AGCO CORP /DE
Form 10-Q
November 05, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
For the quarter ended September 30, 2010
of
AGCO CORPORATION
A Delaware Corporation
IRS Employer Identification No. 58-1960019
SEC File Number 1-12930
4205 River Green Parkway
Duluth, GA 30096
(770) 813-9200

AGCO Corporation (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

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

As of October 31, 2010, AGCO Corporation had 93,045,763 shares of common stock outstanding. AGCO Corporation is a large accelerated filer.

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

AGCO CORPORATION AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2010	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 459.2	$ 651.4
Accounts and notes receivable, net	863.4	725.2
Inventories, net	1,432.3	1,156.7
Deferred tax assets	85.7	63.6
Other current assets	167.9	151.6
Total current assets	3,008.5	2,748.5
Property, plant and equipment, net	874.0	910.0
Investment in affiliates	378.4	353.9
Deferred tax assets	67.5	70.0
Other assets	131.4	115.7
Intangible assets, net	150.0	166.8
Goodwill	611.9	634.0
Total assets	$ 5,221.7	$ 4,998.9
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current portion of long-term debt	$	$ 0.1
Convertible senior subordinated notes	162.1	193.0
Securitization facilities	75.4	
Accounts payable	666.1	621.6
Accrued expenses	799.8	808.7
Other current liabilities	76.1	45.5
Total current liabilities	1,779.5	1,668.9
Long-term debt, less current portion	446.1	454.0
Pensions and postretirement health care benefits	266.7	276.6
Deferred tax liabilities	117.7	118.7
Other noncurrent liabilities	80.5	78.0
Total liabilities	2,690.5	2,596.2

Commitments and contingencies (Note 16)

Temporary Equity:

Equity component of redeemable convertible senior subordinated notes		1.7		8.3
Stockholders Equity:				
AGCO Corporation stockholders equity:				
Preferred stock; $0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding in 2010 and 2009				
Common stock; $0.01 par value, 150,000,000 shares authorized, 93,044,066 and 92,453,665 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively		0.9		0.9
Additional paid-in capital		1,044.7		1,061.9
Retained earnings		1,653.1		1,517.8
Accumulated other comprehensive loss		(170.1)		(187.4)
Total AGCO Corporation stockholders equity		2,528.6		2,393.2
Noncontrolling interest		0.9		1.2
Total stockholders equity		2,529.5		2,394.4
Total liabilities, temporary equity and stockholders equity	$	5,221.7	$	4,998.9

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,	
	2010	2009
Net sales	$ 1,657.4	$ 1,389.5
Cost of goods sold	1,353.6	1,146.4
Gross profit	303.8	243.1
Selling, general and administrative expenses	170.3	155.5
Engineering expenses	51.4	46.3
Restructuring and other infrequent expenses	1.2	1.0
Amortization of intangibles	5.0	4.6
Income from operations	75.9	35.7
Interest expense, net	5.8	10.1
Other expense, net	4.9	5.6
Income before income taxes and equity in net earnings of affiliates	65.2	20.0
Income tax provision	14.1	14.8
Income before equity in net earnings of affiliates	51.1	5.2
Equity in net earnings of affiliates	11.1	5.9
Net income	62.2	11.1
Net loss attributable to noncontrolling interest	0.1	
Net income attributable to AGCO Corporation and subsidiaries	$ 62.3	$ 11.1
Net income per common share attributable to AGCO Corporation and subsidiaries:		
Basic	$ 0.67	$ 0.12
Diluted	$ 0.65	$ 0.12

Weighted average number of common and common equivalent shares outstanding:		
Basic	92.9	92.3
Diluted	95.8	94.8

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2010	2009
Net sales	$ 4,728.6	$ 4,689.2
Cost of goods sold	3,879.1	3,883.5
Gross profit	849.5	805.7
Selling, general and administrative expenses	492.1	471.3
Engineering expenses	158.5	146.4
Restructuring and other infrequent expenses	3.3	3.8
Amortization of intangibles	13.8	13.3
Income from operations	181.8	170.9
Interest expense, net	23.7	33.1
Other expense, net	9.7	20.4
Income before income taxes and equity in net earnings of affiliates	148.4	117.4
Income tax provision	49.8	43.2
Income before equity in net earnings of affiliates	98.6	74.2
Equity in net earnings of affiliates	36.4	28.0
Net income	135.0	102.2
Net loss attributable to noncontrolling interest	0.3	
Net income attributable to AGCO Corporation and subsidiaries	$ 135.3	$ 102.2
Net income per common share attributable to AGCO Corporation and subsidiaries:		
Basic	$ 1.46	$ 1.11
Diluted	$ 1.41	$ 1.09

Weighted average number of common and common equivalent shares outstanding:		
Basic	92.7	92.2
Diluted	96.0	93.5

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net income	$ 135.0	$ 102.2
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	97.7	83.6
Deferred debt issuance cost amortization	2.1	2.1
Amortization of intangibles	13.8	13.3
Amortization of debt discount	11.7	11.3
Stock compensation	8.5	11.3
Equity in net earnings of affiliates, net of cash received	(25.3)	(13.6)
Deferred income tax provision	(14.0)	(7.9)
Gain on sale of property, plant and equipment	(0.1)	(0.3)
Changes in operating assets and liabilities:		
Accounts and notes receivable, net	22.0	35.1
Inventories, net	(277.2)	45.7
Other current and noncurrent assets	(62.0)	19.0
Accounts payable	46.3	(379.2)
Accrued expenses	28.7	(65.0)
Other current and noncurrent liabilities	16.9	(16.2)
Total adjustments	(130.9)	(260.8)
Net cash provided by (used in) operating activities	4.1	(158.6)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(82.8)	(142.9)
Proceeds from sale of property, plant and equipment	0.5	1.8
Investments in unconsolidated affiliates, net		(1.1)
Restricted cash and other		32.2
Net cash used in investing activities	(82.3)	(110.0)
Cash flows from financing activities:		
Repayment of debt obligations, net	(76.0)	(59.9)
Repurchase of convertible senior subordinated notes	(58.1)	
Payment of minimum tax withholdings on stock compensation	(11.1)	(5.2)
Proceeds from issuance of common stock	0.2	
Investments by noncontrolling interest		1.3
Net cash used in financing activities	(145.0)	(63.8)

Effect of exchange rate changes on cash and cash equivalents		31.0		44.7
Decrease in cash and cash equivalents		(192.2)		(287.7)
Cash and cash equivalents, beginning of period		651.4		506.1
Cash and cash equivalents, end of period	$	459.2	$	218.4

See accompanying notes to condensed consolidated financial statements.

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

1. BASIS OF PRESENTATION

The condensed consolidated financial statements of AGCO Corporation and its subsidiaries (the Company or AGCO) included herein have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP) for interim financial information and the rules and regulations of the Securities and Exchange Commission (SEC). In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary to present fairly the Company s financial position, results of operations and cash flows at the dates and for the periods presented. These condensed consolidated financial statements should be read in conjunction with the Company s audited financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. Results for interim periods are not necessarily indicative of the results for the year. Certain prior period amounts have been reclassified to conform to the current period presentation.

Recent Accounting Pronouncements

In December 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-17, Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (ASU 2009-17). ASU 2009-17 eliminated the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and requires a qualitative analysis to determine whether an enterprise s variable interest gives it a controlling financial interest in a variable interest entity. This standard also requires ongoing assessments of whether an enterprise has a controlling financial interest in a variable interest entity. ASU 2009-17 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2009. On January 1, 2010, the Company adopted the provisions of ASU 2009-17 and performed a qualitative analysis of all its joint ventures, including its GIMA joint venture, to determine whether it had a controlling financial interest in such ventures. As a result of this analysis, the Company determined that its GIMA joint venture should no longer be consolidated into the Company s results of operations or financial position as the Company does not have a controlling financial interest in GIMA based on the shared powers of both joint venture partners to direct the activities that most significantly impact GIMA s financial performance (Note 2).

In December 2009, the FASB issued ASU 2009-16, Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets (ASU 2009-16). ASU 2009-16 eliminated the concept of a qualifying special-purpose entity (QSPE), changed the requirements for derecognizing financial assets, and added requirements for additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity s continuing involvement in and exposure to the risks related to transferred financial assets. ASU 2009-16 is effective for fiscal years and interim periods beginning after November 15, 2009. On January 1, 2010, the Company adopted the provisions of ASU 2009-16, and, in accordance with the standard, the Company recognized approximately $75.4 million of accounts receivable sold through its European securitization facilities within the Company s Condensed Consolidated Balance Sheets as of September 30, 2010, with a corresponding liability equivalent to the funded balance of the facility (Note 13).

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Notes to Condensed Consolidated Financial Statements Continued
(unaudited)

2. DECONSOLIDATION OF JOINT VENTURE

On January 1, 2010, the Company adopted the provisions of ASU 2009-17 and performed a qualitative analysis of all its joint ventures, including its GIMA joint venture, to determine whether it had a controlling financial interest in such ventures. As a result of this analysis, the Company determined that its GIMA joint venture should no longer be consolidated into the Company s results of operations or financial position as the Company does not have a controlling financial interest in GIMA based on the shared powers of both joint venture partners to direct the activities that most significantly impact GIMA s financial performance. GIMA is a joint venture between AGCO and Claas Tractor SAS to cooperate in the field of purchasing, design and manufacturing of components for agricultural tractors. Each party has a 50% ownership interest in the joint venture and has an investment of approximately 4.2 million in the joint venture. Both parties purchase all of the production output of the joint venture. The deconsolidation of GIMA resulted in a retroactive reduction to Noncontrolling interests within equity and an increase to Investments in affiliates of approximately $6.4 million in the Company s Condensed Consolidated Balance Sheet as of December 31, 2009. The deconsolidation also resulted in a retroactive reduction to the Company s Net sales and Income from Operations within its Condensed Consolidated Statements of Operations and a reclassification of amounts previously reported as Net income attributable to noncontrolling interests to Equity in net earnings of affiliates, but otherwise had no net impact to the Company s consolidated net income for the three and nine months ended September 30, 2009. In addition, the deconsolidation resulted in a reduction to the Company s Total assets and Total liabilities within its Condensed Consolidated Balance Sheets as of December 31, 2009, but had no net impact to the Company s Total stockholders equity other than the reduction previously mentioned. The Company retroactively restated prior periods and recorded the following adjustments (in millions):

	As Previously Reported	Adjustment	As adjusted
Condensed Consolidated Balance Sheet as of December 31, 2009			
Total assets	$5,062.2	$(63.3)	$4,998.9
Total liabilities	$2,653.1	$(56.9)	$2,596.2
Condensed Consolidated Statement of Operations for the Three Months Ended September 30, 2009			
Net sales	$1,403.7	$(14.2)	$1,389.5
Income from operations	$ 34.0	$ 1.7	$ 35.7
Condensed Consolidated Statement of Operations for the Nine Months Ended September 30, 2009			
Net sales	$4,777.9	$(88.7)	$4,689.2
Income from operations	$ 170.4	$ 0.5	$ 170.9

3. RESTRUCTURING AND OTHER INFREQUENT EXPENSES

During 2009 and 2010, the Company announced and initiated several actions to rationalize employee headcount at various manufacturing facilities located in France, Finland, Germany and the United States, as well as at various administrative offices located in the United Kingdom, Spain and the United States. During 2009, the Company recorded approximately $12.8 million of severance and other related costs associated with such actions and paid approximately $5.0 million of such costs. During the nine months ended September 30, 2010, the Company recorded additional restructuring and other infrequent expenses of approximately $1.3 million associated with such actions, which were primarily related to severance, retention and other related costs incurred in Spain, Finland and France. The Company paid approximately $7.1 million of severance and other related costs during the nine months ended September 30, 2010 associated with such actions and terminated 650 of the 727 employees expected to be terminated. A majority of the remaining $2.0 million of severance and other related costs accrued as of September 30, 2010 are expected to be paid during 2010.

In November 2009, the Company announced the closure of its assembly operations located in Randers, Denmark. The Company ceased operations in July 2010 and completed the transfer of the assembly operations to its harvesting equipment manufacturing joint venture, Laverda, located in Breganze, Italy, in August 2010. The Company recorded approximately $0.4 million of severance and other related costs in 2009 associated with the facility closure. During the nine months ended September 30, 2010, the Company recorded additional restructuring and other infrequent expenses of approximately $2.0 million associated with the closure, primarily related to employee retention payments, which are being accrued over the term of the retention period. The Company paid approximately $1.2 million of severance and other related costs during the nine months ended September 30, 2010 and terminated 54 of the 82 employees expected to be terminated. A majority of the remaining $1.2 million of severance, retention and other related costs accrued as of September 30, 2010 are expected to be paid during 2010.

4. STOCK COMPENSATION PLANS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Cost of goods sold	$ 0.2	$ 0.1	$ 0.5	$ 0.6
Selling, general and administrative expenses	3.0	2.8	8.2	11.0
Total stock compensation expense	$ 3.2	$ 2.9	$ 8.7	$ 11.6

Stock Incentive Plans

Under the Company s 2006 Long Term Incentive Plan (the 2006 Plan), up to 5.0 million shares of AGCO common stock may be issued. The 2006 Plan allows the Company, under the direction of the Board of Directors Compensation Committee, to make grants of performance shares, stock appreciation rights, stock options and restricted stock awards to employees, officers and non-employee directors of the Company.

Employee Plans

The weighted average grant-date fair value of performance awards granted under the 2006 Plan during the nine months ended September 30, 2010 and 2009 was $33.61 and $21.55, respectively.

Notes to Condensed Consolidated Financial Statements Continued
(unaudited)

During the nine months ended September 30, 2010, the Company granted 766,500 awards for the three-year performance period commencing in 2010 and ending in 2012, assuming the maximum target level of performance is achieved. The compensation expense associated with all awards granted under the 2006 Plan is amortized ratably over the vesting or performance period based on the Company s projected assessment of the level of performance that will be achieved and earned. Performance award transactions during the nine months ended September 30, 2010 were as follows and are presented as if the Company were to achieve its maximum target levels of performance under the plan:

Shares awarded but not earned at January 1	1,742,868
Shares awarded	766,500
Shares forfeited or unearned	(108,082)
Shares earned	
Shares awarded but not earned at September 30	2,401,286

As of September 30, 2010, 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 $19.6 million, and the weighted average period over which it is expected to be recognized is approximately two years.

During the three and nine months ended September 30, 2010, the Company recorded stock compensation expense of approximately $0.6 million and $1.9 million, respectively, associated with stock settled stock appreciation rights (SSAR) awards. During the three and nine months ended September 30, 2009, the Company recorded stock compensation expense of approximately $0.6 million and $1.8 million, respectively, associated with SSAR awards. The Company estimated the fair value of the grants using the Black-Scholes option pricing model. The Company utilized the simplified method for estimating the expected term of granted SSARs during the nine months ended September 30, 2010 as afforded by SEC Staff Accounting Bulletin (SAB) No. 107, Share-Based Payment (SAB Topic 14), and SAB No. 110, Share-Based Payment (SAB Topic 14.D.2). The expected term used to value a grant under the simplified method is the mid-point between the vesting date and the contractual term of the SSAR. As the Company has only been granting SSARs since April 2006, it does not believe it has sufficient relevant experience regarding employee exercise behavior. The weighted average grant-date fair value of SSARs granted and the weighted average assumptions under the Black-Scholes option model were as follows for the nine months ended September 30, 2010 and 2009:

	Nine Months Ended September 30,	
	2010	2009
Weighted average grant date fair value	$ 14.47	$ 7.46
Weighted average assumptions under Black-Scholes option model:		
Expected life of awards (years)	5.5	5.5
Risk-free interest rate	2.4%	1.6%
Expected volatility	48.5%	45.3%
Expected dividend yield		

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Notes to Condensed Consolidated Financial Statements Continued
(unaudited)

SSAR transactions during the nine months ended September 30, 2010 were as follows:

SSARs outstanding at January 1	716,838
SSARs granted	188,500
SSARs exercised	(28,125)
SSARs canceled or forfeited	(12,375)
SSARs outstanding at September 30	864,838

SSAR price ranges per share:		
Granted	$	32.01-33.65
Exercised		21.45-37.38
Canceled or forfeited		21.45-66.20
Weighted average SSAR exercise prices per share:		
Granted	$	33.58
Exercised		25.96
Canceled or forfeited		35.71
Outstanding at September 30		31.81

At September 30, 2010, the weighted average remaining contractual life of SSARs outstanding was approximately five years. As of September 30, 2010, the total compensation cost related to unvested SSARs not yet recognized was approximately $4.5 million and the weighted-average period over which it is expected to be recognized is approximately three years.

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

	SSARs Outstanding			SSARs Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Exercisable as of September 30, 2010	Weighted Average Exercise Price
$21.45 $24.61					