

AGCO CORP /DE
Form 10-Q
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

For the quarter ended March 31, 2012

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 website every Interactive Data File for the periods required to be submitted and posted pursuant to Rule 405 of regulation S-T.

As of April 30, 2012, AGCO Corporation had 97,218,315 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)

	March 31, 2012	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$426.7	\$724.4
Accounts and notes receivable, net	1,108.0	994.2
Inventories, net	2,024.7	1,559.6
Deferred tax assets	145.8	142.7
Other current assets	276.5	241.9
Total current assets	3,981.7	3,662.8
Property, plant and equipment, net	1,277.8	1,222.6
Investment in affiliates	366.3	346.3
Deferred tax assets	41.1	37.6
Other assets	133.5	126.9
Intangible assets, net	662.6	666.5
Goodwill	1,238.8	1,194.5
Total assets	\$7,701.8	\$7,257.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$68.4	\$60.1
Convertible senior subordinated notes	185.6	—
Accounts payable	1,062.2	937.0
Accrued expenses	1,019.0	1,080.6
Other current liabilities	137.1	127.8
Total current liabilities	2,472.3	2,205.5
Long-term debt, less current portion	1,331.1	1,409.7
Pensions and postretirement health care benefits	300.7	298.6
Deferred tax liabilities	201.2	192.3
Other noncurrent liabilities	139.7	119.9
Total liabilities	4,445.0	4,226.0
Commitments and contingencies (Note 15)		
Temporary equity	31.5	—
Stockholders' Equity:		
AGCO Corporation stockholders' equity:		
Preferred stock; \$0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding in 2012 and 2011	—	—
Common stock; \$0.01 par value, 150,000,000 shares authorized, 97,204,329 and 97,194,732 shares issued and outstanding at March 31, 2012 and December 31, 2011, 1.0 respectively		1.0
Additional paid-in capital	1,065.7	1,073.2
Retained earnings	2,441.8	2,321.6
Accumulated other comprehensive loss	(321.1) (400.6

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Total AGCO Corporation stockholders' equity	3,187.4	2,995.2
Noncontrolling interests	37.9	36.0
Total stockholders' equity	3,225.3	3,031.2
Total liabilities, temporary equity and stockholders' equity	\$7,701.8	\$7,257.2

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2012	2011
Net sales	\$2,273.7	\$1,797.7
Cost of goods sold	1,780.7	1,441.8
Gross profit	493.0	355.9
Selling, general and administrative expenses	238.9	184.7
Engineering expenses	72.1	57.9
Restructuring and other infrequent expenses	—	0.2
Amortization of intangibles	12.2	4.4
Income from operations	169.8	108.7
Interest expense, net	13.0	5.5
Other expense, net	4.4	2.3
Income before income taxes and equity in net earnings of affiliates	152.4	100.9
Income tax provision	43.2	30.7
Income before equity in net earnings of affiliates	109.2	70.2
Equity in net earnings of affiliates	12.0	11.4
Net income	121.2	81.6
Net income attributable to noncontrolling interests	(1.0) (1.6
Net income attributable to AGCO Corporation and subsidiaries	\$120.2	\$80.0
Net income per common share attributable to AGCO Corporation and subsidiaries:		
Basic	\$1.24	\$0.85
Diluted	\$1.21	\$0.81
Weighted average number of common and common equivalent shares outstanding:		
Basic	97.1	94.1
Diluted	99.1	98.3

See accompanying notes to condensed consolidated financial statements.

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AGCO CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (unaudited and in millions)

	Three Months Ended March 31,	
	2012	2011
Net income	\$121.2	\$81.6
Other comprehensive income, net of reclassification adjustments:		
Foreign currency translation adjustments	74.8	92.6
Defined benefit pension plans, net of tax	2.2	1.6
Unrealized gain on derivatives, net of tax	2.5	4.1
Other comprehensive income, net of reclassification adjustments	79.5	98.3
Comprehensive income	200.7	179.9
Comprehensive income attributable to noncontrolling interests	(1.0) (1.6
Comprehensive income attributable to AGCO Corporation and subsidiaries	\$199.7	\$178.3

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net income	\$121.2	\$81.6
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	43.4	36.4
Deferred debt issuance cost amortization	0.9	0.4
Amortization of intangibles	12.2	4.4
Amortization of debt discount	2.2	2.0
Stock compensation	8.4	4.7
Equity in net earnings of affiliates, net of cash received	(9.0)	(7.7)
Deferred income tax benefit	(1.1)	(0.6)
Other	(0.1)	(1.2)
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Accounts and notes receivable, net	(98.3)	(17.5)
Inventories, net	(421.2)	(218.2)
Other current and noncurrent assets	(24.5)	(28.2)
Accounts payable	125.3	20.3
Accrued expenses	(59.4)	(21.0)
Other current and noncurrent liabilities	19.5	(22.8)
Total adjustments	(401.7)	(249.0)
Net cash used in operating activities	(280.5)	(167.4)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(87.1)	(36.8)
Proceeds from sale of property, plant and equipment	0.1	0.5
Purchase of businesses, net of cash acquired	(2.4)	(88.3)
Investments in consolidated affiliates, net of cash acquired	(20.1)	(25.0)
Investments in unconsolidated affiliates, net	(2.6)	(2.4)
Restricted cash and other	(10.0)	—
Net cash used in investing activities	(122.1)	(152.0)
Cash flows from financing activities:		
Conversion of convertible senior subordinated notes	—	(60.4)
Proceeds from (repayments of) debt obligations, net	93.7	(30.9)
Payment of debt issuance costs	(0.1)	—
Payment of minimum tax withholdings on stock compensation	—	(2.0)
Distribution to noncontrolling interest	(0.2)	—
Net cash provided by (used in) financing activities	93.4	(93.3)
Effects of exchange rate changes on cash and cash equivalents	11.5	7.1
Decrease in cash and cash equivalents	(297.7)	(405.6)
Cash and cash equivalents, beginning of period	724.4	719.9
Cash and cash equivalents, end of period	\$426.7	\$314.3

See accompanying notes to condensed consolidated financial statements.

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

1. BASIS OF PRESENTATION

The condensed consolidated financial statements of AGCO Corporation and its subsidiaries (the “Company” or “AGCO”) included herein have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary to present fairly the Company’s financial position, results of operations and cash flows at the dates and for the periods presented. These condensed consolidated financial statements should be read in conjunction with the Company’s audited financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011. 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 June 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income” (“ASU 2011-05”). ASU 2011-05 increases the prominence of other comprehensive income in financial statements by requiring comprehensive income to be presented in either a single continuous statement or in two consecutive statements reporting net income and other comprehensive income. ASU 2011-05 does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The standard initially required that reclassification adjustments from other comprehensive income be measured and presented by income statement line item on the face of the statement of operations. In December 2011, however, the FASB issued Accounting Standard Codification 2011-12, “Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05.” This standard defers the requirement to present components of reclassifications of other comprehensive income on the face of the statement of operations. The Company adopted these standards by consecutively presenting the Condensed Consolidated Statements of Operations and the Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2012 and 2011.

In May 2011, the FASB issued ASU 2011-04, “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs” (“ASU 2011-04”). ASU 2011-04 clarifies existing fair value measurement concepts and continues the convergence towards a uniform framework for applying fair value measurement principles. This standard requires additional disclosures for fair value measurements, primarily Level 3 measurements. ASU 2011-04 is effective for fiscal years and interim periods beginning after December 15, 2011 and is to be applied prospectively. The adoption of this standard did not have a material impact on the Company’s Condensed Consolidated Financial Statements or footnote disclosures.

2. ACQUISITIONS

On January 6, 2012, the Company acquired 60% of Santal Equipamentos S.A. Comércio e Indústria (“Santal”) for approximately R\$48.6 million, net of approximately R\$11.9 million cash acquired (or approximately \$20.1 million, net). Santal, headquartered in Ribeirão Preto, Brazil, manufactures and distributes sugar cane planting, harvesting, handling and transportation equipment as well as replacement parts across Brazil. The acquisition of Santal will provide the Company’s customers in Brazil with a wider range of agricultural products and services. The acquisition was funded with available cash on hand. The Company recorded approximately \$26.5 million of goodwill and

approximately \$2.6 million of tradename, trademark and patent identifiable intangible assets associated with the acquisition. The goodwill is reported within the Company's South American geographical reportable segment. The Company and the seller each have a call option and put option, respectively, with varying dates with respect to the remaining 40% interest in Santal. Therefore, the fair value of the redeemable noncontrolling interest in Santal of \$16.9 million was recorded within "Temporary equity" in the Company's Condensed Consolidated Balance Sheet on the acquisition date.

On November 30, 2011, the Company acquired GSI Holdings Corp. ("GSI") for \$932.2 million, net of approximately \$27.9 million cash acquired. GSI, headquartered in Assumption, Illinois, is a leading manufacturer of grain storage and protein

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(unaudited)

production systems. The acquisition was financed by the issuance of \$300.0 million of 5⁷/₈% senior notes and the Company's credit facility (Note 5).

On November 30, 2011, the Company acquired 80% of Shandong Dafeng Machinery Co., Ltd. ("Dafeng") for approximately 172.0 million yuan (or approximately \$27.0 million). The Company acquired approximately \$17.1 million of cash and assumed approximately \$41.1 million of current indebtedness associated with the transaction. Dafeng is located in Yanzhou, China and manufactures a complete range of corn, grain, rice and soybean harvesting machines for Chinese domestic markets. The acquisition was funded with available cash on hand.

On March 3, 2011, the Company acquired the remaining 50% interest of Laverda SpA ("Laverda") for approximately €63.8 million, net of approximately €1.2 million cash acquired (or approximately \$88.3 million, net). Laverda, previously an operating joint venture between AGCO and the Italian ARGO group, is located in Breganze, Italy and manufactures harvesting equipment. In addition to producing Laverda-branded combines, the Breganze factory manufactures mid-range combine harvesters for the Company's Massey Ferguson, Fendt and Challenger brands for distribution in Europe, Africa and the Middle East. The Company's 100% ownership of Laverda includes ownership in Fella-Werke GMBH, a German manufacturer of grass and hay machinery. The acquisition was funded with available cash on hand.

The results of operations for the Santal, GSI, Dafeng and Laverda acquisitions have been included in the Company's Condensed Consolidated Financial Statements as of and from the dates of the respective acquisitions. The Company allocated the purchase price of each acquisition to the assets acquired and liabilities assumed based on preliminary estimates of their fair values as of the respective acquisition dates. In general, the acquired assets of the Santal, GSI, Dafeng and Laverda acquisitions consisted primarily of accounts receivable, property, plant and equipment, inventories, other identifiable intangible assets and goodwill. The liabilities assumed generally consisted of accounts payable, current indebtedness and noncurrent deferred tax liabilities.

The following unaudited pro forma data summarizes the results of operations for the three months ended March 31, 2011 as if the current year acquisition and prior year acquisitions had occurred as of January 1, 2011 and 2010, respectively. The unaudited pro forma information does not reflect the impact of future events that may occur after the acquisition, including, but not limited to, anticipated cost savings from operating synergies. The unaudited pro forma financial information has been adjusted to give effect to adjustments that are directly related to the business combination, factually supportable, and expected to have a continuing impact. The adjustments include the application of the Company's accounting policies, depreciation and amortization related to fair value adjustments to property, plant and equipment, intangible assets and inventory, tax-related adjustments and the impact of the Company's issuance of \$300.0 million of 5⁷/₈% senior notes and the credit facility, which were used to finance the acquisition of GSI. This unaudited pro forma information has been prepared for comparative purposes only and does not purport to represent what the results of operations of the Company actually would have been had the transactions occurred on the date indicated or what the results of operations may be in any future period (in millions, except per share data):

	Three Months Ended March 31, 2011
Net sales	\$1,980.9
Net income attributable to AGCO Corporation and subsidiaries	87.1
Net income per common share attributable to AGCO Corporation and subsidiaries:	
Basic	\$0.93
Diluted	\$0.89

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Notes to Condensed Consolidated Financial Statements - Continued
(unaudited)

3. STOCK COMPENSATION PLANS

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

	Three Months Ended March 31,	
	2012	2011
Cost of goods sold	\$0.6	\$0.3
Selling, general and administrative expenses	7.8	4.4
Total stock compensation expense	\$8.4	\$4.7

Stock Incentive Plan

Under the Company's 2006 Long Term Incentive Plan (the "2006 Plan"), up to 10.0 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 three months ended March 31, 2012 and 2011 was \$52.86 and \$52.23, respectively.

During the three months ended March 31, 2012, the Company granted 1,018,014 awards primarily related to the three-year performance period commencing in 2012 and ending in 2014, assuming the maximum target level of performance is achieved. During the three months ended March 31, 2012, the Company also granted 98,778 awards related to a three- to five-year performance period that commenced in 2011 and ending in 2015, assuming the maximum target level of performance is achieved for operating margin improvement. 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 three months ended March 31, 2012 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	2,207,981	
Shares awarded	1,116,792	
Shares forfeited or unearned	(24,186)
Shares earned	—	
Shares awarded but not earned at March 31	3,300,587	

As of March 31, 2012, 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 \$64.0 million, and the weighted average period over which it is expected to be recognized is approximately three years.

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(unaudited)

During the three months ended March 31, 2012 and 2011, the Company recorded stock compensation expense of approximately \$0.9 million and \$0.7 million, respectively, associated with stock-settled appreciation rights (“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 three months ended March 31, 2012 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 under the 2006 Plan and the weighted average assumptions under the Black-Scholes option model were as follows for the three months ended March 31, 2012 and 2011:

	Three Months Ended March 31,	
	2012	2011
Weighted average grant-date fair value	\$22.50	\$22.58
Weighted average assumptions under Black-Scholes option mo		