

AGCO CORP /DE  
Form 10-Q  
May 06, 2011

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q  
For the quarter ended March 31, 2011  
of  
AGCO CORPORATION  
A Delaware Corporation  
IRS Employer Identification No. 58-1960019  
SEC File Number 1-12930  
4205 River Green Parkway  
Duluth, GA 30096  
(770) 813-9200**

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

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

As of April 30, 2011, AGCO Corporation had 94,806,961 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.

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**AGCO CORPORATION AND SUBSIDIARIES  
INDEX**

	Page Numbers
<b><u>PART I. FINANCIAL INFORMATION:</u></b>	1
<u>Item 1. Financial Statements</u>	1
<u>Condensed Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010</u>	1
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2011 and 2010</u>	2
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2010</u>	3
<u>Notes to Condensed Consolidated Financial Statements</u>	4
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	36
<u>Item 4. Controls and Procedures</u>	38
<b><u>PART II. OTHER INFORMATION:</u></b>	39
<u>Item 1. Legal Proceedings</u>	39
<u>Item 5. Other Information</u>	39
<u>Item 6. Exhibits</u>	40
<b><u>SIGNATURES</u></b>	41
<u>EX-10.1</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.0</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

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

	March 31, 2011	December 31, 2010
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 314.3	\$ 719.9
Accounts and notes receivable, net	1,023.3	908.5
Inventories, net	1,580.7	1,233.5
Deferred tax assets	58.4	52.6
Other current assets	241.3	206.5
Total current assets	3,218.0	3,121.0
Property, plant and equipment, net	1,048.5	924.8
Investment in affiliates	347.8	398.0
Deferred tax assets	38.2	58.0
Other assets	131.2	130.8
Intangible assets, net	231.0	171.6
Goodwill	721.0	632.7
Total assets	\$ 5,735.7	\$ 5,436.9
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Current portion of long-term debt	\$ 1.0	\$ 0.1
Convertible senior subordinated notes	277.9	161.0
Securitization facilities	94.9	113.9
Accounts payable	773.8	682.6
Accrued expenses	897.2	883.1
Other current liabilities	63.7	72.2
Total current liabilities	2,108.5	1,912.9
Long-term debt, less current portion	290.7	443.0
Pensions and postretirement health care benefits	239.3	226.5
Deferred tax liabilities	122.6	103.9
Other noncurrent liabilities	103.0	91.4
Total liabilities	2,864.1	2,777.7
Commitments and contingencies (Note 16)		
Temporary Equity:		
Equity component of redeemable convertible senior subordinated notes	24.0	

Stockholders' Equity:

AGCO Corporation stockholders' equity:

Preferred stock; \$0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding in 2011 and 2010

Common stock; \$0.01 par value, 150,000,000 shares authorized, 94,787,080 and 93,143,542 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively

	0.9	0.9
Additional paid-in capital	1,029.8	1,051.3
Retained earnings	1,818.3	1,738.3
Accumulated other comprehensive loss	(33.8)	(132.1)
 Total AGCO Corporation stockholders' equity	 2,815.2	 2,658.4
 Noncontrolling interests	 32.4	 0.8
 Total stockholders' equity	 2,847.6	 2,659.2
 Total liabilities, temporary equity and stockholders' equity	 \$ 5,735.7	 \$ 5,436.9

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

## AGCO CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in millions, except per share data)

	Three Months Ended March	
	31,	
	2011	2010
Net sales	\$ 1,797.7	\$ 1,328.2
Cost of goods sold	1,441.8	1,103.6
Gross profit	355.9	224.6
Selling, general and administrative expenses	184.7	157.0
Engineering expenses	57.9	52.1
Restructuring and other infrequent expenses	0.2	1.6
Amortization of intangibles	4.4	4.5
Income from operations	108.7	9.4
Interest expense, net	5.5	9.6
Other expense (income), net	2.3	(2.5)
Income before income taxes and equity in net earnings of affiliates	100.9	2.3
Income tax provision	30.7	3.8
Income (loss) before equity in net earnings of affiliates	70.2	(1.5)
Equity in net earnings of affiliates	11.4	11.5
Net income	81.6	10.0
Net (income) loss attributable to noncontrolling interests	(1.6)	0.1
Net income attributable to AGCO Corporation and subsidiaries	\$ 80.0	\$ 10.1
Net income per common share attributable to AGCO Corporation and subsidiaries:		
Basic	\$ 0.85	\$ 0.11
Diluted	\$ 0.81	\$ 0.10

Weighted average number of common and common equivalent shares  
outstanding:

Basic	94.1	92.4
Diluted	98.3	96.2

See accompanying notes to condensed consolidated financial statements.

2

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**Table of Contents**

## AGCO CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in millions)

	Three Months Ended March	
	2011	31, 2010
Cash flows from operating activities:		
Net income	\$ 81.6	\$ 10.0
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	36.4	33.0
Deferred debt issuance cost amortization	0.4	0.7
Amortization of intangibles	4.4	4.5
Amortization of debt discount	2.0	4.0
Stock compensation	4.7	2.0
Equity in net earnings of affiliates, net of cash received	(7.7)	(8.5)
Deferred income tax benefit	(0.6)	(5.6)
Gain on sale of property, plant and equipment	(0.5)	(0.1)
Gain on remeasurement of previously held equity interest	(0.7)	
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Accounts and notes receivable, net	(17.5)	(29.8)
Inventories, net	(218.2)	(178.9)
Other current and noncurrent assets	(28.2)	(6.5)
Accounts payable	20.3	37.1
Accrued expenses	(21.0)	(74.7)
Other current and noncurrent liabilities	(22.8)	10.5
Total adjustments	(249.0)	(212.3)
Net cash used in operating activities	(167.4)	(202.3)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(36.8)	(24.1)
Proceeds from sale of property, plant and equipment	0.5	0.1
Purchase of businesses, net of cash acquired	(88.3)	
Investments in consolidated affiliates, net of cash acquired	(25.0)	
Investments in unconsolidated affiliates, net	(2.4)	
Net cash used in investing activities	(152.0)	(24.0)
Cash flows from financing activities:		
Conversion of convertible senior subordinated notes	(60.4)	
Repayment of debt obligations, net	(30.9)	(2.1)
Payment of minimum tax withholdings on stock compensation	(2.0)	(8.8)
Net cash used in financing activities	(93.3)	(10.9)



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Effect of exchange rate changes on cash and cash equivalents	7.1	(6.1)
Decrease in cash and cash equivalents	(405.6)	(243.3)
Cash and cash equivalents, beginning of period	719.9	651.4
Cash and cash equivalents, end of period	\$ 314.3	\$ 408.1

See accompanying notes to condensed consolidated financial statements.

3

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**Table of Contents**

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

**1. BASIS OF PRESENTATION**

The condensed consolidated financial statements of AGCO Corporation and its subsidiaries (the Company or AGCO) included herein have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP) for interim financial information and the rules and regulations of the Securities and Exchange Commission (SEC). In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary to present fairly the Company's financial position, results of operations and cash flows at the dates and for the periods presented. These condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. Results for interim periods are not necessarily indicative of the results for the year. Certain prior period amounts have been reclassified to conform to the current period presentation.

**2. JOINT VENTURE AND ACQUISITION**

On January 3, 2011, the Company acquired 50% of AGCO-Amity JV, LLC (AGCO-Amity JV), for approximately \$25.0 million, net of approximately \$5.0 million cash acquired, thereby creating a joint venture between the Company and Amity Technology LLC. The joint venture had approximately \$6.2 million of indebtedness as of the date of acquisition. AGCO-Amity JV is located in North Dakota and manufactures air-seeding and tillage equipment. The investment was funded with available cash on hand. The Company analyzed the provisions of Accounting Standards Update (ASU) 2009-17, Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities as it relates to the joint venture and determined that it has a controlling financial interest in the joint venture as it has the power to direct the activities that most significantly impact the joint venture. Therefore, the Company has consolidated the joint venture's operations in the Company's results of operations and financial position commencing as of and from the date of the formation of the joint venture. The Company allocated the purchase price to the assets acquired and liabilities assumed based on a preliminary estimate of their fair values as of the acquisition date. The acquired net assets consist primarily of accounts receivable, property, plant and equipment, inventories, trademarks and other intangible assets. The Company recorded approximately \$20.1 million of goodwill and approximately \$22.9 million of tradename, technology and distribution network intangible assets, representing 100% of the value of these assets within the joint venture's financial position. The goodwill is reported within the Company's North American geographical reportable segment.

The acquired other identifiable intangible assets of AGCO-Amity JV are summarized in the following table (in millions):

Intangible Asset	Amount	Weighted-Average Useful Life
Tradenames	\$ 1.4	5 years
Technology	17.1	15 years
Distribution network	4.4	5 years
	\$ 22.9	

On March 3, 2011, the Company acquired the remaining 50% of Laverda SpA (Laverda) for \$63.8 million, net of approximately \$1.2 million cash acquired (or approximately \$88.3 million, net). Laverda,

**Table of Contents**Notes to Condensed Consolidated Financial Statements Continued  
(unaudited)

previously an operating joint venture between AGCO and the Italian ARGO group, is located in Breganze, Italy and manufactures harvesting equipment. In addition to producing Laverda-branded combines, the Breganze factory manufactures mid-range combine harvesters for the Company's Massey Ferguson, Fendt and Challenger brands for distribution in Europe, Africa and the Middle East. The Company's 100% ownership of Laverda includes ownership in Fella-Werke GMBH, a German manufacturer of grass and hay machinery. The Company allocated the purchase price to the assets acquired and liabilities assumed based on a preliminary estimate of their fair values as of the acquisition date. The acquired net assets consist primarily of accounts receivable, property, plant and equipment, inventories, tradename and other intangible assets. The Company recorded approximately \$40.9 million of goodwill and approximately \$33.4 million of trademark and distribution network intangible assets associated with the acquisition. The goodwill recorded is reported within the Company's Europe/Middle East/Africa geographical reportable segment. In addition, the Company recorded a gain of approximately \$0.7 million on the remeasurement of the previously held equity interest during the three months ended March 31, 2011 within the Company's Condensed Consolidated Statements of Operations as a result of the acquisition.

The acquired other identifiable intangible assets of Laverda are summarized in the following table (in millions):

Intangible Asset	Amount	Weighted-Average Useful Life
Tradenames	\$ 6.6	30 years
Distribution network	26.8	16 years
	\$ 33.4	

On December 15, 2010, the Company acquired Sparex Holdings Ltd ( Sparex ), a U.K. Company, for £51.6 million, net of approximately £2.7 million cash acquired. Sparex, headquartered in Exeter, United Kingdom, is a global distributor of accessories and tractor replacement parts serving the agricultural aftermarket, with operations in 17 countries. The acquisition was financed with available cash on hand. The Company recorded approximately \$25.9 million of goodwill and approximately \$28.6 million of preliminary estimated tradename and customer relationship intangible assets associated with the acquisition of Sparex. The results of operations for the Sparex acquisition have been included in the Company's Condensed Consolidated Financial Statements as of and from the date of acquisition.

The following pro forma data summarizes the results of operations for the three months ended March 31, 2011 and 2010, as if the Laverda and Sparex acquisitions had occurred as of January 1, 2010. The unaudited pro forma information has been prepared for comparative purposes only and does not purport to represent what the results of operations of the Company actually would have been had the transaction occurred on the date indicated or what the results of operations may be in any future period (in millions, except per share data):

	Three Months Ended March 31,	
	2011	2010
Net sales	\$ 1,831.3	\$ 1,398.7
Net income attributable to AGCO Corporation and subsidiaries	80.4	11.7
Net income per common share attributable to AGCO Corporation and subsidiaries:		
Basic	\$ 0.85	\$ 0.13
Diluted	\$ 0.82	\$ 0.12

**3. RESTRUCTURING AND OTHER INFREQUENT EXPENSES**

During 2009 and 2010, the Company announced and initiated several actions to rationalize employee headcount at various manufacturing facilities, including those located in France and Finland, as well as at the Company's administrative office located in the United Kingdom. During 2010, the Company recorded approximately \$2.2 million associated with these and various other actions within the Company's Europe/Africa/Middle East geographical segment. As of December 31, 2010, approximately \$1.5 million of severance and other related costs were accrued associated with such actions and 611 of 653 employees expected to be terminated had been terminated. During the three months

**Table of Contents**Notes to Condensed Consolidated Financial Statements    Continued  
(unaudited)

ended March 31, 2011, the Company paid and recorded an additional \$0.2 million of expenses, primarily related to severance-related expenditures associated with the rationalization of its French operations. A majority of the remaining \$1.5 million of severance and other related costs accrued as of March 31, 2011, as well as the remaining employees, are expected to be paid and terminated during 2011.

In November 2009, the Company announced the closure of its assembly operations located in Randers, Denmark. The Company ceased operations in July 2010 and completed the transfer of the assembly operations to its harvesting equipment manufacturing operations, Laverda, located in Breganze, Italy, in August 2010. The Company recorded approximately \$2.2 million during 2010 associated with the facility closure, primarily related to employee retention payments, which were accrued over the term of the retention period. As of December 31, 2010, approximately \$0.7 million of severance, retention and other related costs were accrued associated with the closure, and 73 of the 79 employees expected to be terminated had been terminated. During the three months ended March 31, 2011, the Company paid approximately \$0.4 million of severance, retention and other related costs associated with the closure. The remaining \$0.3 million of severance, retention and other related costs accrued as of March 31, 2011, as well as the remaining employees, are expected to be paid and terminated during 2011.

**4. STOCK COMPENSATION PLANS**

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

	Three Months Ended March 31,	
	2011	2010
Cost of goods sold	\$ 0.3	\$ 0.1
Selling, general and administrative expenses	4.4	1.9
Total stock compensation expense	\$ 4.7	\$ 2.0

**Stock Incentive Plans**

Under the Company's 2006 Long Term Incentive Plan (the "2006 Plan"), up to 10.0 million shares of AGCO common stock may be issued. The 2006 Plan allows the Company, under the direction of the Board of Directors' Compensation Committee, to make grants of performance shares, stock appreciation rights, stock options and restricted stock awards to employees, officers and non-employee directors of the Company.

*Employee Plans*

The weighted average grant-date fair value of performance awards granted under the 2006 Plan during the three months ended March 31, 2011 and 2010 was \$52.23 and \$33.65, respectively.

During the three months ended March 31, 2011, the Company granted 624,400 awards for the three-year performance period commencing in 2011 and ending in 2013, assuming the maximum target level of performance is achieved. The compensation expense associated with all awards granted under the 2006 Plan is amortized ratably over the vesting or performance period based on the Company's projected assessment of the level of performance that will be achieved and earned. Performance award transactions during the three months ended March 31, 2011 were as follows and are presented as if the Company were to achieve its maximum levels of performance under the plan:

**Table of Contents**Notes to Condensed Consolidated Financial Statements Continued  
(unaudited)

Shares awarded but not earned at January 1	1,916,254
Shares awarded	624,400
Shares forfeited or unearned	(8,900)
Shares earned	
Shares awarded but not earned at March 31	2,531,754

As of March 31, 2011, 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 \$44.3 million, and the weighted average period over which it is expected to be recognized is approximately two years.

During both the three months ended March 31, 2011 and 2010, the Company recorded stock compensation expense of approximately \$0.7 million associated with stock settled stock appreciation rights (SSAR) awards. The Company estimated the fair value of the grants using the Black-Scholes option pricing model. The Company utilized the simplified method for estimating the expected term of granted SSARs during the three months ended March 31, 2011 as afforded by SEC Staff Accounting Bulletin (SAB) No. 107, Share-Based Payment (SAB Topic 14), and SAB No. 110, Share-Based Payment (SAB Topic 14.D.2). The expected term used to value a grant under the simplified method is the mid-point between the vesting date and the contractual term of the SSAR. As the Company has only been granting SSARs since April 2006, it does not believe it has sufficient relevant experience regarding employee exercise behavior. The weighted average grant-date fair value of SSARs granted and the weighted average assumptions under the Black-Scholes option model were as follows for the three months ended March 31, 2011 and 2010:

	Three Months Ended March	
	31,	
	2011	2010
Weighted average grant date fair value	\$ 22.58	\$ 14.51

## Weighted average assumptions under Black-Scholes option model:

Expected life of awards (years)	5.5	5.5
Risk-free interest rate	2.0%	2.5%
Expected volatility	49.5%	48.5%
Expected dividend yield		

SSAR transactions during the three months ended March 31, 2011 were as follows:

SSARs outstanding at January 1	798,197
SSARs granted	150,000
SSARs exercised	(86,187)
SSARs canceled or forfeited	
SSARs outstanding at March 31	862,010

## SSAR price ranges per share:

Granted	\$ 49.75-52.29
Exercised	21.45-37.38

Canceled or forfeited

Weighted average SSAR exercise prices per share:

Granted	\$	52.23
Exercised		26.09
Canceled or forfeited		
Outstanding at March 31		36.38

7

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**Table of Contents**Notes to Condensed Consolidated Financial Statements Continued  
(unaudited)

At March 31, 2011, the weighted average remaining contractual life of SSARs outstanding was approximately five years. As of March 31, 2011, the total compensation cost related to unvested SSARs not yet recognized was approximately \$6.6 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:

Range of Exercise Prices	Number of Shares	SSARs Outstanding		SSARs Exercisable	
		Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Exercisable as of March 31, 2011	Weighted Average Exercise Price
\$21.45 \$24.51	273,532	4.5	\$ 21.69	142,063	\$ 21.99
\$26.00 \$37.38	336,391	4.5	\$ 35.09	193,766	\$ 36.41
\$44.55 \$66.20	252,087	5.6	\$ 54.05	75,862	\$ 56.88
	862,010			411,691	\$ 35.21

The total fair value of SSARs vested during the three months ended March 31, 2011 was \$2.2 million. There were 450,319 SSARs that were not vested as of March 31, 2011. The total intrinsic value of outstanding and exercisable SSARs as of March 31, 2011 was \$16.2 million and \$8.3 million, respectively. The total intrinsic value of SSARs exercised during the three months ended March 31, 2011 was approximately \$2.6 million. The Company realized an insignificant tax benefit from the exercise of these SSARs.

*Director Restricted Stock Grants*

The 2006 Plan provides for 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 Company's 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 2011 grant was made on April 21, 2011 and equated to 16,560 shares of common stock, of which 11,482 shares of common stock were issued, after shares were withheld for withholding taxes. The Company will record stock compensation expense of approximately \$0.9 million during the three months ended June 30, 2011 associated with these grants.

As of March 31, 2011, of the 5.0 million shares reserved for issuance under the 2006 Plan, approximately 0.1 million shares were available for grant, assuming the maximum number of shares are earned related to the performance award grants discussed above. On April 21, 2011, the Company's shareholders approved increasing the number of shares reserved for issuance by an additional 5.0 million shares, for a total of 10.0 million shares.

*Stock Option Plan*

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. All of the Company's outstanding stock options are fully vested. Stock option transactions during the three months ended March 31, 2011 were as follows:



**Table of Contents**Notes to Condensed Consolidated Financial Statements Continued  
(unaudited)

Options outstanding and exercisable at January 1	19,275
Options granted	
Options exercised	(2,850)
Options canceled or forfeited	
Options outstanding and exercisable at March 31	16,425
Options available for grant at March 31	1,935,437
Option price ranges per share:	
Granted	\$
Exercised	15.12-20.85
Canceled or forfeited	
Weighted average option exercise prices per share:	
Granted	\$
Exercised	17.13
Canceled or forfeited	
Outstanding at March 31	16.17

At March 31, 2011, the outstanding and exercisable options had a weighted average remaining contractual life of approximately one year and an aggregate intrinsic value of approximately \$0.6 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:

Range of Exercise Prices	Number of Shares	Options Outstanding and Exercisable as of March 31, 2011	
		Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$15.12 - \$20.85	16,425	0.7	\$ 16.17

The total intrinsic value of options exercised during the three months ended March 31, 2011 was approximately \$0.1 million. Cash received from stock option exercises was less than \$0.1 million for the three months ended March 31, 2011. The Company realized an insignificant tax benefit from the exercise of these options.

**Table of Contents**Notes to Condensed Consolidated Financial Statements Continued  
(unaudited)**5. GOODWILL AND OTHER INTANGIBLE ASSETS**

Changes in the carrying amount of acquired intangible assets during the three months ended March 31, 2011 are summarized as follows (in millions):

	Trademarks		Patents	
	and	Customer	and	Total
	Tradenames	Relationships	Technology	
Gross carrying amounts:				
Balance as of December 31, 2010	\$ 38.4	\$ 124.9	\$ 50.8	\$ 214.1
Acquisitions	7.7	33.3	17.1	58.1
Foreign currency translation	0.4	4.9	3.1	8.4
Balance as of March 31, 2011	\$ 46.5	\$ 163.1	\$ 71.0	\$ 280.6

	Trademarks		Patents	
	and	Customer	and	Total
	Tradenames	Relationships	Technology	
Accumulated amortization:				
Balance as of December 31, 2010	\$ 11.0	\$ 73.7	\$ 50.4	\$ 135.1
Amortization expense	0.4	3.6	0.4	4.4
Foreign currency translation		2.2	3.0	5.2
Balance as of March 31, 2011	\$ 11.4	\$ 79.5	\$ 53.8	\$ 144.7

	Trademarks and Tradenames
Unamortized intangible assets:	
Balance as of December 31, 2010	\$ 92.6
Foreign currency translation	2.5
Balance as of March 31, 2011	\$ 95.1

Changes in the carrying amount of goodwill during the three months ended March 31, 2011 are summarized as follows (in millions):

	North America	South America	Europe/Africa/ Middle East	Consolidated
Balance as of December 31, 2010	\$ 3.1	\$ 196.7	\$ 432.9	\$ 632.7
Acquisitions	20.1		40.1	60.2
Adjustments related to income taxes			(2.3)	(2.3)
Foreign currency translation		4.0	26.4	30.4

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Balance as of March 31, 2011	\$ 23.2	\$ 200.7	\$ 497.1	\$ 721.0
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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.

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

During the three months ended March 31, 2011, the Company reduced goodwill by approximately \$2.3 million related to the realization of tax benefits associated with excess tax basis deductible goodwill resulting from its acquisition of Valtra in Finland.

**Table of Contents**Notes to Condensed Consolidated Financial Statements Continued  
(unaudited)**6. INDEBTEDNESS**

Indebtedness consisted of the following at March 31, 2011 and December 31, 2010 (in millions):

	March 31, 2011	December 31, 2010
6 % Senior subordinated notes due 2014	\$ 284.2	\$ 267.7
1 <sup>3</sup> / <sub>4</sub> % Convertible senior subordinated notes due 2033	100.6	161.0
1 <sup>1</sup> / <sub>4</sub> % Convertible senior subordinated notes due 2036	177.3	175.2
Securitization facilities	94.9	113.9
Other long-term debt	7.5	0.2
	664.5	718.0
Less: Current portion of long-term debt	(1.0)	(0.1)
1 <sup>3</sup> / <sub>4</sub> % Convertible senior subordinated notes due 2033	(100.6)	(161.0)
1 <sup>1</sup> / <sub>4</sub> % Convertible senior subordinated notes due 2036	(177.3)	(175.2)
Securitization facilities	(94.9)	(113.9)
Total indebtedness, less current portion	\$ 290.7	\$ 443.0

The Company's \$100.6 million of 3/4% convertible senior subordinated notes due December 31, 2033, issued in June 2005, 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 the Company's common stock, and (ii) the conversion rate to be increased under certain circumstances if the notes had been converted in connection with certain change of control transactions occurring prior to December 10, 2010. The notes are unsecured obligations and are convertible into cash and shares of the Company's common stock upon satisfaction of certain conditions. Interest is payable on the notes at 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 the Company's 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.

During the three months ended March 31, 2011, holders of the Company's 3/4% convertible senior subordinated notes converted approximately \$60.4 million of principal amount of the notes. The Company issued 1,568,995 shares associated with the \$83.8 million excess conversion value of the notes. The Company reflected the repayment of the principal of the notes totaling \$60.4 million within "Conversion of convertible senior subordinated notes" within the Company's Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2011.

The Company's \$201.3 million of 1/4% convertible senior subordinated notes due December 15, 2036, issued in December 2006, 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 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 occurring prior to December 15, 2013. The notes are unsecured obligations and are convertible into cash and shares of the Company's common stock upon satisfaction of certain conditions. Interest is payable on the notes at 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 the Company's common stock at an effective price of \$40.73 per share, subject to adjustment. This reflects conversion rate for the notes of 24.5525 shares of common stock per \$1,000 principal amount of notes.

The following table sets forth as of March 31, 2011 and December 31, 2010 the carrying amount of the equity component, the principal amount of the liability component, the unamortized discount and the net carrying amount of

the Company's 3/4% convertible senior subordinated notes and its

**Table of Contents**Notes to Condensed Consolidated Financial Statements Continued  
(unaudited)1<sup>1</sup>/<sub>4</sub>% convertible senior subordinated notes (in millions):

	March 31, 2011	December 31, 2010
1 <sup>3</sup> / <sub>4</sub> % Convertible senior subordinated notes due 2033:		
Carrying amount of the equity component	\$	\$ 16.1
Principal amount of the liability component	\$ 100.6	\$ 161.0
Less: unamortized discount		
Net carrying amount	\$ 100.6	\$ 161.0
1 <sup>1</sup> / <sub>4</sub> % Convertible senior subordinated notes due 2036:		
Carrying amount of the equity component	\$ 54.3	\$ 54.3
Principal amount of the liability component	\$ 201.3	\$ 201.3
Less: unamortized discount	(24.0)	(26.1)
Net carrying amount	\$ 177.3	\$ 175.2

The following table sets forth the interest expense recognized relating to both the contractual interest coupon and the amortization of the discount on the liability component for the 1<sup>3</sup>/<sub>4</sub>% convertible senior subordinated notes and 1<sup>1</sup>/<sub>4</sub>% convertible senior subordinated notes (in millions):

	Three Months Ended March 31,	
	2011	2010
1 <sup>3</sup> / <sub>4</sub> % Convertible senior subordinated notes:		
Interest expense	\$ 0.5	\$ 2.9
1 <sup>1</sup> / <sub>4</sub> % Convertible senior subordinated notes:		
Interest expense	\$ 2.7	\$ 2.6

The effective interest rate on the liability component for the 1<sup>3</sup>/<sub>4</sub>% convertible senior subordinated notes and the 1<sup>1</sup>/<sub>4</sub>% convertible senior subordinated notes for the three months ended March 31, 2011 and 2010 was 6.1% for both notes. The discount for the 1<sup>3</sup>/<sub>4</sub>% convertible senior subordinated notes was amortized through December 2010 and the unamortized discount for the 1<sup>1</sup>/<sub>4</sub>% convertible senior subordinated notes will be amortized through December 2013 as this is the earliest date the notes holders can require the Company to repurchase the notes.

Holders of the Company's 1<sup>3</sup>/<sub>4</sub>% convertible senior subordinated notes and its 1<sup>1</sup>/<sub>4</sub>% convertible senior subordinated notes may convert the notes, if, during any fiscal quarter, the closing sales price of the Company's common stock exceeds 120% of the conversion price of \$22.36 per share for the 1<sup>3</sup>/<sub>4</sub>% convertible senior subordinated notes and \$40.73 per share for the 1<sup>1</sup>/<sub>4</sub>% 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, 2011 and December 31, 2010, the closing sales price of the Company's common stock had exceeded 120% of the conversion price of the 1<sup>3</sup>/<sub>4</sub>% convertible senior subordinated notes for at least 20 trading days in the 30 consecutive trading days ending March 31, 2011 and December 31, 2010, respectively, and, therefore, the Company classified the notes as a current liability. As of March 31, 2011, the closing sales price of the Company's common stock had exceeded 120% of the conversion price of the 1<sup>1</sup>/<sub>4</sub>% convertible senior subordinated notes for at least 20 trading days in the 30 consecutive trading days ending March 31, 2011, and, therefore, the Company classified the notes as a current liability. In accordance with ASU No. 2009-04, Accounting for Redeemable Equity Instruments, the Company also classified the equity component of the 1<sup>1</sup>/<sub>4</sub>% convertible senior

**Table of Contents**Notes to Condensed Consolidated Financial Statements Continued  
(unaudited)

subordinated notes as temporary equity. The amount classified as temporary equity was measured as the excess of (i) the amount of cash that would be required to be paid upon conversion over (ii) the current carrying amount of the liability-classified component. As of March 31, 2011 and December 31, 2010, the amount of principal cash required to be repaid upon conversion of the 1<sup>3</sup>/<sub>4</sub>% convertible senior subordinated notes was equivalent to the carrying amount of the liability-classified component. Future classification of both series of notes between current and long-term debt and classification of the equity component of the 1<sup>1</sup>/<sub>4</sub>% convertible senior subordinated notes as temporary equity is dependent on the closing sales price of the Company's common stock during future quarters.

The Company's 200.0 million of 6 % senior subordinated notes due April 15, 2014, issued in April 2004, 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. On April 1, 2011, the Company notified the holders of the notes that it would be redeeming the notes at a price of 101.146% of their principal amount on May 2, 2011, in accordance with the redemption provisions of the indenture agreement. The Company funded the redemption of the notes with a new 200.0 million senior unsecured term loan with Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., Rabobank Nederland. The new term loan is due May 2, 2016 and bears interest at a fixed rate of 4.5%. The Company will record a loss of approximately \$3.1 million associated with the premium paid to the holders of the notes and will record a write-off of approximately \$1.2 million of unamortized deferred debt issuance costs associated with the redemption. Both of these amounts will be reflected within interest expense, net in the Company's Condensed Consolidated Statements of Operations during the three months ended June 30, 2011.

At March 31, 2011, the estimated fair values of the Company's 6 % senior subordinated notes, 3<sup>3</sup>/<sub>4</sub>% convertible senior subordinated notes and 1<sup>1</sup>/<sub>4</sub>% convertible senior subordinated notes, based on their listed market values, were \$287.3 million, \$240.6 million and \$297.8 million, respectively, compared to their carrying values of \$284.2 million, \$100.6 million and \$177.3 million, respectively. At December 31, 2010, the estimated fair values of the Company's 6 % senior subordinated notes, 3<sup>3</sup>/<sub>4</sub>% convertible senior subordinated notes and 1<sup>1</sup>/<sub>4</sub>% convertible senior subordinated notes, based on their listed market values, were \$271.7 million, \$325.1 million and \$277.1 million, respectively, compared to their carrying values of \$267.7 million, \$161.0 million and \$175.2 million, respectively.

The Company has arrangements with various banks to issue standby letters of credit or similar instruments, which guarantee the Company's obligations for the purchase or sale of certain inventories and for potential claims exposure for insurance coverage. At March 31, 2011 and December 31, 2010, outstanding letters of credit issued under the revolving credit facility totaled \$10.0 million and \$9.8 million, respectively.

**7. INVENTORIES**

Inventories at March 31, 2011 and December 31, 2010 were as follows (in millions):

	March 31, 2011	December 31, 2010
Finished goods	\$ 612.7	\$ 422.6
Repair and replacement parts	482.8	432.4
Work in process	132.1	90.2
Raw materials	353.1	288.3
Inventories, net	\$ 1,580.7	\$ 1,233.5



**Table of Contents**Notes to Condensed Consolidated Financial Statements Continued  
(unaudited)**8. PRODUCT WARRANTY**

The warranty reserve activity for the three months ended March 31, 2011 and 2010 consisted of the following (in millions):

	Three Months Ended March 31,	
	2011	2010
Balance at beginning of period	\$ 199.5	\$ 181.6
Acquisitions	2.6	
Accruals for warranties issued during the period	38.3	30.0
Settlements made (in cash or in kind) during the period	(30.0)	(29.7)
Foreign currency translation	7.8	(7.0)
Balance at March 31	\$ 218.2	\$ 174.9

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. Approximately \$197.0 million and \$179.0 million of warranty reserves are included in Accrued expenses in the Company's Condensed Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010, respectively. Approximately \$21.2 million and \$20.5 million of warranty reserves are included in Other noncurrent liabilities in the Company's Condensed Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010, respectively.

**9. NET INCOME PER COMMON SHARE**

Basic earnings per common share is computed by dividing net income attributable to AGCO Corporation and its subsidiaries 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. Dilution of weighted shares outstanding will depend on the Company's stock price for the excess conversion value of the convertible senior subordinated notes using the treasury stock method. A reconciliation of net income attributable to AGCO Corporation and its subsidiaries and weighted average common shares outstanding for purposes of calculating basic and diluted earnings per share for the three months ended March 31, 2011 and 2010 is as follows (in millions, except per share data):

**Table of Contents**Notes to Condensed Consolidated Financial Statements Continued  
(unaudited)

	Three Months Ended March 31,	
	2011	2010
Basic net income per share:		
Net income attributable to AGCO Corporation and subsidiaries	\$ 80.0	\$ 10.1
Weighted average number of common shares outstanding	94.1	92.4
Basic net income per share attributable to AGCO Corporation and subsidiaries	\$ 0.85	\$ 0.11
Diluted net income per share:		
Net income attributable to AGCO Corporation and subsidiaries for purposes of computing diluted net income per share	\$ 80.0	\$ 10.1
Weighted average number of common shares outstanding	94.1	92.4
Dilutive stock options, performance share awards and restricted stock awards	0.4	0.7
Weighted average assumed conversion of contingently convertible senior subordinated notes	3.8	3.1
Weighted average number of common and common equivalent shares outstanding for purposes of computing diluted earnings per share	98.3	96.2
Diluted net income per share attributable to AGCO Corporation and subsidiaries	\$ 0.81	\$ 0.10

There were SSARs to purchase approximately 0.3 million shares of the Company's common stock for the three months ended March 31, 2011 and approximately 0.5 million shares of the Company's common stock for the three months ended March 31, 2010 that were excluded from the calculation of diluted earnings per share because the SSARs had an antidilutive impact.

**10. INCOME TAXES**

At March 31, 2011 and December 31, 2010, the Company had approximately \$52.4 million and \$48.2 million, respectively, of unrecognized tax benefits, all of which would affect the Company's effective tax rate if recognized. As of March 31, 2011 and December 31, 2010, the Company had approximately \$16.1 million and \$14.2 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, 2011 and December 31, 2010, the Company had accrued interest and penalties related to unrecognized tax benefits of \$4.7 million and \$5.2 million, respectively.

Generally, the tax years 2005 through 2010 remain open to examination by taxing authorities in the United States and certain other foreign taxing jurisdictions.

**11. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

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

**Table of Contents**Notes to Condensed Consolidated Financial Statements    Continued  
(unaudited)

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, and the Euro in relation to the British pound.

The Company attempts to manage its transactional foreign exchange exposure by hedging foreign currency cash flow forecasts and commitments arising from the anticipated settlement of receivables and payables and from future purchases and sales. Where naturally offsetting currency positions do not occur, the Company hedges certain, but not all, of its exposures through the use of foreign currency contracts. The Company's translation exposure resulting from translating the financial statements of foreign subsidiaries into United States dollars is not hedged. When practical, the translation impact is reduced by financing local operations with local borrowings.

The foreign currency contracts are primarily forward and options contracts. These contracts' fair value measurements fall within the Level 2 fair value hierarchy under ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. 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. 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.

***Cash Flow Hedges***

During 2011 and 2010, the Company designated certain foreign currency contracts as cash flow hedges of expected future sales and purchases. The effective portion of the fair value gains or losses on these cash flow hedges are recorded in other comprehensive income (loss) and subsequently reclassified into cost of goods sold during the period the sales and purchases are recognized. The amount of the gain (loss) recorded in other comprehensive income (loss) that was reclassified to cost of goods sold during the three months ended March 31, 2011 and 2010 was approximately \$1.2 million and \$(0.6) million, respectively, on an after-tax basis. The outstanding contracts as of March 31, 2011 range in maturity through December 2011.

The following table summarizes activity in accumulated other comprehensive loss related to derivatives held by the Company during the three months ended March 31, 2011 (in millions):

**Table of Contents**Notes to Condensed Consolidated Financial Statements Continued  
(unaudited)

	Before-Tax Amount	Income Tax	After-Tax Amount
Accumulated derivative net gains as of December 31, 2010	\$ 1.7	\$ 0.5	\$ 1.2
Net changes in fair value of derivatives	5.4	0.1	5.3
Net gains reclassified from accumulated other comprehensive loss into income	(1.3)	(0.1)	(1.2)
Accumulated derivative net gains as of March 31, 2011	\$ 5.8	\$ 0.5	\$ 5.3

As of March 31, 2011 and December 31, 2010, the Company had outstanding foreign currency contracts with a notional amount of approximately \$148.1 million and \$111.1 million, respectively, that were entered into to hedge forecasted sale and purchase transactions.

***Derivative Transactions Not Designated as Hedging Instruments***

During 2011 and 2010, the Company entered into foreign currency contracts to hedge receivables and payables on the Company and its subsidiaries' balance sheets that are denominated in foreign currencies other than the functional currency. These contracts were classified as non-designated derivative instruments.

As of March 31, 2011 and December 31, 2010, the Company had outstanding foreign currency contracts with a notional amount of approximately \$1,124.3 million and \$1,002.3 million, respectively, that were entered into to hedge receivables and payables that are denominated in foreign currencies other than the functional currency. Changes in the fair value of these contracts are reported in Other expense (income), net. For the three months ended March 31, 2011 and 2010, the Company recorded a net gain of approximately \$2.2 million and \$10.5 million, respectively, under the caption of Other expense (income), net related to these contracts. Gains and losses on such contracts are substantially offset by losses and gains on the remeasurement of the underlying asset or liability being hedged.

The table below sets forth the fair value of derivative instruments as of March 31, 2011 (in millions):

	Asset Derivatives As of March 31, 2011		Liability Derivatives As of March 31, 2011	
	Balance Sheet	Fair Value	Balance Sheet	Fair Value
Derivative instruments designated as hedging instruments:				
Foreign currency contracts	Other current assets	\$ 6.6	Other current liabilities	\$ 0.2
Derivative instruments not designated as hedging instruments:				
Foreign currency contracts	Other current assets	8.1	Other current liabilities	4.6

Total derivative instruments	\$ 14.7	\$ 4.8
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**Table of Contents**Notes to Condensed Consolidated Financial Statements Continued  
(unaudited)

The table below sets forth the fair value of derivative instruments as of December 31, 2010 (in millions):

	Asset Derivatives		Liability Derivatives	
	As of December 31, 2010		As of December 31, 2010	
	Balance Sheet	Fair Value	Balance Sheet	Fair Value
	Location		Location	
Derivative instruments designated as hedging instruments:				
Foreign currency contracts	Other current assets	\$ 2.3	Other current liabilities	\$
Derivative instruments not designated as hedging instruments:				
Foreign currency contracts	Other current assets	12.0	Other current liabilities	8.7
Total derivative instruments		\$ 14.3		\$ 8.7

**Counterparty Risk**

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

**12. CHANGES IN EQUITY AND COMPREHENSIVE INCOME (LOSS)**

The following table sets forth changes in equity attributed to AGCO Corporation and its subsidiaries and to noncontrolling interests for the three months ended March 31, 2011 (in millions):

	AGCO Corporation and subsidiaries					
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
Balance, December 31, 2010	\$ 0.9	\$ 1,051.3	\$ 1,738.3	\$ (132.1)	\$ 0.8	\$ 2,659.2
Stock compensation		4.7				4.7
Issuance of performance award stock		(1.5)				(1.5)

Stock options and SSARs exercised			(0.7)					(0.7)
Reclassification to temporary equity	Equity							
component of convertible senior subordinated notes			(24.0)					(24.0)
Investment by noncontrolling interest						30.0		30.0
Comprehensive income (loss):								
Net income				80.0			1.6	81.6
Other comprehensive income (loss), net of tax:								
Foreign currency translation adjustments						92.6		92.6
Defined benefit pension plans						1.6		1.6
Unrealized gain on derivatives						4.1		4.1
Balance, March 31, 2011	\$ 0.9	\$ 1,029.8	\$ 1,818.3	\$	(33.8)	\$ 32.4	\$ 2,847.6	



**Table of Contents**Notes to Condensed Consolidated Financial Statements Continued  
(unaudited)

Total comprehensive income (loss) for the three months ended March 31, 2011 and 2010 was as follows (in millions):

	AGCO Corporation and subsidiaries		Noncontrolling Interests	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2011	2010	2011	2010
Net income (loss)	\$ 80.0	\$ 10.1	\$ 1.6	\$ (0.1)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	92.6	(74.3)		
Defined benefit pension plans	1.6	1.6		
Unrealized gain (loss) on derivatives	4.1	(0.7)		
Unrealized gain on derivatives held by affiliates		0.1		
Total comprehensive income (loss)	\$ 178.3	\$ (63.2)	\$ 1.6	\$ (0.1)