SAPIENS INTERNATIONAL CORP N V
Form 6-K
April 20, 2016

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER**

**PURSUANT TO RULE 13a-16 OR 15d-16 OF**

**THE SECURITIES EXCHANGE ACT OF 1934**

For the month of April 2016

Commission File Number 000-20181

**SAPIENS INTERNATIONAL CORPORATION N.V.**

(Translation of Registrant’s name into English)

**c/o Landhuis Joonchi**

**Kaya Richard J. Beaujon z/n**
**P.O. Box 837**

**Willemstad,**

**Curaçao**

(Address of Principal Executive Office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F x Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): o

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Sapiens
International
Corporation N.V.

By:/s/ Roni Giladi
Roni Giladi
Chief Financial
Officer

Dated: April 20, 2016

sis 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 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 and South American geographical segments.

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. The Company conducts its annual impairment analyses as of October 1 each fiscal year.

Notes to Condensed Consolidated Financial Statements Continued
(unaudited)

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 March 31, 2008 and December 31, 2007 (in millions):

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| $6^{7}/_{8}\%$ Senior subordinated notes due 2014 | $ 315.7 | $ 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 | 0.2 | 2.5 |
| | 718.5 | 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 long-term debt, less current portion | $ 315.9 | $ 294.1 |

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 March 31, 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 March 31, 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 existing $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 March 31, 2008 and December 31, 2007 were as follows (in millions):

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| Finished goods | $ 595.0 | $ 391.7 |

| | | |
|---|---|---|
| Repair and replacement parts | 391.6 | 361.1 |
| Work in process | 155.7 | 88.3 |
| Raw materials | 355.9 | 293.1 |
| Inventories, net | $ 1,498.2 | $ 1,134.2 |

Notes to Condensed Consolidated Financial Statements Continued
(unaudited)

**6. PRODUCT WARRANTY**

The warranty reserve activity for the three months ended March 31, 2008 and 2007 consisted of the following (in millions):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2008 | 2007 |
| Balance at beginning of period | $ 167.1 | $ 136.9 |
| Accruals for warranties issued during the period | 42.7 | 30.9 |
| Settlements made (in cash or in kind) during the period | (30.3) | (27.9) |
| Foreign currency translation | 9.2 | 1.3 |
| Balance at March 31 | $ 188.7 | $ 141.2 |

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 $\frac{3}{4}$% convertible senior subordinated notes and its $201.3 million aggregate principal amount of $1\frac{1}{4}$% 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 new 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 months ended March 31, 2008 and 2007 is as follows (in millions, except per share data):

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Notes to Condensed Consolidated Financial Statements Continued
(unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2008 | 2007 |
| Basic net income per share: | | |
| Net income | $ 62.3 | $ 24.5 |
| Weighted average number of common shares outstanding | 91.6 | 91.3 |
| Basic net income per share | $ 0.68 | $ 0.27 |
| Diluted net income per share: | | |
| Net income for purposes of computing diluted net income per share | $ 62.3 | $ 24.5 |
| Weighted average number of common shares outstanding | 91.6 | 91.3 |
| Dilutive stock options, performance share awards and restricted stock awards | 0.3 | 0.3 |
| Weighted average assumed conversion of contingently convertible senior subordinated notes | 7.4 | 3.2 |
| Weighted average number of common and common equivalent shares outstanding for purposes of computing diluted earnings per share | 99.3 | 94.8 |
| Diluted net income per share | $ 0.63 | $ 0.26 |

There were SSARs to purchase 0.2 million shares for the three months ended March 31, 2007 that were excluded from the calculation of diluted earnings per share because the SSARs had an antidilutive impact.

**8. INCOME TAXES**

The Company adopted the provisions of FASB Interpretation No. ( 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 March 31, 2008 and December 31, 2007, the Company had approximately $24.8 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 March 31, 2008 and December 31, 2007, the Company had approximately $15.8 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 March 31, 2008 and December 31, 2007, the Company had accrued interest and penalties related to unrecognized tax benefits of $1.1 million.

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

**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.

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***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 were 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 comprehensive income that was reclassified to cost of goods sold during the first quarter ended March 31, 2008 and 2007 was approximately $3.8 million and $0.1 million, respectively, on an after-tax basis. The outstanding contracts as of March 31, 2008 range in maturity through December 2008.

The following table summarizes activity in accumulated other comprehensive income related to derivatives held by the Company during the three months ended March 31, 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 | 7.6 | 0.8 | 6.8 |
| Net gains reclassified from accumulated other comprehensive income into income | (3.8) | | (3.8) |
| Accumulated derivative net gains as of March 31, 2008 | $ 15.2 | $ 4.5 | $ 10.7 |

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.

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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 INCOME**

Total comprehensive income for the three months ended March 31, 2008 and 2007 was as follows (in millions):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2008 | 2007 |
| Net income | $ 62.3 | $ 24.5 |
| Other comprehensive income, net of tax: | | |
| Foreign currency translation adjustments | 80.6 | 27.0 |
| Defined benefit pension plans | 1.3 | |
| Unrealized gain on derivatives | 3.0 | 0.1 |
| Unrealized loss on derivatives held by affiliates | (1.5) | (2.7) |
| Total comprehensive income | $ 145.7 | $ 48.9 |

**11. ACCOUNTS RECEIVABLE SECURITIZATION**

At March 31, 2008, the Company had accounts receivable securitization facilities in the United States, Canada and Europe totaling approximately $507.9 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 $497.8 million at March 31, 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 $6.2 million and $6.7 million for the three months ended March 31, 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 in the accompanying 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

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portion of the residual interest it estimates is uncollectible. At March 31, 2008 and December 31, 2007, the fair value of the retained interest was approximately $83.6 million and $108.8 million, respectively. The decrease in the fair value of the retained interest during the first quarter of 2008 was primarily due to additional funding under the U.S. securitization facility during the first quarter of 2008. 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 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 March 31, 2008, the balance of interest-bearing receivables transferred to AGCO Finance LLC and AGCO Finance Canada, Ltd. under this agreement was approximately $76.5 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 March 31, 2008 and 2007 are set forth below (in millions):

| | Three Months Ended March 31, | |
|---|---|---|
| Pension benefits | 2008 | 2007 |
| Service cost | $ 3.0 | $ 2.4 |
| Interest cost | 11.3 | 10.9 |
| Expected return on plan assets | (11.3) | (10.7) |
| Amortization of net actuarial loss and prior service cost | 1.4 | 3.8 |
| Net pension cost | $ 4.4 | $ 6.4 |

| Postretirement benefits | 2008 | 2007 |
|---|---|---|
| Service cost | $ | $ 0.1 |
| Interest cost | 0.3 | 0.3 |
| Amortization of prior service cost | (0.1) | (0.1) |
| Amortization of unrecognized net loss | 0.1 | 0.1 |
| Net postretirement cost | $ 0.3 | $ 0.4 |

During the three months ended March 31, 2008, approximately $8.5 million of contributions had been 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 $35.1 million. During the three months ended March 31, 2008, the Company made approximately $0.6 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

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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 months ended March 31, 2008 and 2007 and assets as of March 31, 2008 and December 31, 2007 are as follows (in millions):

| Three Months Ended March 31, | North America | South America | Europe/Africa/ Middle East | Asia/ Pacific | Consolidated |
|---|---|---|---|---|---|
| **2008** | | | | | |
| Net sales | $367.7 | $321.4 | $1,045.5 | $52.0 | $1,786.6 |
| (Loss) income from operations | (13.0) | 34.4 | 97.4 | 5.8 | 124.6 |
| Depreciation | 6.8 | 5.2 | 18.2 | 0.8 | 31.0 |
| Capital expenditures | 5.3 | 1.5 | 39.1 | | 45.9 |
| **2007** | | | | | |
| Net sales | $326.8 | $189.3 | $ 780.1 | $36.4 | $1,332.6 |
| (Loss) income from operations | (7.3) | 19.7 | 47.1 | 3.1 | 62.6 |
| Depreciation | 6.4 | 4.4 | 14.7 | 0.7 | 26.2 |
| Capital expenditures | 1.9 | 2.0 | 19.8 | | 23.7 |
| **Assets** | | | | | |
| As of March 31, 2008 | $703.8 | $540.0 | $1,834.4 | $90.8 | $3,169.0 |
| As of December 31, 2007 | 662.6 | 443.1 | 1,470.4 | 75.8 | 2,651.9 |

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

| | Three Months Ended March 31, 2008 | 2007 |
|---|---|---|
| Segment income from operations | $ 124.6 | $ 62.6 |
| Corporate expenses | (19.0) | (11.0) |
| Stock compensation expenses | (6.4) | (1.8) |
| Restructuring and other infrequent expense | (0.1) | |
| Amortization of intangibles | (4.9) | (4.2) |
| Consolidated income from operations | $ 94.2 | $ 45.6 |

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| | As of March 31, 2008 | As of December 31, 2007 |
|---|---|---|
| Segment assets | $ 3,169.0 | $ 2,651.9 |
| Cash and cash equivalents | 250.5 | 582.4 |
| Receivables from affiliates | 3.0 | 1.7 |
| Investments in affiliates | 302.8 | 284.6 |
| Deferred tax assets | 134.2 | 141.8 |
| Other current and noncurrent assets | 279.2 | 253.9 |
| Intangible assets, net | 208.7 | 205.7 |
| Goodwill | 706.4 | 665.6 |
| Consolidated total assets | $ 5,053.8 | $ 4,787.6 |

**14. COMMITMENTS AND CONTINGENCIES**

As a result of Brazilian tax legislation impacting value added taxes ( VAT ), the Company has recorded a reserve of approximately $21.3 million and $21.9 million against its outstanding balance of Brazilian VAT taxes receivable as of March 31, 2008 and December 31, 2007, respectively, due to the uncertainty as to the Company s ability to collect the amounts outstanding.

The Company is a party to various legal claims and actions incidental to its business. The Company believes that none of these claims or actions, either individually or in the aggregate, is material to its business or financial condition or liquidity.

As disclosed in Item 3 of the Company s Form 10-K for the year ended December 31, 2007, in February 2006, the Company received a subpoena from the SEC in connection with a non-public, fact-finding inquiry entitled In the Matter of Certain Participants in the Oil for Food Program. This subpoena requested documents concerning transactions in Iraq under the United Nations Oil for Food Program by the Company and certain of its subsidiaries. Subsequently the Company was contacted by the Department of Justice (the DOJ ) regarding the same transactions, although no subpoena or other formal process has been initiated by the DOJ. Similar inquiries have been initiated by the Danish and French governments regarding two of the Company s subsidiaries. The inquiries arose from sales of approximately $58.0 million in farm equipment to the Iraq ministry of agriculture between 2000 and 2002. The SEC s staff has asserted that certain aspects of those transactions were not properly recorded in the Company s books and records. The Company is cooperating fully in these inquiries, including discussions regarding settlement. It is not possible to predict the outcome of these inquiries or their impact, if any, on the Company, although if the outcomes were adverse the Company could be required to pay fines and make other payments as well as take appropriate remedial actions.

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## ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## GENERAL

Our operations are subject to the cyclical nature of the agricultural industry. Sales of our equipment have been and are expected to continue to be affected by changes in net cash farm income, farm land values, weather conditions, demand for agricultural commodities, commodity prices and general economic conditions. We record sales when we sell equipment and replacement parts to our independent dealers, distributors or other customers. To the extent possible, we attempt to sell products to our dealers and distributors on a level basis throughout the year to reduce the effect of seasonal demands on manufacturing operations and to minimize our investment in inventory. Retail sales by dealers to farmers are highly seasonal and are a function of the timing of the planting and harvesting seasons. As a result, our net sales have historically been the lowest in the first quarter and have increased in subsequent quarters.

## RESULTS OF OPERATIONS

For the first quarter of 2008, we generated net income of $62.3 million, or $0.63 per share, compared to net income of $24.5 million, or $0.26 per share, for the same period in 2007.

Net sales during the first quarter of 2008 were $1,786.6 million, or approximately 34.1% higher than the first quarter of 2007, due to sales growth in all four of our geographical segments as well as the positive impact of currency translation.

First quarter 2008 income from operations was $94.2 million compared to $45.6 million in the first quarter of 2007. The increase in income from operations was primarily due to the increase in net sales, an improved product mix and efficiencies from higher production.

Income from operations increased in our Europe/Africa/Middle East region in the first quarter of 2008 primarily due to higher sales volumes, a favorable product mix of higher margin high horsepower tractors and positive currency impacts. In the South America region, income from operations increased in the first quarter of 2008 compared to the first quarter of 2007 due to increased sales and production volumes that were partially offset by negative currency impacts on goods manufactured in Brazil and exported to other South American countries. Income from operations in North America was lower in the first quarter of 2008 primarily due to negative currency impacts on products sourced from Brazil and Europe, partially offset by sales growth. Income from operations in our Asia/Pacific region increased in the first quarter of 2008 due to increased sales volumes primarily resulting from improving market conditions in Australia.

### *Retail Sales*

In North America, industry unit retail sales of tractors for the first quarter of 2008 decreased approximately 11% compared to the first quarter of 2007 resulting from significant decreases in the compact and utility tractor segments partially offset by increases in industry unit retail sales of high horsepower tractors. Industry unit retail sales of combines for the first quarter of 2008 were approximately 12% higher than the prior year period. Weaker market conditions have reduced demand for compact and utility tractors that are more often used in non-farming applications. Higher farm income in 2007 and higher commodity prices in North America contributed to significant increases in sales of high horsepower tractors and combines in the first quarter of 2008. Our unit retail sales of tractors were lower in the first quarter of 2008 compared to the first quarter of 2007 due to the market weakness in compact and utility tractors. Our unit retail sales of high horsepower tractors and combines increased in the first quarter of 2008 compared to the same period in 2007.

In Europe, industry unit retail sales of tractors for the first quarter of 2008 increased approximately 3% compared to the first quarter of 2007. Retail demand improved in France, the United Kingdom, Spain and Eastern Europe, but declined in Finland, Italy and Scandinavia. Our unit retail sales of tractors for the first quarter of 2008 were relatively flat when compared to the first quarter of 2007.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

South American industry unit retail sales of tractors in the first quarter of 2008 increased approximately 45% over the prior year period. Industry unit retail sales of combines for the first quarter of 2008 were approximately 77% higher than the prior year period. Industry unit retail sales of tractors and combines in the major market of Brazil increased approximately 47% and 115%, respectively, during the first quarter of 2008 compared to the same period in 2007. Our South American unit retail sales of tractors and combines were also higher in the first quarter of 2008 compared to the same period in 2007. Increasing commodity prices and favorable farm fundamentals in South America contributed to increased industry demand.

Outside of North America, Europe and South America, net sales for the first quarter of 2008 increased approximately 16% compared to the prior year period due to higher sales in Australia and New Zealand.

***Statement of Operations***

Net sales for the first quarter of 2008 were $1,786.6 million compared to $1,332.6 million for the same period in 2007. Net sales increased in all four of AGCO s geographical segments, with the largest percentage increase in South America, where improved market conditions in Brazil led to higher sales. Foreign currency translation positively impacted net sales by approximately $173.9 million, or 13.1%, in the first quarter of 2008. The following table sets forth, for the three months ended March 31, 2008 and 2007, the impact to net sales of currency translation by geographical segment (in millions, except percentages):

| | Three Months Ended March 31, | | Change | | Change due to currency translation | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | $ | % | $ | % |
| North America | $ 367.7 | $ 326.8 | $ 40.9 | 12.5% | $ 7.3 | 2.2% |
| South America | 321.4 | 189.3 | 132.1 | 69.8% | 49.0 | 25.9% |
| Europe/Africa/Middle East | 1,045.5 | 780.1 | 265.4 | 34.0% | 112.2 | 14.4% |
| Asia/Pacific | 52.0 | 36.4 | 15.6 | 42.7% | 5.4 | 14.8% |
| | $ 1,786.6 | $ 1,332.6 | $ 454.0 | 34.1% | $ 173.9 | 13.1% |

Regionally, net sales in North America increased during the first quarter of 2008 primarily due to increased sales of high horsepower tractors and combines partially offset by decreases in the sales of compact and utility tractors. In the Europe/Africa/Middle East region, net sales increased in the first quarter of 2008 primarily due to sales growth in France, Germany and Eastern Europe. Net sales in South America increased during the first quarter of 2008 primarily as a result of stronger market conditions in the region, predominantly in Brazil. In the Asia/Pacific region, net sales increased in the first quarter of 2008 compared to the same period in 2007 due to sales growth in Australia and New Zealand. We estimate that worldwide average price increases during the first quarter of 2008 contributed approximately 2% to the increase in sales. Consolidated net sales of tractors and combines, which comprised approximately 70% of our net sales in the first quarter of 2008, increased approximately 41% in the first quarter of 2008 compared to the same period in 2007. Unit sales of tractors and combines increased approximately 17% during the first quarter of 2008 compared to the same period in 2007. The difference between the unit sales increase and the increase in net sales was primarily the result of foreign currency translation, pricing and sales mix changes.

The following table sets forth, for the periods indicated, the percentage relationship to net sales of certain items in our Condensed Consolidated Statements of Operations (in millions, except percentages):

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| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2008 | | 2007 | |
| | $ | % of Net sales | $ | % of Net sales[1] |
| Gross profit | $ 315.2 | 17.6% | $ 219.4 | 16.5% |
| Selling, general and administrative expenses | 170.6 | 9.5% | 137.2 | 10.3% |
| Engineering expenses | 45.4 | 2.5% | 32.4 | 2.4% |
| Restructuring and other infrequent expenses | 0.1 | | | |
| Amortization of intangibles | 4.9 | 0.3% | 4.2 | 0.3% |
| Income from operations | $ 94.2 | 5.3% | $ 45.6 | 3.4% |

[1] Rounding may impact summation of percentages.

Gross profit as a percentage of net sales increased during the first quarter of 2008 compared to the prior year period, primarily due to increased net sales, higher production and an improved sales mix, partially offset by negative currency impacts. Gross margins in North America continued to be adversely affected by the weaker United States dollar on products imported from our European and Brazilian manufacturing facilities. Unit production of tractors and combines during the first quarter of 2008 was approximately 25% higher than the comparable period in 2007. In the first quarter of 2008, sales and gross margins benefited from increased sales and production of our Fendt high horsepower tractors as compared to the first quarter of 2007, which was negatively impacted by supplier constraints at our German manufacturing facility and the timing of new Fendt product introductions. We recorded approximately $0.2 million and $0.1 million of stock compensation expense, within cost of goods sold, during the first quarter of 2008 and 2007, respectively, as is more fully explained in Note 1 to our Condensed Consolidated Financial Statements.

Selling, general and administrative ( SG&A ) expenses as a percentage of net sales decreased during the first quarter of 2008 compared to the prior year period primarily due to higher sales volumes and cost control initiatives. Engineering expenses increased during the first quarter of 2008 compared to the prior year period, as a result of higher spending to fund new products, product improvements and cost reduction projects. We recorded approximately $6.4 million and $1.8 million of stock compensation expense, within SG&A, during the first quarter of 2008 and 2007, respectively, as is more fully explained in Note 1 to our Condensed Consolidated Financial Statements.

We recorded restructuring and other infrequent expenses of approximately $0.1 million during the first quarter of 2008, primarily related to severance costs associated with the rationalization of our Valtra sales office located in France. See Note 2 to our Condensed Consolidated Financial Statements for further discussion of restructuring activities.

Interest expense, net was $5.1 million for the first quarter of 2008 compared to $6.7 million for the comparable period in 2007. The decrease was primarily due to a reduction in debt levels and increased interest income earned during first quarter of 2008 compared to 2007.

Other expense, net was $6.0 million during the first quarter of 2008 compared to $8.6 million for the same period in 2007. Losses on sales of receivables, primarily under our securitization facilities, were $6.2 million in the first

quarter of 2008 compared to $6.7 million for the same period in 2007. The decrease was due to lower interest rates in 2008 compared to 2007, partially offset by higher outstanding funding under the securitizations in the first quarter of 2008 as compared to 2007. There was also an increase in foreign exchange gains in the first quarter of 2008 compared to the same period in 2007.

We recorded an income tax provision of $29.8 million for the first quarter of 2008 compared to $12.8 million for the comparable period in 2007. The effective tax rate was 35.9% for the first quarter of 2008 compared to 42.2% in the comparable prior year period. Our effective tax rate was positively impacted during the first quarter of 2008, primarily due to reductions in statutory tax rates in the United Kingdom and Germany.

Equity in net earnings of affiliates was $9.0 million for the first quarter of 2008 compared to $7.0 million

Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

for the comparable period in 2007. As of March 31, 2008, the retail finance portfolio in our AGCO Finance joint venture in Brazil was approximately $1.4 billion. As a result of weak market conditions in 2005 and 2006, a substantial portion of this portfolio has been included in a payment deferral program directed by the Brazilian government. While the joint venture currently considers its reserves for loan losses adequate, the joint venture will continue to monitor its reserves considering borrower payment history, the value of the underlying equipment financed, and further payment deferral programs implemented by the Brazilian government.

**LIQUIDITY AND CAPITAL RESOURCES**

Our financing requirements are subject to variations due to seasonal changes in inventory and receivable levels. Internally generated funds are supplemented when necessary from external sources, primarily our revolving credit facility and accounts receivable securitization facilities.

Our current financing and funding sources, with balances outstanding as of March 31, 2008, are our 200.0 million (or approximately $315.7 million) principal amount $6^7/_8$% senior subordinated notes due 2014, $201.3 million principal amount $1^3/4$% convertible senior subordinated notes due 2033, $201.3 million principal amount $1^1/4$% convertible senior subordinated notes due 2036, approximately $507.9 million of accounts receivable securitization facilities (with approximately $497.8 million in outstanding funding as of March 31, 2008), and our $300.0 million multi-currency revolving credit facility (with no amounts outstanding as of March 31, 2008).

Our $201.3 million of $1^1/4$% convertible senior subordinated notes due December 15, 2036 are unsecured obligations and are convertible into cash and shares of our common stock upon satisfaction of certain conditions, as discussed below. The notes provide for (i) the settlement upon conversion in cash up to the principal amount of the notes with any excess conversion value settled in shares of our 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 occurring prior to December 15, 2013. Interest is payable on the notes at $1^1/4$% per annum, payable semi-annually in arrears in cash on June 15 and December 15 of each year. The notes are convertible into shares of our common stock at an effective price of $40.73 per share, subject to adjustment. This reflects an initial conversion rate for the notes of 24.5525 shares of common stock per $1,000 principal amount of notes. In the event of a stock dividend, split of our common stock or certain other dilutive events, the conversion rate will be adjusted so that upon conversion of the notes, holders of the notes would be entitled to receive the same number of shares of common stock that they would have been entitled to receive if they had converted the notes into our common stock immediately prior to such events. If a change of control transaction that qualifies as a fundamental change occurs on or prior to December 15, 2013, under certain circumstances we will increase the conversion rate for the notes converted in connection with the transaction by a number of additional shares (as used in this paragraph, the make whole shares ). A fundamental change is any transaction or event in connection with which 50% or more of our common stock is exchanged for, converted into, acquired for or constitutes solely the right to receive consideration that is not at least 90% common stock listed on a U.S. national securities exchange or approved for quotation on an automated quotation system. The amount of the increase in the conversion rate, if any, will depend on the effective date of the transaction and an average price per share of our common stock as of the effective date. No adjustment to the conversion rate will be made if the price per share of common stock is less than $31.33 per share or more than $180.00 per share. The number of additional make whole shares range from 7.3658 shares per $1,000 principal amount at $31.33 per share to 0.1063 shares per $1,000 principal amount at $180.00 per share for the year ended December 15, 2008, with the number of make whole shares generally declining over time. If the acquirer or certain of its affiliates in the fundamental change transaction has publicly traded common stock, we may, instead of increasing the conversion rate as described above, cause the notes to become convertible into publicly traded common stock of the acquirer, with principal of the notes to be repaid in cash, and the balance, if any, payable in shares of such acquirer common stock. At no time will we issue an aggregate number of shares of our common stock upon conversion of the notes in excess of 31.9183 shares per $1,000 principal amount thereof. If the holders of our common stock receive only cash in a fundamental change transaction, then holders of notes will receive cash as well. Holders may convert the notes only under the following circumstances: (1) during any fiscal quarter, if the closing sales price of our common stock

exceeds 120% of the conversion price for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter; (2) during the five business day period after a five consecutive trading day period in which the trading price per note for each day

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of that period was less than 98% of the product of the closing sale price of our common stock and the conversion rate; (3) if the notes have been called for redemption; or (4) upon the occurrence of certain corporate transactions. Beginning December 15, 2013, we may redeem any of the notes at a redemption price of 100% of their principal amount, plus accrued interest. Holders of the notes may require us to repurchase the notes at a repurchase price of 100% of their principal amount, plus accrued interest, on December 15, 2013, 2016, 2021, 2026 and 2031. Holders may also require us to repurchase all or a portion of the notes upon a fundamental change, as defined in the indenture, at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus any accrued and unpaid interest. The notes are senior subordinated obligations and are subordinated to all of our existing and future senior indebtedness and effectively subordinated to all debt and other liabilities of our subsidiaries. The notes are equal in right of payment with our $6^7/_8$% senior subordinated notes due 2014 and our $1^3/4$% convertible senior subordinated notes due 2033.

Our $201.3 million of $1^3/4$% convertible senior subordinated notes due 2033 provide for (i) the settlement upon conversion in cash up to the principal amount of the converted new notes with any excess conversion value settled in shares of our common stock, and (ii) the conversion rate to be increased under certain circumstances if the new notes are converted in connection with certain change of control transactions occurring prior to December 10, 2010, but otherwise are substantially the same as the old notes. The notes are unsecured obligations and are convertible into cash and shares of our common stock upon satisfaction of certain conditions, as discussed below. Interest is payable on the notes at $1^3/4$% per annum, payable semi-annually in arrears in cash on June 30 and December 31 of each year. The notes are convertible into shares of our common stock at an effective price of $22.36 per share, subject to adjustment. This reflects an initial conversion rate for the notes of 44.7193 shares of common stock per $1,000 principal amount of notes. In the event of a stock dividend, split of our common stock or certain other dilutive events, the conversion rate will be adjusted so that upon conversion of the notes, holders of the notes would be entitled to receive the same number of shares of common stock that they would have been entitled to receive if they had converted the notes into our common stock immediately prior to such events. If a change of control transaction that qualifies as a fundamental change occurs on or prior to December 31, 2010, under certain circumstances we will increase the conversion rate for the notes converted in connection with the transaction by a number of additional shares (also as used in this paragraph, the make whole shares ). A fundamental change is any transaction or event in connection with which 50% or more of our common stock is exchanged for, converted into, acquired for or constitutes solely the right to receive consideration that is not at least 90% common stock listed on a U.S. national securities exchange or approved for quotation on an automated quotation system. The amount of the increase in the conversion rate, if any, will depend on the effective date of the transaction and an average price per share of our common stock as of the effective date. No adjustment to the conversion rate will be made if the price per share of common stock is less than $17.07 per share or more than $110.00 per share. The number of additional make whole shares range from 13.2 shares per $1,000 principal amount at $17.07 per share to 0.1 shares per $1,000 principal amount at $110.00 per share for the year ended December 31, 2008, with the number of make whole shares generally declining over time. If the acquirer or certain of its affiliates in the fundamental change transaction has publicly traded common stock, we may, instead of increasing the conversion rate as described above, cause the notes to become convertible into publicly traded common stock of the acquirer, with principal of the notes to be repaid in cash, and the balance, if any, payable in shares of such acquirer common stock. At no time will we issue an aggregate number of shares of our common stock upon conversion of the notes in excess of 58.5823 shares per $1,000 principal amount thereof. If the holders of our common stock receive only cash in a fundamental change transaction, then holders of notes will receive cash as well. Holders may convert the notes only under the following circumstances: (1) during any fiscal quarter, if the closing sales price of our common stock exceeds 120% of the conversion price for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter; (2) during the five business day period after a five consecutive trading day period in which the trading price per note for each day of that period was less than 98% of the product of the closing sale price of our common stock and the conversion rate; (3) if the notes have been called for redemption; or (4) upon the occurrence of certain corporate transactions. Beginning January 1, 2011, we may redeem

any of the notes at a redemption price of 100% of their principal amount, plus accrued interest. Holders of the notes may require us to repurchase the notes at a repurchase price of 100% of their principal amount, plus accrued interest, on December 31, 2010, 2013, 2018, 2023 and 2028.

As of March 31, 2008 and December 31, 2007, the closing sales price of our common stock had exceeded

Management s Discussion and Analysis of Financial Condition and Results of Operations
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120% of the conversion price of $22.36 and $40.73 per share for our 1 3/4% convertible senior subordinated notes and our 1 1/4% convertible senior subordinated notes, respectively, for at least 20 trading days in the 30 consecutive trading days ending March 31, 2008 and December 31, 2007, and, therefore, we 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 our common stock during future quarters. We believe it is unlikely the holders of the notes would convert the notes under the provisions of the indenture agreement, as typically convertible securities are not converted prior to expiration unless called for redemption, thereby requiring us to repay the principal portion in cash. In the event the notes were converted, we believe we could repay the notes with available cash on hand, funds from our existing $300.0 million multi-currency revolving credit facility or a combination of these sources.

The 1 3/4% convertible senior subordinated notes and the 1 1/4% convertible senior subordinated notes will impact the diluted weighted average shares outstanding in future periods depending on our stock price for the excess conversion value using the treasury stock method. In August 2007, the Financial Accounting Standards Board ( FASB ) issued for comment a proposed FASB Staff Position ( FSP ) that would require 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 Option to Settle for Cash Upon Conversion, to be separately accounted for in a manner that reflects the issuer s nonconvertible debt borrowing rate. Based on decisions made by the FASB during the first quarter of 2008, it is expected that the FASB will issue final guidance under the proposed FSP in 2008. This guidance is expected to be effective for fiscal periods beginning after December 15, 2008, not to permit early application and to be applied retrospectively to all periods presented (retroactive restatement) pursuant to the guidance in Statement of Financial Accounting Standard No. 154, Accounting Changes and Error Corrections. We have not yet fully evaluated and computed the effects of the proposed FSP to our results of operations and financial position. However, the proposed FSP will impact the accounting treatment of our convertible senior subordinated notes discussed above by (1) shifting a portion of the convertible notes balances to additional paid-in capital, (2) creating a discount on the convertible notes that would be amortized through interest expense over the life of the convertible notes, thus significantly increasing interest expense and (3) therefore, reducing our net income and our basic and diluted net income per share within our consolidated statements of operations.

Our current credit facility provides for a $300.0 million multi-currency revolving credit facility, a $300.0 million United States dollar denominated term loan and a 120.0 million Euro denominated term loan. The maturity date of the revolving credit facility is December 2008 and the maturity date for the term loan facility is June 2009. We anticipate entering into a new revolving credit facility in the second quarter of 2008 to replace the current revolving credit facility. We were required to make quarterly payments towards the United States dollar denominated term loan and Euro denominated term loan of $0.75 million and 0.3 million, respectively (or an amortization of one percent per annum until the maturity date of each term loan). On June 29, 2007, we repaid the remaining balances of our outstanding United States dollar and Euro denominated term loans, totaling $72.5 million and 28.6 million, respectively, with available cash on hand. The revolving credit is secured by a majority of our U.S., Canadian, Finnish and U.K. based assets and a pledge of a portion of the stock of our domestic and material foreign subsidiaries. Interest accrues on amounts outstanding under the revolving credit facility, at our option, at either (1) LIBOR plus a margin ranging between 1.25% and 2.0% based upon our senior 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 0.75% based on our senior debt ratio. Interest accrued on amounts outstanding under the term loans at LIBOR plus 1.75%. The credit facility contains covenants restricting, among other things, the incurrence of indebtedness and the making of certain payments, including dividends. We also must fulfill financial covenants including, among others, a total debt to EBITDA ratio, a senior debt to EBITDA ratio and a fixed charge coverage ratio, as defined in the facility. As of March 31, 2008, we had no outstanding borrowings under the multi-currency revolving credit facility. As of March 31, 2008, we had availability to borrow $291.8 million under the revolving credit facility. As of March 31, 2007, we had total borrowings of $114.3 million under the credit facility, which included $72.5 million under the

United States dollar denominated term loan facility, 28.6 million (approximately $38.2 million) under the Euro denominated term loan facility and $3.6 million outstanding under the multi-currency revolving credit facility. As of March 31, 2007, we had availability to borrow $288.9 million under the revolving credit facility.

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Our 200.0 million of 6 $^{7}/_{8}$% senior subordinated notes due 2014 are unsecured obligations and are subordinated in right of payment to any existing or future senior indebtedness. Interest is payable on the notes semi-annually on April 15 and October 15 of each year. Beginning April 15, 2009, we may redeem the notes, in whole or in part, initially at 103.438% of their principal amount, plus accrued interest, declining to 100% of their principal amount, plus accrued interest, at any time on or after April 15, 2012. In addition, before April 15, 2009, we may redeem the notes, in whole or in part, at a redemption price equal to 100% of the principal amount, plus accrued interest and a make-whole premium. The notes include covenants restricting the incurrence of indebtedness and the making of certain restricted payments, including dividends.

Under our securitization facilities, we sell accounts receivable in the United States, Canada and Europe on a revolving basis to commercial paper conduits through a wholly-owned special purpose U.S. subsidiary and a qualifying special purpose entity ( QSPE ) in the United Kingdom. The United States and Canadian securitization facilities expire in April 2009 and the European facility expires in October 2011, but each is subject to annual renewal. As of March 31, 2008, the aggregate amount of these facilities was $507.9 million. The outstanding funded balance of $497.8 million as of March 31, 2008 has the effect of reducing accounts receivable and short-term liabilities by the same amount. Our 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. We maintain reserves for doubtful accounts associated with this risk. If the facilities were terminated, we would not be required to repurchase previously sold receivables but would be prevented from selling additional receivables to the commercial paper conduit.

The securitization facilities allow us to sell accounts receivables through financing conduits which obtain funding from commercial paper markets. Future funding under securitization facilities depends upon the adequacy of receivables, a sufficient demand for the underlying commercial paper and the maintenance of certain covenants concerning the quality of the receivables and our financial condition. In the event commercial paper demand is not adequate, our securitization facilities provide for liquidity backing from various financial institutions, including Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., which we refer to as Rabobank . These liquidity commitments would provide us with interim funding to allow us to find alternative sources of working capital financing, if necessary.

We have an agreement to permit transferring, on an ongoing basis, the majority of our wholesale interest-bearing receivables in North America to our United States and Canadian retail finance joint ventures, AGCO Finance LLC and AGCO Finance Canada, Ltd. We have a 49% ownership interest in these joint ventures. The transfer of the wholesale interest-bearing receivables is without recourse to AGCO and we will continue to service the receivables. As of March 31, 2008, the balance of interest-bearing receivables transferred to AGCO Finance LLC and AGCO Finance Canada, Ltd. under this agreement was approximately $76.5 million compared to approximately $73.3 million as of December 31, 2007.

Our business is subject to substantial cyclical variations, which generally are difficult to forecast. Our results of operations may also vary from time to time resulting from costs associated with rationalization plans and acquisitions. As a result, we have had to request relief from our lenders on occasion with respect to financial covenant compliance. While we do not currently anticipate asking for any relief, it is possible that we would require relief in the future. Based upon our historical working relationship with our lenders, we currently do not anticipate any difficulty in obtaining that relief.

Cash flow used in operating activities was $282.1 million for the first quarter of 2008 compared to $236.0 million for the first quarter of 2007. The use of cash in both periods was primarily due to seasonal increases in working capital.

Our working capital requirements are seasonal, with investments in working capital typically building in the first half of the year and then reducing in the second half of the year. We had $702.3 million in working capital at March 31, 2008, as compared with $638.4 million at December 31, 2007 and $749.3 million at March 31, 2007. Accounts receivable and inventories, combined, at March 31, 2008 were $464.7 million higher than at December 31, 2007 and $403.1 million higher than at March 31, 2007.

Management s Discussion and Analysis of Financial Condition and Results of Operations
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Capital expenditures for the first quarter of 2008 were $45.9 million compared to $23.7 million for the first quarter of 2007. We anticipate that capital expenditures for the full year of 2008 will range from approximately $190 million to $200 million and will primarily be used to support our manufacturing operations, systems initiatives, and to support the development and enhancement of new and existing products.

Our debt to capitalization ratio, which is total long-term debt divided by the sum of total long-term debt and stockholders equity, was 24.7% at March 31, 2008 compared to 25.4% at December 31, 2007.

From time to time we review and will continue to review acquisition and joint venture opportunities, as well as changes in the capital markets. If we were to consummate a significant acquisition or elect to take advantage of favorable opportunities in the capital markets, we may supplement availability or revise the terms under our credit facilities or complete public or private offerings of equity or debt securities.

We believe that available borrowings under the revolving credit facility, funding under the accounts receivable securitization facilities, available cash and internally generated funds will be sufficient to support our working capital, capital expenditures and debt service requirements for the foreseeable future.

## COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

***Guarantees***

At March 31, 2008, we were obligated under certain circumstances to purchase, through the year 2010, up to $4.5 million of equipment upon expiration of certain operating leases between AGCO Finance LLC and AGCO Finance Canada, Ltd., our retail finance joint ventures in North America, and end users. We also maintain a remarketing agreement with these joint ventures whereby we are obligated to repurchase repossessed inventory at market values, limited to $6.0 million in the aggregate per calendar year. We believe that any losses, which might be incurred on the resale of this equipment, will not materially impact our consolidated financial position or results of operations.

From time to time, we sell certain trade receivables under factoring arrangements to financial institutions throughout the world. We evaluate the sale of such receivables pursuant to the guidelines of Statement of Financial Accounting Standards ( SFAS ) No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a Replacement of FASB Statement No. 125, and have determined that these facilities should be accounted for as off-balance sheet transactions in accordance with SFAS No. 140.

At March 31, 2008, we guaranteed indebtedness owed to third parties of approximately $145.3 million, primarily related to dealer and end-user financing of equipment. We believe the credit risk associated with these guarantees is not material to our financial position.

***Other***

At March 31, 2008, we had foreign currency forward contracts to buy an aggregate of approximately $469.9 million United States dollar equivalents and foreign currency forward contracts to sell an aggregate of approximately $104.0 million United States dollar equivalents. All contracts have a maturity of less than one year. See Item 3. Quantitative and Qualitative Disclosures About Market Risk Foreign Currency Risk Management for further information.

***Contingencies***

As a result of Brazilian tax legislation impacting value added taxes ( VAT ), we have recorded a reserve of approximately $21.3 million and $21.9 million against our outstanding balance of Brazilian VAT taxes receivable as of March 31, 2008 and December 31, 2007, respectively, due to the uncertainty as to our ability to collect the amounts outstanding.

As disclosed in Item 3 of our Form 10-K for the year ended December 31, 2007, in February 2006, we

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received a subpoena from the Securities and Exchange Commission (the SEC ) in connection with a non-public, fact-finding inquiry entitled In the Matter of Certain Participants in the Oil for Food Program. See Part II, Item 1, Legal Proceedings for further discussion of the matter.

**OUTLOOK**

Worldwide industry retail sales of farm equipment in 2008 are expected to increase from 2007 levels. In North America, weaker overall economic conditions are expected to produce declines in industry retail sales of low and medium horsepower tractors, but projected higher 2008 farm income is expected to result in increased industry retail sales of high horsepower tractors and combines compared to 2007. In South America, favorable farm fundamentals in Brazil and Argentina are expected to produce increased industry retail sales. In Europe, continued market expansion in Eastern Europe and higher farm income in Western Europe is expected to result in increased retail sales.

For the full year of 2008, we are targeting earnings improvement resulting primarily from higher sales volumes and margin improvements partially offset by increased spending for new product programs, systems iniatives and market development.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The discussion and analysis of our financial condition and results of operations are based upon our Condensed Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates estimates, including those related to reserves, intangible assets, income taxes, pension and other postretirement benefit obligations, derivative financial instruments and contingencies. Management bases these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. A description of critical accounting policies and related judgment and estimates that affect the preparation of our Condensed Consolidated Financial Statements is set forth in our Annual Report on Form 10-K for the year ended December 31, 2007.

**FORWARD-LOOKING STATEMENTS**

Certain statements in Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Quarterly Report on Form 10-Q are forward looking, including certain statements set forth under the headings Liquidity and Capital Resources, Commitments and Off-Balance Sheet Arrangements and Outlook. Forward-looking statements reflect assumptions, expectations, projections, intentions or beliefs about future events. These statements, which may relate to such matters as industry demand conditions, earnings per share, net sales and income, income from operations, conversion of outstanding notes, future capital expenditures and indebtedness requirements, working capital needs and currency translation, are forward-looking statements within the meaning of the federal securities laws. These statements do not relate strictly to historical or current facts, and you can identify certain of these statements, but not necessarily all, by the use of the words anticipate, assumed, indicate, estimate, believe, predict, forecast, rely, expect, continue, grow and other words of similar meaning. Although we b the expectations and assumptions reflected in these statements are reasonable in view of the information currently available to us, there can be no assurance that these expectations will prove to be correct. These forward-looking statements involve a number of risks and uncertainties, and actual results may differ materially from the results discussed in or implied by the forward-looking statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements:

general economic and capital market conditions;

the worldwide demand for agricultural products;

Management s Discussion and Analysis of Financial Condition and Results of Operations
(Continued)

- grain stock levels and the levels of new and used field inventories;
- cost of steel and other raw materials;
- government policies and subsidies;
- weather conditions;
- interest and foreign currency exchange rates;
- pricing and product actions taken by competitors;
- commodity prices, acreage planted and crop yields;
- farm income, land values, debt levels and access to credit;
- pervasive livestock diseases;
- production disruptions;
- supply and capacity constraints;
- our cost reduction and control initiatives;
- our research and development efforts;
- dealer and distributor actions;
- technological difficulties; and
- political and economic uncertainty in various areas of the world.

Any forward-looking statement should be considered in light of such important factors. For additional factors and additional information regarding these factors, please see Risk Factors in our Form 10-K for the year ended December 31, 2007.

New factors that could cause actual results to differ materially from those described above emerge from time to time, and it is not possible for us to predict all of such factors or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and we disclaim any obligation to update the information contained in such statement to reflect subsequent developments or information except as required by law.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**FOREIGN CURRENCY RISK MANAGEMENT**

We have significant manufacturing operations in France, Germany, Finland and Brazil, and we purchase a portion of our tractors, combines and components from third-party foreign suppliers, primarily in various European countries and in Japan. We also sell products in over 140 countries throughout the world. The majority of our net sales outside the United States is denominated in the currency of the customer location with the exception of sales in the Middle East, Africa and Asia, where net sales are primarily denominated in British pounds, Euros or United States dollars (See Segment Reporting in Note 14 to our Consolidated Financial Statements for the year ended December 31, 2007 for sales by customer location). Our most significant transactional foreign currency exposures are the Euro, the Brazilian Real and the Canadian dollar in relation to the United States dollar. Fluctuations in the value of foreign currencies create exposures, which can adversely affect our results of operations.

We attempt to manage our 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, we hedge certain, but not all, of our exposures through the use of foreign currency forward contracts. Our hedging policy prohibits foreign currency forward contracts for speculative trading purposes. Our translation exposure resulting from translating the financial statements of foreign subsidiaries into United States dollars is not hedged. Our most significant translation exposures are the Euro, the British pound and the Brazilian Real in relation to the United States dollar. When practical, this translation impact is reduced by financing local operations with local borrowings.

All derivatives are recognized on our Condensed Consolidated Balance Sheets at fair value. On the date a derivative contract is entered into, we designate 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. We currently engage in derivatives that are non-designated derivative instruments. Changes in fair value of non-designated derivative contracts are reported in current earnings. During 2008 and 2007, we 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 were 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 comprehensive income that was reclassified to cost of goods sold during the first quarter ended March 31, 2008 and 2007 was approximately $3.8 million and $0.1 million, respectively, on an after-tax basis. The outstanding contracts as of March 31, 2008 range in maturity through December 2008.

The following is a summary of foreign currency derivative contracts used to hedge currency exposures. All contracts have a maturity of less than one year. The net notional amounts and fair value gains or losses as of March 31, 2008 stated in United States dollars are as follows (in millions, except average contract rate):

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| | Net Notional Amount (Sell)/Buy | Average Contract Rate* | Fair Value Gain/(Loss) |
|---|---|---|---|
| Australian dollar | $ (10.8) | 1.09 | $ 0.1 |
| Brazilian Real | 352.8 | 1.79 | 6.1 |
| British pound | 84.0 | 0.50 | (0.2) |
| Canadian dollar | (26.4) | 1.00 | 0.8 |
| Euro | 17.8 | 1.07 | 7.3 |
| Japanese yen | 15.3 | 101.09 | 0.2 |
| Mexican peso | (12.8) | 10.84 | (0.3) |
| New Zealand dollar | (23.7) | 5.18 | (0.4) |
| Norwegian krone | (2.8) | 1.27 | |
| Polish zloty | (2.6) | 2.20 | |
| Russian ruble | (16.8) | 23.66 | (0.1) |
| Swedish krona | (8.1) | 6.09 | (0.2) |
| | | | $ 13.3 |

* per United States dollar

Because these contracts were entered into for hedging purposes, the gains and losses on the contracts would largely be offset by gains and losses on the underlying firm commitment.

**Interest Rates**

We manage interest rate risk through the use of fixed rate debt and may in the future utilize interest rate swap contracts. We have fixed rate debt from our senior subordinated notes and our convertible senior subordinated notes. Our floating rate exposure is related to our credit facility and our securitization facilities, which are tied to changes in United States and European LIBOR rates. Assuming a 10% increase in interest rates, interest expense, net and the cost of our securitization facilities for the three months ended March 31, 2008 would have increased by approximately $0.4 million.

We had no interest rate swap contracts outstanding in the three months ended March 31, 2008.

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## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of March 31, 2008, have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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

### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation described above that occurred during the three months ended March 31, 2008 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

We are a party to various legal claims and actions incidental to our business. We believe that none of these claims or actions, either individually or in the aggregate, is material to our business or financial condition or liquidity.

As disclosed in Item 3 of our Form 10-K for the year ended December 31, 2007, in February 2006, we received a subpoena from the SEC in connection with a non-public, fact-finding inquiry entitled In the Matter of Certain Participants in the Oil for Food Program. This subpoena requested documents concerning transactions in Iraq under the United Nations Oil for Food Program by AGCO and certain of our subsidiaries. Subsequently we were contacted by the Department of Justice ( DOJ ) regarding the same transactions, although no subpoena or other formal process has been initiated by the DOJ. Similar inquiries have been initiated by the Danish and French governments regarding two of our subsidiaries. The inquiries arose from sales of approximately $58.0 million in farm equipment to the Iraq ministry of agriculture between 2000 and 2002. The SEC s staff has asserted that certain aspects of those transactions were not properly recorded in our books and records. We are cooperating fully in these inquiries, including discussions regarding settlement. It is not possible to predict the outcome of these inquiries or their impact, if any, on us; although if the outcomes were adverse we could be required to pay fines and make other payments as well as take appropriate remedial actions.

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## ITEM 6. EXHIBITS

| Exhibit Number | Description of Exhibit | The filings referenced for incorporation by reference are AGCO Corporation |
|---|---|---|
| 3.1 | Amended and Restated Bylaws of AGCO Corporation, as amended through October 25, 2007 | October 29, 2007, Form 8-K, Exhibit 3.1 |
| 31.1 | Certification of Martin Richenhagen | Filed herewith |
| 31.2 | Certification of Andrew H. Beck | Filed herewith |
| 32.0 | Certification of Martin Richenhagen and Andrew H. Beck | Furnished herewith |

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**AGCO CORPORATION**
Registrant

Date: May 9, 2008

/s/ Andrew H. Beck
Andrew H. Beck
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)