Rabobank that was entered into in April 2016.

In October 2018, we entered into a multi-currency revolving credit facility of $800.0 million. The maturity date of the credit facility is October 17, 2023. Interest accrues on amounts outstanding under the credit facility, at our option, at either (1) LIBOR plus a margin ranging from 0.875% to 1.875% based on our credit rating, or (2) the base rate, which is equal to the higher of (i) the administrative agent's base lending rate for the applicable currency, (ii) the federal funds rate plus 0.5%, and (iii) one-month LIBOR for loans denominated in U.S. dollars plus 1.0%, plus a margin ranging from 0.0% to 0.875% based on our credit rating. The credit facility contains covenants restricting, among other things, the incurrence of indebtedness and the making of certain payments, including dividends. We also have to fulfill financial covenants with respect to a total debt to EBITDA ratio and an interest coverage ratio. In connection with the closing of this new credit facility in October 2018, we repaid our outstanding €312.0 million (or approximately $360.8 million) term loan under our former revolving credit and term loan facility. We recorded approximately $0.9 million associated with the write-off of deferred debt issuance costs associated with the repayment. In addition, we recorded a loss of approximately $3.9 million related to the termination of our interest rate swap instrument associated with the former facility's term loan.

In August 2018, we borrowed an additional aggregate amount of indebtedness of €338.0 million (or approximately $394.7 million) through a group of seven related term loan agreements. Proceeds from the borrowings were used to repay borrowings under our former revolving credit facility. The provisions of the term loan agreements are identical in nature with the exception of interest rate terms and maturities. The maturities of the term loan agreements range from August 1, 2021 to August 1, 2028.

In October 2016, we borrowed an aggregate amount of €375.0 million through a group of seven related term loan agreements. These agreements have maturities ranging from October 2019 to October 2026. Of those term loans, an aggregate amount of €55.8 million (or $63.8 million) as of December 31, 2018 have maturity dates of October 2019.

In May 2018, we completed a cash tender offer to purchase any and all of our outstanding 5^{7}/8% senior notes at a cash purchase price of $1,077.50 per $1,000.00 of senior notes. As a result of the tender offer, we repurchased approximately $185.9 million of principal amount of the senior notes for approximately $200.3 million, plus accrued interest. The repurchase resulted in a loss on extinguishment of debt of approximately $15.7 million, including associated fees. In October 2018, we repurchased the remaining principal amount of the senior notes of approximately $114.1 million for approximately $122.5 million, plus accrued interest. The repurchase resulted in a loss on extinguishment of debt of approximately $8.8 million, including associated fees. As a result of the repurchase of the 5^{7}/8% senior notes, we recorded a cumulative amount of approximately $4.7 million of accelerated amortization of a deferred gain related to a terminated interest rate swap instrument associated with the

senior notes. The losses on extinguishment as well as the accelerated amortization were reflected in "Interest expense, net," for the year ended December 31, 2018.

In December 2018, we entered into a term loan agreement with the European Investment Bank ("EIB"), which provided us with the ability to borrow up to €250.0 million. The €250.0 million (or approximately $284.6 million) of funding was received on January 25, 2019 with a maturity date of January 24, 2025. We have the ability to prepay the term loan before its maturity date. Interest is payable on the term loan at 1.002% per annum, payable semi-annually in arrears. We have another term loan with the EIB in the amount of €200.0 million (or approximately $228.7 million as of December 31, 2018) that was entered into in December 2014. It has a maturity date of January 15, 2020.

While we are in compliance with the financial covenants contained in these facilities and currently expect to continue to maintain such compliance, should we ever encounter difficulties, our historical relationship with our lenders has been strong and we anticipate their continued long-term support of our business. Refer to Note 7 to the Consolidated Financial Statements for further information regarding our current facilities.

Our accounts receivable sales agreements in North America, Europe and Brazil permit the sale, on an ongoing basis, of a majority of our receivables in North America, Europe and Brazil to our U.S., Canadian, European and Brazilian finance joint ventures. The sale of all receivables are without recourse to us. We do not service the receivables after the sale occurs, and we do not maintain any direct retained interest in the receivables. These agreements are accounted for as off-balance sheet transactions and have the effect of reducing accounts receivable and short-term liabilities by the same amount. As of December 31, 2018 and 2017, the cash received from receivables sold under the U.S., Canadian, European and Brazilian accounts receivable sales agreements was approximately $1.4 billion and $1.3 billion, respectively.

Our finance joint ventures in Europe, Brazil and Australia also provide wholesale financing directly to our dealers. The receivables associated with these arrangements also are without recourse to us. As of December 31, 2018 and 2017, these finance joint ventures had approximately $82.5 million and $41.6 million, respectively, of outstanding accounts receivable associated with these arrangements. These arrangements are accounted for as off-balance sheet transactions. In addition, we sell certain trade receivables under factoring arrangements to other financial institutions around the world. These arrangements also are accounted for as off-balance sheet transactions.

Our debt to capitalization ratio, which is total indebtedness divided by the sum of total indebtedness and stockholders' equity, was 32.8% at December 31, 2018 compared to 35.7% at December 31, 2017.

Cash Flows

Cash flows provided by operating activities were $595.9 million during 2018 compared to $577.6 million during 2017 and $369.5 million during 2016. The increase during 2018 was primarily due to an increase in net income as well as an increase in accrued expenses, offset by an increase in inventories. In addition, we received a decreased amount of dividends from our finance joint ventures in 2018 as compared to 2017. The increase in cash flows provided by operating activities during 2017 as compared to 2016 was primarily due to an increase in net income as well as an increase in accounts payable and accrued expenses, offset by an increase in inventories.

Our working capital requirements are seasonal, with investments in working capital typically building in the first half of the year and then reducing in the second half of the year. We had $770.7 million in working capital at December 31, 2018, as compared with $977.1 million at December 31, 2017. Accounts receivable and inventories, combined, at December 31, 2018 were $103.3 million lower than at December 31, 2017. Excluding the negative impact of currency translation, inventories increased as of December 31, 2018 as compared to December 31, 2017 as a

result of acquisition impacts, higher production and increased inventory required to transition production to products meeting new emissions standards in Europe and Brazil.

Share Repurchase Program

During 2018 and 2016, we repurchased 3,120,184 and 4,413,250 shares of our common stock, respectively, for approximately $184.3 million and $212.5 million, respectively, either through Accelerated Share Repurchase ("ASR") agreements with financial institutions or through open market transactions. During 2017, we received approximately 70,464 shares associated with the remaining balance of shares to be delivered under an ASR agreement that was completed in November 2016. All shares received under the ASR agreements were retired upon receipt, and the excess of the purchase price over par value per share was recorded to "Additional paid-in capital" within the our Consolidated Balance Sheets.

Table of Contents

During 2019, we entered into an ASR agreement with a financial institution to repurchase an aggregate of $30.0 million shares of our common stock. We received approximately 379,927 shares to date in this transaction. The specific number of shares we will ultimately repurchase will be determined at the completion of the term of the ASR based on the daily volume-weighted average share price of our common stock less an agreed-upon discount. Upon settlement of the ASR, we may be entitled to receive additional shares of common stock or, under certain circumstances, be required to remit a settlement amount. We expect that additional shares will be received by us upon final settlement of our current ASR agreement, which expires during the second quarter of 2019. All shares received under the ASR agreement discussed above were retired upon receipt and the excess of the purchase price over par value per share was recorded to "Additional paid-in capital" within our Consolidated Balance Sheets.

Contractual Obligations

The future payments required under our significant contractual obligations, excluding foreign currency option and forward contracts, as of December 31, 2018 are as follows (in millions):

	Payments Due By Period				
	Total	2019	2020 to 2021	2022 to 2023	2024 and Beyond
Indebtedness[(1)]	$1,459.5	$184.2	$534.1	$571.1	$ 170.1
Interest payments related to indebtedness[(2)]	59.0	15.0	22.0	13.4	8.6
Capital lease obligations	15.5	4.6	5.9	1.5	3.5
Operating lease obligations	252.0	46.7	72.1	47.7	85.5
Unconditional purchase obligations	97.8	79.1	17.7	1.0	—
Other short-term and long-term obligations[(3)]	322.4	98.9	137.2	48.9	37.4
Total contractual cash obligations	$2,206.2	$428.5	$789.0	$683.6	$ 305.1

	Amount of Commitment Expiration Per Period				
	Total	2019	2020 to 2021	2022 to 2023	2024 and Beyond
Standby letters of credit and similar instruments	$14.1	$14.1	$—	$—	$ —
Guarantees	54.2	36.9	9.9	6.7	0.7
Total commercial commitments and letters of credit	$68.3	$51.0	$9.9	$6.7	$ 0.7

(1) Indebtedness amounts reflect the principal amount of our senior term loan, senior notes and credit facility.

(2) Estimated interest payments are calculated assuming current interest rates over minimum maturity periods specified in debt agreements. Debt may be repaid sooner or later than such minimum maturity periods.

(3) Other short-term and long-term obligations include estimates of future minimum contribution requirements under our U.S. and non-U.S. defined benefit pension and postretirement plans. These estimates are based on current legislation in the countries we operate within and are subject to change. Other short-term and long-term obligations also include income tax liabilities related to uncertain income tax positions connected with ongoing income tax audits in various jurisdictions.

Commitments and Off-Balance Sheet Arrangements

Guarantees

We maintain a remarketing agreement with our finance joint venture in the United States, whereby we are obligated to repurchase up to $6.0 million of repossessed equipment each calendar year. We believe that any losses that might be incurred on the resale of this equipment will not materially impact our financial position or results of operations, due to the fact that the repurchase obligation would be equivalent to the fair value of the underlying equipment.

At December 31, 2018, we guaranteed indebtedness owed to third parties of approximately $40.6 million, primarily related to dealer and end-user financing of equipment. Such guarantees generally obligate us to repay outstanding finance obligations owed to financial institutions if dealers or end users default on such loans through 2023. Losses under such guarantees historically have been insignificant. In addition, we generally would expect to be able to recover a significant portion of the amounts paid under such guarantees from the sale of the underlying financed farm equipment, as the fair value of such equipment is expected to offset a substantial portion of the amounts paid. We believe the credit risk associated with these guarantees is not material to our financial position or results of operations.

In addition, at December 31, 2018, we had accrued approximately $13.6 million of outstanding guarantees of minimum residual values that may be owed to our finance joint ventures in the United States and Canada due upon expiration of certain eligible operating leases between the finance joint ventures and end users.

Other

At December 31, 2018, we had outstanding designated and non-designated foreign exchange contracts with a gross notional amount of approximately $1,462.8 million. The outstanding contracts as of December 31, 2018 range in maturity through December 2018.

As discussed in “Liquidity and Capital Resources,” we sell a majority of our wholesale accounts receivable in North America, Europe and Brazil to our U.S., Canadian, European and Brazilian finance joint ventures. We also sell certain accounts receivable under factoring arrangements to financial institutions around the world. We have determined that these facilities should be accounted for as off-balance sheet transactions.

Contingencies

We are party to various claims and lawsuits arising in the normal course of business. We closely monitor these claims and lawsuits and frequently consult with our legal counsel to determine whether they may, when resolved, have a material adverse effect on our financial position or results of operations and accrue and/or disclose loss contingencies as appropriate (see Note 12 of our Consolidated Financial Statements and Item 3, “Legal Proceedings”).

Related Parties

Rabobank is a 51% owner in our finance joint ventures. See “Finance Joint Ventures.” Rabobank is also the principal agent and participant in our credit facility.

Our finance joint ventures provide retail and wholesale financing to our dealers. In addition, we transfer, on an ongoing basis, a majority of our wholesale receivables in North America, Europe and Brazil to our U.S., Canadian, European and Brazilian finance joint ventures. See Note 4 of our Consolidated Financial Statements for further discussion of these agreements. We maintain a remarketing agreement with our U.S. finance joint venture, AGCO

Finance LLC, as discussed above under “Commitments and Off-Balance Sheet Arrangements.” In addition, as part of sales incentives provided to end users, we may from time to time subsidize interest rates of retail financing provided by our finance joint ventures. The cost of those programs is recognized at the time of sale to our dealers.

TAFE, in which we hold a 23.75% interest, manufactures and sells Massey Ferguson-branded equipment primarily in India, and also supplies tractors and components to us for sale in other markets. Mallika Srinivasan, who is the Chairman and Chief Executive Officer of TAFE, is currently a member of our Board of Directors. As of December 31, 2018, TAFE owned 12,150,152 shares of our common stock. We and TAFE are parties to an agreement pursuant to which, among other things, TAFE has agreed not to purchase in excess of 12,170,290 shares of our common stock, subject to certain adjustments, and we have agreed to annually nominate a TAFE representative to our Board of Directors. During 2018, 2017 and 2016, we purchased approximately $109.6 million, $102.0 million and $128.5 million, respectively, of tractors and components from TAFE. During

2018, 2017 and 2016, we sold approximately $1.8 million, $1.2 million and $1.1 million, respectively, of parts to TAFE. We received dividends from TAFE of approximately $1.8 million, during both 2018 and 2017, and $1.6 million during 2016.

During 2018, 2017 and 2016, we paid approximately $3.5 million, $7.2 million and $3.1 million, respectively, to PPG Industries, Inc. for painting materials used in our manufacturing processes. Our Chairman, President and Chief Executive Officer is currently a member of the board of directors of PPG Industries, Inc.

During 2018, 2017 and 2016, we paid approximately $1.6 million, $1.5 million and $2.0 million, respectively, to Praxair, Inc. for propane, gas and welding, and laser consumables used in our manufacturing processes. Our Chairman, President and Chief Executive Officer is currently a member of the board of directors of Praxair, Inc.

Foreign Currency Risk Management

We have significant manufacturing operations in the United States, France, Germany, Finland and Brazil, and we purchase a portion of our tractors, combines and components from third-party foreign suppliers, primarily in various European countries and in Japan. We also sell products in approximately 140 countries throughout the world. The majority of our net sales outside the United States are denominated in the currency of the customer location, with the exception of sales in the Middle East, Africa, Asia and parts of South America, where net sales are primarily denominated in British pounds, Euros or United States dollars. See Note 16 of our Consolidated Financial Statements for net sales by customer location. Our most significant transactional foreign currency exposures are the Euro, the Brazilian real and the Canadian dollar in relation to the United States dollar, and the Euro in relation to the British pound. Fluctuations in the value of foreign currencies create exposures, which can adversely affect our results of operations.

We attempt to manage our transactional foreign currency exposure by hedging foreign currency cash flow forecasts and commitments arising from the anticipated settlement of receivables and payables and from future purchases and sales. Where naturally offsetting currency positions do not occur, we hedge certain, but not all, of our exposures through the use of foreign currency contracts. Our translation exposure resulting from translating the financial statements of foreign subsidiaries into United States dollars is not hedged. Our most significant translation exposures are the Euro, the British pound and the Brazilian real in relation to the United States dollar. When practical, this translation impact is reduced by financing local operations with local borrowings. Our hedging policy prohibits use of foreign currency contracts for speculative trading purposes.

All derivatives are recognized on our Consolidated Balance Sheets at fair value. On the date a derivative contract is entered into, we designate the derivative as either (1) a cash flow hedge of a forecasted transaction, (2) a fair value hedge of a recognized liability, (3) a hedge of a net investment in a foreign operation, or (4) a non-designated derivative instrument. We currently engage in derivatives that are cash flow hedges of forecasted transactions as well as non-designated derivative instruments. The total notional value of our foreign currency instruments was $1,462.8 million and $1,798.2 million as of December 31, 2018 and 2017, inclusive of both those instruments that are designated and qualified for hedge accounting and non-designated derivative instruments. We also enter into derivative and non-derivative instruments to hedge a portion of our net investment in foreign operations against adverse movements in exchange rates. Refer to Note 11 of our Consolidated Financial Statements for additional information about our hedging transactions and derivative financial instruments.

Assuming a 10% change relative to the currency of the hedge contracts, the fair value of the foreign currency instruments could be negatively impacted by approximately $27.1 million as of December 31, 2018. Due to the fact that these instruments are primarily entered into for hedging purposes, the gains or losses on the contracts would

largely be offset by losses and gains on the underlying firm commitment or forecasted transaction.

Interest Rate Risk

Our interest expense is, in part, sensitive to the general level of interest rates. We manage our exposure to interest rate risk through our mix of floating rate and fixed rate debt. From time to time, we enter into interest rate swap agreements to manage our exposure to interest rate fluctuations. Refer to Notes 7 and 11 of our Consolidated Financial Statements for additional information about our interest rate swap agreements.

Based on our floating rate debt and our accounts receivable sales facilities outstanding at December 31, 2018, a 10% increase in interest rates, would have increased, collectively, “Interest expense, net” and “Other expense, net” for the year ended December 31, 2018 by approximately $5.1 million.

Table of Contents

Recent Accounting Pronouncements

See Note 1 of our Consolidated Financial Statements for more information regarding recent accounting pronouncements and their impact to our consolidated results of operations and financial position.
Critical Accounting Estimates

We prepare our Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles. In the preparation of these financial statements, we make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant accounting policies followed in the preparation of the financial statements are detailed in Note 1 of our Consolidated Financial Statements. We believe that our application of the policies discussed below involves significant levels of judgment, estimates and complexity.

Due to the levels of judgment, complexity and period of time over which many of these items are resolved, actual results could differ from those estimated at the time of preparation of the financial statements. Adjustments to these estimates would impact our financial position and future results of operations.

Discount and Sales Incentive Allowances

We provide various volume bonus and sales incentive programs with respect to our products. These sales incentive programs include reductions in invoice prices, reductions in retail financing rates, dealer commissions and dealer incentive allowances. In most cases, incentive programs are established and communicated to our dealers on a quarterly basis. The incentives are paid either at the time of the cash settlement of the receivable (which is generally at the time of retail sale), at the time of retail financing, at the time of warranty registration, or at a subsequent time based on dealer purchase volumes. The incentive programs are product line specific and generally do not vary by dealer. The cost of sales incentives associated with dealer commissions and dealer incentive allowances is estimated based upon the terms of the programs and historical experience, is based on a percentage of the sales price, and estimates for sales incentives are made and recorded at the time of sale for existing incentive programs using the expected value method. These estimates are reassessed each reporting period and are revised in the event of subsequent modifications to incentive programs, as they are communicated to dealers. The related provisions and accruals are made on a product or product-line basis and are monitored for adequacy and revised at least quarterly in the event of subsequent modifications to the programs. Interest rate subsidy payments, which are a reduction in retail financing rates, are recorded in the same manner as dealer commissions and dealer incentive allowances. Volume discounts are estimated and recognized based on historical experience, and related reserves are monitored and adjusted based on actual dealer purchase volumes and the dealers' progress towards achieving specified cumulative target levels. Estimates of these incentives are based on the terms of the programs and historical experience. All incentive programs are recorded and presented as a reduction of revenue, due to the fact that we do not receive a distinct good or service in exchange for the consideration provided. In the United States and Canada, reserves for incentive programs related to accounts receivable not sold to our U.S. and Canadian finance joint ventures are recorded as "accounts receivable allowances" within our Consolidated Balance Sheets due to the fact that the incentives are paid through a reduction of future cash settlement of the receivable. Globally, reserves for incentive programs that will be paid in cash or credit memos, as is the case with most of our volume discount programs, as well as sales incentives associated with accounts receivable sold to our finance joint ventures, are recorded within "Accrued expenses" within our Consolidated Balance Sheets.

At December 31, 2018, we had recorded an allowance for discounts and sales incentives of approximately $561.9 million that will be paid either through a reduction of future cash settlements of receivables and through credit memos to our dealers or through reductions in retail financing rates paid to our finance joint ventures. If we were to allow an additional 1% of sales incentives and discounts at the time of retail sale for those sales subject to such discount programs, our reserve would increase by approximately $19.7 million as of December 31, 2018. Conversely, if we were to decrease our sales incentives and discounts by 1% at the time of retail sale, our reserve would decrease by approximately $19.7 million as of December 31, 2018.

Deferred Income Taxes and Uncertain Income Tax Positions

We recorded an income tax provision of $110.9 million in 2018 compared to $133.6 million in 2017 and $92.2 million in 2016. Our tax provision and effective tax rate is impacted by the differing tax rates of the various tax jurisdictions in which we operate, permanent differences for items treated differently for financial accounting and income tax purposes, and for losses in jurisdictions where no income tax benefit is recorded.

On December 22, 2017, the Tax Cuts and Jobs Act ("the 2017 Tax Act") was enacted in the United States. During the three months ended December 31, 2017, we recorded a tax provision of approximately $42.0 million in accordance with Staff Accounting Bulletin No. 118, which provided SEC Staff guidance for the application of Accounting Standards Codification ("ASC") 740 "Income Taxes," in the reporting period in which the 2017 Tax Act was enacted. The $42.0 million tax provision included a provisional income tax charge related to a one-time transition tax associated with the mandatory deemed repatriation of unremitted foreign earnings. The tax provision also included a provisional income tax charge associated with the income tax consequences related to the expected future repatriation of certain underlying foreign earnings, as historically, we have considered them to be permanently reinvested. The remaining balance of the tax provision primarily related to the remeasurement of certain net deferred tax assets using the lower enacted U.S. Corporate tax rate (from 35 percent to 21 percent), as well as other miscellaneous related impacts. During the three months ended December 31, 2018, we finalized our calculations related to the 2017 Tax Act and recorded an income tax benefit of approximately $8.5 million.

During the second quarter of 2016, we established a valuation allowance to fully reserve our net deferred tax assets in the United States. A valuation allowance is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. We assessed the likelihood that our deferred tax assets would be recovered from estimated future taxable income and available tax planning strategies and determined that the adjustment to the valuation allowance was appropriate. In making this assessment, all available evidence was considered including the current economic climate, as well as reasonable tax planning strategies. We believe it is more likely than not that we will realize our remaining net deferred tax assets, net of the valuation allowance, in future years.
At December 31, 2018 and 2017, we had gross deferred tax assets of $350.2 million and $354.9 million, respectively, including $74.5 million and $83.4 million, respectively, related to net operating loss carryforwards. At December 31, 2018 and 2017, we had total valuation allowances as an offset to our gross deferred tax assets of $83.9 million and $81.9 million, respectively, which included allowances against net operating loss carryforwards in China, Brazil, the United Kingdom and the Netherlands, as well as allowances against our net deferred taxes in the U.S., as previously discussed. Realization of the remaining deferred tax assets as of December 31, 2018 will depend on generating sufficient taxable income in future periods, net of reversing deferred tax liabilities. We believe it is more likely than not that the remaining net deferred tax assets will be realized.

As of December 31, 2018 and 2017, we had approximately $166.1 million and $163.4 million, respectively, of unrecognized tax benefits, all of which would impact our effective tax rate if recognized. As of December 31, 2018 and 2017, we had approximately $58.5 million and $61.8 million, respectively, of current accrued taxes related to uncertain income tax positions connected with ongoing tax audits in various jurisdictions that we expect to settle or pay in the next 12 months. We recognize interest and penalties related to uncertain income tax positions in income tax expense. As of December 31, 2018 and 2017, we had accrued interest and penalties related to unrecognized tax benefits of approximately $27.2 million and $23.0 million, respectively. See Note 6 of our Consolidated Financial Statements for further discussion of our uncertain income tax positions.

Pensions

We sponsor defined benefit pension plans covering certain employees, principally in the United Kingdom, the United States, Germany, Switzerland, Finland, France, Norway and Argentina. Our primary plans cover certain employees in the United States and the United Kingdom.

In the United States, we sponsor a funded, qualified defined benefit pension plan for our salaried employees, as well as a separate funded qualified defined benefit pension plan for our hourly employees. Both plans are closed to new entrants and frozen, and we fund at least the minimum contributions required under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code to both plans. In addition, we maintain an unfunded, nonqualified

defined benefit pension plan for certain U.S.-based senior executives, which is our Executive Nonqualified Pension Plan (“ENPP”). The ENPP is also closed to new entrants.

In the United Kingdom, we sponsor a funded defined benefit pension plan that provides an annuity benefit based on participants’ final average earnings and service. Participation in this plan is limited to certain older, longer service employees and existing retirees. This plan is closed to new participants.

See Note 8 of our Consolidated Financial Statements for more information regarding costs and assumptions for employee retirement benefits.

Nature of Estimates Required. The measurement date for all of our benefit plans is December 31. The measurement of our pension obligations, costs and liabilities is dependent on a variety of assumptions provided by management and used by our actuaries. These assumptions include estimates of the present value of projected future pension payments to all plan participants, taking into consideration the likelihood of potential future events such as salary increases and demographic experience. These assumptions may have an effect on the amount and timing of future contributions.

Assumptions and Approach Used. The assumptions used in developing the required estimates include, but are not limited to, the following key factors:

- Discount rates
- Inflation
- Salary growth
- Expected return on plan assets
- Retirement rates and ages
- Mortality rates

For the years ended December 31, 2018, 2017 and 2016, we used a globally consistent methodology to set the discount rate in the countries where our largest benefit obligations exist. In the United States, the United Kingdom and the Euro Zone, we constructed a hypothetical bond portfolio of high-quality corporate bonds and then applied the cash flows of our benefit plans to those bond yields to derive a discount rate. The bond portfolio and plan-specific cash flows vary by country, but the methodology in which the portfolio is constructed is consistent. In the United States, the bond portfolio is large enough to result in taking a "settlement approach" to derive the discount rate, in which high-quality corporate bonds are assumed to be purchased and the resulting coupon payments and maturities are used to satisfy our U.S. pension plans' projected benefit payments. In the United Kingdom and the Euro Zone, the discount rate is derived using a "yield curve approach," in which an individual spot rate, or zero coupon bond yield, for each future annual period is developed to discount each future benefit payment and, thereby, determine the present value of all future payments. The Company uses a spot yield curve to determine the discount rate applicable in the United Kingdom to measure the U.K. pension plan's service cost and interest cost. Under the settlement and yield curve approaches, the discount rate is set to equal the single discount rate that produces the same present value of all future payments.

The other key assumptions and methods were set as follows:

- Our inflation assumption is based on an evaluation of external market indicators.
- The salary growth assumptions reflect our long-term actual experience, the near-term outlook and assumed inflation.
- The expected return on plan asset assumptions reflects asset allocations, investment strategy, historical experience and the views of investment managers, and reflects a projection of the expected arithmetic returns over ten years.
- Determination of retirement rates and ages as well as termination rates, based on actual plan experience, actuarial standards of practice and the manner in which our defined benefit plans are being administered.
- The mortality rates for the U.K. defined benefit pension plan was updated in 2018 to reflect expected improvements in the life expectancy of the plan participants. The mortality rates for the U.S. defined benefit pension plans were updated in 2018 to reflect the Society of Actuaries' most recent findings on the topic of mortality.
- The fair value of assets used to determine the expected return on assets does not reflect any delayed recognition of asset gains and losses.

The effects of actual results differing from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense in such periods.

Our U.S. and U.K. defined benefit pension plans, including our ENPP, comprised approximately 85% of our consolidated projected benefit obligation as of December 31, 2018. If the discount rate used to determine the 2018 projected benefit obligation for our U.S. qualified defined benefit pension plans and our ENPP was decreased by 25 basis points, our projected benefit obligation would have increased by approximately $3.7 million at December 31,

2018, and our 2019 pension expense would increase by approximately $0.4 million. If the discount rate used to determine the 2018 projected benefit obligation for our U.S. qualified defined benefit pension plans and our ENPP was increased by 25 basis points, our projected benefit obligation would have decreased by approximately $3.5 million at December 31, 2018, and our 2019 pension expense would decrease by approximately $0.3 million. If the discount rate used to determine the projected benefit obligation for our U.K. defined benefit pension plan was decreased by 25 basis points, our projected benefit obligation would have increased by approximately $21.2 million at December 31, 2018, and our 2019 pension expense would increase by approximately $0.2 million. If the discount rate used to determine the projected benefit obligation for our U.K. defined benefit pension plan was increased by 25 basis points, our projected benefit obligation would have decreased by approximately $20.5 million at December 31, 2018, and our 2019 pension expense would decrease by approximately $0.2 million. In addition, if the expected long-term rate of return on plan assets related to our U.K. defined benefit pension plan was increased or decreased by 25 basis

points, our 2019 pension expense would decrease or increase by approximately $1.4 million each, respectively. The impact to our U.S. defined benefit pension plans for a 25-basis-point change in our expected long-term rate of return would decrease or increase our 2019 pension expense by approximately $0.1 million, respectively.

Unrecognized actuarial net losses related to our defined benefit pension plans and ENPP were $356.7 million as of December 31, 2018 compared to $360.1 million as of December 31, 2017. The decrease in unrecognized net actuarial losses between years primarily resulted from higher discount rates at December 31, 2018 compared to December 31, 2017. The unrecognized net actuarial losses will be impacted in future periods by actual asset returns, discount rate changes, currency exchange rate fluctuations, actual demographic experience and certain other factors. For some of our defined benefit pension plans, these losses, to the extent they exceed 10% of the greater of the plan's liabilities or the fair value of assets ("the gain/loss corridor"), will be amortized on a straight-line basis over the periods discussed as follows. For our U.S. salaried, U.S. hourly and U.K. defined benefit pension plans, the population covered is predominantly inactive participants, and losses related to those plans, to the extent they exceed the gain/loss corridor, will be amortized over the average remaining lives of those participants while covered by the respective plan. As of December 31, 2018, the average amortization period was 16 years for our U.S. defined benefit pension plans and 19 years for our U.K. defined benefit pension plan. For our ENPP, the population is predominantly active participants, and losses related to the plan will be amortized over the average future working lifetime of the active participants expected to receive benefits. As of December 31, 2018, the average amortization period was eight years for our ENPP. Unrecognized prior service cost related to our defined benefit pension plans was $19.5 million as of December 31, 2018 compared to $12.2 million as of December 31, 2017. The increase in the unrecognized prior service cost between years is primarily due to the newly required uniformity of guaranteed minimum pension benefits for men and women related to our U.K. defined benefit plan, which resulted in an estimation of increased benefits for prior participant service. The requirement was as a result of a judgment by the U.K. High Court in October 2018 which provided clarity on the need to provide uniformity of benefits. The cost of this estimated impact will be amortized over a straight-line basis over the average remaining service period of active employees expected to receive benefits, or the average remaining lives of inactive participants, covered by the U.K. defined benefit plan.

As of December 31, 2018, our unfunded or underfunded obligations related to our defined benefit pension plans and ENPP were approximately $206.0 million, primarily related to our defined benefit pension plans in the United Kingdom and the United States. In 2018, we contributed approximately $36.8 million towards those obligations, and we expect to fund approximately $30.5 million in 2019. Future funding is dependent upon compliance with local laws and regulations and changes to those laws and regulations in the future, as well as the generation of operating cash flows in the future. We currently have an agreement in place with the trustees of the U.K. defined benefit plan that obligates us to fund approximately £15.6 million per year (or approximately $19.9 million) towards that obligation through December 2021. The funding arrangement is based upon the current underfunded status and could change in the future as discount rates, local laws and regulations, and other factors change.

See Note 8 of our Consolidated Financial Statements for more information regarding the investment strategy and concentration of risk.

Goodwill, Other Intangible Assets and Long-Lived Assets

We test goodwill for impairment, at the reporting unit level, annually and when events or circumstances indicate that fair value of a reporting unit may be below its carrying value. A reporting unit is an operating segment or one level below an operating segment, for example, a component. We combine and aggregate two or more components of an operating segment as a single reporting unit if the components have similar economic characteristics. Our reportable segments are not our reporting units.

Goodwill is evaluated annually as of October 1 for impairment using a qualitative assessment or a quantitative two-step assessment. If we elect to perform a qualitative assessment and determine the fair value of our reporting units more likely than not exceeds their carrying value, no further evaluation is necessary. For reporting units where we perform a two-step quantitative assessment, the first step requires us to compare the fair value of each reporting unit to its respective carrying value, including goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is higher than the fair value of the reporting unit, the second step of the quantitative assessment is required to measure the amount of impairment, if any. The second step of the quantitative assessment results in a calculation of the implied fair value of the reporting unit's goodwill, which is determined as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss.

Table of Contents

We utilize a combination of valuation techniques, including a discounted cash flow approach and a market multiple approach, when making quantitative goodwill assessments.

We review our long-lived assets, which include intangible assets subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The evaluation for recoverability is performed at a level where independent cash flows may be attributed to either an asset or asset group. If we determine that the carrying amount of an asset or asset group is not recoverable based on the expected undiscounted future cash flows of the asset or asset group, an impairment loss is recorded equal to the excess of the carrying amounts over the estimated fair value of the long-lived assets. Estimates of future cash flows are based on many factors, including current operating results, expected market trends and competitive influences. We also evaluate the amortization periods assigned to our intangible assets to determine whether events or changes in circumstances warrant revised estimates of useful lives. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value, less estimated costs to sell.

We make various assumptions, including assumptions regarding future cash flows, market multiples, growth rates and discount rates, in our assessments of the impairment of goodwill, other indefinite-lived intangible assets and long-lived assets. The assumptions about future cash flows and growth rates are based on the current and long-term business plans of the reporting unit or related to the long-lived assets. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the reporting unit or long-lived assets. These assumptions require significant judgments on our part, and the conclusions that we reach could vary significantly based upon these judgments.

The results of our goodwill and long-lived assets impairment analyses conducted as of October 1, 2018, 2017 and 2016 indicated that no reduction in the carrying amount of goodwill and long-lived assets was required.

Our goodwill impairment analysis conducted as of October 1, 2018 indicated that the fair value in excess of the carrying value related to our GSI EME reporting unit was less than 10%. The percentage of the fair value in excess of the carrying value decreased slightly compared to our 2017 annual analysis, and more recent analyses during 2018. The operations of the GSI reporting unit include the manufacturing and distribution of grain storage and protein production equipment. During 2018, we experienced weak industry conditions as well as operational inefficiencies related to our new manufacturing operations in Europe, which impacted the operating margins of the GSI EME operations. Manufacturing and system initiatives are in process to address such inefficiencies in order to reduce costs and improve the output of the manufacturing operations. If market conditions and our overall results do not improve, we may incur an impairment charge related to our GSI EME reporting unit in the future, to be determined under a two-step quantitative assessment as described above. The amount of goodwill allocated to GSI EME reporting unit as of October 1, 2018 was approximately $243.9 million.

Numerous facts and circumstances are considered when evaluating the carrying amount of our goodwill. The fair value of a reporting unit is impacted by the reporting unit's expected financial performance, which is dependent upon the agricultural industry and other factors that could adversely affect the agricultural industry, including but not limited to, declines in the general economy, increases in farm input costs, weather conditions, lower commodity prices and changes in the availability of credit. The estimated fair value of the individual reporting units is assessed for reasonableness by reviewing a variety of indicators evaluated over a reasonable period of time.

As of December 31, 2018, we had approximately $1,495.5 million of goodwill. While our annual impairment testing in 2018 supported the carrying amount of this goodwill, we may be required to re-evaluate the carrying amount in future periods, thus utilizing different assumptions that reflect the then current market conditions and expectations, and, therefore, we could conclude that an impairment has occurred.

Recoverable Indirect Taxes

Our Brazilian operations incur value added taxes ("VAT") on certain purchases of raw materials, components and services. These taxes are accumulated as tax credits and create assets that are reduced by the VAT collected from our sales in the Brazilian market. We regularly assesses the recoverability of these tax credits, and establishes reserves when necessary against them, through analyses that include, amongst others, the history of realization, the transfer of tax credits to third parties as authorized by the government, anticipated changes in the supply chain and the future expectation of tax debits from our ongoing operations. We believe that these tax credits, net of established reserves are realizable. Our assessment of realization of these tax assets involves significant judgments on our part, and the conclusions that we reach could vary significantly based upon these judgments. We recorded approximately $156.0 million and $152.3 million, respectively, of VAT tax credits, net of reserves, as of December 31, 2018 and 2017.

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Quantitative and Qualitative Disclosures about Market Risk information required by this Item set forth under the captions “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Foreign Currency Risk Management” and “Interest Rate Risk” under Item 7 of this Form 10-K are incorporated herein by reference.

39

Table of Contents

Item 8. Financial Statements and Supplementary Data

The following Consolidated Financial Statements of AGCO and its subsidiaries for each of the years in the three-year period ended December 31, 2018 are included in this Item:

	Page
Report of Independent Registered Public Accounting Firm	41
Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016	42
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2018, 2017 and 2016	43
Consolidated Balance Sheets as of December 31, 2018 and 2017	44
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016	45
Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016	46
Notes to Consolidated Financial Statements	47

The information under the heading "Quarterly Results" of Item 7 of this Form 10-K is incorporated herein by reference.

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
AGCO Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of AGCO Corporation and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes and financial statement schedule (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 1, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for revenue recognition in 2018 due to the adoption of Accounting Standards Codification 606, Revenue from Contracts with Customers.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company’s auditor since 2002.

Atlanta, Georgia
March 1, 2019

Table of Contents

AGCO CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)

	Years Ended December 31,		
	2018	2017	2016
Net sales	$9,352.0	$8,306.5	$7,410.5
Cost of goods sold	7,355.3	6,541.2	5,895.0
Gross profit	1,996.7	1,765.3	1,515.5
Operating expenses:			
Selling, general and administrative expenses	1,069.4	964.7	864.6
Engineering expenses	355.2	323.4	297.6
Restructuring expenses	12.0	11.2	11.9
Amortization of intangibles	64.7	57.0	51.2
Bad debt expense	6.4	4.6	3.2
Income from operations	489.0	404.4	287.0
Interest expense, net	53.8	45.1	52.1
Other expense, net	74.9	75.5	30.0
Income before income taxes and equity in net earnings of affiliates	360.3	283.8	204.9
Income tax provision	110.9	133.6	92.2
Income before equity in net earnings of affiliates	249.4	150.2	112.7
Equity in net earnings of affiliates	34.3	39.1	47.5
Net income	283.7	189.3	160.2
Net loss (income) attributable to noncontrolling interests	1.8	(2.9)	(0.1)
Net income attributable to AGCO Corporation and subsidiaries	$285.5	$186.4	$160.1
Net income per common share attributable to AGCO Corporation and subsidiaries:			
Basic	$3.62	$2.34	$1.97
Diluted	$3.58	$2.32	$1.96
Cash dividends declared and paid per common share	$0.60	$0.56	$0.52
Weighted average number of common and common equivalent shares outstanding:			
Basic	78.8	79.5	81.4
Diluted	79.7	80.2	81.7

See accompanying notes to Consolidated Financial Statements.

Table of Contents

AGCO CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In millions)

	Years Ended December 31,		
	2018	2017	2016
Net income	$283.7	$189.3	$160.2
Other comprehensive (loss) income, net of reclassification adjustments:			
Defined benefit pension plans, net of taxes:			
Prior service cost arising during the year	(7.0)	—	(2.6)
Net loss recognized due to settlement	0.9	0.2	0.4
Net gain recognized due to curtailment	—	—	(0.1)
Net actuarial (loss) gain arising during the year	(4.2)	6.6	(62.9)
Amortization of prior service cost included in net periodic pension cost	1.3	1.3	1.1
Amortization of net actuarial losses included in net periodic pension cost	11.7	11.3	8.6
Derivative adjustments:			
Net changes in fair value of derivatives	(1.1)	2.0	(7.7)
Net losses reclassified from accumulated other comprehensive loss into income	7.2	2.0	1.0
Foreign currency translation adjustments	(206.8)	57.8	82.4
Other comprehensive (loss) income, net of reclassification adjustments	(198.0)	81.2	20.2
Comprehensive income	85.7	270.5	180.4
Comprehensive loss (income) attributable to noncontrolling interests	6.0	(4.1)	(1.7)
Comprehensive income attributable to AGCO Corporation and subsidiaries	$91.7	$266.4	$178.7

See accompanying notes to Consolidated Financial Statements.

Table of Contents

AGCO CORPORATION

CONSOLIDATED BALANCE SHEETS
(In millions, except share amounts)

	December 31, 2018	December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 326.1	$ 367.7
Accounts and notes receivable, net	880.3	1,019.4
Inventories, net	1,908.7	1,872.9
Other current assets	422.3	367.7
Total current assets	3,537.4	3,627.7
Property, plant and equipment, net	1,373.1	1,485.3
Investment in affiliates	400.0	409.0
Deferred tax assets	104.9	112.2
Other assets	142.4	147.1
Intangible assets, net	573.1	649.0
Goodwill	1,495.5	1,541.4
Total assets	$ 7,626.4	$ 7,971.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ 184.2	$ 95.4
Accounts payable	865.9	917.5
Accrued expenses	1,522.4	1,407.9
Other current liabilities	194.2	229.8
Total current liabilities	2,766.7	2,650.6
Long-term debt, less current portion and debt issuance costs	1,275.3	1,618.1
Pensions and postretirement health care benefits	223.2	247.3
Deferred tax liabilities	116.3	130.5
Other noncurrent liabilities	251.4	229.9
Total liabilities	4,632.9	4,876.4
Commitments and contingencies (Note 12)		
Stockholders' Equity:		
AGCO Corporation stockholders' equity:		
Preferred stock; $0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding in 2018 and 2017	—	—
Common stock; $0.01 par value, 150,000,000 shares authorized, 76,536,755 and 79,553,825 shares issued and outstanding at December 31, 2018 and 2017, respectively	0.8	0.8
Additional paid-in capital	10.2	136.6
Retained earnings	4,477.3	4,253.8
Accumulated other comprehensive loss	(1,555.4)	(1,361.6)
Total AGCO Corporation stockholders' equity	2,932.9	3,029.6
Noncontrolling interests	60.6	65.7
Total stockholders' equity	2,993.5	3,095.3
Total liabilities and stockholders' equity	$ 7,626.4	$ 7,971.7

See accompanying notes to Consolidated Financial Statements.

AGCO CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions, except share amounts)

	Common Stock				Accumulated Other Comprehensive Loss					
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Defined Benefit Pension Plans	Cumulative Translation Adjustment	Deferred (Losses) Gains on Derivatives	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Stockholders' Equity
Balance, December 31, 2015	83,814,809	$ 0.8	$ 301.7	$ 3,996.0	$ (249.0)	$ (1,209.2)	$ (2.0)	$ (1,460.2)	$ 45.0	$ 2,883.3
Net income	—	—	—	160.1	—	—	—	—	0.1	160.2
Payment of dividends to shareholders	—	—	—	(42.5)	—	—	—	—	—	(42.5)
Issuance of restricted stock	15,395	—	0.8	—	—	—	—	—	—	0.8
Issuance of stock awards	27,333	—	(0.9)	—	—	—	—	—	—	(0.9)
SSARs exercised	21,106	—	(0.9)	—	—	—	—	—	—	(0.9)
Stock compensation	—	—	17.3	—	—	—	—	—	—	17.3
Investment by noncontrolling interests	—	—	—	—	—	—	—	—	12.2	12.2
Changes in noncontrolling interest	—	—	(2.2)	—	—	—	—	—	2.2	—
Purchases and retirement of common stock	(4,413,250)	—	(212.5)	—	—	—	—	—	—	(212.5)
Defined benefit pension plans, net of taxes:										
Prior service cost arising during year	—	—	—	—	(2.6)	—	—	(2.6)	—	(2.6)
Net loss recognized due to settlement	—	—	—	—	0.4	—	—	0.4	—	0.4
Net gain recognized due to curtailment	—	—	—	—	(0.1)	—	—	(0.1)	—	(0.1)
Net actuarial loss arising	—	—	—	—	(62.9)	—	—	(62.9)	—	(62.9)

during year										
Amortization of prior service cost included in net periodic pension cost	—	—	—	—	1.1	—	—	1.1	—	1.1
Amortization of net actuarial losses included in net periodic pension cost	—	—	—	—	8.6	—	—	8.6	—	8.6
Deferred gains and losses on derivatives, net	—	—	—	—	—	—	(6.7)	(6.7)	—	(6.7)
Change in cumulative translation adjustment	—	—	—	—	—	80.8	—	80.8	1.6	82.4
Balance, December 31, 2016	79,465,393	0.8	103.3	4,113.6	(304.5)	(1,128.4)	(8.7)	(1,441.6)	61.1	2,837.2
Net income	—	—	—	186.4	—	—	—	—	2.9	189.3
Payment of dividends to shareholders	—	—	—	(44.5)	—	—	—	—	—	(44.5)
Issuance of restricted stock	12,066	—	0.8	—	—	—	—	—	—	0.8
Issuance of stock awards	54,309	—	(2.2)	—	—	—	—	—	—	(2.2)
SSARs exercised	92,521	—	(4.4)	—	—	—	—	—	—	(4.4)
Stock compensation	—	—	39.1	—	—	—	—	—	—	39.1
Investment by noncontrolling interests	—	—	—	—	—	—	—	—	0.5	0.5
Purchases and retirement of common stock	(70,464)	—	—	—	—	—	—	—	—	—
Adjustment related to the adoption of ASU 2016-09	—	—	—	(1.7)	—	—	—	—	—	(1.7)
Defined benefit pension plans, net of taxes:										
Net loss recognized due to settlement	—	—	—	—	0.2	—	—	0.2	—	0.2
Net actuarial gain arising	—	—	—	—	6.6	—	—	6.6	—	6.6

during year										
Amortization of prior service cost included in net periodic pension cost	—	—	—	—	1.3	—	—	1.3	—	1.3
Amortization of net actuarial losses included in net periodic pension cost	—	—	—	—	11.3	—	—	11.3	—	11.3
Deferred gains and losses on derivatives, net	—	—	—	—	—	—	4.0	4.0	—	4.0
Change in cumulative translation adjustment	—	—	—	—	—	56.6	—	56.6	1.2	57.8
Balance, December 31, 2017	79,553,825	0.8	136.6	4,253.8	(285.1)	(1,071.8)	(4.7)	(1,361.6)	65.7	3,095.3
Net income (loss)	—	—	—	285.5	—	—	—	—	(1.8)	283.7
Payment of dividends to shareholders	—	—	—	(47.1)	—	—	—	—	—	(47.1)
Issuance of restricted stock	12,629	—	0.8	—	—	—	—	—	—	0.8
Issuance of stock awards	75,604	—	(3.1)	—	—	—	—	—	—	(3.1)
SSARs exercised	14,881	—	(0.6)	—	—	—	—	—	—	(0.6)
Stock compensation	—	—	45.5	—	—	—	—	—	—	45.5
Investment by noncontrolling interests	—	—	—	—	—	—	—	—	1.0	1.0
Distribution to noncontrolling interest	—	—	—	—	—	—	—	—	(0.1)	(0.1)
Purchases and retirement of common stock	(3,120,184)	—	(169.0)	(15.3)	—	—	—	—	—	(184.3)
Adjustment related to the adoption of ASU 2014-09	—	—	—	0.4	—	—	—	—	—	0.4
Defined benefit pension plans, net of taxes:										
	—	—	—	—	(7.0)	—	—	(7.0)	—	(7.0)

Prior service cost arising during year										
Net loss recognized due to settlement	—	—	—	—	0.9	—	—	0.9	—	0.9
Net actuarial loss arising during year	—	—	—	—	(4.2)	—	—	(4.2)	—	(4.2)
Amortization of prior service cost included in net periodic pension cost	—	—	—	—	1.3	—	—	1.3	—	1.3
Amortization of net actuarial losses included in net periodic pension cost	—	—	—	—	11.7	—	—	11.7	—	11.7
Deferred gains and losses on derivatives, net	—	—	—	—	—	—	6.1	6.1	—	6.1
Change in cumulative translation adjustment	—	—	—	—	—	(202.6)	—	(202.6)	(4.2)	(206.8)
Balance, December 31, 2018	76,536,755	$0.8	$10.2	$4,477.3	$(282.4)	$(1,274.4)	$1.4	$(1,555.4)	$60.6	$2,993.5

See accompanying notes to Consolidated Financial Statements.

Table of Contents

AGCO CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	$283.7	$189.3	$160.2
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	225.2	222.8	223.4
Amortization of intangibles	64.7	57.0	51.2
Stock compensation expense	46.3	38.2	18.1
Proceeds from termination of hedging instrument	—	—	7.3
Equity in net earnings of affiliates, net of cash received	(3.2)	41.2	(1.4)
Deferred income tax (benefit) provision	(14.7)	(14.1)	2.1
Loss on extinguishment of debt	24.5	—	—
Other	2.6	3.0	2.3
Changes in operating assets and liabilities, net of effects from purchase of businesses:			
Accounts and notes receivable, net	63.3	(34.7)	(4.5)
Inventories, net	(214.3)	(196.0)	(33.1)
Other current and noncurrent assets	(85.6)	(36.6)	(98.7)
Accounts payable	(24.3)	123.5	62.8
Accrued expenses	161.3	149.0	47.0
Other current and noncurrent liabilities	66.4	35.0	(67.2)
Total adjustments	312.2	388.3	209.3
Net cash provided by operating activities	595.9	577.6	369.5
Cash flows from investing activities:			
Purchases of property, plant and equipment	(203.3)	(203.9)	(201.0)
Proceeds from sale of property, plant and equipment	3.2	4.1	2.4
Purchase of businesses, net of cash acquired	—	(293.1)	(383.8)
Investment in consolidated affiliates, net of cash acquired	—	—	(11.8)
Investments in unconsolidated affiliates	(5.8)	(0.8)	(4.5)
Other	0.4	—	0.4
Net cash used in investing activities	(205.5)	(493.7)	(598.3)
Cash flows from financing activities:			
Proceeds from debt obligations	5,257.5	3,513.9	3,117.9
Repayments of debt obligations	(5,433.6)	(3,639.7)	(2,622.4)
Purchases and retirement of common stock	(184.3)	—	(212.5)
Payment of dividends to stockholders	(47.1)	(44.5)	(42.5)
Payment of minimum tax withholdings on stock compensation	(4.0)	(6.9)	(2.0)
Payment of debt issuance costs	(2.7)	—	(2.5)
Investments by noncontrolling interests, net	0.9	0.5	0.4
Net cash (used in) provided by financing activities	(413.3)	(176.7)	236.4
Effects of exchange rate changes on cash and cash equivalents	(18.7)	30.8	(4.6)
(Decrease) increase in cash and cash equivalents	(41.6)	(62.0)	3.0
Cash and cash equivalents, beginning of year	367.7	429.7	426.7

Cash and cash equivalents, end of year	$326.1	$367.7	$429.7

See accompanying notes to Consolidated Financial Statements.

46

Table of Contents
AGCO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Operations and Summary of Significant Accounting Policies

Business

AGCO Corporation and subsidiaries ("AGCO" or the "Company") is a leading manufacturer and distributor of agricultural equipment and related replacement parts throughout the world. The Company sells a full range of agricultural equipment, including tractors, combines, hay tools, sprayers, forage equipment, seeding and tillage equipment, implements, and grain storage and protein production systems. The Company's products are widely recognized in the agricultural equipment industry and are marketed under a number of well-known brand names including: Challenger®, Fendt®, GSI®, Massey Ferguson® and Valtra®. The Company distributes most of its products through a combination of approximately 4,050 independent dealers and distributors as well as the Company utilizes associates and licensees to provide a distribution channel for its products. In addition, the Company provides retail financing through its finance joint ventures with Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., or "Rabobank."

Basis of Presentation and Consolidation

The Company's Consolidated Financial Statements represent the consolidation of all wholly-owned companies, majority-owned companies and joint ventures in which the Company has been determined to be the primary beneficiary. The Company consolidates a variable interest entity ("VIE") if the Company determines it is the primary beneficiary. The primary beneficiary of a VIE is the party that has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits that potentially could be significant to the VIE. The Company also consolidates all entities that are not considered VIEs if it is determined that the Company has a controlling voting interest to direct the activities that most significantly impact the joint venture or entity. The Company records investments in all other affiliate companies using the equity method of accounting when it has significant influence. Other investments, including those representing an ownership interest of less than 20%, are recorded at cost. All significant intercompany balances and transactions have been eliminated in the Consolidated Financial Statements. Certain prior period amounts have been reclassified to conform to the current period presentation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates made by management primarily relate to accounts and notes receivable, inventories, deferred income tax valuation allowances, uncertain tax positions, goodwill and other identifiable intangible assets, and certain accrued liabilities, principally relating to reserves for volume discounts and sales incentives, warranty obligations, product liability and workers' compensation obligations, and pensions and postretirement benefits.

Foreign Currency Translation

The financial statements of the Company's foreign subsidiaries are translated into United States currency in accordance with Accounting Standards Codification ("ASC") 830, "Foreign Currency Matters." Assets and liabilities are translated to United States dollars at period-end exchange rates. Income and expense items are translated at average rates of exchange prevailing during the period. Translation adjustments are included in "Accumulated other comprehensive loss" in stockholders' equity within the Company's Consolidated Balance Sheets. Gains and losses, which result from foreign

currency transactions, are included in the accompanying Consolidated Statements of Operations.

The Company has a wholly-owned subsidiary in Argentina that manufactures and distributes agricultural equipment and replacement parts within Argentina. As of June 30, 2018, on the basis of currently available data related to inflation indices and as a result of the devaluation of the Argentine peso relative to the United States dollar, the Argentinian economy was determined to be highly inflationary. A highly inflationary economy is one where the cumulative inflation rate for the three years preceding the beginning of the reporting period, including interim reporting periods, is in excess of 100 percent. As a result of this designation and based on the guidance in ASC 830, the Company changed the functional currency of its wholly-owned subsidiary from the Argentinian peso to the U.S. dollar effective July 1, 2018. For the year-ended ended December 31, 2018, the Company’s wholly-owned subsidiary in Argentina had net sales of approximately $92.6 million and total assets of

approximately $104.5 million as of December 31, 2018. The monetary assets and liabilities denominated in the Argentine peso were approximately $28.0 million and approximately $13.6 million, respectively, as of December 31, 2018. The monetary assets and liabilities were remeasured based on current published exchange rates.

Cash and Cash Equivalents

Cash at December 31, 2018 and 2017 of $290.5 million and $317.0 million, respectively, consisted primarily of cash on hand and bank deposits. The Company considers all investments with an original maturity of three months or less to be cash equivalents. Cash equivalents at December 31, 2018 and 2017 of $35.6 million and $50.7 million, respectively, consisted primarily of money market deposits, certificates of deposits and overnight investments.

Accounts and Notes Receivable

Accounts and notes receivable arise from the sale of equipment and replacement parts to independent dealers, distributors or other customers. In the United States and Canada, amounts due from sales to dealers are immediately due upon a retail sale of the underlying equipment by the dealer with the exception of sales of grain storage and protein production systems as discussed further below. If not previously paid by the dealer in the United States and Canada, installment payments are required generally beginning after the interest-free period with the remaining outstanding equipment balance generally due within 12 months after shipment or delivery. These interest-free periods vary by product and generally range from one to 12 months. In limited circumstances, the Company provides sales terms, and in some cases, interest-free periods that are longer than 12 months for certain products. These are typically specified programs predominately in the United States and Canada, that allow for interest-free periods and due dates of up to 24 months for certain products depending on the year of the sale and the dealer or distributor’s ordering or sales volume during the preceding year. Interest generally is charged at or above prime lending rates on the outstanding receivable balances after shipment or delivery and after interest-free periods. Sales terms of some highly seasonal products provide for payment and due dates based on a specified date during the year regardless of the shipment date. Equipment sold to dealers in the United States and Canada is paid in full on average within 12 months of shipment. Sales of replacement parts generally are payable within 30 days of shipment, with terms for some larger, seasonal stock orders generally requiring payment within six months of shipment. Under normal circumstances, equipment may not be returned. In certain regions, with respect to most equipment sales, including the United States and Canada, the Company is obligated to repurchase equipment and replacement parts upon cancellation of a dealer or distributor contract. These obligations are required by national, state or provincial laws and require the Company to repurchase a dealer or distributor’s unsold inventory, including inventories for which the receivable already has been paid. Actual interest-free periods are shorter than described above because the equipment receivable from dealers or distributors in some countries, such as in the United States and Canada, is generally due immediately upon sale of the equipment to a retail customer as discussed above. Receivables can also be paid prior to terms specified in sales agreements. Under normal circumstances, interest is not forgiven and interest-free periods are not extended.

In other international markets, equipment sales generally are payable in full within 30 to 180 days of shipment or delivery. Payment terms for some highly seasonal products have a specified due date during the year regardless of the shipment or delivery date. For sales in most markets outside of the United States and Canada, the Company generally does not charge interest on outstanding receivables with its dealers and distributors. Sales of replacement parts generally are payable within 30 to 90 days of shipment, with terms for some larger, seasonal stock orders generally payable within six months of shipment.

In certain markets, there is a time lag, which varies based on the timing and level of retail demand, between the date the Company records a sale and when the dealer sells the equipment to a retail customer.

Sales of grain storage and protein production systems generally are payable within 30 days of shipment. In certain countries, sales of such systems in which the Company is responsible for construction or installation may be contingent upon customer acceptance, payment terms vary by market and product, with fixed payment schedules on all sales.

The following summarizes by geographic region, as a percentage of our consolidated net sales, amounts with maximum interest-free periods as presented below (in millions):

Year Ended December 31, 2018	North America	South America	Europe/Middle East	Asia/Pacific/Africa	Consolidated	
0 to 6 months	$1,639.6	$ 959.0	$ 5,368.0	$ 827.8	$8,794.4	94.0 %
7 to 12 months	523.1	—	17.1	—	540.2	5.8 %
13 to 24 months	17.4	—	—	—	17.4	0.2 %
	$2,180.1	$ 959.0	$ 5,385.1	$ 827.8	$9,352.0	100.0%

The Company has an agreement to permit transferring, on an ongoing basis, a majority of its wholesale interest-bearing and non-interest bearing accounts receivable in North America, Europe and Brazil to its U.S., Canadian, European and Brazilian finance joint ventures. Qualified dealers may obtain additional financing through the Company's U.S., Canadian, European and Brazilian finance joint ventures at the joint ventures' discretion.

The Company provides various volume bonus and sales incentive programs with respect to its products. These sales incentive programs include reductions in invoice prices, reductions in retail financing rates, dealer commissions and dealer incentive allowances. In most cases, incentive programs are established and communicated to the Company's dealers on a quarterly basis. The incentives are paid either at the time of the cash settlement of the receivable (which is generally at the time of retail sale), at the time of retail financing, at the time of warranty registration, or at a subsequent time based on dealer purchase volumes. The incentive programs are product-line specific and generally do not vary by dealer. The cost of sales incentives associated with dealer commissions and dealer incentive allowances is estimated based upon the terms of the programs and historical experience, is based on a percentage of the sales price, and estimates for sales incentives are made and recorded at the time of sale for existing incentive programs using the expected value method. These estimates are reassessed each reporting period and are revised in the event of subsequent modifications to incentive programs, as they are communicated to dealers. The related provisions and accruals are made on a product or product-line basis and are monitored for adequacy and revised at least quarterly in the event of subsequent modifications to the programs. Interest rate subsidy payments, which are a reduction in retail finance rates, are recorded in the same manner as dealer commissions and dealer incentive allowances. Volume discounts are estimated and recognized based on historical experience, and related reserves are monitored and adjusted based on actual dealer purchase volumes and the dealer's progress towards achieving specified cumulative target levels. All incentive programs are recorded and presented as a reduction of revenue, due to the fact that the Company does not receive a distinct good or service in exchange for the consideration provided. In the United States and Canada, reserves for incentive programs related to accounts receivable not sold to Company's U.S. and Canadian finance joint ventures are recorded as "accounts receivable allowances" within the Company's Consolidated Balance Sheets due to the fact that the incentives are paid through a reduction of future cash settlement of the receivable. Globally, reserves for incentive programs that will be paid in cash or credit memos, as is the case with most of the Company's volume discount programs, as well as sales with incentives associated with accounts receivable sold to its finance joint ventures, are recorded within "Accrued expenses" within the Company's Consolidated Balance Sheets.

Accounts and notes receivable are shown net of allowances for sales incentive discounts available to dealers and for doubtful accounts. Cash flows related to the collection of receivables are reported within "Cash flows from operating activities" within the Company's Consolidated Statements of Cash Flows. Accounts and notes receivable allowances at December 31, 2018 and 2017 were as follows (in millions):

	2018	2017
Sales incentive discounts	$24.2	$33.1
Doubtful accounts	31.7	38.7

$55.9	$71.8

In the United States and Canada, sales incentives can be paid through future cash settlements of receivables and through credit memos to Company's dealers or through reductions in retail financing rates paid to the Company's finance joint ventures. Outside of the United States and Canada, sales incentives can be paid through cash or credit memos to the Company's dealers or through reductions in retail financing rates paid to the Company's finance joint ventures. The Company transfers certain accounts receivable under its accounts receivable sales agreements with its finance joint ventures (Note 4). The Company records such transfers as sales of accounts receivable when it is considered to have surrendered control of such

receivables under the provisions of Accounting Standards Update ("ASU") 2009-16, "Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets." Cash payments made to the Company's finance joint ventures for sales incentive discounts provided to dealers related to outstanding accounts receivables sold are recorded within "Accrued expenses".

Inventories

Inventories are valued at the lower of cost or market using the first-in, first-out method. Market is current replacement cost (by purchase or by reproduction, dependent on the type of inventory). In cases where market exceeds net realizable value (i.e., estimated selling price less reasonably predictable costs of completion and disposal), inventories are stated at net realizable value. Market is not considered to be less than net realizable value reduced by an allowance for an approximately normal profit margin. At December 31, 2018 and 2017, the Company had recorded $156.6 million and $165.7 million, respectively, as an adjustment for surplus and obsolete inventories. These adjustments are reflected within "Inventories, net" within the Company's Consolidated Balance Sheets.

Inventories, net at December 31, 2018 and 2017 were as follows (in millions):

	2018	2017
Finished goods	$660.4	$684.1
Repair and replacement parts	587.3	605.9
Work in process	217.5	178.7
Raw materials	443.5	404.2
Inventories, net	$1,908.7	$1,872.9

Cash flows related to the sale of inventories are reported within "Cash flows from operating activities" within the Company's Consolidated Statements of Cash Flows.

Recoverable Indirect Taxes

The Company's Brazilian operations incur value added taxes ("VAT") on certain purchases of raw materials, components and services. These taxes are accumulated as tax credits and create assets that are reduced by the VAT collected from the Company's sales in the Brazilian market. The Company regularly assesses the recoverability of these tax credits, and establishes reserves when necessary against them, through analyses that include, amongst others, the history of realization, the transfer of tax credits to third parties as authorized by the government, anticipated changes in the supply chain and the future expectation of tax debits from the Company's ongoing operations. The Company believes that these tax credits, net of established reserves, are realizable. The Company had recorded approximately $156.0 million and $152.3 million, respectively, of VAT tax credits, net of reserves, as of December 31, 2018 and 2017.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, less accumulated depreciation and amortization. Depreciation is provided on a straight-line basis over the estimated useful lives of ten to 40 years for buildings and improvements, three to 15 years for machinery and equipment and three to ten years for furniture and fixtures. Expenditures for maintenance and repairs are charged to expense as incurred.

Property, plant and equipment, net at December 31, 2018 and 2017 consisted of the following (in millions):

	2018	2017
Land	$125.3	$130.6
Buildings and improvements	769.0	792.0
Machinery and equipment	2,374.7	2,391.6
Furniture and fixtures	148.6	147.6
Gross property, plant and equipment	3,417.6	3,461.8
Accumulated depreciation and amortization	(2,044.5)	(1,976.5)
Property, plant and equipment, net	$1,373.1	$1,485.3

Goodwill, Other Intangible Assets and Long-Lived Assets

The Company tests goodwill for impairment, at the reporting unit level, annually and when events or circumstances indicate that fair value of a reporting unit may be below its carrying value. A reporting unit is an operating segment or one level below an operating segment, for example, a component. The Company combines and aggregates two or more components of an operating segment as a single reporting unit if the components have similar economic characteristics. The Company’s reportable segments are not its reporting units.

Goodwill is evaluated annually as of October 1 for impairment using a qualitative assessment or a quantitative two-step assessment. If the Company elects to perform a qualitative assessment and determines the fair value of its reporting units more likely than not exceed their carrying value, no further evaluation is necessary. For reporting units where the Company performs a two-step quantitative assessment, the first step requires the Company to compare the fair value of each reporting unit, which is determined based on a combination of a discounted cash flow valuation approach and a market multiple valuation approach, to its respective carrying value, including goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is higher than the fair value of the reporting unit, the second step of the quantitative process is required to measure the amount of impairment, if any. The second step of the quantitative assessment results in a calculation of the implied fair value of the reporting unit’s goodwill, which is determined as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit’s goodwill, the difference is recognized as an impairment loss.

The Company reviews its long-lived assets, which include intangible assets subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The evaluation for recoverability is performed at a level where independent cash flows may be attributed to either an asset or asset group. If the Company determines that the carrying amount of an asset or asset group is not recoverable based on the expected undiscounted future cash flows of the asset or asset group, an impairment loss is recorded equal to the excess of the carrying amounts over the estimated fair value of the long-lived assets. Estimates of future cash flows are based on many factors, including current operating results, expected market trends and competitive influences. The Company also evaluates the amortization periods assigned to its intangible assets to determine whether events or changes in circumstances warrant revised estimates of useful lives. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value, less estimated costs to sell.

The results of the Company’s goodwill and long-lived assets impairment analyses conducted as of October 1, 2018, 2017 and 2016 indicated that no reduction in the carrying amount of the Company’s goodwill and long-lived assets was required.

The Company's accumulated goodwill impairment is approximately $180.5 million related to impairment charges the Company recorded during 2012 and 2006 pertaining to its Chinese harvesting reporting unit and former sprayer reporting unit, respectively. The Chinese harvesting business operates within the Asia/Pacific/Africa geographical reportable segment and the former sprayer reporting unit operates within the North American geographical reportable segment.

Changes in the carrying amount of goodwill during the years ended December 31, 2018, 2017 and 2016 are summarized as follows (in millions):

	North America	South America	Europe/Middle East	Asia/Pacific/Africa	Consolidated
Balance as of December 31, 2015	$ 518.7	$ 114.4	$ 411.2	$ 70.2	$ 1,114.5
Acquisitions	25.2	—	196.4	47.6	269.2
Foreign currency translation	—	24.4	(25.7)	(6.0)	(7.3)
Balance as of December 31, 2016	543.9	138.8	581.9	111.8	1,376.4
Acquisitions	67.2	—	17.4	—	84.6
Foreign currency translation	—	(2.4)	71.7	11.1	80.4
Balance as of December 31, 2017	611.1	136.4	671.0	122.9	1,541.4
Adjustments	—	—	8.4	—	8.4
Foreign currency translation	—	(19.7)	(29.8)	(4.8)	(54.3)
Balance as of December 31, 2018	$ 611.1	$ 116.7	$ 649.6	$ 118.1	$ 1,495.5

The Company amortizes certain acquired identifiable intangible assets primarily on a straight-line basis over their estimated useful lives, which range from three to 50 years. The acquired intangible assets have a weighted average useful life as follows:

Intangible Asset	Weighted-Average Useful Life
Patents and technology	12 years
Customer relationships	13 years
Trademarks and trade names	19 years
Land use rights	45 years

For the years ended December 31, 2018, 2017 and 2016, acquired intangible asset amortization was $64.7 million, $57.0 million and $51.2 million, respectively. The Company estimates amortization of existing intangible assets will be $61.2 million in 2019, $60.3 million in 2020, $58.3 million in 2021, $57.8 million in 2022, and $55.6 million in 2023.

The Company has previously determined that two of its trademarks have an indefinite useful life. The Massey Ferguson trademark has been in existence since 1952 and was formed from the merger of Massey-Harris (established in the 1890’s) and Ferguson (established in the 1930’s). The Massey Ferguson brand is currently sold in approximately 110 countries worldwide, making it one of the most widely sold tractor brands in the world. The Company also has identified the Valtra trademark as an indefinite-lived asset. The Valtra trademark has been in existence since the late 1990’s, but is a derivative of the Valmet trademark which has been in existence since 1951. The Valmet name transitioned to the Valtra name over a period of time in the marketplace. The Valtra brand is currently sold in over 75 countries around the world. Both the Massey Ferguson brand and the Valtra brand are primary product lines of the Company’s business, and the Company plans to use these trademarks for an indefinite period of time. The Company plans to continue to make investments in product development to enhance the value of these brands into the future. There are no legal, regulatory, contractual, competitive, economic or other factors that the Company is aware of or that the Company believes would limit the useful lives of the trademarks. The Massey Ferguson and Valtra trademark registrations can be renewed at a nominal cost in the countries in which the Company operates.

Table of Contents
AGCO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Changes in the carrying amount of acquired intangible assets during 2018 and 2017 are summarized as follows (in millions):

	Trademarks and Trade Names	Customer Relationships	Patents and Technology	Land Use Rights	Total
Gross carrying amounts:					
Balance as of December 31, 2016	$ 179.2	$ 558.0	$ 122.1	$ 8.5	$ 867.8
Acquisitions	19.5	24.4	28.1	—	72.0
Foreign currency translation	9.7	18.0	9.8	0.6	38.1
Balance as of December 31, 2017	208.4	600.4	160.0	9.1	977.9
Foreign currency translation	(5.0)	(14.1)	(4.2)	(0.5)	(23.8)
Balance as of December 31, 2018	$ 203.4	$ 586.3	$ 155.8	$ 8.6	$ 954.1

	Trademarks and Trade Names	Customer Relationships	Patents and Technology	Land Use Rights	Total
Accumulated amortization:					
Balance as of December 31, 2016	$ 49.7	$ 233.0	$ 59.5	$ 2.7	$ 344.9
Amortization expense	10.3	38.5	8.0	0.2	57.0
Foreign currency translation	1.4	8.2	5.9	0.1	15.6
Balance as of December 31, 2017	61.4	279.7	73.4	3.0	417.5
Amortization expense	13.7	40.7	10.1	0.2	64.7
Foreign currency translation	(1.7)	(9.6)	(2.8)	(0.2)	(14.3)
Balance as of December 31, 2018	$ 73.4	$ 310.8	$ 80.7	$ 3.0	$ 467.9

	Trademarks and Trade Names
Indefinite-lived intangible assets:	
Balance as of December 31, 2016	$ 84.4
Foreign currency translation	4.2
Balance as of December 31, 2017	88.6
Foreign currency translation	(1.7)
Balance as of December 31, 2018	$ 86.9

Accrued Expenses

Accrued expenses at December 31, 2018 and 2017 consisted of the following (in millions):

	2018	2017
Reserve for volume discounts and sales incentives	$ 537.7	$ 489.1
Warranty reserves	308.6	273.6
Accrued employee compensation and benefits	286.2	283.3

Accrued taxes	137.8	135.4
Other	252.1	226.5
	$1,522.4	$1,407.9

53

Warranty Reserves

The warranty reserve activity for the years ended December 31, 2018, 2017 and 2016 consisted of the following (in millions):

	2018	2017	2016
Balance at beginning of the year	$316.0	$255.6	$230.3
Acquisitions	—	5.1	3.7
Accruals for warranties issued during the year	230.5	215.9	214.6
Settlements made (in cash or in kind) during the year	(174.7)	(183.1)	(188.7)
Foreign currency translation	(10.9)	22.5	(4.3)
Balance at the end of the year	$360.9	$316.0	$255.6

The Company's agricultural equipment products generally are under warranty against defects in materials and workmanship for a period of one to four years. The Company accrues for future warranty costs at the time of sale based on historical warranty experience. Approximately $52.3 million and $42.4 million of warranty reserves are included in "Other noncurrent liabilities" in the Company's Consolidated Balance Sheets as of December 31, 2018 and 2017, respectively.

The Company recognizes recoveries of the costs associated with warranties it provides when the collection is probable. When specifics of the recovery have been agreed upon with the Company's suppliers through confirmation of liability for the recovery, the Company records the recovery within "Accounts and notes receivable, net." Estimates of the amount of warranty claim recoveries to be received from the Company's suppliers based upon contractual supplier arrangements are recorded within "Other current assets."

Insurance Reserves

Under the Company's insurance programs, coverage is obtained for significant liability limits as well as those risks required to be insured by law or contract. It is the policy of the Company to self-insure a portion of certain expected losses primarily related to workers' compensation and comprehensive general liability, product and vehicle liability. Provisions for losses expected under these programs are recorded based on the Company's estimates of the aggregate liabilities for the claims incurred.

Stock Incentive Plans

Stock compensation expense was recorded as follows (in millions). Refer to Note 10 for additional information regarding the Company's stock incentive plans during 2018, 2017 and 2016:

	Years Ended December 31,		
	2018	2017	2016
Cost of goods sold	$2.3	$2.8	$1.5
Selling, general and administrative expenses	44.3	35.6	16.9
Total stock compensation expense	$46.6	$38.4	$18.4

Research and Development Expenses

Research and development expenses are expensed as incurred and are included in engineering expenses in the Company's Consolidated Statements of Operations.

Advertising Costs

The Company expenses all advertising costs as incurred. Cooperative advertising costs normally are expensed at the time the revenue is earned. Advertising expenses for the years ended December 31, 2018, 2017 and 2016 totaled approximately $42.3 million, $40.0 million and $44.9 million, respectively.

Shipping and Handling Expenses

All shipping and handling fees charged to customers are included as a component of net sales. Shipping and handling costs are included as a part of cost of goods sold, with the exception of certain handling costs included in selling, general and administrative expenses in the amount of $37.9 million, $35.4 million and $30.5 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Interest Expense, Net

Interest expense, net for the years ended December 31, 2018, 2017 and 2016 consisted of the following (in millions):

	2018	2017	2016
Interest expense	$61.9	$54.5	$65.4
Interest income	(8.1)	(9.4)	(13.3)
	$53.8	$45.1	$52.1

The Company repurchased its 5[7]/8% senior notes due December 1, 2021 during 2018, and as a result, recorded approximately $24.5 million in a loss on extinguishment of debt reflected in “Interest expense, net”. This was offset by approximately $4.7 million of accelerated amortization of a deferred gain related to a terminated interest rate swap agreement associated with the senior notes. Refer to Note 7 for further information.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Refer to Note 6 for additional information regarding the Company’s income taxes.

Net Income Per Common Share

Basic net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during each period. Diluted net income per common share assumes the exercise of outstanding stock-settled stock appreciation rights (“SSARs”) and the vesting of performance share awards and restricted stock units using the treasury stock method when the effects of such assumptions are dilutive.

A reconciliation of net income attributable to AGCO Corporation and its subsidiaries and weighted average common shares outstanding for purposes of calculating basic and diluted net income per share during the years ended December 31, 2018, 2017 and 2016 is as follows (in millions, except per share data):

	2018	2017	2016
Basic net income per share:			
Net income attributable to AGCO Corporation and subsidiaries	$285.5	$186.4	$160.1
Weighted average number of common shares outstanding	78.8	79.5	81.4
Basic net income per share attributable to AGCO Corporation and subsidiaries	$3.62	$2.34	$1.97
Diluted net income per share:			

Net income attributable to AGCO Corporation and subsidiaries	$285.5	$186.4	$160.1
Weighted average number of common shares outstanding	78.8	79.5	81.4
Dilutive SSARs, performance share awards and restricted stock units	0.9	0.7	0.3
Weighted average number of common shares and common share equivalents outstanding for purposes of computing diluted net income per share	79.7	80.2	81.7
Diluted net income per share attributable to AGCO Corporation and subsidiaries	$3.58	$2.32	$1.96

55

SSARs to purchase 0.5 million shares, 0.3 million shares and 1.1 million shares of the Company's common stock were outstanding for the years ended December 31, 2018, 2017 and 2016, respectively, but were not included in the calculation of weighted average common and common equivalent shares outstanding because they had an antidilutive impact.

Comprehensive Income (Loss)

The Company reports comprehensive income (loss), defined as the total of net income (loss) and all other non-owner changes in equity, and the components thereof in its Consolidated Statements of Stockholders' Equity and Consolidated Statements of Comprehensive Income. The components of other comprehensive (loss) income and the related tax effects for the years ended December 31, 2018, 2017 and 2016 are as follows (in millions):

	AGCO Corporation and Subsidiaries 2018			Noncontrolling Interests 2018
	Before-tax Amount	Income Taxes	After-tax Amount	After-tax Amount
Defined benefit pension plans	$0.8	$ 1.9	$2.7	$ —
Net gain on derivatives	7.6	(1.5)	6.1	—
Foreign currency translation adjustments	(202.6)	—	(202.6)	(4.2)
Total components of other comprehensive loss	$(194.2)	$ 0.4	$(193.8)	$ (4.2)

	AGCO Corporation and Subsidiaries 2017			Noncontrolling Interests 2017
	Before-tax Amount	Income Taxes	After-tax Amount	After-tax Amount
Defined benefit pension plans	$24.2	$(4.8)	$ 19.4	$ —
Net gain on derivatives	4.1	(0.1)	4.0	—
Foreign currency translation adjustments	56.6	—	56.6	1.2
Total components of other comprehensive income	$84.9	$(4.9)	$ 80.0	$ 1.2

	AGCO Corporation and Subsidiaries 2016			Noncontrolling Interests 2016
	Before-tax Amount	Income Taxes	After-tax Amount	After-tax Amount
Defined benefit pension plans	$(68.2)	$ 12.7	$(55.5)	$ —
Net loss on derivatives	(6.8)	0.1	(6.7)	—
Foreign currency translation adjustments	80.8	—	80.8	1.6
Total components of other comprehensive income	$5.8	$ 12.8	$ 18.6	$ 1.6

Derivatives

The Company uses foreign currency contracts to hedge the foreign currency exposure of certain receivables and payables. The contracts are for periods consistent with the exposure being hedged and generally have maturities of one year or less. These contracts are classified as non-designated derivative instruments. The Company also enters into foreign currency contracts designated as cash flow hedges of expected sales. The Company's foreign currency

contracts mitigate risk due to exchange rate fluctuations because gains and losses on these contracts generally offset losses and gains on the exposure being hedged. The notional amounts of the foreign currency contracts do not represent amounts exchanged by the parties and, therefore, are not a measure of the Company's risk. The amounts exchanged are calculated on the basis of the notional amounts and other terms of the contracts. The credit and market risks under these contracts are not considered to be significant.

56

The Company's interest expense is, in part, sensitive to the general level of interest rates, and the Company manages its exposure to interest rate risk through the mix of floating rate and fixed rate debt. From time to time, the Company enters into interest rate swap agreements in order to manage the Company's exposure to interest rate fluctuations.

The Company uses non-derivative and, periodically, derivative instruments to hedge a portion of the Company's net investment in foreign operations against adverse movements in exchange rates.

The Company's hedging policy prohibits it from entering into any foreign currency contracts for speculative trading purposes. Refer to Note 11 for additional information regarding the Company's derivative instruments and hedging activities.

Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-14, "Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans" ("ASU 2018-14"). The standard revises the annual disclosure requirements by removing disclosures no longer considered cost beneficial, clarifying specific requirements of disclosures and adding certain disclosures identified as relevant. ASU 2018-14 is effective for annual periods beginning after December 15, 2020. The standard should be applied on a retrospective basis to all periods presented. Early adoption is permitted. The Company early adopted the standard for the year ended December 31, 2018. The standard did not have an impact on the Company's results of operations, financial condition and cash flows.

In August 2018, the FASB issued ASU 2018-13, "Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement" ("ASU 2018-13"). The standard revises the disclosure requirements by removing disclosures no longer considered cost beneficial, modifying specific requirements of disclosures and adding certain disclosures identified as relevant. ASU 2018-13 is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. Early adoption is permitted. Certain amendments of the standard should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments of the standard should be applied retrospectively to all periods presented. The standard will not have an impact on the Company's results of operations, financial condition and cash flows.

In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"), which allows for the election to reclassify the disproportionate income tax effects of the Tax Cuts and Jobs Act (the "2017 Tax Act") on items within accumulated other comprehensive income (loss) to retained earnings. These disproportionate income tax effect items are referred to as "stranded tax effects." The amendments within ASU 2018-02 only relate to the reclassification of the income tax effects of the 2017 Tax Act. Certain disclosures are required in the period of adoption as to whether an entity has elected to reclassify the stranded tax effects. ASU 2018-02 is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. The standard should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. corporate income tax rate in the 2017 Tax Act is recognized. Early adoption is permitted for any interim or annual period. The Company is currently evaluating the impact of adopting this standard on the Company's results of operations, financial condition and cash flows, but does not expect the impact to be material.

In August 2017, the FASB issued ASU 2017-12, "Targeted Improvements to Accounting for Hedging Activities" ("ASU 2017-12"), which aligns an entity's risk management activities and financial reporting for hedge relationships through

changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments include 1) the ability to apply hedge accounting for risk components in hedging relationships involving nonfinancial risk and interest rate risk, 2) new alternatives for measuring the hedged item for fair value hedges of interest rate risk, 3) elimination of the requirement to separately measure and report hedge ineffectiveness, 4) requirement to present the earnings effect of the hedging instrument in the same income statement line in which the earnings effect of the hedged item is reported and 5) less stringent requirements for effectiveness testing, hedge documentation and applying the critical terms match method. ASU 2017-12 is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods using a prospective approach. Early adoption is permitted for any interim or annual period. The amendments should be applied to existing hedging relationships on the date of adoption. The Company adopted the standard on January 1, 2018. The standard did not have a material impact on the Company’s results of operations, financial condition and cash flows.

In March 2017, the FASB issued ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" ("ASU 2017-07"), which requires the service cost component of net periodic pension and postretirement benefit cost be included in the same line item as other compensation costs arising from services rendered by employees. The other components of net periodic pension and postretirement benefit cost are required to be classified outside the subtotal of income from operations. Of the components of net periodic pension and postretirement benefit cost, only the service cost component will be eligible for asset capitalization. ASU 2017-07 is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods, using a retrospective approach for the presentation of the service cost component and other components of net periodic pension and postretirement benefit cost in the statement of operations; and a prospective approach for the capitalization of the service cost component of net periodic pension and postretirement benefit cost in assets. Early adoption is permitted for any interim or annual period. ASU 2017-07 allows a practical expedient for applying the retrospective presentation requirements.The Company adopted ASU 2017-07 on January 1, 2018 and restrospectively applied the standard to the presentation of the other components of net periodic pension and postretirement benefit costs in the Company's Consolidated Statements of Operations. As part of the adoption, the Company elected to use the practical expedient, which allowed the Company to use the information previously disclosed as the basis for applying the retrospective presentation requirements of the standard. For the year ended December 31, 2017 and 2016, the Company reclassified approximately $1.1 million of expense and $1.4 million of income related to the other components of net periodic pension and postretirement costs from "Selling, general and administrative expenses" and "Engineering expenses" to "Other expenses, net" as a result of the retrospective application of ASU 2017-07.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"), which eliminates Step 2 from the goodwill impairment test. Under the standard, an entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, resulting in an impairment charge that is the amount by which the carrying amount exceeds the reporting unit's fair value. The impairment charge, however, should not exceed the total amount of goodwill allocated to a reporting unit. The impairment assessment under ASU 2017-04 applies to all reporting units, including those with a zero or negative carrying amount. ASU 2017-04 is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods using a prospective approach. Early adoption is permitted for any interim or annual goodwill impairment test performed on testing dates after January 1, 2017. The Company expects to adopt ASU 2017-04 effective January 1, 2020 and will apply the standard to all impairment tests performed thereafter.

In November 2016, the FASB issued ASU 2016-18, "Restricted Cash" ("ASU 2016-18"). which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for annual periods beginning after December 15, 2017, and interim period within those annual periods using a retrospective approach. Early adoption is permitted in any interim or annual period. The Company adopted ASU 2016-18 on January 1, 2018. The adoption did not have a material impact on its cash flows.

In October 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory" ("ASU 2016-16"), which requires recognition of the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the standard eliminates the exception to the recognition of current and deferred income taxes for an intra-entity asset transfer other than for inventory until the asset has been sold to an outside party. ASU 2016-16 is effective for annual periods beginning after December 15, 2017, and interim periods

within those annual periods using a modified retrospective approach. Early adoption is permitted in any interim or annual period. The Company adopted ASU 2016-16 on January 1, 2018. The adoption did not have a material impact on its results of operations, financial condition and cash flows.

In June 2016, the FASB issued ASU 2016-13, “Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”), which requires measurement and recognition of expected versus incurred credit losses for financial assets held. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods as the adoption of the standard relates to the Company. However, the standard does not have to be adopted by the Company’s finance joint ventures until annual periods beginning after December 15, 2020, and interim periods within those annual periods. This standard will likely impact the results of operations and financial condition of the Company’s finance joint ventures and as a result, will likely impact the Company’s “Investment in affiliates” and “Equity in net earnings of affiliates”

upon adoption. The Company's finance joint ventures are currently evaluating the standard's impact to their results of operations and financial condition.

In February 2016, the FASB issued ASU 2016-02, "Leases" ("ASU 2016-02"), which superseded the existing lease guidance under current U.S. GAAP. ASU 2016-02 is based on the principle that entities should recognize assets and liabilities arising from leases. The new standard does not significantly change the lessees' recognition, measurement and presentation of expenses and cash flows from the previous accounting standard and leases continue to be classified as finance or operating. ASU 2016-02's primary change is the requirement for entities to recognize a lease liability for payments and a right-of-use ("ROU") asset representing the right to use the leased asset during the term of an operating lease arrangement. Lessees were permitted to make an accounting policy election to not recognize the asset and liability for leases with a term of 12 months or less. Lessors' accounting under the new standard was largely unchanged from the previous accounting standard. In addition, ASU 2016-02 expanded the disclosure requirements of lease arrangements. The new standard was effective for reporting periods beginning after December 15, 2018, and interim periods within those annual periods. Upon adoption, lessees and lessors were required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In July 2018, the FASB issued ASU 2018-11, "Targeted Improvements", which allowed for a new, optional transition method that provided the option to use the effective date as the date of initial application on transition. Under this option, the comparative periods would continue to apply the legacy guidance in ASC 840, including the disclosure requirements, and a cumulative effect adjustment would be recognized in the period of adoption rather than the earliest period presented. Under this transition option, comparative reporting would not be required and the provisions of the standard would be applied prospectively to leases in effect at the date of adoption. The Company has completed the design of new processes and internal controls, which included the implementation of a software solution and the evaluation of the Company's population of leased assets to assess the effect of the new guidance on the Company's financial statements. The Company adopted the new guidance effective January 1, 2019 using a modified retrospective approach through a cumulative effect adjustment to "Retained earnings" as of the beginning of the period of adoption. The new standard provided a number of optional practical expedients in transition. The Company elected the "package of practical expedients" which permitted the Company not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. The new standard has a material impact on the Company's Consolidated Balance Sheets related to the recognition of new ROU assets and lease liabilities for operating leases, as well as providing new disclosures about the Company's leasing activities. The Company does not expect material changes in its leasing activities subsequent to adoption. Based on the Company's current lease portfolio, the adoption of the standard as of January 1, 2019 is expected to result in ROU assets and liabilities ranging from $195.0 million to $215.0 million. The Company has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing leases. The Company elected the practical expedient to separate lease and non-lease components for a majority of its leases, other than real estate and office equipment leases.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which provides a single, comprehensive revenue recognition model for all contracts with customers with a five-step analysis in determining when and how revenue is recognized. The new model requires revenue recognition to depict the transfer of promised goods or services to customers at an amount that reflects the consideration expected to be received in exchange for those goods or services. Additional disclosures also are required to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and changes in those judgments. Entities have the option to apply the new standard under a full retrospective approach to each prior reporting period presented, or a modified retrospective approach with the cumulative effect of initial adoption and application within the Consolidated Statement of

Stockholders' Equity. The Company adopted ASU 2014-09 with an application date of January 1, 2018 using the modified retrospective approach. Under this method, the Company recognized the cumulative effect of initially applying ASU 2014-09 as an adjustment to the opening balance of stockholders' equity as of January 1, 2018 within "Retained earnings." The cumulative effect was approximately $0.4 million, which was related to the recognition of contract assets and contract liabilities for the value of the expected replacement parts returns. The comparative information has not been adjusted and continues to be reported under ASU 2009-13, "Revenue Recognition." The details of the significant changes and quantitative impact of the changes are discussed below. The Company has enhanced its accounting policies and practices, business processes, systems and controls, as well as designed and implemented specific internal controls over the implementation and adherence to the standard, including new disclosure requirements.

The Company has various promotional and annual return programs with respect to the sale of replacement parts whereby the Company's dealers, distributors and other customers can return specified replacement parts pursuant to such programs. The Company previously recognized revenue for the sale of replacement parts and recorded a corresponding provision for the amount of expected returns at the time of sale. Pursuant to the adoption of ASU 2014-09, the Company recognized a contract asset for the right to recover returned replacement parts at cost, reflected within "Other current assets" in

the Company’s Consolidated Balance Sheets. Conversely, the provision for expected returns is recorded at the sales value of expected returns, reflected as a contract liability within “Accrued expenses.” The Company’s estimates of returns are based on the terms of the promotional and annual return programs and anticipated returns in the future.

The following table summarizes the impact of adopting ASU 2014-09 on the Company’ s Consolidated Balance Sheet as of December 31, 2018 (in millions):

	As Reported	Balances Without Adoption of ASU 2014-09	Increase (Decrease) Due to Adoption
Assets			
Accounts and notes receivable, net	$ 880.3	$ 880.1	$ 0.2
Other current assets	422.3	410.9	11.4
Total current assets	3,537.4	3,525.8	11.6
Other assets	142.4	141.6	0.8
Total assets	7,626.4	7,614.0	12.4
Liabilities and Stockholders’ Equity			
Accrued expenses	$ 1,522.4	$ 1,508.3	$ 14.1
Total current liabilities	2,766.7	2,752.6	14.1
Other noncurrent liabilities	251.4	249.1	2.3
Total liabilities	4,632.9	4,616.5	16.4
Retained earnings	4,477.3	4,481.3	(4.0)
Total stockholder’s equity	2,993.5	2,997.5	(4.0)
Total liabilities and stockholder’s equity	7,626.4	7,614.0	12.4

The impact of adopting ASU 2014-09 on the Consolidated Statement of Operations and Consolidated Statement of Cash Flows for the year ended December 31, 2018 was not material.

2. Acquisitions

On October 2, 2017, the Company acquired the hay and forage division of the Lely Group ("Lely") for approximately €80.2 million (or approximately $94.6 million), net of cash acquired of approximately €10.1 million (or approximately $11.9 million). The Lely acquisition, with manufacturing locations in northern Germany, will allow the Company to expand its product offering of hay and forage equipment, including balers and loader wagons. The acquisition was financed by the Company's credit facility (Note 7).

The fair values of the assets acquired and liabilities assumed as of the acquisition date are presented in the following table (in millions):

Current assets	$87.0
Property, plant and equipment	17.8
Intangible assets	7.6
Goodwill	25.8
Total assets acquired	138.2
Current liabilities	23.5
Long-term liabilities	8.2
Total liabilities assumed	31.7
Net assets acquired	$106.5

The acquired identifiable intangible assets of Lely as of the date of the acquisition are summarized in the following table (in millions):

Intangible Asset	Amount	Weighted-Average Useful Life	
Customer relationships	$ 3.0	5	years
Technology	3.0	12	years
Trademarks	1.6	10	years
	$ 7.6		

The results of operations of Lely have been included in the Company's Consolidated Financial Statements as of and from the date of acquisition. The associated goodwill has been included in the Company's Europe/Middle East geographical reportable segment. Proforma results related to the acquisition were not material.

On September 1, 2017, the Company acquired Precision Planting LLC ("Precision Planting") for approximately $198.1 million, net of cash acquired of approximately $1.6 million. Precision Planting, headquartered in Tremont, Illinois, is a leading manufacturer of high-tech planting equipment. The acquisition of Precision Planting provided the Company an opportunity to expand its precision farming technology offerings on a global basis. The acquisition was financed by the Company's credit facility (Note 7).

The fair values of the assets acquired and liabilities assumed as of the acquisition date are presented in the following table (in millions):

Current assets	$59.5
Property, plant and equipment	20.8
Intangible assets	64.4
Goodwill	67.2
Total assets acquired	211.9
Current liabilities	12.2
Total liabilities assumed	12.2
Net assets acquired	$199.7

The acquired identifiable intangible assets of Precision Planting as of the date of the acquisition are summarized in the following table (in millions):

Intangible Asset	Amount	Weighted-Average Useful Life	
Customer relationships	$ 21.4	14	years
Technology	25.1	10	years
Trademarks	17.9	20	years
	$ 64.4		

The results of operations of Precision Planting have been included in the Company's Consolidated Financial Statements as of and from the date of acquisition. The associated tax deductible goodwill has been included in the Company's North America geographical reportable segment. Proforma results related to the acquisition were not material.

On September 12, 2016, the Company acquired Cimbria Holdings Limited ("Cimbria") for DKK 2,234.9 million (or approximately $337.5 million), net of cash acquired of approximately DKK 83.4 million (or approximately $12.6 million). Cimbria, headquartered in Thisted, Denmark, is a leading manufacturer of products and solutions for the processing, handling and storage of seed and grain. The acquisition was financed by the Company's credit facility (Note 7).

The fair values of the assets acquired and liabilities assumed as of the acquisition date are presented in the following table (in millions):

Current assets	$74.2
Property, plant and equipment	21.9
Intangible assets	128.9
Goodwill	237.9
Total assets acquired	462.9
Current liabilities	63.8
Deferred tax liabilities	38.5
Long-term debt and other noncurrent liabilities	10.5
Total liabilities assumed	112.8

Net assets acquired	$350.1

62

The acquired identifiable intangible assets of Cimbria as of the date of the acquisition are summarized in the following table (in millions):

Intangible Asset	Amount	Weighted-Average Useful Life	
Customer relationships	$ 50.4	9	years
Technology	22.5	10	years
Trademarks	56.0	20	years
	$ 128.9		

The results of operations of Cimbria have been included in the Company's Consolidated Financial Statements as of and from the date of acquisition. The associated goodwill has been included in the Company's Europe/Middle East and Asia/Pacific/Africa geographical reportable segments.

On February 2, 2016, the Company acquired Tecno Poultry Equipment S.p.A ("Tecno") for approximately €58.7 million (or approximately $63.8 million). The Company acquired cash of approximately €17.6 million (or approximately $19.1 million) associated with the acquisition. Tecno, headquartered in Ronchi Di Villafranca, Italy, manufactures and supplies poultry housing and related products, including egg collection equipment and trolley feeding systems. The acquisition was financed through the Company's credit facility (Note 7). The Company allocated the purchase price to the assets acquired and liabilities assumed based on their fair values as of the acquisition date. The acquired net assets primarily consisted of accounts receivable, inventories, accounts payable and accrued expenses, deferred revenue, property, plant and equipment, and customer relationship, technology and trademark identifiable intangible assets. The Company recorded approximately $27.5 million of customer relationship, technology and trademark identifiable intangible assets and approximately $20.4 million of goodwill associated with the acquisition. The results of operations of Tecno have been included in the Company's Consolidated Financial Statements as of and from the date of acquisition. The associated goodwill has been included in the Company's Europe/Middle East and North America geographical reportable segments.

The acquired identifiable intangible assets of Tecno as of the date of the acquisition are summarized in the following table (in millions):

Intangible Asset	Amount	Weighted-Average Useful Life	
Customer relationships	$ 15.7	10	years
Technology	7.9	10	years
Trademarks	3.9	10	years
	$ 27.5		

Table of Contents
AGCO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

3. Restructuring Expenses

Beginning in 2014 through 2018, the Company announced and initiated several actions to rationalize employee headcount at various manufacturing facilities and various administrative offices located in Europe, South America, China and the United States in order to reduce costs in response to softening global market demand and lower production volumes. The aggregate headcount reduction was approximately 3,370 employees between 2014 and 2017. During 2018, the Company recorded severance and related costs associated with further rationalizations in connection with the termination of approximately 520 employees. The components of the restructuring expenses are summarized as follows (in millions):

	Write-down of Property, Plant and Equipment	Employee Severance	Facility Closure Costs	Total
Balance as of December 31, 2015	$ —	$ 16.9	$ —	$16.9
2016 provision	—	11.0	1.0	12.0
2016 provision reversal	—	(0.1)	—	(0.1)
2016 cash activity	—	(13.1)	(0.2)	(13.3)
Foreign currency translation	—	(0.2)	—	(0.2)
Balance as of December 31, 2016	—	14.5	0.8	15.3
2017 provision	0.2	12.4	—	12.6
Less: Non-cash expense	(0.2)	—	—	(0.2)
Cash expense	—	12.4	—	12.4
2017 provision reversal	—	(1.4)	—	(1.4)
2017 cash activity	—	(16.0)	(0.8)	(16.8)
Foreign currency translation	—	1.4	—	1.4
Balance as of December 31, 2017	—	10.9	—	10.9
2018 provision	0.3	13.8	—	14.1
Less: Non-cash expense	(0.3)	—	—	(0.3)
Cash expense	—	13.8	—	13.8
2018 provision reversal	—	(2.1)	—	(2.1)
2018 cash activity	—	(14.4)	—	(14.4)
Foreign currency translation	—	(1.1)	—	(1.1)
Balance as of December 31, 2018	$ —	$ 7.1	$ —	$7.1

4. Accounts Receivable Sales Agreements

At December 31, 2018 and 2017, the Company had accounts receivable sales agreements that permit the sale, on an ongoing basis, of a majority of its wholesale receivables in North America, Europe and Brazil to its U.S., Canadian, European and Brazilian finance joint ventures. As of December 31, 2018 and 2017, the cash received from receivables sold under the U.S., Canadian, European and Brazilian accounts receivable sales agreements was approximately $1.4 billion and $1.3 billion, respectively.

Under the terms of the accounts receivable sales agreements in North America, Europe and Brazil, the Company pays an annual servicing fee related to the servicing of the receivables sold. The Company also pays the respective AGCO Finance entities an interest payment calculated based upon LIBOR plus a margin on any non-interest bearing accounts receivable outstanding and sold under the sales agreements. These fees are reflected within losses on the sales of receivables included within “Other expense, net” in the Company’s Consolidated Statements of Operations. The Company does not service the receivables after the sale occurs and does not maintain any direct retained interest in the receivables. The Company reviewed its accounting for the accounts receivable sales agreements and determined that these facilities should be accounted for as off-balance sheet transactions.
Losses on sales of receivables associated with the accounts receivable financing facilities discussed above, reflected within “Other expense, net” in the Company’s Consolidated Statements of Operations, were approximately $36.0 million, $39.2 million and $19.5 million during 2018, 2017 and 2016, respectively.

The Company’s finance joint ventures in Europe, Brazil and Australia also provide wholesale financing directly to the Company’s dealers. The receivables associated with these arrangements are without recourse to the Company. The Company does not service the receivables after the sale occurs and does not maintain any direct retained interest in the receivables. As of December 31, 2018 and 2017, these finance joint ventures had approximately $82.5 million and $41.6 million, respectively, of outstanding accounts receivable associated with these arrangements. The Company reviewed its accounting for these arrangements and determined that these arrangements should be accounted for as off-balance sheet transactions.

In addition, the Company sells certain trade receivables under factoring arrangements to other financial institutions around the world. The Company reviewed the sale of such receivables and determined that these arrangements should be accounted for as off-balance sheet transactions.

5. Investments in Affiliates

Investments in affiliates as of December 31, 2018 and 2017 were as follows (in millions):

	2018	2017
Finance joint ventures	$358.7	$373.7
Manufacturing joint ventures	26.3	20.1
Other affiliates	15.0	15.2
	$400.0	$409.0

The Company’s finance joint ventures are located in the United States, Canada, Europe, Brazil, Argentina and Australia, and provide retail financing and wholesale financing to the Company’s retail customers and dealers, respectively. Refer to Note 14 for further information. The Company’s manufacturing joint ventures consist of Groupement International De Mecanique Agricole SA (“GIMA”) (a joint venture with a third-party manufacturer to purchase, design and manufacture components for agricultural equipment in France), a joint venture with third-party

manufacturer to assemble tractors in Algeria and a joint venture with a third-party manufacturer to manufacture protein production equipment in China. The other joint ventures represent investments in farm equipment manufacturers, an electronic and software system manufacturer, distributors and licensees.

The Company's equity in net earnings of affiliates for the years ended December 31, 2018, 2017 and 2016 were as follows (in millions):

	2018	2017	2016
Finance joint ventures	$34.7	$39.9	$45.5
Manufacturing and other joint ventures	(0.4)	(0.8)	2.0
	$34.3	$39.1	$47.5

Summarized combined financial information of the Company's finance joint ventures as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016 were as follows (in millions):

	As of December 31,	
	2018	2017
Total assets	$7,643.5	$8,440.0
Total liabilities	6,911.5	7,677.3
Partners' equity	732.0	762.7

	For the Years Ended December 31,		
	2018	2017	2016
Revenues	$305.2	$305.7	$297.4
Costs	201.1	183.0	159.0
Income before income taxes	$104.1	$122.7	$138.4

The majority of the assets of the Company's finance joint ventures represent finance receivables. The majority of the liabilities represent notes payable and accrued interest. Under the various joint venture agreements, Rabobank or its affiliates provide financing to the joint venture companies. AGCO has a 49% interest in the Company's finance joint ventures (Note 14).

At December 31, 2018 and 2017, the Company's receivables from affiliates were approximately $12.9 million and $23.4 million, respectively. The receivables from affiliates are reflected within "Accounts and notes receivable, net" within the Company's Consolidated Balance Sheets.

The portion of the Company's retained earnings balance that represents undistributed retained earnings of equity method investees was approximately $326.9 million and $321.9 million as of December 31, 2018 and 2017, respectively.

6. Income Taxes

The sources of income before income taxes and equity in net earnings of affiliates were as follows for the years ended December 31, 2018, 2017 and 2016 (in millions):

	2018	2017	2016
United States	$(126.0)	$(141.6)	$(150.0)
Foreign	486.3	425.4	354.9
Income before income taxes and equity in net earnings of affiliates	$360.3	$283.8	$204.9

The provision (benefit) for income taxes by location of the taxing jurisdiction for the years ended December 31, 2018, 2017 and 2016 consisted of the following (in millions):

	2018	2017	2016
Current:			
United States:			
Federal	$(9.1)	$20.3	$(24.3)
State	1.2	0.6	0.2
Foreign	133.5	126.8	114.2
	125.6	147.7	90.1
Deferred:			
United States:			
Federal	—	0.9	21.9
State	—	—	—
Foreign	(14.7)	(15.0)	(19.8)
	(14.7)	(14.1)	2.1
	$110.9	$133.6	$92.2

On December 22, 2017, The Tax Cuts and Jobs Act ("the 2017 Tax Act") was enacted in the United States. During the three months ended December 31, 2017, the Company recorded a tax provision of approximately $42.0 million in accordance with Staff Accounting Bulletin No. 118, which provided SEC Staff guidance for the application of ASC 740 "Income Taxes," in the reporting period in which the 2017 Tax Act was enacted. The $42.0 million tax provision recorded included a provisional income tax charge related to a one-time transition tax associated with the mandatory deemed repatriation of unremitted foreign earnings. The tax provision also included a provisional income tax charge associated with the income tax consequences related to the expected future repatriation of certain underlying foreign earnings, as historically, the Company had considered them to be permanently reinvested. The remaining balance of the tax provision primarily related to the remeasurement of certain net deferred tax assets using the lower enacted U.S. Corporate tax rate, as well as other miscellaneous related impacts. During the three months ended December 31, 2018, the Company finalized its calculations related to the 2017 Tax Act and recorded an income tax benefit of approximately $8.5 million.

A reconciliation of income taxes computed at the United States federal statutory income tax rate (21% for 2018 (from 35 percent to 21 percent), and 35% for 2017 and 2016) to the provision for income taxes reflected in the Company's Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016 is as follows (in millions):

	2018	2017	2016
Provision for income taxes at United States federal statutory rate	$75.7	$99.3	$71.7
State and local income taxes, net of federal income tax effects	(6.0)	(5.7)	(6.0)
Taxes on foreign income which differ from the United States statutory rate	(0.3)	(57.7)	(44.5)
Tax effect of permanent differences	26.7	60.6	14.4
Change in valuation allowance	24.6	(1.4)	37.9
Change in tax contingency reserves	8.5	3.8	23.4
Research and development tax credits	(8.5)	(5.0)	(3.8)
Impacts related to the 2017 Tax Act	(8.4)	42.0	—
Other	(1.4)	(2.3)	(0.9)
	$110.9	$133.6	$92.2

67

The significant components of the deferred tax assets and liabilities at December 31, 2018 and 2017 were as follows (in millions):

	2018	2017
Deferred Tax Assets:		
Net operating loss carryforwards	$74.5	$83.4
Sales incentive discounts	58.8	60.2
Inventory valuation reserves	36.3	34.4
Pensions and postretirement health care benefits	47.6	52.2
Warranty and other reserves	98.6	92.2
Research and development tax credits	3.1	2.9
Foreign tax credits	9.7	10.4
Other	21.6	19.2
Total gross deferred tax assets	350.2	354.9
Valuation allowance	(83.9)	(81.9)
Total net deferred tax assets	266.3	273.0
Deferred Tax Liabilities:		
Tax over book depreciation and amortization	214.3	229.1
Investment in affiliates	42.8	53.9
Other	20.6	8.3
Total deferred tax liabilities	277.7	291.3
Net deferred tax liabilities	$(11.4)	$(18.3)
Amounts recognized in Consolidated Balance Sheets:		
Deferred tax assets - noncurrent	$104.9	$112.2
Deferred tax liabilities - noncurrent	(116.3)	(130.5)
	$(11.4)	$(18.3)

The Company recorded a net deferred tax liability of $11.4 million and $18.3 million as of December 31, 2018 and December 31, 2017, respectively. As reflected in the preceding table, the Company had a valuation allowance against its gross deferred tax assets of approximately $83.9 million and $81.9 million as of December 31, 2018 and 2017, respectively.

The Company maintains a valuation allowance to fully reserve its net deferred tax assets in the United States and certain foreign jurisdictions. A valuation allowance is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company assessed the likelihood that its deferred tax assets would be recovered from estimated future taxable income and available tax planning strategies and determined that all adjustments to the valuation allowance were appropriate. In making this assessment, all available evidence was considered including the current economic climate, as well as reasonable tax planning strategies. The Company believes it is more likely than not that the Company will realize its remaining net deferred tax assets, net of the valuation allowance, in future years.

The Company had net operating loss carryforwards of $249.6 million as of December 31, 2018, with expiration dates as follows: 2019 - $19.5 million; 2020 - $18.8 million; 2021 - $22.9 million and thereafter or unlimited - $188.4 million. The net operating loss carryforwards of $249.6 million were entirely in tax jurisdictions outside of the United States.

The Company paid income taxes of $101.6 million, $111.2 million and $106.2 million for the years ended December 31, 2018, 2017 and 2016, respectively.

At December 31, 2018 and 2017, the Company had $166.1 million and $163.4 million, respectively, of unrecognized income tax benefits, all of which would affect the Company's effective tax rate if recognized. At December 31, 2018 and 2017, the Company had approximately $58.5 million and $61.8 million, respectively, of accrued or deferred taxes related to uncertain income tax positions connected with ongoing income tax audits in various jurisdictions that it expects to settle or pay in the next 12 months. The Company accrued approximately $5.6 million and $4.6 million of interest and penalties related to unrecognized

tax benefits in its provision for income taxes during 2018 and 2017, respectively. At December 31, 2018 and 2017, the Company had accrued interest and penalties related to unrecognized tax benefits of $27.2 million and $23.0 million, respectively.

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits as of and during the years ended December 31, 2018 and 2017 is as follows (in millions):

	2018	2017
Gross unrecognized income tax benefits	$163.4	$139.9
Additions for tax positions of the current year	3.8	16.4
Additions for tax positions of prior years	13.1	4.8
Reductions for tax positions of prior years for:		
Changes in judgments	(1.6)	1.4
Settlements during the year	(0.7)	(0.4)
Lapses of applicable statute of limitations	(4.4)	(14.4)
Foreign currency translation	(7.5)	15.7
Gross unrecognized income tax benefits	$166.1	$163.4

The Company and its subsidiaries file income tax returns in the United States and in various state, local and foreign jurisdictions. The Company and its subsidiaries are routinely examined by tax authorities in these jurisdictions. As of December 31, 2018, a number of income tax examinations in foreign jurisdictions were ongoing. It is possible that certain of these ongoing examinations may be resolved within 12 months. Due to the potential for resolution of federal, state and foreign examinations, and the expiration of various statutes of limitation, it is reasonably possible that the Company's gross unrecognized income tax benefits balance may materially change within the next 12 months. Due to the number of jurisdictions and issues involved and the uncertainty regarding the timing of any settlements, the Company is unable at this time to provide a reasonable estimate of such change that may occur within the next 12 months. Although there are ongoing examinations in various federal and state jurisdictions, the 2015 through 2018 tax years generally remain subject to examination in the United States by applicable authorities. In the Company's significant foreign jurisdictions, primarily the United Kingdom, France, Germany, Switzerland, Finland and Brazil, the 2013 through 2018 tax years generally remain subject to examination by their respective tax authorities. In Brazil, the Company is contesting disallowed deductions related to the amortization of certain goodwill amounts (Note 12).

7. Indebtedness

Long-term debt consisted of the following at December 31, 2018 and 2017 (in millions):

	December 31, 2018	December 31, 2017
1.056% Senior term loan due 2020[(1)]	$ 228.7	$ 239.8
Senior term loan due 2022[(1)]	171.5	119.9
Credit facility, expires 2023[(1)]	114.4	471.2
Senior term loans due between 2019 and 2028[(1)]	815.3	449.7
5 7/8% Senior notes due 2021	—	305.3
Other long-term debt	132.2	131.6
Debt issuance costs	(2.6)	(4.0)
	1,459.5	1,713.5
Less: Current portion of other long-term debt	(120.4)	(95.4)
Senior term loans due 2019	(63.8)	—
Total indebtedness, less current portion	$ 1,275.3	$ 1,618.1

(1) Maturity dates are reflected as of December 31, 2018.

At December 31, 2018, the aggregate scheduled maturities of long-term debt, excluding the current portion of long-term debt, are as follows (in millions):

2020	$230.9
2021	303.2
2022	173.6
2023	397.5
Thereafter	170.1
	$1,275.3

Cash payments for interest were approximately $35.2 million, $55.2 million and $58.8 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Current Indebtedness

1.056% Senior Term Loan

In December 2014, the Company entered into a term loan with the European Investment Bank ("EIB"), which provided the Company with the ability to borrow up to €200.0 million. The €200.0 million (or approximately $228.7 million as of December 31, 2018) of funding was received on January 15, 2015 with a maturity date of January 15, 2020. The Company has the ability to prepay the term loan before its maturity date. Interest is payable on the term loan at 1.056% per annum, payable quarterly in arrears. The term loan contain covenants regarding, among other things, the incurrence of indebtedness and the making of certain payments, as well as commitments regarding amounts of future research and development expenses in Europe, and is subject to acceleration in the events of default. The Company also has to fulfill financial covenants with respect to a net leverage ratio and interest coverage ratio.

Senior Term Loan Due 2022

In October 2018, the Company entered in a term loan agreement with Rabobank in the amount of €150.0 million (or approximately $171.5 million as of December 31, 2018). The Company has the ability to prepay the term loan before its maturity date on October 28, 2022. Interest is payable on the term loan quarterly in arrears at an annual rate, equal to the EURIBOR plus a margin ranging from 0.875% to 1.875% based on the Company's credit rating. The Company also has to fulfill financial covenants with respect to a total debt to EBITDA ratio and an interest coverage ratio.

Credit Facility

In October 2018, the Company entered into a multi-currency revolving credit facility of $800.0 million. The maturity date of the credit facility is October 17, 2023. Interest accrues on amounts outstanding under the credit facility, at the Company's option, at either (1) LIBOR plus a margin ranging from 0.875% to 1.875% based on the Company's credit rating, or (2) the base rate, which is equal to the higher of (i) the administrative agent's base lending rate for the applicable currency, (ii) the federal funds rate plus 0.5%, and (iii) one-month LIBOR for loans denominated in U.S. dollars plus 1.0%, plus a margin ranging from 0.0% to 0.875% based on the Company's credit rating. The credit facility contains covenants restricting, among other things, the incurrence of indebtedness and the making of certain payments, including dividends. The Company also has to fulfill financial covenants with respect to a total debt to EBITDA ratio and an interest coverage ratio. As of December 31, 2018, the Company had approximately $114.4 million of outstanding borrowings under the credit facility and the ability to borrow approximately $685.6 million under the facility.

The Company's former revolving credit and term loan facility consisted of an $800.0 million multi-currency revolving credit facility and a €312.0 million term loan facility. The maturity date of the former credit facility was June 26, 2020. Under the former credit facility agreement, interest accrued on amounts outstanding, at the Company's option, depending on the currency borrowed, at either (1) LIBOR or EURIBOR plus a margin ranging from 1.0% to 1.75% based on the Company's leverage ratio, or (2) the base rate, which is equal to the higher of (i) the administrative agent's base lending rate for the applicable currency, (ii) the federal funds rate plus 0.5%, and (iii) one-month LIBOR for loans denominated in U.S. dollars plus 1.0% plus a margin ranging from 0.0% to 0.25% based on the Company's leverage ratio. The credit facility contained covenants restricting, among other things, the incurrence of indebtedness and the making of certain payments, including dividends, and was subject to acceleration in the event of a default. The Company also had to fulfill financial covenants with respect to a total debt to EBITDA ratio and an interest coverage ratio. As is more fully described in Note 11, the Company entered into an interest rate swap in 2015 to convert the term loan facility's floating interest rate to a fixed interest rate of 0.33% plus the applicable margin over the remaining life of the term loan facility. In connection with the closing of new credit facility in October 2018, the Company repaid its outstanding €312.0 million (or approximately $360.8 million) term loan under the former revolving credit and term loan facility. The Company recorded approximately $0.9 million in "Interest expense, net,"associated with the write-off of deferred debt issuance costs associated with the repayment. As of December 31, 2017, $471.2 million was outstanding under the Company's former multi-currency revolving credit facility with approximately $97.0 million outstanding under the multi-currency revolving credit facility and €312.0 million (or approximately $374.2 million) outstanding under the term loan facility.

During 2015, the Company designated its €312.0 million term loan facility as a hedge of its net investment in foreign operations to offset foreign currency translation gains or losses on the net investment. See Note 11 for additional information about the net investment hedge.

Senior Term Loans Due Between 2019 and 2028

In October 2016, the Company borrowed an aggregate amount of €375.0 million through a group of seven related term loan agreements, and in August 2018, the Company borrowed an additional aggregate amount of indebtedness of €338.0 million through a group of another seven related term loan agreements. Proceeds from the borrowings were used to repay borrowings under the Company's former revolving credit facility.

In aggregate, the Company has indebtedness of €713.0 million (or approximately $815.3 million as of December 31, 2018) through a group of fourteen related term loan agreements as discussed above. The provisions of the term loan

agreements are identical in nature, with the exception of interest rate terms and maturities. The Company has the ability to prepay the term loans before their maturity dates. For the term loans with a fixed interest rate, interest is payable in arrears on an annual basis, with interest rates ranging from 0.70% to 2.26% and a maturity date between October 2019 and August 2028. For the term loans with a floating interest rate, interest is payable in arrears on a semi-annual basis, with interest rates based on the EURIBOR plus a margin ranging from 0.70% to 1.25% and a maturity date between October 2019 and August 2025. The term loans contain covenants restricting, among other things, the incurrence of indebtedness and the making of certain payments, including dividends, and is subject to acceleration in the event of default.

Former Indebtedness

In April 2016, the Company entered into two term loan agreements with Rabobank, in the amount of €100.0 million and €200.0 million, respectively. The provisions of the two term loans were identical in nature. In December 2017, the Company repaid its €200.0 million (or approximately $239.8 million) term loan and in October 2018, in connection with the new term loan agreement with Rabobank discussed above, the Company repaid its €100.0 million (or approximately $113.2 million) term loan. The Company had the ability to prepay the term loans before their maturity date on April 26, 2021. Interest was payable on the term loans per annum, paid quarterly in arrears, equal to the EURIBOR plus a margin ranging from 1.0% to 1.75% based on the Company's net leverage ratio. The Company also had to fulfill financial covenants with respect to a total debt to EBITDA ratio and an interest coverage ratio.

5 7/8% Senior Notes

The Company's 5 7/8% senior notes due December 1, 2021 constituted senior unsecured indebtedness. Interest was payable on the notes semi-annually in arrears. At any time prior to September 1, 2021, the Company could redeem the notes, in whole or in part from time to time, at its option, at a redemption price equal to the greater of (i) 100% of the principal amount plus accrued and unpaid interest, including additional interest, if any, to, but excluding, the redemption date, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest (exclusive of interest accrued to the date of redemption) discounted to the redemption date at the treasury rate plus 0.5%, plus accrued and unpaid interest, including additional interest, if any. Beginning September 1, 2021, the Company could redeem the notes, in whole or in part from time to time, at its option, at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest, including additional interest, if any. As is more fully described in Note 11, the Company entered into an interest rate swap in 2015 to convert the senior notes' fixed interest rate to a floating interest rate over the remaining life of the senior notes. During the second quarter of 2016, the Company terminated the interest rate swap. As a result, the Company recorded a deferred gain of approximately $7.3 million associated with the termination, which was being amortized as a reduction to "Interest expense, net" over the remaining term of the 5 7/8% senior notes through December 1, 2021.

In May 2018, the Company completed a cash tender offer to purchase any and all of its outstanding 5 7/8% senior notes at a cash purchase price of $1,077.50 per $1,000.00 of senior notes. As a result of the tender offer, the Company repurchased approximately $185.9 million of principal amount of the senior notes for approximately $200.3 million, plus accrued interest. The repurchase resulted in a loss on extinguishment of debt of approximately $15.7 million, including associated fees. In October 2018, the Company repurchased the remaining principal amount of the senior notes of approximately $114.1 million for approximately $122.5 million, plus accrued interest. The repurchase resulted in a loss on extinguishment of debt of approximately $8.8 million, including associated fees. As a result of the repurchase of the 5 7/8% senior notes, the Company recorded a cumulative amount of approximately $4.7 million of accelerated amortization of the deferred gain related to the terminated interest rate swap instrument associated with the senior notes. The losses on extinguishment as well as the accelerated amortization were reflected in "Interest expense, net," for the year ended December 31, 2018.

As of December 31, 2017, the unamortized portion of the deferred gain was approximately $5.3 million. The amortization for 2018 and 2017 was approximately $5.3 million and $1.3 million, respectively.

Subsequent Indebtedness

In December 2018, the Company entered into a term loan with the EIB, which provided the Company with the ability to borrow up to €250.0 million. The €250.0 million (or approximately $284.6 million) of funding was received on January 25, 2019 with a maturity date of January 24, 2025. The Company has the ability to prepay the term loan before its maturity date. Interest is payable on the term loan at 1.002% per annum, payable semi-annually in arrears.

The term loan contain covenants regarding, among other things, the incurrence of indebtedness and the making of certain payments, as well as commitments regarding amounts of future research and development expenses in Europe, and is subject to acceleration in the events of default. The Company also has to fulfill financial covenants with respect to a net leverage ratio and interest coverage ratio.

Standby Letters of Credit and Similar Instruments

The Company has arrangements with various banks to issue standby letters of credit or similar instruments, which guarantee the Company's obligations for the purchase or sale of certain inventories and for potential claims exposure for insurance coverage. At December 31, 2018 and 2017, outstanding letters of credit totaled $14.1 million and $15.2 million, respectively.

8. Employee Benefit Plans

The Company sponsors defined benefit pension plans covering certain employees, principally in the United Kingdom, the United States, Germany, Switzerland, Finland, France, Norway and Argentina. The Company also provides certain postretirement health care and life insurance benefits for certain employees, principally in the United States and Brazil.

The Company also maintains an Executive Nonqualified Pension Plan ("ENPP"), which provides certain U.S.-based senior executives with retirement income for a period of 15 years or up to a lifetime annuity, if certain requirements are met. Benefits under the ENPP vest if the participant has attained age 50 with at least ten years of service (five years of which include years of participation in the ENPP), but are not payable until the participant reaches age 65. The lifetime annuity benefit generally will be available only to participants who retire on or after reaching normal retirement age and otherwise have a vested benefit under the ENPP. The ENPP is an unfunded, nonqualified defined benefit pension plan.

Net annual pension costs for the years ended December 31, 2018, 2017 and 2016 for the Company's defined benefit pension plans and ENPP are set forth below (in millions):

Pension benefits	2018	2017	2016
Service cost	$16.6	$17.1	$16.2
Interest cost	19.9	20.6	24.6
Expected return on plan assets	(34.0)	(35.9)	(38.8)
Amortization of net actuarial losses	13.8	13.4	10.0
Amortization of prior service cost	1.2	1.2	1.0
Net loss recognized due to settlement	0.9	0.2	0.4
Net gain recognized due to curtailment	—	—	(0.1)
Net annual pension cost	$18.4	$16.6	$13.3

The components of net periodic pension and postretirement benefits cost, other than the service cost component, are included in "Other expense, net" in the Company's Consolidated Statements of Operations. Refer to Note 1 for further information.

Table of Contents
AGCO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The weighted average assumptions used to determine the net annual pension costs for the Company's defined benefit pension plans and ENPP for the years ended December 31, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
All plans:			
Weighted average discount rate	2.5 %	2.7 %	3.6 %
Weighted average expected long-term rate of return on plan assets	5.4 %	5.8 %	6.8 %
Rate of increase in future compensation	1.8%-5.0%	1.5%-5.0%	2.0%-5.0%
U.S.-based plans:			
Weighted average discount rate	3.70 %	4.25 %	4.60 %
Weighted average expected long-term rate of return on plan assets[1]	6.0 %	6.0 %	6.0 %
Rate of increase in future compensation[2]	5.0 %	5.0 %	5.0 %

____
(1) Applicable for U.S. funded, qualified plans.
(2) Applicable for U.S. unfunded, nonqualified plan.

For the Company's cash balance plans with promised interest crediting rates, the weighted-average interest crediting rate was 1.0% and 0.75% for 2018 and 2017, respectively.

Net annual postretirement benefit costs, and the weighted average discount rate used to determine them, for the years ended December 31, 2018, 2017 and 2016 are set forth below (in millions, except percentages):

Postretirement benefits	2018	2017	2016
Service cost	$0.1	$0.1	$—
Interest cost	1.4	1.4	1.4
Amortization of net actuarial losses	0.1	0.1	—
Amortization of prior service cost	0.2	0.2	0.2
Net annual postretirement benefit cost	$1.8	$1.8	$1.6
Weighted average discount rate	4.9 %	5.3 %	5.1 %

Table of Contents
AGCO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following tables set forth reconciliations of the changes in benefit obligation, plan assets and funded status as of December 31, 2018 and 2017 (in millions):

	Pension and ENPP Benefits		Postretirement Benefits	
Change in benefit obligation	2018	2017	2018	2017
Benefit obligation at beginning of year	$916.7	$849.8	$30.2	$28.6
Service cost	16.6	17.1	0.1	0.1
Interest cost	19.9	20.6	1.4	1.4
Plan participants' contributions	1.2	1.1	—	—
Actuarial (gains) losses	(55.2)	0.5	(4.2)	1.8
Amendments	8.5	—	—	—
Settlements	(1.5)	(0.7)	—	—
Benefits paid	(45.9)	(42.6)	(1.4)	(1.6)
Other	1.9	—	—	—
Foreign currency exchange rate changes	(39.1)	70.9	(0.8)	(0.1)
Benefit obligation at end of year	$823.1	$916.7	$25.3	$30.2

	Pension and ENPP Benefits		Postretirement Benefits	
Change in plan assets	2018	2017	2018	2017
Fair value of plan assets at beginning of year	$691.8	$601.7	$—	$—
Actual return on plan assets	(32.4)	47.3	—	—
Employer contributions	36.8	30.3	1.4	1.6
Plan participants' contributions	1.2	1.1	—	—
Benefits paid	(45.9)	(42.6)	(1.4)	(1.6)
Settlements	(1.5)	(0.7)	—	—
Foreign currency exchange rate changes	(32.9)	54.7	—	—
Fair value of plan assets at end of year	$617.1	$691.8	$—	$—
Funded status	$(206.0)	$(224.9)	$(25.3)	$(30.2)
Unrecognized net actuarial losses (gains)	356.7	360.1	(0.6)	3.8
Unrecognized prior service cost	19.5	12.2	3.1	3.2
Accumulated other comprehensive loss	(376.2)	(372.3)	(2.5)	(7.0)
Net amount recognized	$(206.0)	$(224.9)	$(25.3)	$(30.2)

Amounts recognized in Consolidated Balance Sheets:				
Other long-term asset	$0.1	$—	$—	$—
Other current liabilities	(3.8)	(3.9)	(1.5)	(1.6)
Accrued expenses	(2.9)	(2.3)	$—	$—
Pensions and postretirement health care benefits (noncurrent)	(199.4)	(218.7)	(23.8)	(28.6)
Net amount recognized	$(206.0)	$(224.9)	$(25.3)	$(30.2)

The following table summarizes the activity in accumulated other comprehensive loss related to the Company's ENPP and defined pension and postretirement benefit plans during the years ended December 31, 2018 and 2017 (in millions):

	Before-Tax Amount	Income Tax	After-Tax Amount
Accumulated other comprehensive loss as of December 31, 2016	$ (404.8)	$ (100.3)	$ (304.5)
Net loss recognized due to settlement	0.3	0.1	0.2
Net actuarial gain arising during the year	9.0	2.4	6.6
Amortization of prior service cost	1.4	0.1	1.3
Amortization of net actuarial losses	13.5	2.2	11.3
Accumulated other comprehensive loss as of December 31, 2017	$ (380.6)	$ (95.5)	$ (285.1)
Prior service cost arising during the year	(8.5)	(1.5)	(7.0)
Net loss recognized due to settlement	1.0	0.1	0.9
Net actuarial loss arising during the year	(7.0)	(2.8)	(4.2)
Amortization of prior service cost	1.4	0.1	1.3
Amortization of net actuarial losses	13.9	2.2	11.7
Accumulated other comprehensive loss as of December 31, 2018	$ (379.8)	$ (97.4)	$ (282.4)

As of December 31, 2018, the Company's accumulated other comprehensive loss included unrecognized net actuarial losses of approximately $356.7 million compared to $360.1 million as of December 31, 2017 related to the Company's defined benefit pension plans and ENPP. The decrease in unrecognized net actuarial losses between years primarily resulted from higher discount rates at December 31, 2018 compared to December 31, 2017. The unrecognized net actuarial losses will be impacted in future periods by actual asset returns, discount rate changes, currency exchange rate fluctuations, actual demographic experience and certain other factors. For some of the Company's defined benefit pension plans, these losses, to the extent they exceed 10% of the greater of the plan's liabilities or the fair value of assets ("the gain/loss corridor"), will be amortized on a straight-line basis over the periods discussed as follows. For the Company's U.S. salaried, U.S. hourly and U.K. defined benefit pension plans, the population covered is predominantly inactive participants, and losses related to those plans, to the extent they exceed the gain/loss corridor, will be amortized over the average remaining lives of those participants while covered by the respective plan. As of December 31, 2018, the average amortization period was 16 years for the Company's U.S. defined benefit pension plans and 19 years for the Company's U.K. defined benefit pension plan. For the Company's ENPP, the population is predominantly active participants, and losses related to the plan will be amortized over the average future working lifetime of the active participants expected to receive benefits. As of December 31, 2018, the average amortization period was eight for the Company's ENPP. Unrecognized prior service cost related to the Company's defined benefit pension plans was approximately $19.5 million as of December 31, 2018 compared to approximately $12.2 million as of December 31, 2017. The increase in the unrecognized prior service cost between years is due primarily to the newly required uniformity of guaranteed minimum pension benefits for men and women related to the Company's U.K. defined benefit plan, which resulted in an estimation of increased benefits for prior participant service. This requirement was as a result of a judgment by the U.K. High Court in October 2018 which provided clarity on the need to provide uniformity of benefits. The cost of this estimated impact will be amortized over a straight-line basis over the average remaining service period of active employees expected to receive benefits, or the average remaining lives of inactive participants, covered by the U.K. defined benefit plan.

As of December 31, 2018, the Company's accumulated other comprehensive loss related to the Company's U.S. and Brazilian postretirement health care benefit plans included unrecognized net actuarial gains of approximately $0.6 million as of December 31, 2018 compared to unrecognized net actuarial losses of approximately $3.8 million as of

December 31, 2017, of which a loss of approximately $0.3 million and approximately $3.4 million, respectively, related to the Company’s U.S. postretirement benefit plans. The change from unrecognized net actuarial gains as of December 31, 2018 from unrecognized net actuarial losses in the prior year related to the Company’s Brazilian postretirement health care benefit plans primarily was due to lower discount rates as well as plan experience. The decrease in unrecognized net actuarial losses related to the Company’s U.S. postretirement benefit plans was primarily due to higher discount rates as of December 31, 2018 as compared to the previous year. The unrecognized net actuarial gains or losses will be impacted in future periods by discount rate changes, actual demographic experience, actual health care inflation and certain other factors. These gains or losses, to the extent they exceed the gain/loss corridor, will be amortized on a straight-line basis over the average remaining service period of active employees expected to receive benefits, or the average remaining lives of inactive participants, covered under the

76

postretirement benefit plans. As of December 31, 2018, the average amortization period was 12 years for the Company's U.S. postretirement benefit plans. As of December 31, 2018, the net prior service cost related to the Company's U.S. and Brazilian postretirement health care benefit plans was approximately $3.1 million compared to approximately $3.2 million as of December 31, 2017.

The aggregate projected benefit obligation, accumulated benefit obligation and fair value of plan assets for defined benefit pension plans, ENPP and other postretirement plans with accumulated benefit obligations in excess of plan assets were $847.3 million, $798.5 million and $616.0 million, respectively, as of December 31, 2018, and $946.0 million, $891.2 million and $690.8 million, respectively, as of December 31, 2017. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the Company's U.S.-based defined benefit pension plans and ENPP with accumulated benefit obligations in excess of plan assets were $124.7 million, $107.8 million and $36.8 million, respectively, as of December 31, 2018, and $129.6 million, $111.5 million and $36.6 million, respectively, as of December 31, 2017. The Company's accumulated comprehensive loss as of December 31, 2018 reflects a reduction in equity of $378.7 million, net of taxes of $97.0 million, primarily related to the Company's U.K. pension plan, in which the projected benefit obligation exceeded the plan assets. In addition, the Company's accumulated comprehensive loss as of December 31, 2018 reflects a reduction in equity of approximately $1.1 million, net of taxes of $0.4 million, related to the Company's GIMA joint venture. The amount represents 50% of GIMA's unrecognized net actuarial losses and unrecognized prior service cost associated with its pension plan. In addition, GIMA recognized a net actuarial loss due to settlements during 2018 of approximately $0.1 million. The Company's accumulated comprehensive loss as of December 31, 2017 reflected a reduction in equity of $379.3 million, net of taxes of $95.0 million, primarily related to the Company's U.K. pension plan, in which the projected benefit obligation exceeded the plan assets. In addition, the Company's accumulated comprehensive loss as of December 31, 2017 reflected a reduction in equity of approximately $1.3 million, net of taxes of $0.5 million, related to the Company's GIMA joint venture. This amount represented 50% of GIMA's unrecognized net actuarial losses and unrecognized prior service cost associated with its pension plan. In addition, GIMA recognized a net actuarial loss due to settlements during 2017 of approximately $0.1 million.

The Company's defined benefit pension obligation has been reflected based on the manner in which its defined benefit plans are being administered. The obligation and resulting liability is calculated employing both actuarial and legal assumptions. These assumptions include, but are not limited to, future inflation, the return on pension assets, discount rates, life expectancy and potential salary increases. There are also assumptions related to the manner in which individual benefit plan benefits are calculated, which are legal in nature and include, but are not limited to, member eligibility, years of service and the uniformity of both guaranteed minimum pension benefits and member normal retirement ages for men and women. In the event that any of these assumptions or the administration approach are proven to be different from the Company's current interpretations and approach, there could be material increases in the Company's defined benefit pension obligation and the related amounts and timing of future contributions to be paid by the Company.

The weighted average assumptions used to determine the benefit obligation for the Company's defined benefit pension plans and ENPP as of December 31, 2018 and 2017 are as follows:

	2018		2017	
All plans:				
Weighted average discount rate	2.8	%	2.5	%
Rate of increase in future compensation	1.75%-5.0%		1.75%-5.0%	
U.S.-based plans:				
Weighted average discount rate	4.35	%	3.7	%

Rate of increase in future compensation[1]	5.0 %	5.0 %

(1) Applicable for U.S. unfunded, nonqualified plan.

The weighted average discount rate used to determine the benefit obligation for the Company's postretirement benefit plans for the years ended December 31, 2018 and 2017 was 5.2% and 4.9%, respectively.

For the years ended December 31, 2018, 2017 and 2016, the Company used a globally consistent methodology to set the discount rate in the countries where its largest benefit obligations exist. In the United States, the United Kingdom and the Euro Zone, the Company constructed a hypothetical bond portfolio of high-quality corporate bonds and then applied the cash flows of the Company's benefit plans to those bond yields to derive a discount rate. The bond portfolio and plan-specific cash flows vary by country, but the methodology in which the portfolio is constructed is consistent. In the United States, the bond

portfolio is large enough to result in taking a "settlement approach" to derive the discount rate, in which high-quality corporate bonds are assumed to be purchased and the resulting coupon payments and maturities are used to satisfy the Company's U.S. pension plans' projected benefit payments. In the United Kingdom and the Euro Zone, the discount rate is derived using a "yield curve approach," in which an individual spot rate, or zero coupon bond yield, for each future annual period is developed to discount each future benefit payment and, thereby, determine the present value of all future payments. The Company uses a spot yield curve to determine the discount rate applicable in the United Kingdom to measure the U.K. pension plan's service cost and interest cost. Under the settlement and yield curve approaches, the discount rate is set to equal the single discount rate that produces the same present value of all future payments.

For measuring the expected U.S. postretirement benefit obligation at December 31, 2018, the Company assumed a 6.5% health care cost trend rate for 2019 decreasing to 5.0% by 2025. For measuring the expected U.S. postretirement benefit obligation at December 31, 2017, the Company assumed a 6.75% health care cost trend rate for 2018 decreasing to 5.0% by 2025. For measuring the Brazilian postretirement benefit plan obligation at December 31, 2018, the Company assumed an 10.8% health care cost trend rate for 2019, decreasing to 5.0% by 2030. For measuring the Brazilian postretirement benefit plan obligation at December 31, 2017, the Company assumed an 11.0% health care cost trend rate for 2018, decreasing to 5.3% by 2029.

The Company currently estimates its minimum contributions and benefit payments to its U.S.-based underfunded defined benefit pension plans and unfunded ENPP for 2019 will aggregate approximately $1.6 million. The Company currently estimates its minimum contributions for underfunded plans and benefit payments for unfunded plans for 2019 to its non-U.S.-based defined benefit pension plans will aggregate approximately $28.9 million, of which approximately $19.9 million relates to its U.K. pension plan. The Company currently estimates its benefit payments for 2019 to its U.S.-based postretirement health care and life insurance benefit plans will aggregate approximately $1.5 million and its benefit payments for 2019 to its Brazilian postretirement health care benefit plans will aggregate less than $0.1 million.

During 2018, approximately $47.4 million of benefit payments were made related to the Company's defined benefit pension plans and ENPP. At December 31, 2018, the aggregate expected benefit payments for the Company's defined benefit pension plans and ENPP are as follows (in millions):

2019	$46.4
2020	47.9
2021	51.2
2022	50.7
2023	51.6
2024 through 2028	280.6
	$528.4

During 2018, approximately $1.4 million of benefit payments were made related to the Company's U.S. and Brazilian postretirement benefit plans. At December 31, 2018, the aggregate expected benefit payments for the Company's U.S. and Brazilian postretirement benefit plans are as follows (in millions):

2019	$1.5
2020	1.6
2021	1.6
2022	1.6
2023	1.7

2024 through 2028	8.5
	$16.5

Investment Strategy and Concentration of Risk

The weighted average asset allocation of the Company’s U.S. pension benefit plans as of December 31, 2018 and 2017 are as follows:

Asset Category	2018	2017
Large and small cap domestic equity securities	19 %	31 %
International equity securities	8 %	12 %
Domestic fixed income securities	57 %	43 %
Other investments	16 %	14 %
Total	100%	100%

The weighted average asset allocation of the Company’s non-U.S. pension benefit plans as of December 31, 2018 and 2017 are as follows:

Asset Category	2018	2017
Equity securities	39 %	40 %
Fixed income securities	54 %	53 %
Other investments	7 %	7 %
Total	100%	100%

The Company categorizes its pension plan assets into one of three levels based on the assumptions used in valuing the asset. See Note 13 for a discussion of the fair value hierarchy as per the guidance in ASC 820, “Fair Value Measurements” (“ASC 820”). The Company’s valuation techniques are designed to maximize the use of observable inputs and minimize the use of unobservable inputs. The Company uses the following valuation methodologies to measure the fair value of its pension plan assets:

Equity Securities: Equity securities are valued on the basis of the closing price per unit on each business day as reported on the applicable exchange.

Fixed Income: Fixed income securities are valued using the closing prices in the active market in which the fixed income investment trades. Fixed income funds are valued using the net asset value of the fund, which is based on the fair value of the underlying securities.

Cash: These investments primarily consist of short-term investment funds which are valued using the net asset value.

Alternative Investments: These investments are reported at fair value as determined by the general partner of the alternative investment. The “market approach” valuation technique is used to value investments in these funds. The funds typically are open-end funds as they generally offer subscription and redemption options to investors. The frequency of such subscriptions or redemptions is dictated by each fund’s governing documents. The amount of liquidity provided to investors in a particular fund generally is consistent with the liquidity and risk associated with the underlying portfolio (i.e., the more liquid the investments in the portfolio, the greater the liquidity provided to investors). Liquidity of individual funds varies based on various factors and may include “gates,” “holdbacks” and “side pockets” imposed by the manager of the fund, as well as redemption fees that may also apply. Investments in these funds typically are valued utilizing the net asset valuations provided by their underlying investment managers, general partners or administrators. The funds consider subscription and redemption rights, including any restrictions on the disposition of the interest, in its determination of the fair value.

Insurance Contracts: Insurance contracts are valued using current prevailing interest rates.

The fair value of the Company's pension assets as of December 31, 2018 is as follows (in millions):

	Total	Level 1	Level 2	Level 3
Equity securities:				
Global equities	$104.4	$104.4	$ —	$ —
Non-U.S. equities	3.0	3.0	—	—
U.K. equities	112.4	112.4	—	—
U.S. large cap equities	4.5	4.5	—	—
U.S. small cap equities	2.4	2.4	—	—
Preferred securities	0.2	0.2		
Total equity securities	226.9	226.9	—	—
Fixed income:				
Aggregate fixed income	131.5	131.5	—	—
International fixed income	189.3	189.3	—	—
Total fixed income share[1]	320.8	320.8	—	—
Alternative investments:				
Private equity fund	2.3	—	—	2.3
Hedge funds measured at net asset value[4]	31.8	—	—	—
Total alternative investments[2]	34.1	—	—	2.3
Miscellaneous funds[3]	28.2	—	—	28.2
Cash and equivalents measured at net asset value[4]	7.1	—	—	—
Total assets	$617.1	$547.7	$ —	$30.5

(1) 36% of "fixed income" securities are in investment-grade corporate bonds; 27% are in government treasuries; 17% are in foreign securities; 13% are in high-yield securities; and 7% are in other various fixed income securities.
(2) 44% of "alternative investments" are in relative value funds; 22% are in long-short equity funds; 22% are in event-driven funds; 7% are distributed in hedged and non-hedged funds; and 5% are in credit funds.
(3) "Miscellaneous funds" is comprised of insurance contracts in Finland, Norway and Switzerland.
(4) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

The following is a reconciliation of Level 3 assets as of December 31, 2018 (in millions):

	Total	Alternative Investments	Miscellaneous Funds
Beginning balance as of December 31, 2017	$27.8	$ 2.4	$ 25.4
Actual return on plan assets:			
(a) Relating to assets still held at reporting date	0.8	(0.2)	1.0
(b) Relating to assets sold during period	—	—	—
Purchases, sales and /or settlements	3.2	0.1	3.1
Foreign currency exchange rate changes	(1.3)	—	(1.3)
Ending balance as of December 31, 2018	$30.5	$ 2.3	$ 28.2

The fair value of the Company's pension assets as of December 31, 2017 is as follows (in millions):

	Total	Level 1	Level 2	Level 3
Equity securities:				
Global equities	$121.7	$121.7	$ —	$—
Non-U.S. equities	4.3	4.3	—	—
U.K. equities	129.9	129.9	—	—
U.S. large cap equities	6.9	6.9	—	—
U.S. small cap equities	4.4	4.4	—	—
Total equity securities	267.2	267.2	—	—
Fixed income:				
Aggregate fixed income	136.0	136.0	—	—
International fixed income	214.4	214.4	—	—
Total fixed income share[1]	350.4	350.4	—	—
Alternative investments:				
Private equity fund	2.4	—	—	2.4
Hedge funds measured at net asset value[4]	34.8	—	—	—
Total alternative investments[2]	37.2	—	—	2.4
Miscellaneous funds[3]	25.4	—	—	25.4
Cash and equivalents measured at net asset value[4]	11.6	—	—	—
Total assets	$691.8	$617.6	$ —	$27.8

(1) 30% of "fixed income" securities are in investment-grade corporate bonds; 29% are in government treasuries; 15% are in foreign securities; 13% are in high-yield securities; and 13% are in other various fixed income securities.
(2) 39% of "alternative investments" are in relative value funds; 26% are in long-short equity funds; 21% are in event-driven funds; 8% are distributed in hedged and non-hedged funds; and 6% are in credit funds.
(3) "Miscellaneous funds" is comprised of insurance contracts in Finland, Norway and Switzerland.
(4) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

The following is a reconciliation of Level 3 assets as of December 31, 2017 (in millions):

	Total	Alternative Investments	Miscellaneous Funds
Beginning balance as of December 31, 2016	$23.8	$ 2.4	$ 21.4
Actual return on plan assets:			
(a) Relating to assets still held at reporting date	(2.3)	(0.1)	(2.2)
(b) Relating to assets sold during period	—	—	—
Purchases, sales and /or settlements	3.4	0.1	3.3
Foreign currency exchange rate changes	2.9	—	2.9
Ending balance as of December 31, 2017	$27.8	$ 2.4	$ 25.4

All tax-qualified pension fund investments in the United States are held in the AGCO Corporation Master Pension Trust. The Company's global pension fund strategy is to diversify investments across broad categories of equity and fixed income securities with appropriate use of alternative investment categories to minimize risk and volatility. The primary investment objective of the Company's pension plans is to secure participant retirement benefits. As such, the key objective in the pension plans' financial management is to promote stability and, to the extent appropriate, growth

in funded status.

The investment strategy for the plans' portfolio of assets balances the requirement to generate returns with the need to control risk. The asset mix is recognized as the primary mechanism to influence the reward and risk structure of the pension fund investments in an effort to accomplish the plans' funding objectives. The overall investment strategy for the U.S.-based pension plans is to achieve a mix of approximately 15% of assets for the near-term benefit payments and 85% for longer-term

growth. The overall U.S. pension funds invest in a broad diversification of asset types. The Company's U.S. target allocation of retirement fund investments is 21.5% large- and small-cap domestic equity securities, 8.5% international equity securities, 55% broad fixed income securities, 10% in alternative investments and 5% in cash and cash equivalents. The Company has noted that over very long periods, this mix of investments would achieve an average return of approximately 5.75%. In arriving at the choice of an expected return assumption of 5.5% for its U.S. plans for the year ended December 31, 2019, the Company has tempered this historical indicator with lower expectations for returns and changes to investments in the future as well as the administrative costs of the plans. The overall investment strategy for the non-U.S. based pension plans is to achieve a mix of approximately 30% of assets for the near-term benefit payments and 70% for longer-term growth. The overall non-U.S. pension funds invest in a broad diversification of asset types. The Company's non-U.S. target allocation of retirement fund investments is 40% equity securities, 55% broad fixed income investments and 5% in alternative investments. The majority of the Company's non-U.S. pension fund investments are related to the Company's pension plan in the United Kingdom. The Company has noted that over very long periods, this mix of investments would achieve an average return of approximately 5.2%. In arriving at the choice of an expected return assumption of 4.75% for its U.K.-based plans for the year ended December 31, 2019, the Company has tempered this historical indicator with lower expectations for returns and changes to investments in the future as well as the administrative costs of the plans.

Equity securities primarily include investments in large-cap and small-cap companies located across the globe. Fixed income securities include corporate bonds of companies from diversified industries, mortgage-backed securities, agency mortgages, asset-backed securities and government securities. Alternative and other assets include investments in hedge fund of funds that follow diversified investment strategies. To date, the Company has not invested pension funds in its own stock and has no intention of doing so in the future.

Within each asset class, careful consideration is given to balancing the portfolio among industry sectors, geographies, interest rate sensitivity, dependence on economic growth, currency and other factors affecting investment returns. The assets are managed by professional investment firms, who are bound by precise mandates and are measured against specific benchmarks. Among asset managers, consideration is given, among others, to balancing security concentration, issuer concentration, investment style and reliance on particular active investment strategies.

The Company participates in a small number of multiemployer plans in the Netherlands and Sweden. The Company has assessed and determined that none of the multiemployer plans which it participates in are individually, or in the aggregate, significant to the Company's Consolidated Financial Statements. The Company does not expect to incur a withdrawal liability or expect to significantly increase its contributions over the remainder of the multiemployer plans' contract periods.

The Company maintains separate defined contribution plans covering certain employees, primarily in the United States, the United Kingdom and Brazil. Under the plans, the Company contributes a specified percentage of each eligible employee's compensation. The Company contributed approximately $15.8 million, $15.1 million and $14.3 million for the years ended December 31, 2018, 2017 and 2016, respectively.

9. Stockholders' Equity

Common Stock

At December 31, 2018, the Company had 150,000,000 authorized shares of common stock with a par value of $0.01 per share, with approximately 76,536,755 shares of common stock outstanding and approximately 3,436,426 shares

reserved for issuance under the Company's 2006 Long-Term Incentive Plan (the "Plan") (Note 10).

Share Repurchase Program

During 2012 through 2016, the Company's Board of Directors approved several share repurchase authorizations under which the Company is permitted to repurchase up to $1,350.0 million of shares of its common stock.

During 2018 and 2016, the Company repurchased 3,120,184 and 4,413,250 shares of its common stock, respectively, for approximately $184.3 million and $212.5 million, respectively, either through Accelerated Share Repurchase ("ASR") agreements with financial institutions or through open market transactions. During 2017, the Company received approximately 70,464 shares associated with the remaining balance of shares to be delivered under an ASR agreement that was completed in November 2016. All shares received under the ASR agreements were retired upon receipt, and the excess of the purchase price over par value per share was recorded to "Additional paid-in capital" within the Company's Consolidated Balance Sheets.

82

During 2019, the Company entered into an ASR agreement with a financial institution to repurchase an aggregate of $30.0 million shares of its common stock. The Company received approximately 379,927 shares to date in this transaction. The specific number of shares the Company will ultimately repurchase will be determined at the completion of the term of the ASR based on the daily volume-weighted average share price of the Company's common stock less an agreed-upon discount. Upon settlement of the ASR, the Company may be entitled to receive additional shares of common stock or, under certain circumstances, be required to remit a settlement amount. The Company expects that additional shares will be received by the Company upon final settlement of its current ASR agreement, which expires during the second quarter of 2019. All shares received under the ASR agreement discussed above were retired upon receipt and the excess of the purchase price over par value per share was recorded to "Additional paid-in capital" within the Company's Consolidated Balance Sheets.

As of December 31, 2018, the remaining amount authorized to be repurchased is approximately $147.1 million, of which $115.7 million expires in December 2019 and $31.4 million has no expiration date.

Dividends

The Company's Board of Directors has declared and the Company has paid quarterly cash dividends of $0.13 per common share beginning the first quarter of 2016, $0.14 per common share beginning the first quarter of 2017 and $0.15 per common share beginning the first quarter of 2018, respectively, and on January 25, 2019, the Company's Board of Directors approved a quarterly dividend of $0.15 per common share beginning the first quarter of 2019.

The following table sets forth changes in accumulated other comprehensive loss by component, net of tax, attributed to AGCO Corporation and its subsidiaries for the years ended December 31, 2018 and 2017 (in millions):

	Defined Benefit Pension Plans	Cumulative Translation Adjustment	Deferred Net Gains (Losses) on Derivatives	Total
Accumulated other comprehensive loss, December 31, 2016	$(304.5)	$(1,128.4)	$ (8.7)	$(1,441.6)
Other comprehensive income before reclassifications	6.8	56.6	2.0	65.4
Net losses reclassified from accumulated other comprehensive loss	12.6	—	2.0	14.6
Other comprehensive income, net of reclassification adjustments	19.4	56.6	4.0	80.0
Accumulated other comprehensive loss, December 31, 2017	(285.1)	(1,071.8)	(4.7)	(1,361.6)
Other comprehensive loss before reclassifications	(10.3)	(202.6)	(1.1)	(214.0)
Net losses reclassified from accumulated other comprehensive loss	13.0	—	7.2	20.2
Other comprehensive income (loss), net of reclassification adjustments	2.7	(202.6)	6.1	(193.8)
Accumulated other comprehensive loss, December 31, 2018	$(282.4)	$(1,274.4)	$ 1.4	$(1,555.4)

The following table sets forth reclassification adjustments out of accumulated other comprehensive loss by component attributed to AGCO Corporation and its subsidiaries for the years ended December 31, 2018 and 2017 (in millions):

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item within the Consolidated Statements of Operations
	Year ended December 31, 2018[1]	Year ended December 31, 2017[1]	
Derivatives:			
Net losses (gains) on foreign currency contracts	$ 2.3	$ (0.2)	Cost of goods sold
Net losses on interest rate swap contract	6.3	2.4	Interest expense, net
Reclassification before tax	8.6	2.2	
	(1.4)	(0.2)	Income tax provision
Reclassification net of tax	$ 7.2	$ 2.0	
Defined benefit pension plans:			
Amortization of net actuarial losses	$ 13.9	$ 13.5	Other expense, net[2]
Amortization of prior service cost	1.4	1.4	Other expense, net[2]
Reclassification before tax	15.3	14.9	
	(2.3)	(2.3)	Income tax provision
Reclassification net of tax	$ 13.0	$ 12.6	
Net losses reclassified from accumulated other comprehensive loss	$ 20.2	$ 14.6	

(1) Losses (gains) included within the Consolidated Statements of Operations for the years ended December 31, 2018 and 2017, respectively.
(2) These accumulated other comprehensive loss components are included in the computation of net periodic pension and postretirement benefit cost. See Note 8 to the Company’s Consolidated Financial Statements.

10. Stock Incentive Plan

Under the Plan, up to 10,000,000 shares of AGCO common stock may be issued. As of December 31, 2018, of the 10,000,000 shares reserved for issuance under the Plan, approximately 3,436,426 shares were available for grant, assuming the maximum number of shares are earned related to the performance award grants discussed below. The 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, restricted stock units and restricted stock awards to employees, officers and non-employee directors of the Company.

Long-Term Incentive Plan and Related Performance Awards

The Company's 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, return on invested capital, operating margins and selling, general and administrative expenses and overhead levels, as determined by the Company's Board of Directors. The stock awards under the Plan are earned over a performance period, and the number of shares earned is determined based on annual cumulative or average results for the specified period, depending on the measurement. Performance periods for the Company's primary long-term incentive plan are consecutive and overlapping three-year cycles, and performance targets are set at the beginning of each cycle. The primary long-term incentive plan provides for participants to earn 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 Plan are paid in shares of common stock at the end of each three-year performance period. The percentage level achievement is determined annually, with the ultimate award that is earned determined based upon the average of the three annual percentages. The compensation expense associated with these awards is amortized ratably over the vesting or performance period based on the Company's projected assessment of the level of performance that will be achieved and earned.

Compensation expense recorded during 2018, 2017 and 2016 with respect to awards granted was based upon the stock price as of the grant date. The weighted average grant-date fair value of performance awards granted under the Plan during 2018, 2017 and 2016 was as follows:

	Years Ended December 31,		
	2018	2017	2016
Weighted average grant-date fair value	$71.40	$61.94	$47.93

During 2018, the Company granted 441,740 performance awards related to varying performance periods assuming the maximum target level of performance is achieved.

Performance award transactions during 2018 were as follows and are presented as if the Company were to achieve its maximum levels of performance under the plan:

Shares awarded but not earned at January 1	1,645,078
Shares awarded	441,740
Shares forfeited or unearned	(81,932)
Shares earned and vested	(1,066,024)
Shares awarded but not earned at December 31	938,862

Based on the level of performance achieved as of December 31, 2018, 839,090 shares were earned under the related performance period and 521,888 shares were issued in February 2019, net of 317,202 shares that were withheld for taxes related to the earned awards. The Plan allows for the participant 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 participant's statutory minimum federal, state and employment taxes which would be payable at the time of grant.

During 2017, the Company recorded approximately $4.8 million of accelerated stock compensation expense associated with a stock award declined by the Company's Chief Executive Officer.

As of December 31, 2018, 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 $31.6 million, and the weighted average period over which it is expected to be recognized is approximately two years. This estimate is based on the current projected levels of performance of outstanding awards. The compensation cost not yet recognized could be higher or lower based on actual achieved levels of performance.

Restricted Stock Units

During the year ended December 31, 2018, the Company granted 247,404 restricted stock unit ("RSU") awards. These awards entitle the participant to receive one share of the Company's common stock for each RSU granted and vest one-third per year over a three-year requisite service period. The compensation expense associated with these awards is being amortized ratably over the requisite service period for the awards that are expected to vest. The weighted average grant-date fair value of the RSUs granted under the Plan during the year ended December 31, 2018 and 2017 was $63.99 and $61.99, respectively. RSU transactions during the year ended December 31, 2018 were as follows:

Shares awarded but not vested at January 1	237,468
Shares awarded	247,404
Shares forfeited	(11,695)
Shares vested	(120,202)
Shares awarded but not vested at December 31	352,975

As of December 31, 2018, the total compensation cost related to the unvested RSUs not yet recognized was approximately $14.2 million, and the weighted average period over which it is expected to be recognized is approximately two years.

Stock-settled Appreciation Rights

In addition to the performance share plans, certain executives and key managers are eligible to receive grants of SSARs. 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 SSARs 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 awards made to certain executives and key managers under the Plan are made with the base price equal to the price of the Company's common stock on the date of grant. The Company recorded stock compensation expense of approximately $2.4 million, $3.0 million and $3.8 million associated with SSAR awards during 2018, 2017 and 2016, 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 weighted average grant-date fair value of SSAR awards granted under the Plan and the weighted average assumptions under the Black-Scholes option model were as follows for the years ended December 31, 2018, 2017 and 2016:

	Years Ended December 31,		
	2018	2017	2016
Weighted average grant-date fair value	$12.88	$11.45	$7.98
Weighted average assumptions under Black-Scholes option model:			
Expected life of awards (years)	3.0	3.0	3.0
Risk-free interest rate	2.2 %	1.5 %	1.1 %

Expected volatility	23.7 %	25.9 %	25.9 %
Expected dividend yield	0.8 %	0.9 %	1.1 %

86

SSAR transactions during the year ended December 31, 2018 were as follows:	
SSARs outstanding at January 1	1,060,192
SSARs granted	157,700
SSARs exercised	(109,950)
SSARs canceled or forfeited	(8,350)
SSARs outstanding at December 31	1,099,592
SSAR price ranges per share:	
Granted	$73.14
Exercised	43.39 - 63.47
Canceled or forfeited	43.88 - 63.47
Weighted average SSAR exercise prices per share:	
Granted	$73.14
Exercised	51.01
Canceled or forfeited	53.68
Outstanding at December 31	55.58

At December 31, 2018, the weighted average remaining contractual life of SSARs outstanding was approximately four years. As of December 31, 2018, the total compensation cost related to unvested SSARs not yet recognized was approximately $3.8 million and the weighted-average period over which it is expected to be recognized is approximately two 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 as of December 31, 2018:

	SSARs Outstanding			SSARs Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Exercisable as of December 31, 2018	Weighted Average Exercise Price
$43.88-$52.85	528,600	3.3	$ 45.90	318,675	$ 46.06
$55.07-$73.14	570,992	4.6	$ 64.54	202,192	$ 58.88
	1,099,592			520,867	$ 51.03

The total fair value of SSARs vested during 2018 was approximately $2.8 million. There were 578,725 SSARs that were not vested as of December 31, 2018. The total intrinsic value of outstanding and exercisable SSARs as of December 31, 2018 was $5.2 million and $3.1 million, respectively. The total intrinsic value of SSARs exercised during 2018 was approximately $1.5 million.

The excess tax benefit realized for tax deductions in the United States related to the exercise of SSARs, vesting of RSU awards and vesting of performance awards under the Plan was approximately $1.6 million for the year ended December 31, 2018. The excess tax benefit realized for tax deductions in the United States related to the exercise of SSARs and vesting of RSU awards under the Plan was approximately $0.1 million for the year ended December 31, 2017. The excess tax benefit realized for tax deductions in the United States related to the exercise of SSARs and vesting of RSU awards under the Plan was less than $0.1 million for the year ended December 31, 2016. The

Company realized an insignificant tax benefit from the exercise of SSARs, vesting of performance awards and vesting of RSU awards in certain foreign jurisdictions during the years ended December 31, 2018, 2017 and 2016.

On January 22, 2019, the Company granted 273,665 performance award shares (subject to the Company achieving future target levels of performance), 243,600 SSARs and 131,116 RSUs under the Plan.

Director Restricted Stock Grants

Pursuant to the Plan, all non-employee directors receive annual restricted stock grants of the Company's common stock. All restricted stock grants made to the Company's directors are restricted as to transferability for a period of one year. In the event a director departs from the Company's Board of Directors, the non-transferability period expires immediately. The plan allows each director to have the option of forfeiting a portion of the shares awarded in lieu of a cash payment contributed to the participant's tax withholding to satisfy the statutory minimum federal, state and employment taxes that would be payable at the time of grant. The 2018 grant was made on April 26, 2018 and equated to 17,226 shares of common stock, of which 12,629 shares of common stock were issued, after shares were withheld for taxes. The Company recorded stock compensation expense of approximately $1.1 million during 2018 associated with these grants.

11. Derivative Instruments and Hedging Activities

The Company has significant manufacturing operations in the United States, France, Germany, Finland and Brazil, and it purchases a portion of its tractors, combines and components from third-party foreign suppliers, primarily in various European countries and in Japan. The Company also sells products in approximately 140 countries throughout the world. The Company's most significant transactional foreign currency exposures are the Euro, Brazilian real and the Canadian dollar in relation to the United States dollar, and the British pound in relation to the Euro. The Company attempts to manage its transactional foreign exchange exposure by hedging foreign currency cash flow forecasts and commitments arising from the anticipated settlement of receivables and payables and from future purchases and sales. Where naturally offsetting currency positions do not occur, the Company hedges certain, but not all, of its exposures through the use of foreign currency contracts. The Company's translation exposure resulting from translating the financial statements of foreign subsidiaries into United States dollars may be partially hedged from time to time. The Company's most significant translation exposures are the Euro, the British pound and the Brazilian real in relation to the United States dollar. When practical, the translation impact is reduced by financing local operations with local borrowings.

The Company uses floating rate and fixed rate debt to finance its operations. The floating rate debt obligations expose the Company to variability in interest payments due to changes in the EURIBOR and LIBOR benchmark interest rates. The Company believes it is prudent to limit the variability of a portion of its interest payments, and to meet that objective, the Company periodically enters into interest rate swaps to manage the interest rate risk associated with the Company's borrowings. The Company designates interest rate contracts used to convert the interest rate exposure on a portion of the Company's debt portfolio from a floating rate to a fixed rate as cash flow hedges, while those contracts converting the Company's interest rate exposure from a fixed rate to a floating rate are designated as fair value hedges.

To protect the value of the Company's investment in foreign operations against adverse changes in foreign currency exchange rates, the Company from time to time, may hedge a portion of the Company's net investment in the foreign subsidiaries by using a cross currency swap. The component of the gains and losses on the Company's net investment in the designated foreign operations driven by changes in foreign exchange rates are economically offset by movements in the fair value of the cross currency swap contracts.

The Company's senior management establishes the Company's foreign currency and interest rate risk management policies. These policies are reviewed periodically by the Finance Committee of the Company's Board of Directors. The policies allow for the use of derivative instruments to hedge exposures to movements in foreign currency and interest rates. The Company's policies prohibit the use of derivative instruments for speculative purposes.

All derivatives are recognized on the Company's Consolidated Balance Sheets at fair value. On the date the derivative contract is entered into, the Company designates the derivative as either (1) a cash flow hedge of a forecasted transaction, (2) a fair value hedge of a recognized liability, (3) a hedge of a net investment in a foreign operation, or (4) a non-designated derivative instrument.

The Company formally documents all relationships between hedging instruments and hedged items, as well as the risk management objectives and strategy for undertaking various hedge transactions. The Company formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flow of hedged items or the net investment hedges in foreign operations. When it is determined that a derivative is no longer highly effective as a hedge, hedge accounting is discontinued on a prospective basis.

The Company categorizes its derivative assets and liabilities into one of three levels based on the assumptions used in valuing the asset or liability. See Note 13 for a discussion of the fair value hierarchy as per the guidance in ASC 820. The Company's valuation techniques are designed to maximize the use of observable inputs and minimize the use of unobservable inputs.

Counterparty Risk

The Company regularly monitors the counterparty risk and credit ratings of all the counterparties to the derivative instruments. The Company believes that its exposures are appropriately diversified across counterparties and that these counterparties are creditworthy financial institutions. If the Company perceives any risk with a counterparty, then the Company would cease to do business with that counterparty. There have been no negative impacts to the Company from any non-performance of any counterparties.

Derivative Transactions Designated as Hedging Instruments

Cash Flow Hedges
Foreign Currency Contracts

The Company uses cash flow hedges to minimize the variability in cash flows of assets or liabilities or forecasted transactions caused by fluctuations in foreign currency exchange rates. The changes in the fair values of these cash flow hedges are recorded in accumulated other comprehensive loss and are subsequently reclassified into "Cost of goods sold" during the period the sales and purchases are recognized. These amounts offset the effect of the changes in foreign currency rates on the related sale and purchase transactions.

During 2018, 2017 and 2016, the Company designated certain foreign currency contracts as cash flow hedges of expected future sales and purchases. The total notional value of derivatives that were designated as cash flow hedges was $127.0 million and $96.8 million as of December 31, 2018 and 2017, respectively.

Interest Rate Swap Contract

The Company monitors the mix of short-term and long-term debt regularly. From time to time, the Company manages the risk to interest rate fluctuations through the use of derivative financial instruments. During 2015, the Company entered into an interest rate swap instrument with a notional amount of €312.0 million and an expiration date of June 26, 2020. The swap was designated and accounted for as a cash flow hedge. Under the swap agreement, the Company paid a fixed interest rate of 0.33% plus the applicable margin, and the counterparty to the agreement paid a floating interest rate based on the three-month EURIBOR. Changes in the fair value of the interest rate swap were recorded in accumulated other comprehensive loss and were subsequently reclassified into "Interest expense, net" as a rate adjustment in the same period in which the related interest on the Company's floating rate term loan facility affected earnings. As a result of the Company's new credit facility agreement entered into in October 2018 and the repayment of the €312.0 million (or approximately $360.8 million) term loan under the Company's former revolving credit facility, as well as the change in the mix of the Company's short-term and long-term debt, the Company terminated the interest rate swap instrument and recorded a loss of approximately $3.9 million which was recorded in "Interest expense, net" for the year ended December 31, 2018. Refer to Note 7 for further information.

The following table summarizes the after-tax impact that changes in the fair value of derivatives designated as cash flow hedges had on accumulated other comprehensive loss and net income during 2018, 2017 and 2016 (in millions):

		Recognized in Net Income		
	Gain (Loss) Recognized in Accumulated Other Comprehensive Loss	Classification of Gain (Loss)	(Loss) Gain Reclassified from Accumulated Other Comprehensive Loss into Income	Total Amount of the Line Item in the Condensed Consolidated Statements of Operations Containing Hedge Gains (Losses)
2018				
Foreign currency contracts[1]	$ 0.4	Cost of goods sold	$ (2.2)	$ 7,355.3
Interest rate swap contract	(1.5)	Interest expense, net	(5.0)	53.8
Total	$ (1.1)		$ (7.2)	
2017				
Foreign currency contracts	$ 2.7	Cost of goods sold	$ 0.4	$ 6,541.2
Interest rate swap contract	(0.7)	Interest expense, net	(2.4)	45.1
Total	$ 2.0		$ (2.0)	
2016				
Foreign currency contracts	$ (2.6)	Cost of goods sold	$ 1.0	$ 5,895.0
Interest rate swap contract	(5.1)	Interest expense, net	(2.0)	52.1
Total	$ (7.7)		$ (1.0)	

[1] The outstanding contracts as of December 31, 2018 range in maturity through December 2019.

The following table summarizes the activity in accumulated other comprehensive loss related to the derivatives held by the Company during the years ended December 31, 2018, 2017 and 2016 (in millions):

	Before-Tax Amount	Income Tax	After-Tax Amount
Accumulated derivative net losses as of December 31, 2015	$ (3.3)	$ (1.3)	$ (2.0)
Net changes in fair value of derivatives	(7.8)	(0.1)	(7.7)
Net losses reclassified from accumulated other comprehensive loss into income	1.0	—	1.0
Accumulated derivative net losses as of December 31, 2016	(10.1)	(1.4)	(8.7)
Net changes in fair value of derivatives	1.9	(0.1)	2.0
Net losses reclassified from accumulated other comprehensive loss into income	2.2	0.2	2.0
Accumulated derivative net losses as of December 31, 2017	(6.0)	(1.3)	(4.7)
Net changes in fair value of derivatives	(1.0)	0.1	(1.1)
Net losses reclassified from accumulated other comprehensive loss into income	8.6	1.4	7.2
Accumulated derivative net gains as of December 31, 2018	$ 1.6	$ 0.2	$ 1.4

Fair Value Hedges

The Company uses interest rate swap agreements designated as fair value hedges to minimize exposure to changes in the fair value of fixed-rate debt that results from fluctuations in benchmark interest rates. During 2016, the Company terminated an interest rate swap transaction with a notional amount of $300.0 million and received cash proceeds of approximately $7.3 million. The resulting gain was deferred and was being amortized as a reduction to "Interest expense, net" over the remaining term of the Company's $5^7/8$% senior notes through December 1, 2021. During 2018, the remaining unamortized gain was recognized primarily through accelerated amortization due to the repurchase of the $5^7/8$% senior notes as is more fully described in Note 7.

Net Investment Hedges

The Company uses non-derivative and derivative instruments, to hedge a portion of its net investment in foreign operations against adverse movements in exchange rates. For instruments that are designated as hedges of net investments in foreign operations, changes in the fair value of the derivative instruments are recorded in foreign currency translation adjustments, a component of accumulated other comprehensive loss, to offset changes in the value of the net investments being hedged. When the net investment in foreign operations is sold or substantially liquidates, the amounts recorded in accumulated other comprehensive loss are reclassified to earnings. To the extent foreign currency denominated debt is de-designated from a net investment hedge relationship, changes in the value of the foreign currency denominated debt are recorded in earnings through the maturity date.

During 2015, the Company designated its €312.0 million term loan facility with a maturity date of June 26, 2020 as a hedge of its net investment in foreign operations to offset foreign currency translation gains or losses on the net investment. In October 2018, the Company repaid the term loan facility and the foreign currency denominated debt was de-designated as a net investment hedge. Refer to Note 7 for further information.

In January 2018, the Company entered into a cross currency swap contract as a hedge of its net investment in foreign operations to offset foreign currency translation gains or losses on the net investment. The cross currency swap has an expiration date of January 19, 2021. At maturity of the cross currency swap contract, the Company will deliver the notional amount of approximately €245.7 million (or approximately $281.0 million as of December 31, 2018) and will receive $300.0 million from the counterparties. The Company will receive quarterly interest payments from the counterparties based on a fixed interest rate until maturity of the cross currency swap.

The following table summarizes the notional values of the instrument designated as a net investment hedge (in millions):

	Notional Amount as of December 31, 2018	December 31, 2017
Foreign currency denominated debt	$ —	$ 374.2
Cross currency swap contract	300.0	—

The following table summarizes the after-tax impact of changes in the fair value of the instrument designated as a net investment hedge (in millions):

	(Loss) Gain Recognized in Accumulated Other Comprehensive Loss for the Years Ended		
	December 31, 2018	December 31, 2017	December 31, 2016
Foreign currency denominated debt	$(14.4)	$ (45.0)	$ 12.7
Cross currency swap contract	17.7	—	—

91

Derivative Transactions Not Designated as Hedging Instruments

During 2018, 2017 and 2016, the Company entered into foreign currency contracts to economically hedge receivables and payables on the Company and its subsidiaries' balance sheets that are denominated in foreign currencies other than the functional currency. These contracts were classified as non-designated derivative instruments. Gains and losses on such contracts are substantially offset by losses and gains on the remeasurement of the underlying asset or liability being hedged and are immediately recognized into earnings. As of December 31, 2018 and 2017, the Company had outstanding foreign currency contracts with a notional amount of approximately $1,335.8 million and $1,701.4 million, respectively.

The following table summarizes the impact that changes in the fair value of derivatives not designated as hedging instruments had on net income (in millions):

	Classification of (Loss) Gain	For the Years Ended December 31, 2018	December 31, 2017	December 31, 2016
Foreign currency contracts	Other expense, net	$(1.4)	$ 38.3	$ (5.7)

The table below sets forth the fair value of derivative instruments as of December 31, 2018 (in millions):

	Asset Derivatives as of December 31, 2018		Liability Derivatives as of December 31, 2018	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivative instruments designated as hedging instruments:				
Foreign currency contracts	Other current assets	$1.9	Other current liabilities	$ 0.4
Cross currency swap contract	Other noncurrent assets	17.7	Other noncurrent liabilities	—
Derivative instruments not designated as hedging instruments:				
Foreign currency contracts	Other current assets	5.1	Other current liabilities	6.2
Total derivative instruments		$24.7		$ 6.6

The table below sets forth the fair value of derivative instruments as of December 31, 2017 (in millions):

	Asset Derivatives as of December 31, 2017		Liability Derivatives as of December 31, 2017	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivative instruments designated as hedging instruments:				
Foreign currency contracts	Other current assets	$ —	Other current liabilities	$1.2
Interest rate contract	Other noncurrent assets	—	Other noncurrent liabilities	4.8
Derivative instruments not designated as hedging instruments:				
Foreign currency contracts	Other current assets	7.8	Other current liabilities	11.0

Total derivative instruments	$ 7.8	$17.0

92

12. Commitments and Contingencies

The future payments required under the Company's significant commitments, excluding indebtedness, as of December 31, 2018 are as follows (in millions):

	Payments Due By Period						
	2019	2020	2021	2022	2023	Thereafter	Total
Interest payments related to indebtedness[1]	$15.0	$11.4	$10.6	$8.2	$5.2	$ 8.6	$59.0
Capital lease obligations	4.6	3.9	2.0	0.9	0.6	3.5	15.5
Operating lease obligations	46.7	39.5	32.6	26.0	21.7	85.5	252.0
Unconditional purchase obligations[2]	79.1	10.8	6.9	1.0	—	—	97.8
Other short-term and long-term obligations[3]	98.9	83.7	53.5	22.1	26.8	37.4	322.4
Total contractual cash obligations	$244.3	$149.3	$105.6	$58.2	$54.3	$ 135.0	$746.7

(1) Estimated interest payments are calculated assuming current interest rates over minimum maturity periods specified in debt agreements. Debt may be repaid sooner or later than such minimum maturity periods (unaudited).
(2) Unconditional purchase obligations exclude routine purchase orders entered into in the normal course of business.
(3) Other short-term and long-term obligations include estimates of future minimum contribution requirements under the Company's U.S. and non-U.S. defined benefit pension and postretirement plans. These estimates are based on current legislation in the countries the Company operates within and are subject to change. Other short-term and long-term obligations also include income tax liabilities related to uncertain income tax positions connected with ongoing income tax audits in various jurisdictions (unaudited).

	Amount of Commitment Expiration Per Period						
	2019	2020	2021	2022	2023	Thereafter	Total
Guarantees	$36.9	$4.7	$5.2	$3.6	$3.1	$ 0.7	$54.2

Off-Balance Sheet Arrangements

Guarantees

The Company maintains a remarketing agreement with its U.S. finance joint venture, AGCO Finance LLC, whereby the Company is obligated to repurchase up to $6.0 million of repossessed equipment each calendar year. The Company believes that any losses that might be incurred on the resale of this equipment will not materially impact the Company's financial position or results of operations, due to the fair value of the underlying equipment.

At December 31, 2018, the Company has outstanding guarantees of indebtedness owed to third parties of approximately $40.6 million, primarily related to dealer and end-user financing of equipment. Such guarantees generally obligate the Company to repay outstanding finance obligations owed to financial institutions if dealers or end users default on such loans through 2023. Losses under such guarantees historically have been insignificant. In addition, the Company generally would expect to be able to recover a significant portion of the amounts paid under such guarantees from the sale of the underlying financed farm equipment, as the fair value of such equipment is expected to be sufficient to offset a substantial portion of the amounts paid. The Company believes the credit risk associated with these guarantees is not material to its financial position or results of operations.

In addition, at December 31, 2018, the Company had accrued approximately $13.6 million of outstanding guarantees of minimum residual values that may be owed to its finance joint ventures in the United States and Canada due upon

expiration of certain eligible operating leases between the finance joint ventures and end users.

Other

At December 31, 2018, the Company had outstanding designated and non-designated foreign exchange contracts with a gross notional amount of approximately $1,462.8 million. The outstanding contracts as of December 31, 2018 range in maturity through December 2018 (Note 11).

The Company sells a majority of its wholesale receivables in North America, Europe and Brazil to its U.S., Canadian, European and Brazilian finance joint ventures. The Company also sells certain accounts receivable under factoring arrangements to financial institutions around the world. The Company reviewed the sale of such receivables and determined that these facilities should be accounted for as off-balance sheet transactions.

Total lease expense under noncancelable operating leases was $72.1 million, $73.0 million and $76.8 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Contingencies

In August 2008, as part of routine audits, the Brazilian taxing authorities disallowed deductions relating to the amortization of certain goodwill recognized in connection with a reorganization of the Company's Brazilian operations and the related transfer of certain assets to the Company's Brazilian subsidiaries. The amount of the tax disallowance through December 31, 2018, not including interest and penalties, was approximately 131.5 million Brazilian Reais (or approximately $33.9 million). The amount ultimately in dispute will be significantly greater because of interest and penalties. The Company has been advised by its legal and tax advisors that its position with respect to the deductions is allowable under the tax laws of Brazil. The Company is contesting the disallowance and believes that it is not likely that the assessment, interest or penalties will be required to be paid. However, the ultimate outcome will not be determined until the Brazilian tax appeal process is complete, which could take several years.

The Company is a party to various other legal claims and actions incidental to its business. The Company believes that none of these claims or actions, either individually or in the aggregate, is material to its business or financial statements as a whole, including its results of operations and financial condition.

13. Fair Value of Financial Instruments

The Company categorizes its assets and liabilities into one of three levels based on the assumptions used in valuing the asset or liability. Estimates of fair value for financial assets and liabilities are based on a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. In accordance with this guidance, fair value measurements are classified under the following hierarchy:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations in which all significant inputs are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Model-derived valuations in which one or more significant inputs are unobservable.

The Company categorizes its pension plan assets into one of the three levels of the fair value hierarchy. See Note 8 for a discussion of the valuation methods used to measure the fair value of the Company's pension plan assets.

The Company enters into foreign currency and interest rate swap contracts. The fair values of the Company's derivative instruments are determined using discounted cash flow valuation models. The significant inputs used in

these models are readily available in public markets, or can be derived from observable market transactions, and therefore have been classified as Level 2. Inputs used in these discounted cash flow valuation models for derivative instruments include the applicable exchange rates, forward rates or interest rates. Such models used for option contracts also use implied volatility. See Note 11 for a discussion of the Company's derivative instruments and hedging activities.

94

Table of Contents
AGCO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2017 are summarized below (in millions):

	As of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Derivative assets	$ —	$24.7	$ —	$24.7
Derivative liabilities	$ —	$6.6	$ —	$6.6

	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Derivative assets	$ —	$7.8	$ —	$7.8
Derivative liabilities	$ —	$17.0	$ —	$17.0

Cash and cash equivalents, accounts and notes receivable, and accounts payable are valued at their carrying amounts in the Company’s Consolidated Balance Sheets, due to the immediate or short-term maturity of these financial instruments.

The carrying amounts of long-term debt under the Company’s 1.056% senior term loan, senior term loans due 2022, credit facility and senior term loans due between 2019 and 2028 (Note 7) approximate fair value based on the borrowing rates currently available to the Company for loans with similar terms and average maturities.

14. Related Party Transactions

Rabobank, a financial institution based in the Netherlands, is a 51% owner in the Company’s finance joint ventures, which are located in the United States, Canada, Europe, Brazil, Argentina and Australia. Rabobank is also the principal agent and participant in the Company’s revolving credit facility (Note 7). The majority of the assets of the Company’s finance joint ventures represents finance receivables. The majority of the liabilities represents notes payable and accrued interest. Under the various joint venture agreements, Rabobank or its affiliates provide financing to the joint venture companies, primarily through lines of credit. During both 2018 and 2017, the Company did not make additional investments in its finance joint ventures. During 2016, the Company made a total of approximately $2.8 million of additional investments in its retail finance joint venture in the Netherlands, primarily related to additional capital required as a result of increased retail finance portfolios during 2016. During 2018 and 2017, the Company received dividends of approximately $29.4 million and $78.5 million, respectively, from certain of the Company’s finance joint ventures.

The Company’s finance joint ventures provide retail financing and wholesale financing to its dealers. The terms of the financing arrangements offered to the Company’s dealers are similar to arrangements the finance joint ventures provide to unaffiliated third parties. In addition, the Company transfers, on an ongoing basis, a majority of its wholesale receivables in North America, Europe and Brazil to its U.S., Canadian, European and Brazilian finance joint ventures (Note 4). The Company maintains a remarketing agreement with its U.S. finance joint venture (Note 12). In addition, as part of sales incentives provided to end users, the Company may from time to time subsidize interest rates of retail financing provided by its finance joint ventures. The cost of those programs is recognized at the time of sale to the Company’s dealers.

Tractors and Farm Equipment Limited ("TAFE"), in which the Company holds a 23.75% interest, manufactures and sells Massey Ferguson-branded equipment primarily in India, and also supplies tractors and components to the Company for sale in other markets. Mallika Srinivasan, who is the Chairman and Chief Executive Officer of TAFE, is currently a member of the Company's Board of Directors. As of December 31, 2018, TAFE owned 12,150,152 shares of the Company's common stock. The Company and TAFE are parties to an agreement pursuant to which, among other things, TAFE has agreed not to purchase in excess of 12,170,290 shares of the Company's common stock, subject to certain adjustments, and the Company has agreed to annually nominate a TAFE representative to its Board of Directors. During 2018, 2017 and 2016, the Company purchased approximately $109.6 million, $102.0 million and $128.5 million, respectively, of tractors and components from TAFE. During 2018, 2017 and 2016, the Company sold approximately $1.8 million, $1.2 million and $1.1 million, respectively, of parts to TAFE. The Company received dividends from TAFE of approximately $1.8 million, during both 2018 and 2017, and $1.6 million during 2016.

During 2018, 2017 and 2016, the Company paid approximately $3.5 million, $7.2 million and $3.1 million, respectively, to PPG Industries, Inc. for painting materials used in the Company's manufacturing processes. The Company's Chairman, President and Chief Executive Officer is currently a member of the board of directors of PPG Industries, Inc.

During 2018, 2017 and 2016, the Company paid approximately $1.6 million, $1.5 million and $2.0 million, respectively, to Praxair, Inc. for propane, gas and welding, and laser consumables used in the Company's manufacturing processes. The Company's Chairman, President and Chief Executive Officer is currently a member of the board of directors of Praxair, Inc.

15. Segment Reporting

Effective January 1, 2017, the Company modified its system of reporting, resulting from changes to its internal management and organizational structure, which changed its reportable segments from North America; South America; Europe/Africa/Middle East; and Asia/Pacific to North America; South America; Europe/Middle East; and Asia/Pacific/Africa. The Asia/Pacific/Africa reportable segment includes the regions of Africa, Asia, Australia and New Zealand, and the Europe/Middle East segment no longer includes certain markets in Africa. Effective January 1, 2017, these reportable segments are reflective of how the Company's chief operating decision maker reviews operating results for the purposes of allocating resources and assessing performance. Disclosures for the years ended December 31, 2018, 2017 and 2016 have been adjusted to reflect the change in reportable segments.

The Company's four reportable segments distribute a full range of agricultural equipment and related replacement parts. The Company evaluates segment performance primarily based on income from operations. Sales for each segment are based on the location of the third-party customer. The Company's selling, general and administrative expenses and engineering expenses are charged to each segment based on the region and division where the expenses are incurred. As a result, the components of income from operations for one segment may not be comparable to another segment. Segment results for the years ended December 31, 2018, 2017 and 2016 based on the Company's current reportable segments are as follows (in millions):

Years Ended December 31,	North America	South America	Europe/Middle East	Asia/Pacific/Africa	Consolidated
2018					
Net sales	$2,180.1	$959.0	$ 5,385.1	$ 827.8	$ 9,352.0
Income (loss) from operations	103.1	(10.1)	601.1	49.6	743.7
Depreciation	67.6	30.5	111.3	15.8	225.2
Assets	1,032.1	736.1	1,905.8	501.1	4,175.1
Capital expenditures	43.3	30.4	120.3	9.3	203.3
2017					
Net sales	$1,876.7	$1,063.5	$ 4,614.3	$ 752.0	$ 8,306.5
Income from operations	66.9	15.4	493.3	48.8	624.4
Depreciation	61.5	30.5	113.0	17.8	222.8
Assets	1,064.1	752.1	2,074.4	499.4	4,390.0
Capital expenditures	59.1	43.0	92.9	8.9	203.9
2016					
Net sales	$1,807.7	$917.5	$ 4,089.7	$ 595.6	$ 7,410.5
Income from operations	41.6	20.4	400.2	19.7	481.9
Depreciation	62.5	22.9	116.6	21.4	223.4

Assets	978.5	739.4	1,635.2	426.3	3,779.4
Capital expenditures	45.3	56.0	90.1	9.6	201.0

96

A reconciliation from the segment information to the consolidated balances for income from operations and total assets is set forth below (in millions):

	2018	2017	2016
Segment income from operations	$743.7	$624.4	$481.9
Corporate expenses	(133.7)	(116.2)	(114.9)
Stock compensation expense	(44.3)	(35.6)	(16.9)
Restructuring expenses	(12.0)	(11.2)	(11.9)
Amortization of intangibles	(64.7)	(57.0)	(51.2)
Consolidated income from operations	$489.0	$404.4	$287.0
Segment assets	$4,175.1	$4,390.0	$3,779.4
Cash and cash equivalents	326.1	367.7	429.7
Investments in affiliates	400.0	409.0	414.9
Deferred tax assets, other current and noncurrent assets	656.6	614.6	560.7
Intangible assets, net	573.1	649.0	607.3
Goodwill	1,495.5	1,541.4	1,376.4
Consolidated total assets	$7,626.4	$7,971.7	$7,168.4

Property, plant and equipment and amortizable intangible assets by country as of December 31, 2018 and 2017 was as follows (in millions):

	2018	2017
United States	$593.6	$647.9
Germany	371.5	405.5
Brazil	187.7	217.9
Finland	130.0	149.9
China	109.4	127.7
Denmark	108.7	125.7
Italy	115.1	123.0
France	75.6	66.0
Other	167.7	182.1
	$1,859.3	$2,045.7

16. REVENUE

Revenue is recognized when the Company satisfies the performance obligation by transferring control over goods or services to a dealer, distributor or other customer. The amount of revenue recognized is measured as the consideration the Company expects to receive in exchange for those goods or services pursuant to a contract with the customer. A contract exists once the Company receives and accepts a purchase order under a dealer sales agreement, or once the Company enters into a contract with an end user. The Company does not recognize revenue in cases where collectability is not probable, and defers the recognition until collection is probable or payment is received.

The Company generates revenue from the manufacture and distribution of agricultural equipment and replacement parts. Sales of equipment and replacement parts, which represents a majority of the Company's net sales, are recorded by the Company at the point in time when title and control have been transferred to an independent dealer, distributor or other customer. Title generally passes to the dealer or distributor upon shipment or specified delivery, and the risk of loss upon damage, theft or destruction of the equipment is the responsibility of the dealer, distributor or designated

third-party carrier. The Company believes control passes and the performance obligation is satisfied at the point of the stated shipping or delivery term with respect to such sales.

The amount of consideration the Company receives and the revenue recognized varies with certain sales incentives the Company offers to dealers and distributors. Estimates for sales incentives are made at the time of sale for existing incentive

97

programs using the expected value method. These estimates are revised in the event of subsequent modification to the incentive program. All incentive programs are recorded and presented as a reduction of revenue, due to the fact that the Company does not receive a distinct good or service in exchange for the consideration provided.

Dealers or distributors may not return equipment or replacement parts while its contract with the Company is in force, except for under established promotional and annual replacement parts return programs. At the time of sale, the Company estimates the amount of returns based on the terms of promotional and annual return programs and anticipated returns in the future.

Sales and other related taxes are excluded from the transaction price. Shipping and handling costs associated with freight are accounted for as fulfillment costs and are expensed at the time revenue is recognized in “Cost of goods sold” and “Selling, general and administrative expenses” in the Company’s Consolidated Statements of Operations.

The Company applied the practical expedient in ASU 2014-09 to not adjust the amount of revenue to be recognized under a contract with a dealer, distributor or other customer for the time value of money when the difference between the receipt of payment and the recognition of revenue is less than one year.

Although, substantially all revenue is recognized at a point in time, a relatively insignificant amount of installation revenue associated with the sale of grain storage and protein production systems is recognized on an “over time” basis as discussed below. The Company also recognizes revenue “over time” with respect to extended warranty or maintenance contracts and certain technology services. Generally, all of the contracts with customers that relate to “over time” revenue recognition have contract durations of less than 12 months.

Grain Storage and Protein Production Systems Installation Revenue. In certain countries, the Company sells grain storage and protein production systems where the Company is responsible for construction and installation, and the sale is contingent upon customer acceptance. Under these conditions, the revenues are recognized over the term of the contract when the Company can objectively determine control has been transferred to the customer in accordance with agreed-upon specifications in the contract. For these contracts, the Company may be entitled to receive an advance payment, which is recognized as a contract liability for the amount in excess of the revenue recognized. The Company uses the input method using costs incurred to date relative to total estimated costs at completion to measure the progress toward satisfaction of the performance obligation. Revenues are recorded proportionally as costs are incurred. Costs include labor, material and overhead. The estimation of the progress toward completion is subject to various assumptions. As part of the estimation process, the Company reviews the length of time to complete the performance obligation, the cost of materials and labor productivity. If a significant change in one of the assumptions occurs, then the Company will recognize an adjustment under the cumulative catch-up method and the impact of the adjustment on the revenue recorded to date is recognized in the period the adjustment is identified.

Extended Warranty Contracts. The Company sells separately priced extended warranty contracts, which extends coverage beyond the base warranty period. Revenue is recognized for the extended warranty contract on a straight-line basis, which the Company believes approximates the costs expected to be incurred in satisfying the obligations, over the extended warranty period. The extended warranty period ranges from one to five years. Payment is received at the inception of the extended warranty contract, which is recognized as a contract liability for the amount in excess of the revenue recognized. The revenue associated with the sale of extended warranty contracts is insignificant.

Technology Services Revenue. The Company sells a combination of technology products and services. When the bundled package of technology products and services is sold, the portion of the consideration received related to the

services component is recognized over time as the Company satisfies the future performance obligation. Revenue is recognized for the hardware component when control is transferred to the dealer or distributor. The revenue associated with the sale of technology services is insignificant.

Contract Assets and Liabilities

Contract assets relate to the Company’s right to recover returned replacement parts. When the refund for the returned replacement part is settled with the dealer or distributor, the contract asset is then transferred to inventory. Contract liabilities relate to the following: (1) the obligation to refund dealers or distributors for the expected return of replacement parts, (2) unrecognized revenues where advance payment of consideration precedes the Company’s performance with respect to extended warranty contracts and where the performance obligation is satisfied over time, (3) unrecognized revenues where advance

98

payment of consideration precedes the Company's performance with respect to certain grain storage and protein production systems and where the performance obligation is satisfied over time and (4) unrecognized revenues where advance payment consideration precedes the Company's performance with respect to technology services and where the performance obligation is satisfied over time.

Significant changes in the balance of contract assets and liabilities for the year ended December 31, 2018 were as follows (in millions):

Contract Assets

	Year Ended December 31, 2018[(1)]
Balance at beginning of period	$ 10.1
Additions for expected returns of replacement parts sold during the period	21.0
Transfer of returned replacement parts to inventory	(18.8)
Foreign currency translation	(0.1)
Balance as of December 31, 2018	$ 12.2

Contract Liabilities

	Year Ended December 31, 2018[(1)]
Balance at beginning of period	$ 104.4
Advance consideration received	124.9
Accrual for expected reimbursement of replacement parts sold during the period	52.3
Revenue recognized during the period for extended warranty contracts	(29.0)
Revenue recognized during the period related to installation of grain storage and protein production systems	(100.9)
Replacement part settlements made during the period	(45.7)
Foreign currency translation	(1.0)
Balance as of December 31, 2018	$ 105.0

---

(1) The beginning of the period is from the date of adoption of ASU 2014-09 or January 1, 2018.

The contract assets are classified as "Other current assets" and "Other assets", and the contract liabilities are classified as either "Other current and noncurrent liabilities" or "Accrued expenses" in the Company's Consolidated Balance Sheets.

Remaining Performance Obligations

The estimated revenues expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of December 31, 2018 are $29.6 million in 2019, $21.1 million in 2020, $11.8 million in 2021, $5.8 million in 2022 and $1.8 million thereafter, and relate primarily to extended warranty contracts. The Company applied the practical expedient in ASU 2014-09 and has not disclosed information about remaining performance obligations that have original expected durations of 12 months or less.

99

Table of Contents
AGCO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Disaggregated Revenue

Net sales for the year ended December 31, 2018 disaggregated by primary geographical markets and major products consisted of the following (in millions):

	North America	South America	Europe/Middle East[(1)]	Asia/Pacific/Africa	Consolidated[(1)]
Primary geographical markets:					
United States	$1,723.6	$ —	$ —	$ —	$ 1,723.6
Canada	329.0	—	—	—	329.0
Germany	—	—	1,213.6	—	1,213.6
France	—	—	1,002.9	—	1,002.9
United Kingdom and Ireland	—	—	614.4	—	614.4
Finland and Scandinavia	—	—	826.5	—	826.5
Other Europe	—	—	1,627.8	—	1,627.8
South America	—	943.1	—	—	943.1
Middle East and Algeria	—	—	100.0	—	100.0
Africa	—	—	—	135.5	135.5
Asia	—	—	—	414.5	414.5
Australia and New Zealand	—	—	—	277.8	277.8
Mexico, Central America and Caribbean	127.5	15.9	—	—	143.4
	$2,180.1	$ 959.0	$ 5,385.1	$ 827.8	$ 9,352.0
Major products:					
Tractors	$665.8	$ 599.1	$ 3,743.0	$ 353.2	$ 5,361.1
Replacement parts	298.7	91.0	880.3	76.0	1,346.0
Grain storage and protein production systems	570.3	70.1	187.6	285.5	1,113.5
Combines	63.1	104.0	143.2	9.4	319.7
Application equipment	225.6	34.1	27.3	18.7	305.7
Other machinery	356.6	60.7	403.8	85.0	906.1
	$2,180.1	$ 959.0	$ 5,385.1	$ 827.8	$ 9,352.0

(1) Rounding may impact summation of amounts.

Table of Contents
AGCO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Net sales for the year ended December 31, 2017 disaggregated by primary geographical markets and major products consisted of the following (in millions):

	North America[1]	South America	Europe/Middle East	Asia/Pacific/Africa[1]	Consolidated
Primary geographical markets:					
United States	$ 1,445.7	$—	$ —	$ —	$ 1,445.7
Canada	296.9	—	—	—	296.9
Germany	—	—	997.4	—	997.4
France	—	—	815.7	—	815.7
United Kingdom and Ireland	—	—	512.6	—	512.6
Finland and Scandinavia	—	—	721.3	—	721.3
Other Europe	—	—	1,396.0	—	1,396.0
South America	—	1,039.2	—	—	1,039.2
Middle East and Algeria	—	—	171.3	—	171.3
Africa	—	—	—	138.1	138.1
Asia	—	—	—	366.4	366.4
Australia and New Zealand	—	—	—	247.4	247.4
Mexico, Central America and Caribbean	134.2	24.3	—	—	158.5
	$ 1,876.7	$ 1,063.5	$ 4,614.3	$ 752.0	$ 8,306.5
Major products:					
Tractors	$ 624.8	$ 673.5	$ 3,149.7	$ 337.2	$ 4,785.2
Replacement parts	287.0	108.4	835.3	74.3	1,305.0
Grain storage and protein production systems	537.2	72.9	182.9	256.6	1,049.6
Combines	67.4	131.9	139.2	10.5	349.0
Application equipment	166.4	26.1	32.1	10.6	235.2
Other machinery	193.9	50.7	275.1	62.8	582.5
	$ 1,876.7	$ 1,063.5	$ 4,614.3	$ 752.0	$ 8,306.5

(1) Rounding may impact summation of amounts.

Table of Contents
AGCO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Net sales for the year ended December 31, 2016 disaggregated by primary geographical markets and major products consisted of the following (in millions):

	North America	South America[(1)]	Europe/Middle East[(1)]	Asia/Pacific/Africa	Consolidated
Primary geographical markets:					
United States	$1,404.6	$ —	$ —	$ —	$ 1,404.6
Canada	286.7	—	—	—	286.7
Germany	—	—	891.2	—	891.2
France	—	—	746.9	—	746.9
United Kingdom and Ireland	—	—	440.7	—	440.7
Finland and Scandinavia	—	—	677.7	—	677.7
Other Europe	—	—	1,127.9	—	1,127.9
South America	—	893.9	—	—	893.9
Middle East and Algeria	—	—	205.4	—	205.4
Africa	—	—	—	116.2	116.2
Asia	—	—	—	266.8	266.8
Australia and New Zealand	—	—	—	212.6	212.6
Mexico, Central America and Caribbean	116.4	23.5	—	—	139.9
	$1,807.7	$ 917.5	$ 4,089.7	$ 595.6	$ 7,410.5
Major products:					
Tractors	$506.2	$ 594.3	$ 2,846.4	$ 278.2	$ 4,225.1
Replacement parts	288.3	88.0	771.0	64.0	1,211.3
Grain storage and protein production systems	574.6	66.1	85.2	166.6	892.5
Combines	64.0	93.8	123.4	21.6	302.8
Application equipment	190.8	23.7	34.8	7.9	257.2
Other machinery	183.8	51.6	228.9	57.3	521.6
	$1,807.7	$ 917.5	$ 4,089.7	$ 595.6	$ 7,410.5

(1) Rounding may impact summation of amounts.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that the Company's disclosure controls or the Company's internal controls will prevent all errors and all fraud. However, our principal executive officer and principal financial officer have concluded the Company's disclosure controls and procedures are effective at the reasonable assurance level. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. We will conduct periodic evaluations of our internal controls to enhance, where necessary, our procedures and controls.

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2018, have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements for external purposes in accordance with generally accepted accounting principles. In assessing the effectiveness of the Company's internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control — Integrated Framework (2013)."

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. Based on this assessment, management believes that, as of December 31, 2018, the Company's internal control over financial reporting is effective based on the criteria referred to above.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2018 has been audited by KPMG LLP, an independent registered public accounting firm, which also audited the Company's Consolidated Financial Statements as of and for the year ended December 31, 2018. KPMG LLP's report on internal control over financial reporting is set forth below.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. However, as a result of the Company's processes to comply with the Sarbanes-Oxley Act of 2002, enhancements to the Company's internal control over financial reporting were implemented as management addressed and remediated deficiencies that had been identified.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
AGCO Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited AGCO Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes and financial statement schedule (collectively, the consolidated financial statements), and our report dated March 1, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Table of Contents

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Atlanta, Georgia
March 1, 2019

Table of Contents

Item 9B. Other Information

None.

PART III

The information called for by Items 10, 11, 12, 13 and 14, if any, will be contained in our Proxy Statement for the 2019 Annual Meeting of Stockholders, which we intend to file in March 2019.

Item 10 Directors, Executive Officers and Corporate Governance

The information with respect to directors and committees required by this Item set forth in our Proxy Statement for the 2019 Annual Meeting of Stockholders in the sections entitled Proposal Number 1 “Election of Directors” and “Board of Directors and Corporate Governance” is incorporated herein by reference. The information with respect to executive officers required by this Item set forth in our Proxy Statement for the 2019 Annual Meeting of Stockholders in the sections entitled “Executive Compensation” and “Section 16(a) Beneficial Ownership Reporting Compliance” is incorporated herein by reference.

See the information under the heading “Available Information” set forth in Part I of this Form 10-K. The code of conduct referenced therein applies to our principal executive officer, principal financial officer, principal accounting officer and controller and the persons performing similar functions.

Item 11. Executive Compensation

The information with respect to executive compensation and its establishment required by this Item set forth in our Proxy Statement for the 2019 Annual Meeting of Stockholders in the sections entitled “Board of Directors and Corporate Governance,” “2018 CEO Pay Ratio,” “Executive Compensation” and “Compensation Committee Report” is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

(a) Securities Authorized for Issuance Under Equity Compensation Plans

AGCO maintains its Plan pursuant to which we may grant equity awards to eligible persons. For additional information, see Note 10, “Stock Incentive Plan,” in the Notes to Consolidated Financial Statements included in this filing. The following table gives information about equity awards under our Plan.

Plan Category	(a) Number of Securities to be Issued upon Exercise of Outstanding Awards Under the Plans	(b) Weighted-Average Exercise Price of Outstanding Awards Under the Plans	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected

			in Column (a)
Equity compensation plans approved by security holders	2,391,429	$ 60.63	3,436,426
Equity compensation plans not approved by security holders	—	—	—
Total	2,391,429	$ 60.63	3,436,426

(b) Security Ownership of Certain Beneficial Owners and Management

The information required by this Item set forth in our Proxy Statement for the 2019 Annual Meeting of Stockholders in the section entitled "Principal Holders of Common Stock" is incorporated herein by reference.

Item 13. Certain Relationships and Related Party Transactions, and Director Independence

The information required by this Item set forth in our Proxy Statement for the 2019 Annual Meeting of Stockholders in the section entitled "Certain Relationships and Related Party Transactions" is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by this Item set forth in our 2019 Proxy Statement for the Annual Meeting of Stockholders in the sections entitled "Audit Committee Report" and "Board of Directors and Corporate Governance" is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this Form 10-K:
(1) The Consolidated Financial Statements, Notes to Consolidated Financial Statements, Report of Independent Registered Public Accounting Firm for AGCO Corporation and its subsidiaries are presented under Item 8 of this Form 10-K.
(2) Financial Statement Schedules:
The following Consolidated Financial Statement Schedule of AGCO Corporation and its subsidiaries is included herein and follows this report.

Schedule	Description
Schedule II	Valuation and Qualifying Accounts

Schedules other than that listed above have been omitted because the required information is contained in Notes to the Consolidated Financial Statements or because such schedules are not required or are not applicable.
(3) The following exhibits are filed or incorporated by reference as part of this report. Each management contract or compensation plan required to be filed as an exhibit is identified by an asterisk (*). The exhibits below may not include all instruments defining the rights of holders of long-term debt where the debt does not exceed 10% of the Company's total assets. The Company agrees to furnish copies of those instruments to the Commission upon request.

Exhibit Number	Description of Exhibit	The Filings Referenced for Incorporation by Reference are AGCO Corporation
3.1	Certificate of Incorporation	June 30, 2002, Form 10-Q, Exhibit 3.1
3.2	By-Laws	December 10, 2014, Form 8-K, Exhibit 3.1
10.1	2006 Long-Term Incentive Plan*	September 30, 2017, Form 10-Q, Exhibit 10.5
10.2	2006 Form of Non-Qualified Stock Option Award Agreement*	March 31, 2006, Form 10-Q, Exhibit 10.2
10.3	2006 Form of Incentive Stock Option Award Agreement*	March 31, 2006, Form 10-Q, Exhibit 10.3
10.4	2006 Form of Stock Appreciation Rights Agreement*	March 31, 2006, Form 10-Q, Exhibit 10.4
10.5	2019 Form of Stock Appreciation Rights Agreement*	January 22, 2019, Form 8-K, Exhibit 10.2
10.6	2016 Form of Restricted Stock Units Agreement*	January 27, 2016, Form 8-K, Exhibit 10.1
10.7	2018 Form of Restricted Stock Units Agreement*	June 30, 2018, Form 10-Q, Exhibit 10.1
10.8	2019 Form of Restricted Stock Units Agreement*	January 22, 2019, Form 8-K, Exhibit 10.1
10.9	2006 Form of Performance Share Award*	March 31, 2006, Form 10-Q, Exhibit 10.6
10.10	2019 Form of Performance Share Agreement*	January 22, 2019, Form 8-K, Exhibit 10.3
10.11	Amended and Restated Management Incentive Plan*	March 25, 2013, Form DEF14A, Appendix A
10.12	Amended and Restated Executive Nonqualified Pension Plan*	October 2, 2015, Form 8-K, Exhibit 99.1
10.13	Executive Nonqualified Defined Contribution Plan*	December 31, 2015, Form 10-K, Exhibit 10.9
10.14	Employment and Severance Agreement with Martin Richenhagen*	December 31, 2009, Form 10-K, Exhibit 10.12

10.15	Employment and Severance Agreement with Andrew H. Beck*	March 31, 2010, Form 10-Q, Exhibit 10.2

107

Table of Contents

Exhibit Number	Description of Exhibit	The Filings Referenced for Incorporation by Reference are AGCO Corporation
10.16	Employment and Severance Agreement with Eric P. Hansotia*	Filed herewith
10.17	Employment and Severance Agreement with Robert B. Crain*	December 31, 2017, Form 10-K, Exhibit 10.13
10.18	Employment and Severance Agreement with Rob Smith*	December 31, 2015, Form 10-K, Exhibit 10.13
10.19	Employment and Severance Agreement with Hans-Bernd Veltmaat*	December 31, 2009, Form 10-K, Exhibit 10.17
10.20	Debt Agreement dated December 18, 2014	December 31, 2014, Form 10-K, Exhibit 10.15
10.21	Credit Agreement dated as of October 17, 2018	September 30, 2018, Form 10-Q, Exhibit 10.1
10.22	Letter Agreement, dated November 5, 2015, between AGCO International GmbH and TAFE International LLC, Turkey and Tractors and Farm Equipment Limited	September 30, 2015, Form 10-Q, Exhibit 10.1
10.23	Letter Agreement, dated August 29, 2014, between AGCO Corporation and Tractors and Farm Equipment Limited	September 4, 2014, Form 8-K, Exhibit 10.1
10.24	Farm and Machinery Distributor Agreement, dated January 1, 2012, between AGCO International GmbH and Tractors and Farm Equipment Limited	September 4, 2014, Form 8-K, Exhibit 10.2
10.25	Letter Agreement, dated August 3, 2007, between AGCO Corporation and Tractors and Farm Equipment Limited	September 4, 2014, Form 8-K, Exhibit 10.3
10.26	Letter Agreement for Far East Markets, dated July 24, 2017, between AGCO International GmbH and Tractors and Farm Equipment Limited	July 27, 2017, Form 8-K, Exhibit 10.1
10.27	Letter Agreement for Mexico, dated July 24, 2017, between AGCO International GmbH and Tractors and Farm Equipment Limited	July 27, 2017, Form 8-K, Exhibit 10.2
10.28	Letter Agreement for Australia/New Zealand, dated July 24, 2017, between AGCO International GmbH and Tractors and Farm Equipment Limited	July 27, 2017, Form 8-K, Exhibit 10.3
10.29	Amendment to the Letter Agreement for Africa, dated July 24, 2017, between AGCO International GmbH and Tractors and Farm Equipment Limited	July 27, 2017, Form 8-K, Exhibit 10.4
10.30	Consultancy Agreement, dated December 8, 2014, between AGCO Do Brasil Comércio E Industria Ltda and André Carioba*	December 10, 2014, Form 8-K, Exhibit 10.1
10.31	Current Director Compensation*	Filed herewith
21.1	Subsidiaries of the Registrant	Filed herewith
23.1	Consent of KPMG LLP	Filed herewith
24.1	Powers of Attorney	Filed herewith
31.1	Certification of Martin Richenhagen	Filed herewith
31.2	Certification of Andrew H. Beck	Filed herewith
32.1	Certification of Martin Richenhagen and Andrew H. Beck	Filed herewith

Table of Contents

Exhibit Number	Description of Exhibit	The Filings Referenced for Incorporation by Reference are AGCO Corporation
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed herewith

Item 16. Form 10-K Summary

None.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AGCO Corporation

By: /s/ MARTIN RICHENHAGEN
Martin Richenhagen
Chairman of the Board, President
and Chief Executive Officer

Dated: March 1, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the date indicated.

Signature	Title	Date
/s/ MARTIN RICHENHAGEN	Chairman of the Board, President and Chief Executive Officer	March 1, 2019
Martin Richenhagen		
/s/ ANDREW H. BECK	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 1, 2019
Andrew H. Beck		
/s/ LARA T. LONG	Vice President, Chief Accounting Officer (Principal Accounting Officer)	March 1, 2019
Lara T. Long		
/s/ ROY V. ARMES *	Director	March 1, 2019
Roy V. Armes		
/s/ MICHAEL C. ARNOLD *	Director	March 1, 2019
Michael C. Arnold		
/s/ P. GEORGE BENSON *	Director	March 1, 2019
P. George Benson		
/s/ SUZANNE P. CLARK *	Director	March 1, 2019
Suzanne P. Clark		
/s/ WOLFGANG DEML *	Director	March 1, 2019
Wolfgang Deml		
/s/ GEORGE E. MINNICH *	Director	March 1, 2019
George E. Minnich		
/s/ GERALD L. SHAHEEN *	Director	March 1, 2019
Gerald L. Shaheen		
/s/ MALLIKA SRINIVASAN *	Director	March 1, 2019
Mallika Srinivasan		
/s/ HENDRIKUS VISSER *	Director	March 1, 2019
Hendrikus Visser		

*By: /s/ ANDREW H. BECK — March 1, 2019
Andrew H. Beck
Attorney-in-Fact

Table of Contents

ANNUAL REPORT ON FORM 10-K
ITEM 15 (A)(2)
FINANCIAL STATEMENT SCHEDULE
YEAR ENDED DECEMBER 31, 2018

II-1

Table of Contents

SCHEDULE II

AGCO CORPORATION AND SUBSIDIARIES

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
(In millions)

Description	Balance at Beginning of Period	Additions Acquired Businesses	Additions Charged to Costs and Expenses	Deductions	Foreign Currency Translation	Balance at End of Period
Year ended December 31, 2018						
Allowances for doubtful accounts	$ 38.7	$—	$ 6.4	$ (11.4)	$ (2.0)	$ 31.7
Year ended December 31, 2017						
Allowances for doubtful accounts	$ 33.7	$2.2	$ 4.6	$ (3.8)	$ 2.0	$ 38.7
Year ended December 31, 2016						
Allowances for doubtful accounts	$ 29.3	$2.2	$ 3.2	$ (0.7)	$ (0.3)	$ 33.7

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Reversal of Accrual	Deductions	Foreign Currency Translation	Balance at End of Period
Year ended December 31, 2018						
Accruals of severance, relocation and other integration costs	$ 10.9	$13.8	$ (2.1)	$ (14.4)	$ (1.1)	$ 7.1
Year ended December 31, 2017						
Accruals of severance, relocation and other integration costs	$ 15.3	$12.4	$ (1.4)	$ (16.8)	$ 1.4	$ 10.9
Year ended December 31, 2016						
Accruals of severance, relocation and other integration costs	$ 16.9	$12.0	$ (0.1)	$ (13.3)	$ (0.2)	$ 15.3

Description	Balance at Beginning of Period	Additions Acquired Businesses	Additions Charged (Credited) to Costs and Expenses(1)	Deductions	Foreign Currency Translation	Balance at End of Period
Year ended December 31, 2018						
Deferred tax valuation allowance	$ 81.9	$—	$ 6.3	$ —	$ (4.3)	$ 83.9
Year ended December 31, 2017						
Deferred tax valuation allowance	$ 116.0	$—	$ (38.4)	$ —	$ 4.3	$ 81.9
Year ended December 31, 2016						
Deferred tax valuation allowance	$ 75.8	$—	$ 37.9	$ —	$ 2.3	$ 116.0

[1] Amount charged through other comprehensive income during the year ended December 31, 2018 was $18.3 million.

Table of Contents