AGCO CORP /DE
Form 10-Q
November 07, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
For the quarter ended September 30, 2008
of
AGCO CORPORATION
A Delaware Corporation
IRS Employer Identification No. 58-1960019
SEC File Number 1-12930
4205 River Green Parkway
Duluth, GA 30096
(770) 813-9200

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

As of October 31, 2008, AGCO Corporation had 91,745,183 shares of common stock outstanding. AGCO Corporation is a large accelerated filer.

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

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

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

	September 30, 2008	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 449.8	$ 582.4
Accounts and notes receivable, net	817.6	766.4
Inventories, net	1,464.2	1,134.2
Deferred tax assets	69.1	52.7
Other current assets	205.4	186.0
Total current assets	3,006.1	2,721.7
Property, plant and equipment, net	782.9	753.0
Investment in affiliates	297.3	284.6
Deferred tax assets	79.5	89.1
Other assets	74.0	67.9
Intangible assets, net	186.9	205.7
Goodwill	638.6	665.6
Total assets	$ 5,065.3	$ 4,787.6
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current portion of long-term debt	$	$ 0.2
Convertible senior subordinated notes	402.5	402.5
Accounts payable	869.2	827.1
Accrued expenses	841.1	773.2
Other current liabilities	124.1	80.3
Total current liabilities	2,236.9	2,083.3
Long-term debt, less current portion	282.5	294.1
Pensions and postretirement health care benefits	128.6	150.3
Deferred tax liabilities	168.9	163.6
Other noncurrent liabilities	55.2	53.3
Total liabilities	2,872.1	2,744.6
Stockholders Equity:		
Preferred stock; $0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding in 2008 and 2007		
	0.9	0.9

Common stock; $0.01 par value, 150,000,000 shares authorized, 91,744,886 and 91,609,895 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively				
Additional paid-in capital		961.3		942.7
Retained earnings		1,317.3		1,020.4
Accumulated other comprehensive (loss) income		(86.3)		79.0
Total stockholders equity		2,193.2		2,043.0
Total liabilities and stockholders equity	$	5,065.3	$	4,787.6

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,	
	2008	2007
Net sales	$ 2,085.4	$ 1,613.0
Cost of goods sold	1,705.3	1,305.4
Gross profit	380.1	307.6
Selling, general and administrative expenses	183.5	156.6
Engineering expenses	49.8	38.6
Restructuring and other infrequent expenses (income)	0.1	(2.5)
Amortization of intangibles	5.0	4.5
Income from operations	141.7	110.4
Interest expense, net	2.1	3.4
Other expense, net	2.9	10.5
Income before income taxes and equity in net earnings of affiliates	136.7	96.5
Income tax provision	42.7	26.7
Income before equity in net earnings of affiliates	94.0	69.8
Equity in net earnings of affiliates	8.6	7.1
Net income	$ 102.6	$ 76.9
Net income per common share:		
Basic	$ 1.12	$ 0.84
Diluted	$ 1.04	$ 0.80
Weighted average number of common and common equivalent shares outstanding:		
Basic	91.7	91.6
Diluted	98.3	96.4

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,	
	2008	2007
Net sales	$ 6,267.4	$ 4,657.0
Cost of goods sold	5,143.9	3,833.0
Gross profit	1,123.5	824.0
Selling, general and administrative expenses	535.1	438.2
Engineering expenses	148.2	108.3
Restructuring and other infrequent expenses (income)	0.3	(2.2)
Amortization of intangibles	14.9	13.1
Income from operations	425.0	266.6
Interest expense, net	12.7	17.6
Other expense, net	18.5	28.6
Income before income taxes and equity in net earnings of affiliates	393.8	220.4
Income tax provision	128.0	75.6
Income before equity in net earnings of affiliates	265.8	144.8
Equity in net earnings of affiliates	32.2	20.4
Net income	$ 298.0	$ 165.2
Net income per common share:		
Basic	$ 3.25	$ 1.81
Diluted	$ 3.01	$ 1.73
Weighted average number of common and common equivalent shares outstanding:		
Basic	91.7	91.4
Diluted	98.9	95.7

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)

	Nine Months Ended September 30,	
	2008	2007
Cash flows from operating activities:		
Net income	$ 298.0	$ 165.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	95.0	82.0
Deferred debt issuance cost amortization	2.5	3.7
Amortization of intangibles	14.9	13.1
Stock compensation	21.8	10.4
Equity in net earnings of affiliates, net of cash received	(18.8)	(3.3)
Deferred income tax provision	2.8	5.9
Gain on sales of property, plant and equipment	(0.2)	(3.1)
Changes in operating assets and liabilities, net of effects from purchase of business:		
Accounts and notes receivable, net	(72.0)	(16.4)
Inventories, net	(391.4)	(193.6)
Other current and noncurrent assets	(56.0)	(27.5)
Accounts payable	50.8	(48.1)
Accrued expenses	113.6	40.2
Other current and noncurrent liabilities	(13.1)	3.7
Total adjustments	(250.1)	(133.0)
Net cash provided by operating activities	47.9	32.2
Cash flows from investing activities:		
Purchases of property, plant and equipment	(155.5)	(83.6)
Purchase of business, net of cash acquired		(17.8)
Proceeds from sales of property, plant and equipment	3.0	5.2
Investments in unconsolidated affiliates	(0.4)	(66.7)
Other		(2.7)
Net cash used in investing activities	(152.9)	(165.6)
Cash flows from financing activities:		
Proceeds from (repayment of) debt obligations, net	12.7	(116.4)
Proceeds from issuance of common stock	0.3	7.9
Payment of minimum tax withholdings on stock compensation	(3.2)	
Payment of debt issuance costs	(1.3)	(0.2)
Net cash provided by (used in) financing activities	8.5	(108.7)

Effect of exchange rate changes on cash and cash equivalents		(36.1)		7.8
Decrease in cash and cash equivalents		(132.6)		(234.3)
Cash and cash equivalents, beginning of period		582.4		401.1
Cash and cash equivalents, end of period	$	449.8	$	166.8

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 U.S. generally accepted accounting principles for interim financial information and the rules and regulations of the Securities and Exchange Commission (SEC). In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary to present fairly the Company s financial position, results of operations and cash flows at the dates and for the periods presented. These condensed consolidated financial statements should be read in conjunction with the Company s audited financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. Results for interim periods are not necessarily indicative of the results for the year.

Stock Compensation Plans

During the three months and nine months ended September 30, 2008, the Company recorded approximately $6.8 million and $22.0 million, respectively, of stock compensation expense in accordance with Statement of Financial Accounting Standards (SFAS) No. 123R (Revised 2004), Share-Based Payment (SFAS No. 123R). During the three months and nine months ended September 30, 2007, the Company recorded approximately $7.0 million and $10.6 million, respectively, of stock compensation expense in accordance with SFAS No. 123R. The stock compensation expense was recorded as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Cost of goods sold	$ 0.3	$ 0.3	$ 0.7	$ 0.4
Selling, general and administrative expenses	6.5	6.7	21.3	10.2
Total stock compensation expense	$ 6.8	$ 7.0	$ 22.0	$ 10.6

Stock Incentive Plans

Under the 2006 Long Term Incentive Plan (the 2006 Plan) up to 5,000,000 shares of AGCO common stock may be issued. The 2006 Plan allows the Company, under the direction of the Board of Directors Compensation Committee, to make grants of performance shares, stock appreciation rights, stock options and restricted stock awards to employees, officers and non-employee directors of the Company. The Company s Board of Directors approves grants of awards under the employee and director stock incentive plans described below.

Employee Plans

The 2006 Plan encompasses two stock incentive plans for Company executives and key managers. The primary long-term incentive plan is a performance share plan that provides for awards of shares of the Company s common stock based on achieving financial targets, such as targets for earnings per share and return on invested capital, as determined by the Company s Board of Directors. The stock awards are earned over a performance period, and the number of shares earned is determined based on the cumulative or average results for the period, depending on the measurement. Performance periods are consecutive and overlapping three-year cycles, and performance targets are set at the beginning of each

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Notes to Condensed Consolidated Financial Statements Continued
(unaudited)

cycle. The plan provides for participants to earn from 33% to 200% of the target awards depending on the actual performance achieved, with no shares earned if performance is below the established minimum target. Awards earned under the performance share plan are paid in shares of common stock at the end of each performance period. The compensation expense associated with these awards is amortized ratably over the vesting or performance period based on the Company s projected assessment of the level of performance that will be achieved and earned. During the nine months ended September 30, 2008, the Company granted 272,700 awards under the 2006 Plan for the three-year performance period commencing in 2008 and ending in 2010. Compensation expense recorded with respect to these awards was based upon the stock price as of the grant date. The weighted average grant-date fair value of performance awards granted under the 2006 Plan during the nine months ended September 30, 2008 was $57.12. Performance award transactions during the nine months ended September 30, 2008 were as follows, and are presented as if the Company were to achieve its target levels of performance under the plan:

Shares awarded but not earned at January 1	942,000
Shares awarded	272,700
Shares forfeited or unearned	(35,538)
Shares earned	
Shares awarded but not earned at September 30	1,179,162

As of September 30, 2008, the total compensation cost related to unearned performance awards not yet recognized, assuming the Company s current projected assessment of the level of performance that will be achieved and earned, was approximately $29.1 million, and the weighted average period over which it is expected to be recognized is approximately two years.

In addition to the performance share plan, certain executives and key managers are eligible to receive grants of stock settled stock appreciation rights (SSARs) or incentive stock options depending on the participant s country of employment. The SSARs provide a participant with the right to receive the aggregate appreciation in stock price over the market price of the Company s common stock at the date of grant, payable in shares of the Company s common stock. The participant may exercise his or her SSAR at any time after the grant is vested but no later than seven years after the date of grant. The SSARs vest ratably over a four-year period from the date of grant. SSAR award grants made to certain executives and key managers under the 2006 Plan are made with the base price equal to the price of the Company s common stock on the date of grant. During the nine months ended September 30, 2008, the Company granted 107,400 SSAR awards. During the three and nine months ended September 30, 2008, the Company recorded stock compensation expense of approximately $0.5 million and $1.3 million, respectively. During the three and nine months ended September 30, 2007, the Company recorded stock compensation expense of approximately $0.3 million and $0.8 million, respectively. The compensation expense associated with these awards is being amortized ratably over the vesting period. The Company estimated the fair value of the grants using the Black-Scholes option pricing model. The Company has utilized the simplified method for estimating the expected term of granted SSARs during the nine months ended September 30, 2008 as afforded by SEC Staff Accounting Bulletin (SAB) No. 107, Share-Based Payment (SAB Topic 14), and SAB No. 110, Share-Based Payment (SAB Topic 14.D.2). The expected term used to value a grant under the simplified method is the mid-point between the vesting date and the contractual term of the option or SSAR. As the Company has only been granting SSARs under the 2006 Plan 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 and nine months ended September 30, 2008:

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Notes to Condensed Consolidated Financial Statements — Continued
(unaudited)

	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Weighted average grant date fair value	$ 16.95	$ 17.90
Weighted average assumptions under Black-Scholes option model:		
Expected life of awards (years)	5.5	5.5
Risk-free interest rate	3.3%	2.7%
Expected volatility	38.5%	38.0%
Expected dividend yield		

SSAR transactions during the nine months ended September 30, 2008 were as follows:

SSARs outstanding at January 1	383,500
SSARs granted	107,400
SSARs exercised	(52,812)
SSARs canceled or forfeited	(10,000)
SSARs outstanding at September 30	428,088
SSAR price ranges per share:	
Granted	$ 51.82-66.20
Exercised	23.80-37.38
Canceled or forfeited	23.80-37.38
Weighted average SSAR exercise prices per share:	
Granted	$ 56.92
Exercised	29.82
Canceled or forfeited	30.59
Outstanding at September 30	37.92

At September 30, 2008, the weighted average remaining contractual life of SSARs outstanding was approximately five years and there were 69,313 SSARs currently exercisable with exercise prices ranging from $23.80 to $37.38, with a weighted average exercise price of $29.39 and an aggregate intrinsic value of $0.9 million. As of September 30, 2008, the total compensation cost related to unvested SSARs not yet recognized was approximately $4.2 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	
	Number of	Weighted Average Remaining	Weighted Average Exercise	Exercisable as of	Weighted Average Exercise

Range of Exercise Prices		Shares	Contractual Life (Years)	Price	September 30, 2008	Price
$23.80	$24.61	134,750	4.6	$23.82	40,875	$23.83
$26.00	$37.38	185,938	5.4	$37.15	28,438	$37.38
$51.82	$66.20	107,400	6.3	$56.92		
		428,088			69,313	

The total intrinsic value of SSARs exercised during the nine months ended September 30, 2008 was $1.6 million and the total fair value of SSARs vested during the same period was $1.1 million.

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Notes to Condensed Consolidated Financial Statements Continued
(unaudited)

The Company realized a tax benefit of less than $0.1 million from the exercise of these SSARs. There were 358,775 SSARs that were not vested as of September 30, 2008. The total intrinsic value of outstanding SSARs as of September 30, 2008 was approximately $3.5 million.

Director Restricted Stock Grants

The 2006 Plan provided for $25,000 in annual restricted stock grants of the Company s common stock to all non-employee directors. The shares are restricted as to transferability for a period of three years, but are not subject to forfeiture. In the event a director departs from the Board of Directors, the non-transferability period would expire immediately. The plan allows for the director to have the option of forfeiting a portion of the shares awarded in lieu of a cash payment contributed to the participant s tax withholding to satisfy the statutory minimum federal, state and employment taxes which would be payable at the time of grant. The January 1, 2007 grant equated to 8,080 shares of common stock, of which 6,346 shares of common stock were issued, after shares were withheld for withholding taxes. The Company recorded stock compensation expense of approximately $0.3 million during the first quarter of 2007 associated with these grants.

On December 6, 2007, the Board of Directors approved an increase in the annual restricted stock grant to non-employee directors of the Company under the 2006 Plan from $25,000 to $75,000. The 2008 grant was made on April 24, 2008 and equated to 11,320 shares of common stock, of which 8,608 shares of common stock were issued, after shares were withheld for withholding taxes. The Company recorded stock compensation expense of approximately $0.8 million during the second quarter of 2008 associated with these grants.

As of September 30, 2008, of the 5,000,000 shares reserved for issuance under the 2006 Plan, 2,106,830 shares were available for grant, assuming the maximum number of shares are earned related to the performance award grants discussed above.

Stock Option Plan

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

There have been no grants under the Company s Option Plan since 2002, and the Company does not intend to make any grants under the Option Plan in the future. Stock option transactions during the nine months ended September 30, 2008 were as follows:

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Notes to Condensed Consolidated Financial Statements Continued
(unaudited)

Options outstanding at January 1	75,500
Options granted	
Options exercised	(16,900)
Options canceled or forfeited	(5,000)
Options outstanding at September 30	53,600
Options available for grant at September 30	1,935,437

Option price ranges per share:	
Granted	$
Exercised	10.06-22.31
Canceled or forfeited	15.12
Weighted average option exercise prices per share:	
Granted	$
Exercised	15.14
Canceled or forfeited	15.12
Outstanding at September 30	14.75

At September 30, 2008, the outstanding options had a weighted average remaining contractual life of approximately three years and there were 53,600 options currently exercisable with option prices ranging from $10.06 to $20.85 with a weighted average exercise price of $14.75 and an aggregate intrinsic value of $1.5 million.

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:

			Options Outstanding		Options Exercisable	
Range of Exercise Prices		Number of Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Exercisable as of September 30, 2008	Weighted Average Exercise Price
$10.06	$11.63	14,900	2.0	$11.48	14,900	$11.48
$15.12	$20.85	38,700	3.2	$16.01	38,700	$16.01
		53,600			53,600	

The total intrinsic value of options exercised during the nine months ended September 30, 2008 was $0.8 million and the total fair value of shares vested during the same period was less than $0.1 million. Cash received from stock option exercises was approximately $0.3 million for the nine months ended September 30, 2008. The Company realized an insignificant tax benefit from the exercise of these options.

Recent Accounting Pronouncements

In September 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) Financial Interpretation No. (FIN) 45-4, An amendment of FIN 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. The FSP requires additional disclosure about the current status of the payment/performance risk of a guarantee. The FSP is effective for financial statements issued for fiscal years and interim periods ending after November 15, 2008, with early adoption encouraged. The Company will adopt the FSP for the year ended December 31, 2008.

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Notes to Condensed Consolidated Financial Statements   Continued
(unaudited)

In May 2008, FASB issued FSP APB 14-1,   Accounting for Convertible Debt Instruments That May be Settled in Cash Upon Conversion (including Partial Cash Settlement).   The FSP requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement), commonly referred to as an Instrument C under EITF Issue No. 90-19,   Convertible Bonds with Issuer Options to Settle for Cash Upon Conversion,   be separated to account for the fair value of the debt and equity components as of the date of issuance to reflect the issuer s nonconvertible debt borrowing rate. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and is to be applied retrospectively to all periods presented (retroactive restatement) pursuant to the guidance in SFAS No. 154,   Accounting Changes and Error Corrections.   The FSP will impact the accounting treatment of the Company s $^{3}/4\%$ convertible senior subordinated notes due 2033 and its $1^{1}/4\%$ convertible senior subordinated notes due 2036 by reclassifying a portion of the convertible notes balances to additional paid-in capital representing the estimated fair value of the conversion feature as of the date of issuance and creating a discount on the convertible notes that will be amortized through interest expense over the life of the convertible notes. The FSP will result in a significant increase in interest expense and, therefore, reduce net income and basic and diluted earnings per share within the Company s consolidated statements of operations. The Company will adopt the requirements of the FSP on January 1, 2009, and estimates that upon adoption, its   retained earnings   balance will be reduced by approximately $37 million, its   convertible senior subordinated notes   balance will be reduced by approximately $57 million and its   additional paid-in capital   balance will increase by approximately $57 million, including a deferred tax impact of approximately $37 million.   Interest expense, net   attributable to the convertible senior subordinated notes during the fiscal year ended December 31, 2009 is expected to increase by approximately $15 million, compared to 2008, as a result of the adoption.

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

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

In March 2007, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 06-10,   Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements   (EITF 06-10), which requires that an employer recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either SFAS No. 106,   Employers   Accounting for Postretirement Benefits Other Than Pensions   (SFAS No. 106) (if, in substance, a postretirement benefit plan exists), or Accounting Principles Board Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract) if the employer has agreed to maintain a life

Notes to Condensed Consolidated Financial Statements Continued
(unaudited)

insurance policy during the employee s retirement or provide the employee with a death benefit based on the substantive agreement with the employee. In addition, the EITF reached a consensus that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The EITF observed that in determining the nature and substance of the arrangement, the employer should assess what future cash flows the employer is entitled to, if any, as well as the employee s obligation and ability to repay the employer. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The adoption of EITF 06-10 on January 1, 2008 did not have a material effect on the Company s consolidated results of operations or financial position.

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

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value to be applied to guidance regarding U.S. generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fair value measures already required or permitted by other standards for fiscal years beginning after November 15, 2007. In November 2007, the FASB proposed a one-year deferral of SFAS No. 157 s fair value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. The adoption of SFAS No. 157 on January 1, 2008 did not have a material effect on the Company s consolidated results of operations or financial position.

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

2. RESTRUCTURING AND OTHER INFREQUENT EXPENSES (INCOME)

During the second quarter of 2007, the Company announced the closure of its Valtra sales office located in France. The closure resulted in the termination of approximately 15 employees. The Company recorded severance and other facility closure costs of approximately $0.8 million associated with the closure during 2007, of which approximately $0.6 million were recorded during the nine months ended September 30, 2007. The Company recorded an additional $0.2 million of severance and other facility closure costs during the nine months ended September 30, 2008. As of September 30, 2008, all accrued severance and other facility closure costs had been paid and all of the employees had been terminated.

During the third quarter of 2006, the Company announced the closure of two sales offices located in Germany, including a Valtra sales office. The closures resulted in the termination of approximately 13

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employees. The Company recorded severance costs of approximately $0.5 million associated with the closures during 2006. During the nine months ended September 30, 2007, the Company recorded and paid employee relocation costs associated with the rationalizations of approximately $0.1 million, and recorded additional severance costs of approximately $0.1 million. All of the employees associated with these closures had been terminated and all severance costs had been paid as of December 31, 2007. During the second quarter of 2008, the Company recorded and incurred employee relocation costs of approximately $0.1 million associated with one of the rationalizations.

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

During the third quarter of 2004, the Company announced and initiated a plan related to the restructuring of its European combine manufacturing operations located in Randers, Denmark to include the elimination of the facility s component manufacturing operations, as well as the rationalization of the combine model range assembled in Randers. Component manufacturing operations ceased in February 2005. The Company recorded an impairment charge in the third quarter of 2004 to write down certain property, plant and equipment within the component manufacturing operation as the rationalization eliminated a majority of the square footage utilized in the facility. The impairment charge was based upon the estimated fair value of the assets compared to their carrying value. The estimated fair value of the property, plant and equipment was based on current conditions in the market. The machinery, equipment and tooling was disposed of or sold in 2005. The Company sold a portion of the buildings, land and improvements and received cash proceeds of approximately $4.4 million in September 2007. A gain of approximately $3.0 million was recorded related to the sale in the third quarter of 2007 and was reflected within Restructuring and other infrequent expenses (income) within the Company s Condensed Consolidated Statements of Operations.

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3. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of acquired intangible assets during the nine months ended September 30, 2008 are summarized as follows (in millions):

Gross carrying amounts:	Trademarks and Tradenames	Customer Relationships	Patents and Technology	Total
Balance as of December 31, 2007	$ 33.4	$ 103.0	$ 55.2	$ 191.6
Foreign currency translation	(0.1)	(5.0)	(1.7)	(6.8)
Balance as of September 30, 2008	$ 33.3	$ 98.0	$ 53.5	$ 184.8

Accumulated amortization:	Trademarks and Tradenames	Customer Relationships	Patents and Technology	Total
Balance as of December 31, 2007	$ 7.2	$ 42.6	$ 32.3	$ 82.1
Amortization expense	1.0	8.0	5.9	14.9
Foreign currency translation	(0.1)	(2.8)	(1.4)	(4.3)
Balance as of September 30, 2008	$ 8.1	$ 47.8	$ 36.8	$ 92.7

Unamortized intangible assets:	Trademarks and Tradenames
Balance as of December 31, 2007	$ 96.2
Foreign currency translation	(1.4)
Balance as of September 30, 2008	$ 94.8

Changes in the carrying amount of goodwill during the nine months ended September 30, 2008 are summarized as follows (in millions):

	North America	South America	Europe/Africa/ Middle East	Consolidated
Balance as of December 31, 2007	$ 3.1	$ 183.7	$ 478.8	$ 665.6
Foreign currency translation		(12.0)	(15.0)	(27.0)
Balance as of September 30, 2008	$ 3.1	$ 171.7	$ 463.8	$ 638.6

SFAS No. 142, Goodwill and Other Intangible Assets, establishes a method of testing goodwill and other indefinite-lived intangible assets for impairment on an annual basis or on an interim basis if an event occurs or circumstances change that would reduce the fair value of a reporting unit below its carrying value. The Company s

annual assessments involve determining an estimate of the fair value of the Company s reporting units in order to evaluate whether an impairment of the current carrying amount of goodwill and other indefinite-lived intangible assets exists. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired, and, thus, the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. Fair values are derived based on an evaluation of past and expected future performance of the Company s reporting units. A reporting unit is an operating segment or one level below an operating segment, for example, a component. A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and the Company s executive management

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team regularly reviews the operating results of that component. In addition, 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 reported under the guidance of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, are not its reporting units, with the exception of its Asia/Pacific geographical segment.

The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination is determined. That is, the Company allocates the fair value of a reporting unit to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill.

The Company utilizes a combination of valuation techniques, including a discounted cash flow approach and a market multiple approach, when making its annual and interim assessments. As stated above, goodwill is tested for impairment on an annual basis and more often if indications of impairment exist. During the fourth quarter of 2008, the Company will be performing its annual impairment testing of goodwill and other intangible assets under SFAS No. 142.

The Company amortizes certain acquired intangible assets primarily on a straight-line basis over their estimated useful lives, which range from three to 30 years.

4. INDEBTEDNESS

Indebtedness consisted of the following at September 30, 2008 and December 31, 2007 (in millions):

	September 30, 2008	December 31, 2007
6 7/8% Senior subordinated notes due 2014	$ 282.4	$ 291.8
1 3/4% Convertible senior subordinated notes due 2033	201.3	201.3
1 1/4% Convertible senior subordinated notes due 2036	201.3	201.3
Other long-term debt	0.1	2.5
	685.1	696.9
Less: Current portion of long-term debt		(0.2)
1 3/4% Convertible senior subordinated notes due 2033	(201.3)	(201.3)
1 1/4% Convertible senior subordinated notes due 2036	(201.3)	(201.3)
Total indebtedness, less current portion	$ 282.5	$ 294.1

On May 16, 2008, the Company entered into a new $300.0 million unsecured multi-currency revolving credit facility. The new credit facility replaced the Company s former $300.0 million secured multi-currency revolving credit facility. The maturity date of the new facility is May 16, 2013. Interest accrues on amounts outstanding under the new facility, at the Company s option, at either (1) LIBOR plus a margin ranging between 1.00% and 1.75% based upon the Company s total debt ratio or (2) the higher of the administrative agent s base lending rate or one-half of one percent over the federal funds rate plus a margin ranging between 0.0% and 0.50% based upon the Company s total debt ratio. The new facility contains 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 a default, as defined in the new facility. The Company also must fulfill financial covenants in respect of a total debt to EBITDA ratio and an interest coverage ratio, as defined in the facility. As of September 30, 2008, the

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Company had no outstanding borrowings under the new facility. As of September 30, 2008, the Company had availability to borrow $291.3 million under the new facility.

Holders of the Company s $^{3}/4$% convertible senior subordinated notes due 2033 and 1$^{1}/4$% convertible senior subordinated notes due 2036 may convert the notes, if, during any fiscal quarter, the closing sales price of the Company s common stock exceeds, respectively, 120% of the conversion price of $22.36 per share for the $^{3}/4$% convertible senior subordinated notes and $40.73 per share for the 1$^{1}/4$% convertible senior subordinated notes, for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter. As of September 30, 2008 and December 31, 2007, the closing sales price of the Company s common stock had exceeded 120% of the conversion price of both notes for at least 20 trading days in the 30 consecutive trading days ending September 30, 2008 and December 31, 2007, and, therefore, the Company classified both notes as current liabilities. Future classification of the notes between current and long-term debt is dependent on the closing sales price of the Company s common stock during future quarters. The Company believes it is unlikely the holders of the notes would convert the notes under the provisions of the indenture agreement, thereby requiring the Company to repay the principal portion in cash. In the event the notes were converted, the Company believes it could repay the notes with available cash on hand, funds from the Company s $300.0 million multi-currency revolving credit facility or a combination of these sources.

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

Inventories at September 30, 2008 and December 31, 2007 were as follows (in millions):

	September 30, 2008	December 31, 2007
Finished goods	$ 515.9	$ 391.7
Repair and replacement parts	384.1	361.1
Work in process	177.8	88.3
Raw materials	386.4	293.1
Inventories, net	$ 1,464.2	$ 1,134.2

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6. PRODUCT WARRANTY

The warranty reserve activity for the three months ended September 30, 2008 and 2007 consisted of the following (in millions):

	Three Months Ended September 30,	
	2008	2007
Balance at beginning of period	$ 206.8	$ 147.3
Accruals for warranties issued during the period	34.0	35.0
Settlements made (in cash or in kind) during the period	(37.1)	(28.7)
Foreign currency translation	(16.9)	5.9
Balance at September 30	$ 186.8	$ 159.5

The warranty reserve activity for the nine months ended September 30, 2008 and 2007 consisted of the following (in millions):

	Nine Months Ended September 30,	
	2008	2007
Balance at beginning of period	$ 167.1	$ 136.9
Accruals for warranties issued during the period	123.0	100.0
Settlements made (in cash or in kind) during the period	(96.9)	(86.9)
Foreign currency translation	(6.4)	9.5
Balance at September 30	$ 186.8	$ 159.5

The Company s agricultural equipment products are generally warranted against defects in material 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.

7. NET INCOME PER COMMON SHARE

The computation, presentation and disclosure requirements for earnings per share are presented in accordance with SFAS No. 128, Earnings Per Share. Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding during each period. Diluted earnings per common share assumes exercise of outstanding stock options, vesting of performance share awards, vesting of restricted stock and the appreciation of the excess conversion value of the contingently convertible senior subordinated notes using the treasury stock method when the effects of such assumptions are dilutive.

The Company s $201.3 million aggregate principal amount of $^{3}/4$% convertible senior subordinated notes and its $201.3 million aggregate principal amount of 1$^{1}/4$% convertible senior subordinated notes provide for (i) the settlement upon conversion in cash up to the principal amount of the converted notes with any excess conversion value settled in shares of the Company s common stock, and (ii) the conversion rate to be increased under certain circumstances if the notes are converted in connection with certain change of control transactions. Dilution of weighted shares outstanding will depend on the Company s stock price for the excess conversion value using the treasury stock method. A reconciliation of net income and weighted average common shares outstanding for purposes of calculating basic and diluted earnings per share for the three and nine months ended September 30, 2008 and 2007 is as follows (in millions, except per share data):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Basic net income per share:				
Net income	$ 102.6	$ 76.9	$ 298.0	$ 165.2
Weighted average number of common shares outstanding	91.7	91.6	91.7	91.4
Basic net income per share	$ 1.12	$ 0.84	$ 3.25	$ 1.81
Diluted net income per share:				
Net income for purposes of computing diluted net income per share	$ 102.6	$ 76.9	$ 298.0	$ 165.2
Weighted average number of common shares outstanding	91.7	91.6	91.7	91.4
Dilutive stock options, performance share awards and restricted stock awards	0.2	0.1	0.2	0.2
Weighted average assumed conversion of contingently convertible senior subordinated notes	6.4	4.7	7.0	4.1
Weighted average number of common and common equivalent shares outstanding for purposes of computing diluted earnings per share	98.3	96.4	98.9	95.7
Diluted net income per share	$ 1.04	$ 0.80	$ 3.01	$ 1.73

There were SSARs to purchase 0.1 million shares of the Company s common stock for both the three and nine months ended September 30, 2008 that were excluded from the calculation of diluted earnings per share because they had an antidilutive impact. There were SSARs to purchase 0.2 million shares of the Company s common stock for both the three and nine months ended September 30, 2007 that were excluded from the calculation of diluted earnings per share because they had an antidilutive impact.

8. INCOME TAXES

The Company adopted the provisions of FIN 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), on January 1, 2007. As a result of the implementation of FIN 48, the Company did not recognize a material adjustment with respect to liabilities for unrecognized tax benefits. At September 30, 2008 and December 31, 2007, the Company had approximately $31.3 million and $22.7 million, respectively, of unrecognized tax benefits, all of which would impact the Company s effective tax rate if recognized. As of

September 30, 2008 and December 31, 2007, the Company had approximately $13.5 million and $14.0 million, respectively, of current accrued taxes related to uncertain income tax positions connected with ongoing tax audits in various jurisdictions. The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes. As of September 30, 2008 and December 31, 2007, the Company had accrued interest and penalties related to unrecognized tax benefits of $1.4 million and $1.1 million, respectively.

The tax years 2001 through 2007 remain open to examination by taxing authorities in the United States and certain other foreign taxing jurisdictions.

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9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company applies the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities An Amendment of FASB Statement No. 133. All derivatives are recognized on the Company s Condensed Consolidated Balance Sheets at fair value. On the date the derivative contract is entered into, the Company designates the derivative as either (1) a fair value hedge of a recognized liability, (2) a cash flow hedge of a forecasted transaction, (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. When it is determined that a derivative is no longer highly effective as a hedge, hedge accounting is discontinued on a prospective basis.

Foreign Currency Risk

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 over 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.

The Company attempts to manage its transactional foreign exchange exposure by hedging foreign currency cash flow forecasts and commitments arising from the 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 forward contracts. The Company s hedging policy prohibits foreign currency forward contracts for speculative trading purposes.

The Company uses foreign currency forward 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 forward contracts are classified as non-designated derivatives instruments. Gains and losses on such contracts are historically substantially offset by losses and gains on the remeasurement of the underlying asset or liability being hedged. Changes in the fair value of non-designated derivative contracts are reported in current earnings. The foreign currency forward contracts fair value measurements fall within the Level 2 fair value hierarchy under SFAS No. 157. Level 2 fair value measurements are generally based upon quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets. The fair value of foreign currency forward contracts is based on a valuation model that discounts cash flows resulting from the differential between the contract price and the market-based forward rate.

During 2008 and 2007, the Company designated certain foreign currency option contracts as cash flow hedges of expected sales. The effective portion of the fair value gains or losses on these cash flow hedges are recorded in other comprehensive income and subsequently reclassified into cost of goods sold during the same period as the sales were recognized. These amounts offset the effect of the changes in foreign exchange rates on the related sale transactions. The amount of the gain recorded in other

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comprehensive income that was reclassified to cost of goods sold during the nine months ended September 30, 2008 and 2007 was approximately $20.0 million and $1.0 million, respectively, on an after-tax basis. The outstanding contracts as of September 30, 2008 range in maturity through December 2009.

The following table summarizes activity in accumulated other comprehensive income related to derivatives held by the Company during the nine months ended September 30, 2008 (in millions):

	Before-Tax Amount	Income Tax	After-Tax Amount
Accumulated derivative net gains as of December 31, 2007	$ 11.4	$ 3.7	$ 7.7
Net changes in fair value of derivatives	(4.8)	(5.7)	0.9
Net gains reclassified from accumulated other comprehensive income into income	(24.5)	(4.5)	(20.0)
Accumulated derivative net losses as of September 30, 2008	$ (17.9)	$ (6.5)	$ (11.4)

The foreign currency option contracts fair value measurements fall within the Level 2 fair value hierarchy under SFAS No. 157. The fair value of foreign currency option contracts is based on a valuation model that utilizes spot and forward exchange rates, interest rates and currency pair volatility.

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

10. COMPREHENSIVE (LOSS) INCOME

Total comprehensive (loss) income for the three and nine months ended September 30, 2008 and 2007 was as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income	$ 102.6	$ 76.9	$ 298.0	$ 165.2
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(312.9)	78.4	(150.7)	164.7
Defined benefit pension plans	1.3	8.5	3.9	8.5
Unrealized (loss) gain on derivatives	(27.2)	6.3	(19.1)	6.4
Unrealized gain (loss) on derivatives held by affiliates	0.3	(1.6)	(0.3)	(3.1)
Total comprehensive (loss) income	$ (235.9)	$ 168.5	$ 131.8	$ 341.7

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11. ACCOUNTS RECEIVABLE SECURITIZATION

At September 30, 2008, the Company had accounts receivable securitization facilities in the United States, Canada and Europe totaling approximately $491.2 million. Under the securitization facilities, wholesale accounts receivable are sold on a revolving basis to commercial paper conduits either through a wholly-owned special purpose U.S. subsidiary or a qualifying special purpose entity (QSPE) in the United Kingdom. The Company accounts for its securitization facilities and its wholly-owned special purpose U.S. subsidiary in accordance with SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a Replacement of FASB Statement No. 125 (SFAS No. 140), and FIN No. 46R, Consolidation of Variable Interest Entities An Interpretation of ARB No. 51 (FIN 46R). Due to the fact that the receivables sold to the commercial paper conduits are an insignificant portion of the conduits total asset portfolios and such receivables are not siloed, consolidation is not appropriate under FIN 46R, as the Company does not absorb a majority of losses under such transactions. In Europe, the commercial paper conduit that purchases a majority of the receivables is deemed to be the majority beneficial interest holder of the QSPE, and, thus, consolidation by the Company is not appropriate under FIN 46R, as the Company does not absorb a majority of losses under such transactions. In addition, these facilities are accounted for as off-balance sheet transactions in accordance with SFAS No. 140.

Outstanding funding under these facilities totaled approximately $453.6 million at September 30, 2008 and $446.3 million at December 31, 2007. The funded balance has the effect of reducing accounts receivable and short-term liabilities by the same amount. Losses on sales of receivables primarily from securitization facilities included in other expense, net were $7.2 million and $8.7 million for the three months ended September 30, 2008 and 2007, respectively, and $21.6 million and $25.5 million for the nine months ended September 30, 2008 and 2007, respectively. The losses are determined by calculating the estimated present value of receivables sold compared to their carrying amount. The present value is based on historical collection experience and a discount rate representing the spread over LIBOR as prescribed under the terms of the agreements.

The Company continues to service the sold receivables and maintains a retained interest in the receivables. No servicing asset or liability has been recorded as the estimated fair value of the servicing of the receivables approximates the servicing income. The retained interest in the receivables sold is included in the caption Accounts and notes receivable, net within the Company s Condensed Consolidated Balance Sheets. The Company s risk of loss under the securitization facilities is limited to a portion of the unfunded balance of receivables sold, which is approximately 15% of the funded amount.

The Company maintains reserves for the portion of the residual interest it estimates is uncollectible. At September 30, 2008 and December 31, 2007, the fair value of the retained interest was approximately $76.8 million and $108.8 million, respectively. The retained interest fair value measurement falls within the Level 3 fair value hierarchy under SFAS No. 157. Level 3 measurements are model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable. The fair value was based upon calculating the estimated present value of the retained interest using a discount rate representing a spread over LIBOR and other key assumptions, such as historical collection experience. The following table summarizes the activity with respect to the fair value of the Company s retained interest in receivables sold during the nine months ended September 30, 2008 (in millions):

Balance at beginning of period	$ 108.8
Realized gains	0.9
Purchases, issuances and settlements	(32.9)
Balance at September 30, 2008	$ 76.8

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The Company has an agreement to permit transferring, on an ongoing basis, the majority of its wholesale interest-bearing receivables in North America to AGCO Finance LLC and AGCO Finance Canada, Ltd., its U.S. and Canadian retail finance joint ventures. The Company has a 49% ownership interest in these joint ventures. The transfer of the receivables is without recourse to the Company, and the Company continues to service the receivables. As of September 30, 2008, the balance of interest-bearing receivables transferred to AGCO Finance LLC and AGCO Finance Canada, Ltd. under this agreement was approximately $67.1 million compared to approximately $73.3 million as of December 31, 2007.

12. EMPLOYEE BENEFIT PLANS

The Company has defined benefit pension plans covering certain employees, principally in the United States, the United Kingdom, Germany, Finland, Norway, France, Australia and Argentina. The Company also provides certain postretirement health care and life insurance benefits for certain employees, principally in the United States, as well as a supplemental executive retirement plan, which is an unfunded plan that provides Company executives with retirement income for a period of ten years after retirement.

Net pension and postretirement cost for the plans for the three months ended September 30, 2008 and 2007 are set forth below (in millions):

	Three Months Ended September 30,	
Pension benefits	2008	2007
Service cost	$ 3.0	$ 2.3
Interest cost	11.3	10.8
Expected return on plan assets	(11.3)	(10.6)
Amortization of net actuarial loss and prior service cost	1.3	3.8
Net pension cost	$ 4.3	$ 6.3

Postretirement benefits	2008	2007
Interest cost	$ 0.4	$ 0.3
Amortization of prior service credit and unrecognized Net (loss) gain		(0.1)
Other		0.2
Net postretirement cost	$ 0.4	$ 0.4

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Net pension and postretirement cost for the plans for the nine months ended September 30, 2008 and 2007 are set forth below (in millions):

	Nine Months Ended September 30,	
Pension benefits	2008	2007
Service cost	$ 9.0	$ 7.0
Interest cost	33.9	32.5
Expected return on plan assets	(33.9)	(32.0)
Amortization of net actuarial loss and prior service cost	4.1	11.4
Net pension cost	$ 13.1	$ 18.9

Postretirement benefits	2008	2007
Service cost	$	$ 0.1
Interest cost	1.1	1.0
Amortization of prior service credit	(0.2)	(0.1)
Amortization of unrecognized net loss	0.2	
Other		0.2
Net postretirement cost	$ 1.1	$ 1.2

During the nine months ended September 30, 2008, approximately $24.5 million of contributions were made to the Company s defined benefit pension plans. The Company currently estimates its minimum contributions for 2008 to its defined benefit pension plans will aggregate approximately $34.3 million. During the nine months ended September 30, 2008, the Company made approximately $1.5 million of contributions to its U.S.-based postretirement health care and life insurance benefit plans. The Company currently estimates that it will make approximately $2.1 million of contributions to its U.S.-based postretirement health care and life insurance benefit plans during 2008.

SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS No. 158), requires companies to measure all defined benefit assets and obligations as of the date of their fiscal year end effective for years ending after December 15, 2008. The Company adopted the measurement date provisions of SFAS No. 158 during the first quarter of 2008 to transition the Company s U.K. pension plan to a December 31 measurement date using the second approach as afforded by paragraph 19 of SFAS No. 158. The impact of the adoption resulted in a reduction to the Company s opening retained earnings balance as of January 1, 2008 of approximately $1.1 million, net of taxes.

13. SEGMENT REPORTING

The Company has four reportable segments: North America; South America; Europe/Africa/Middle East; and Asia/Pacific. Each regional segment distributes a full range of agricultural equipment and related replacement parts. The Company evaluates segment performance primarily based on income from operations. Sales for each regional 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 three and nine months ended September 30, 2008 and 2007 and assets as of September 30, 2008 and December 31, 2007 are as follows (in millions):

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Notes to Condensed Consolidated Financial Statements Continued
(unaudited)

Three Months Ended North