ALLSCRIPTS HEALTHCARE SOLUTIONS INC
Form 10-Q
August 08, 2008
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2008**

**OR**

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission file number 000-32085**

# ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **36-4392754** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification Number)** |

**222 Merchandise Mart, Suite 2024**

**Chicago, IL 60654**

**(Address of principal executive offices)**

**(866) 358-6869**

**(Registrant s telephone number, including area code)**

Indicate by check mark whether the registrant (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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

x Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of July 31, 2008, there were 57,319,706 shares of the registrant s $0.01 par value common stock outstanding.

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**PART I . FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(In thousands, except per share amounts)**

| | June 30, 2008 (unaudited) | December 31, 2007 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $50,844 | $43,785 |
| Marketable securities | 11,904 | 5,759 |
| Accounts receivable, net of allowances of $5,488 and $4,190 at June 30, 2008 and December 31, 2007, respectively | 83,847 | 81,351 |
| Deferred taxes, net | 6,888 | 16,650 |
| Inventories | 5,373 | 4,178 |
| Prepaid expenses and other current assets | 17,582 | 17,401 |
| Total current assets | 176,438 | 169,124 |
| Long-term marketable securities | 3,307 | 13,459 |
| Fixed assets, net | 21,147 | 18,238 |
| Software development costs, net | 25,833 | 24,115 |
| Intangible assets, net | 100,638 | 107,503 |
| Goodwill | 249,808 | 240,452 |
| Other assets | 3,635 | 5,252 |
| Total assets | $580,806 | $578,143 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $8,888 | $15,911 |
| Accrued expenses | 20,499 | 17,266 |
| Accrued acquisition obligation | | 8,946 |
| Accrued compensation | 8,043 | 5,441 |
| Deferred revenue | 50,614 | 45,940 |
| Current portion of long-term debt | 290 | 279 |
| Other current liabilities | | 274 |
| Total current liabilities | 88,334 | 94,057 |
| Long-term debt | 135,014 | 135,162 |
| Deferred taxes, net | 8,216 | 6,179 |
| Other liabilities | 1,791 | 2,105 |
| Total liabilities | 233,355 | 237,503 |
| Preferred stock: | | |
| Undesignated, $0.01 par value, 1,000 shares authorized, no shares issued and outstanding at June 30, 2008 and December 31, 2007 | | |
| Common stock: | | |

| | | |
|---|---|---|
| $0.01 par value, 150,000 shares authorized; 57,319 issued and outstanding at June 30, 2008; 56,918 issued and outstanding at December 31, 2007 | 573 | 569 |
| Additional paid-in capital | 857,887 | 853,402 |
| Accumulated deficit | (510,810) | (513,242) |
| Accumulated other comprehensive loss | (199) | (89) |
| Total stockholders equity | 347,451 | 340,640 |
| Total liabilities and stockholders equity | $580,806 | $578,143 |

The accompanying notes are an integral part of these consolidated financial statements.

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**ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(In thousands, except per share amounts)**

**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (Unaudited) | | | |
| Revenue: | | | | |
| Software and related services | $68,179 | $54,681 | $126,797 | $105,921 |
| Prepackaged medications | 9,493 | 10,939 | 19,088 | 21,168 |
| Information services | 3,840 | 4,421 | 7,716 | 7,974 |
| Total revenue | 81,512 | 70,041 | 153,601 | 135,063 |
| Cost of revenue: | | | | |
| Software and related services | 29,967 | 22,797 | 55,886 | 45,179 |
| Prepackaged medications | 7,848 | 9,141 | 15,461 | 17,449 |
| Information services | 2,547 | 2,632 | 5,063 | 4,691 |
| Total cost of revenue | 40,362 | 34,570 | 76,410 | 67,319 |
| Gross profit | 41,150 | 35,471 | 77,191 | 67,744 |
| Selling, general and administrative expenses | 32,850 | 25,425 | 64,243 | 47,799 |
| Amortization of intangible assets | 3,439 | 2,576 | 6,878 | 5,152 |
| Income from operations | 4,861 | 7,470 | 6,070 | 14,793 |
| Interest expense | (1,383) | (930) | (3,027) | (1,863) |
| Interest income and other, net | 377 | 1,106 | 942 | 2,143 |
| Gain on sale of equity investment | | 2,392 | | 2,392 |
| Income before income taxes | 3,855 | 10,038 | 3,985 | 17,465 |
| Provision for income taxes | 1,503 | 4,010 | 1,553 | 6,970 |
| Net income | $2,352 | $6,028 | $2,432 | $10,495 |
| Net income per share basic | $0.04 | $0.11 | $0.04 | $0.19 |
| Net income per share diluted | $0.04 | $0.10 | $0.04 | $0.18 |
| Weighted-average shares of common stock outstanding used in computing basic net income per share | 56,766 | 55,648 | 56,635 | 55,146 |
| Weighted-average shares of common stock outstanding used in computing diluted net income per share | 57,772 | 64,802 | 57,570 | 64,327 |

The accompanying notes are an integral part of these consolidated financial statements.

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**ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**

**(Unaudited)**

| | Six Months Ended June 30, 2008 | Six Months Ended June 30, 2007 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $2,432 | $10,495 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 14,391 | 9,101 |
| Stock-based compensation expense | 3,572 | 1,280 |
| Gain on sale of equity investment | | (2,392) |
| Realized loss on investments | 12 | 35 |
| Provision for doubtful accounts | 3,060 | 1,377 |
| Deferred taxes | 2,301 | 6,128 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (5,556) | (15,489) |
| Inventories | (1,195) | (765) |
| Prepaid expenses and other assets | 1,863 | (4,021) |
| Accounts payable | (7,022) | 2,965 |
| Accrued expenses | 1,949 | (1,454) |
| Accrued compensation | 2,602 | (3,345) |
| Deferred revenue | 4,674 | 3,064 |
| Other current liabilities | (725) | (63) |
| Net cash provided by operating activities | 22,358 | 6,916 |
| Cash flows from investing activities: | | |
| Capital expenditures | (5,657) | (5,104) |
| Capitalized software | (6,170) | (8,035) |
| Purchase of marketable securities | | (17,485) |
| Maturities of marketable securities | 3,885 | 11,373 |
| Sale of equity investment | | 2,592 |
| Net payments for purchase of Extended Care Information Network, Inc. | (9,024) | |
| Net payments for purchase of A4 Health Systems, Inc. | | (265) |
| Net cash used in investing activities | (16,966) | (16,924) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of common stock options | 1,312 | 7,453 |
| Proceeds from employee stock purchase plan, net | 355 | 470 |
| Net cash provided by financing activities | 1,667 | 7,923 |
| Net increase (decrease) in cash and cash equivalents | 7,059 | (2,085) |
| Cash and cash equivalents, beginning of period | 43,785 | 42,461 |
| Cash and cash equivalents, end of period | $50,844 | $40,376 |

The accompanying notes are an integral part of these consolidated financial statements.

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**ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited, dollar and share amounts in thousands, except per-share amounts)**

**1. Basis of Presentation**

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ( SEC ). The interim consolidated financial statements include the consolidated accounts of Allscripts Healthcare Solutions, Inc. and its wholly-owned subsidiaries ( Allscripts or the Company ) with all significant intercompany transactions eliminated. In management s opinion, all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations. These financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2007, in Allscripts Annual Report on Form 10-K, filed with the SEC on February 29, 2008. Operating results for the three and six months ended June 30, 2008 are not necessarily indicative of the results for the full year. Certain of the 2007 amounts in the accompanying financial statements have been reclassified to conform to the presentation in this report.

**2. Revenue Recognition**

Revenue from software licensing arrangements, where the service element is considered essential to the functionality of the other elements of the arrangement, is accounted for under American Institute of Certified Public Accountants Statement of Position ( SOP ) 81-1, Accounting for Performance of Construction-Type Contracts and Certain Production-Type Contracts. Allscripts recognizes revenue on an input basis using actual hours worked as a percentage of total expected hours required by the arrangement, provided that the fee is fixed and determinable and collection of the receivable is probable. Maintenance and support from these agreements is recognized over the term of the support agreement based on vendor-specific objective evidence of fair value of the maintenance revenue, which is generally based upon contractual renewal rates. For agreements that are deemed to have extended payment terms, revenue is recognized using the input method but is limited to the amounts due and payable.

Revenue from software licensing arrangements where the service element is not considered essential to the functionality of the other elements of the arrangement is accounted for under SOP 97-2, Software Revenue Recognition, as amended by SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions. Such revenue is recognized upon shipment of the software or as services are performed, provided persuasive evidence of an arrangement exists, fees are considered fixed and determinable, and collection of the receivable is considered probable. The revenue recognized for each separate element of a multiple-element software contract is based upon vendor-specific objective evidence of fair value, which is based upon the price the customer is required to pay when the element is sold separately.

Revenue from certain value-added reseller ( VAR ) relationships in which software is directly sold to VARs is recognized upon delivery of the software in accordance with SOP 97-2 assuming all other revenue recognition criteria have been met. In certain instances, the ultimate end-user customers of the VARs will separately contract with Allscripts to perform implementation services relating to the software purchased. Under the provisions of SOP 97-2 these two independent transactions are accounted for separately with the software sold to the VARs being recognized upon software delivery and the implementation services contracted separately with the end-user VAR customers being recognized as the work is performed.

Revenue from the prepackaged medications segment, from the sale of medications, net of provisions for estimated returns, is recognized upon shipment of the pharmaceutical products, the point at which the customer takes ownership and assumes risk of loss, when no performance obligations remain and collection of the receivable is probable. Allscripts offers the right of return on pharmaceutical products under various policies and estimates and maintains reserves for product returns based on historical experience following the provisions of FAS No. 48, Revenue Recognition When Right of Return Exists.

Certain of our customer arrangements in our information services segment encompass multiple deliverables. We account for these arrangements in accordance with Emerging Issues Task Force ( EITF ) No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables ( EITF 00-21 ). If the deliverables meet the separation criteria in EITF 00-21, the deliverables are separated into separate units of accounting, and revenue is allocated to the deliverables based on their relative fair values. The criteria specified in EITF 00-21 are that the delivered item has value to the customer on a stand-alone basis, there is objective and reliable evidence of the fair value of the undelivered item, and if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially in the control of the vendor. Applicable revenue recognition criteria is considered separately for each separate unit of accounting.

Management applies judgment to ensure appropriate application of EITF 00-21, including value allocation among multiple deliverables, determination of whether undelivered elements are essential to the functionality of delivered elements and timing of revenue recognition, among others. For those arrangements where the deliverables do not qualify as a separate unit of accounting, revenue from all deliverables is treated as one accounting unit and recognized on a straight-line basis over the term of the arrangement. Changes in circumstances and customer data may affect management s analysis of EITF 00-21 criteria, which may cause Allscripts to adjust upward or downward the amount of revenue recognized under the arrangement.

In accordance with EITF issued Consensus 01-14, Income Statement Characterization of Reimbursements for Out-of-Pocket Expenses Incurred, revenue includes reimbursable expenses charged to our clients.

In June 2006, the Financial Accounting Standards Board ( FASB ) ratified the consensus reached on EITF No. 06-3 ( EITF 06-3), How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That is, Gross versus Net Presentation). Allscripts presents any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer on a net basis. We did not modify our accounting policy in connection with the adoption of EITF 06-3, and therefore the adoption of this EITF did not have an impact on our consolidated results of operations or financial condition.

As of June 30, 2008 and December 31, 2007, there was $20,154 and $18,400, respectively, of revenue earned on contracts in excess of billings, which are included in the balance of accounts receivable. Billings on contracts where revenue has been earned in excess of billings are expected to occur according to the contract terms. Deferred revenue consisted of the following:

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Prepayments and billings in excess of revenue earned on contracts in progress for software and services provided by Allscripts and included in the software and related services segment | $19,712 | $25,669 |
| Prepayments and billings in excess of revenue earned on contracts in progress for support and maintenance provided by Allscripts and included in the software and related services segment | 29,605 | 15,623 |
| Prepayments and billings in excess of revenue earned for interactive physician education sessions and related services provided by the Allscripts physicians interactive business unit and included in the information services segment | 1,297 | 4,648 |
| Total deferred revenue | $50,614 | $45,940 |

**3. Business Combinations**

***Misys Healthcare Systems, LLC***

On March 17, 2008, Allscripts entered into an Agreement and Plan of Merger (the Merger Agreement ) with Misys plc ( Misys ), a public limited company incorporated under the laws of England and Wales, Misys Healthcare Systems, LLC ( MHS ), a North Carolina limited liability company and wholly-owned indirect subsidiary of Misys and Patriot Merger Company, LLC, a North Carolina limited liability company and wholly-owned subsidiary of Allscripts ( Patriot ).

The Merger Agreement provides for (i) the purchase by Misys or its affiliated designee of $330,000 ( the Share Purchase ) and (ii) the merger of Patriot with and into MHS, with MHS being the surviving company (the Merger and together with the Share Purchase, the Transactions ). At the effective time of, and as a result of the Merger, each issued and outstanding limited liability company interest of MHS shall be cancelled and converted into the right to receive that number of newly issued shares of Allscripts common stock that, together with the shares of Allscripts common stock to be purchased by Misys or its affiliated designee in the Share Purchase, shall equal 54.5% of the aggregate number of Allscripts fully-diluted shares. Pursuant to the Merger Agreement, Allscripts will declare and pay a special cash dividend of $330,000, in the aggregate, to holders of Allscripts common stock as of the close of business on the business day immediately prior to the date on which the Merger is consummated.

Consummation of the Transactions is subject to various conditions, including, without limitation, the approval by the stockholders of the Company and the shareholders of Misys, respectively, no legal impediment, the receipt of required regulatory approvals, the absence of a material adverse effect on the Company and MHS, and, unless Misys makes the tax election specified in the Merger Agreement, the receipt of an opinion from legal counsel that the Merger constitutes a tax-free reorganization under Section 368(a) of the Internal Revenue Code. There is not a financing condition to the consummation of the Transactions.

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***Extended Care Information Network, Inc.***

On December 31, 2007, Allscripts completed its acquisition of Extended Care Information Network, Inc. ( ECIN ), for a total of $93,525 (which includes repayment of ECIN s indebtedness and transaction expenses). ECIN is a provider of hospital care management and discharge planning solutions. In connection with the ECIN acquisition, Allscripts created a new hospital solutions group designed to provide products and services under one umbrella, combining ECIN with Allscripts existing emergency department information systems and its care management solution, Canopy.

The ECIN acquisition has been accounted for as a business combination under Statement of Financial Accounting Standards ( SFAS ) No. 141, Business Combinations. The assets acquired and liabilities assumed have been recorded at the date of acquisition at their respective fair values.

The results of operations of ECIN are included in the accompanying consolidated statements of operations for the three and six months ended June 30, 2008. The total purchase price for the acquisition, subject to finalization of the working capital adjustment as defined in the merger agreement, is $93,525 and is broken down as follows:

| | |
|---|---|
| Cash paid for acquisition of ECIN (includes consideration to shareholders, payment of ECIN indebtedness and certain ECIN transaction costs) | $90,000 |
| Preliminary net working capital payment | 2,870 |
| Acquisition-related transaction costs | 655 |
| Total preliminary purchase price | $93,525 |

The above purchase price has been allocated to the tangible and intangible assets acquired and liabilities assumed based on management s estimates of their current fair values. Acquisition-related transaction costs include investment banking fees, loan commitment fees, legal and accounting fees and other external costs directly related to the ECIN acquisition.

The purchase price has been allocated as follows:

| | |
|---|---|
| Acquired cash | $5,723 |
| Accounts receivable, net | 3,065 |
| Prepaids and other current assets | 667 |
| Fixed assets and other long-term assets | 3,876 |
| Goodwill | 63,337 |
| Intangible assets | 31,170 |
| Deferred tax liability, net | (9,746) |
| Accounts payable and accrued liabilities | (1,989) |
| Deferred revenue | (2,261) |
| Other liabilities | (317) |
| Net assets acquired | $93,525 |

Goodwill was determined based on the residual difference between the purchase cost and the value assigned to tangible and intangible assets and liabilities, and is not deductible for tax purposes. Among the factors that contributed to a purchase price resulting in the recognition of goodwill were ECIN s history of profitability and high operating margins, strong sales force and overall employee base, and leadership position in the healthcare information technology market. We have allocated $63,337 to goodwill and $31,170 to intangible assets. Of the $31,170 intangible assets acquired, $11,620 was assigned to developed technology rights with a useful life of 7 years, $750 was assigned to trade names with a useful life of 18 months, $11,680 was assigned to customer relationships with hospitals with a useful life of 20 years, $4,370 was assigned to customer relationships with extended care facilities with a useful life of 15 years and $2,750 was assigned to ECIN s sales backlog with a useful life of 54 months.

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The following unaudited pro forma information for Allscripts assumes the ECIN acquisition occurred on January 1, 2007. The unaudited pro forma supplemental results have been prepared based on estimates and assumptions, which we believe are reasonable and are not necessarily indicative of the consolidated financial position or results of income had the ECIN acquisition occurred on January 1, 2007, nor of future results of operations. The unaudited pro forma results for the three and six months ended June 30, 2008 and 2007 are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Total revenue | $ 81,512 | $ 74,280 | $ 153,601 | $ 143,324 |
| Net income | $2,352 | $5,909 | $2,432 | $9,998 |
| Earnings per share: | | | | |
| Basic | $0.04 | $0.11 | $0.04 | $0.18 |
| Diluted | $0.04 | $0.09 | $0.04 | $0.16 |

The unaudited pro forma information for the three and six months ended June 30, 2007 include the following adjustments:

Increase to amortization expense of $547 and $1,095 for the three and six months ended June 30, 2007 related to management s estimate of the fair value of intangible assets acquired as a result of the ECIN acquisition.

Decrease to interest income of $286 and $572 for the three and six months ended June 30, 2007 as a result of lower cash, cash equivalents and marketable securities balances assuming the acquisition of ECIN occurred on January 1, 2007.

Increase to interest expense of $272 and $544 for the three and six months ended June 30, 2007 as a result of assuming the $50,000 of long-term debt incurred in connection with the ECIN acquisition was effective on January 1, 2007. This increase in interest expense is offset by a decrease in interest expense of $597 and $852 for the three and six months ended June 30, 2007 due to Allscripts paying the balance of ECIN s long-term debt in connection with the ECIN acquisition.

A decrease in revenue of $255 and $513 for the three and six months ended June 30, 2007 relating to the timing of deferred revenue purchase accounting adjustments.

The pro forma information includes a tax provision of $359 and $774 for the three and six months ended June 30, 2007 to reflect a 40% tax provision.

***Source Medical Solutions, Inc.***

On July 10, 2007, Allscripts entered into an asset purchase agreement to acquire a certain number of practice management customer contracts from SourceMedical Solutions, Inc. for approximately $11,685. SourceMedical provides comprehensive outpatient information solutions and services for more than 3,500 ambulatory surgery centers, rehabilitation clinics and diagnostic imaging centers nationwide.

The purchase price of $11,685 has been recorded as of June 30, 2008 and has been allocated to the tangible and intangible assets acquired and liabilities assumed based on management s best estimates of the current fair values. A total of approximately $2,429 has been allocated to goodwill and $8,846 has been allocated to intangible assets with the remaining value attributed to tangible assets. Of the $8,846 intangible assets acquired, $7,280 was assigned to customer relationships with a useful life of 20 years, $1,260 was allocated to developed technology rights with an estimated useful life of 8 years and $306 was assigned to transition services with a useful life of 1 year. The results of operations of SourceMedical have been included in the accompanying consolidated statements of operations from the date of the SourceMedical acquisition. The Source Medical acquisition has been accounted for as a business combination under Statement of Financial Accounting Standards ( SFAS ) No. 141, Business Combinations. The assets acquired and liabilities assumed have been recorded at the date of acquisition at their respective fair values.

***A4 Health Systems, Inc***

During the three months ended June 30, 2008, Allscripts made an immaterial adjustment to the goodwill recorded for the A4 acquisition. Allscripts originally recorded a deferred tax asset for excess tax benefits relating to stock options exercised totaling approximately $9,500. This deferred tax asset was realized during the first quarter of 2006 when the deferred tax asset valuation allowance was reversed to goodwill in purchase accounting for the A4 acquisition. The deferred tax asset relating to the excess tax benefits for stock option exercises should be recorded at the time that Allscripts is able to reduce its income taxes payable for the benefit but based on its current net operating loss carry-forward position was not able to reduce income taxes payable. As a result, a decrease in deferred tax assets totaling approximately $9,500 with a corresponding offset to goodwill was recorded during the three months ended June 30, 2008.

## 4. Stock-Based Compensation

***Impact of the Adoption of SFAS 123(R)***

Allscripts elected to adopt the modified prospective application transition method as permitted by SFAS 123(R). Accordingly, during the three and six months ended June 30, 2008 and 2007, Allscripts recorded stock-based compensation cost in accordance with SFAS 123(R) as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Stock-based compensation: | | | | |
| Restricted stock | $1,604 | $578 | $3,559 | $1,162 |
| Stock options | 9 | 45 | 13 | 117 |
| Total stock-based compensation | $1,613 | $623 | $3,572 | $1,279 |
| Effect on net income, net of tax | $984 | $374 | $2,179 | $767 |
| Effect on net income per share: | | | | |
| Basic | $0.02 | $0.01 | $0.04 | $0.01 |
| Diluted | $0.02 | $0.01 | $0.04 | $0.01 |

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***Stock Options***

SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. As of June 30, 2008 and December 31, 2007, the unrecorded deferred stock-based compensation balance related to stock options was $26 and $39, respectively, after estimated forfeitures. Allscripts did not grant any stock options during the six months ended June 30, 2008 or 2007.

The following table summarizes the combined activity with respect to stock options granted under Allscripts equity incentive plans during the periods indicated:

| | Options Outstanding | Weighted-Average Exercise Price | Options Exercisable | Weighted-Average Exercise Price |
|---|---|---|---|---|
| Balance at December 31, 2006 | 5,532 | $7.81 | 5,485 | $7.80 |
| Options exercised | (1,915) | $4.85 | | |
| Options forfeited | (62) | $29.00 | | |
| Balance at December 31, 2007 | 3,555 | $9.02 | 3,550 | $9.02 |
| Options exercised | (345) | $3.80 | | |
| Options forfeited | (24) | $22.73 | | |
| Balance at June 30, 2008 | 3,186 | $9.43 | 3,182 | $9.43 |

The aggregate intrinsic value of stock options outstanding as of June 30, 2008 was $16,863, which is based on Allscripts closing stock price of $12.41 as of June 30, 2008. The intrinsic value of stock options outstanding represents the amount that would have been received by the option holders had all option holders exercised their stock options as of that date. The total number of vested and exercisable stock options as of June 30, 2008 was 3,182, with an intrinsic value of $16,863.

The total intrinsic value of stock options exercised during the six months ended June 30, 2008 was $1,824. The total cash received from employees as a result of employee stock option exercises during the six months ended June 30, 2008 was $1,312, net of related taxes. Allscripts settles employee stock option exercises with newly issued common shares.

***Restricted Stock Awards and Units***

During the six months ended June 30, 2008, management awarded 812 shares of restricted stock units to certain employees under the Amended and Restated 1993 Stock Incentive Plan, with a weighted average fair value of $12.73 per share. The awards of restricted stock have an average four-year vesting term. Upon termination of an employee s employment with Allscripts, any unvested shares of restricted stock will be forfeited. As of June 30, 2008 and December 31, 2007, 2,077 and 1,266 restricted stock awards and units combined had been awarded, respectively, of which 1,539 and 937 were unvested. The fair value of the shares of unvested restricted stock on the date of the grant is amortized ratably over the vesting period. As of June 30, 2008 and December 31, 2007, $17,770 and $13,720, respectively, of unearned compensation related to unvested awards of restricted stock was netted against the balance of additional paid in capital and will be recognized over the remaining vesting terms of the awards.

Pursuant to restricted stock award agreements, the unvested restricted shares will vest upon the occurrence of a Change of Control. This Change of Control provision will be triggered upon consummation of the Misys transaction for all shares granted prior to the announcement of the transaction. Additionally, unvested restricted stock units granted prior to the announcement of the transaction and unvested stock options will vest on the business day prior to the consummation of the Misys transaction.

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The following table summarizes the status of unvested restricted stock outstanding at June 30, 2008 and changes during the six months then ended:

| | Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Unvested restricted stock at December 31, 2006 | 666 | $18.18 |
| Awarded | 525 | $24.87 |
| Vested | (158) | $18.23 |
| Forfeited | (92) | $20.78 |
| Unvested restricted stock at December 31, 2007 | 941 | $21.65 |
| Awarded | 812 | $12.73 |
| Vested | (143) | $21.48 |
| Forfeited | (64) | $21.64 |
| Unvested restricted stock at June 30, 2008 | 1,546 | $16.98 |

***Employee Stock Purchase Plan***

The Employee Stock Purchase Plan ( ESPP ) became effective on July 1, 2006 and allows eligible employees to authorize payroll deductions of up to 20% of their base salary to be applied toward the purchase of full shares of common stock on the last day of the offering period. Offering periods under the ESPP are three months in duration and begin on each January 1, April 1, July 1, and October 1. Shares will be purchased on the last day of each offering period at a price of 95% of fair market value of the common stock on such date as reported on Nasdaq. The aggregate number of shares of Allscripts common stock that may be issued under the ESPP may not exceed 250 shares and no one employee may purchase any shares under the ESPP having a collective fair market value greater than $25 in any one calendar year. The shares available for purchase under the ESPP may be drawn from either authorized but previously unissued shares of common stock or from reacquired shares of common stock, including shares purchased by Allscripts in the open market and held as treasury shares.

Allscripts treats the ESPP as a non-compensatory plan in accordance with SFAS No. 123(R). During the six months ended June 30, 2008 and 2007, 33 and 18 shares were issued under the ESPP which resulted in $355 and $470 in net proceeds, respectively.

**5. Cash, Cash Equivalents and Marketable Securities**

Cash and cash equivalent balances at June 30, 2008 and December 31, 2007 consist of cash and money market funds with original maturities at the time of purchase of less than 90 days. Allscripts cash, cash equivalents, short-term marketable securities and long-term marketable securities are invested in overnight repurchase agreements, money market funds, U.S. and non-U.S. government debt securities, and corporate debt securities. The carrying values of cash and cash equivalents, short-term marketable securities and long-term marketable securities held by Allscripts are as follows:

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Cash and cash equivalents: | | |
| Cash | $45,821 | $43,017 |
| Money market funds | 5,023 | 768 |
| | 50,844 | 43,785 |
| Short-term marketable securities: | | |
| Corporate debt securities | 11,904 | 5,759 |
| | 11,904 | 5,759 |

| | | |
|---|---|---|
| Long-term marketable securities: | | |
| U.S. government and agency debt obligations | 2,350 | 2,724 |
| Corporate debt securities | 957 | 10,735 |
| | 3,307 | 13,459 |
| Total cash, cash equivalents and marketable securities | $66,055 | $63,003 |

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS 157, *Fair Value Measurements* ( FAS 157 ). FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Under FAS 157, assets and liabilities are required to be recorded at fair value in the financial statements. The fair values are categorized based upon the level of judgment associated with the inputs used to measure their value. Hierarchical levels, as defined in SFAS No. 157, are as follows:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2: Inputs, other than quoted prices included in Level 1, are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability.

Level 3: Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

We adopted FAS 157 as required at the beginning of our fiscal year 2008 and the adoption did not have a material effect on our consolidated financial statements.

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**6. Comprehensive Income**

Comprehensive income includes all changes in stockholders equity during a period except those resulting from investments by owners and distributions to owners.

The components of comprehensive income are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Net income | $2,352 | $6,028 | $2,432 | $10,495 |
| Other comprehensive income: | | | | |
| Unrealized gain (loss) on marketable securities, net of tax | (36) | 40 | (110) | 63 |
| Comprehensive income | $2,316 | $6,068 | $2,322 | $10,558 |

The components of accumulated other comprehensive income (loss), net of income tax, consist of unrealized losses on Allscripts marketable securities. The components of the net unrealized loss on marketable securities, net of tax, are as follows:

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Short-term marketable securities: | | |
| Gross unrealized gains | $27 | $ |
| Gross unrealized losses | (26) | (1) |
| Net short-term unrealized gains (losses) | 1 | (1) |
| Long-term marketable securities: | | |
| Gross unrealized gains | 56 | 9 |
| Gross unrealized losses | (256) | (97) |
| Net long-term unrealized losses | (200) | (88) |
| Total net unrealized losses on marketable securities | ($199) | ($89) |

**7. Net Income Per Share**

Allscripts accounts for net income per share in accordance with FAS No. 128, Earnings per Share ( FAS 128 ). FAS 128 requires the presentation of basic income per share and diluted income per share. Basic income per share is computed by dividing the net income by the weighted-average shares of outstanding common stock. For purposes of calculating diluted earnings per share, the denominator includes both the weighted average shares of common stock outstanding and dilutive potential common stock equivalents. Dilutive common stock equivalent shares consist primarily of stock options, restricted stock awards and conversion of the Senior Convertible Debentures.

The components of net earnings available for diluted per-share calculation and diluted weighted average common shares outstanding are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Net earnings available for diluted per-share calculation: | | | | |

| | | | | |
|---|---|---|---|---|
| Net income | $2,352 | $6,028 | $2,432 | $10,495 |
| Interest expense on 3.5% Senior Convertible Notes, net of tax | | 523 | | 1,046 |
| Net earnings available for diluted per-share calculation | $2,352 | $6,551 | $2,432 | $11,541 |

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| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Weighted average shares outstanding: | | | | |
| Basic weighted average common shares | 56,766 | 55,648 | 56,635 | 55,146 |
| Dilutive effect of options and restricted stock awards | 1,006 | 1,825 | 935 | 1,852 |
| Dilutive effect of 3.50% Senior Convertible Debentures | | 7,329 | | 7,329 |
| Diluted weighted average common shares | 57,772 | 64,802 | 57,570 | 64,327 |

Under the provisions of EITF 04-8, the as-if converted 7,329 shares and interest expense related to Allscripts 3.5% Senior Convertible Debentures due 2024 were excluded from the three and six months ended June 30, 2008 as the effects were anti-dilutive.

**8. Investment in Promissory Note Receivable and Minority Interest**

On August 18, 2004, Allscripts entered into a Convertible Secured Promissory Note Purchase Agreement ( Note Purchase Agreement ) with Medem and certain other investors. Under the Note Purchase Agreement, Allscripts acquired a convertible secured promissory note in the aggregate principal amount of $2,600 ( Promissory Note ) under which Medem borrowed $2,600 from Allscripts. On May 28, 2007, Allscripts converted the Promissory Note into 2,317 shares of Medem s Series A Common Stock.

In connection with the Note Purchase Agreement described above, Allscripts also entered into a Share Purchase Agreement pursuant to which Allscripts purchased shares of Medem s Series A Common Stock, shares of Medem s Series B Common Stock, and a three-year option to acquire an additional interest in Medem, all for an aggregate purchase price equal to $500 in cash (the Share Purchase Agreement ). Pursuant to such three-year option in the Share Purchase Agreement Allscripts had the right to purchase an additional (i) 118 shares of Series A Common Stock, par value of $0.001 per share, of Medem, and (ii) 1,061 shares of Series B Common Stock, par value of $0.001 per share, of Medem for an exercise price of $600.

On May 28, 2007, Allscripts entered into an Option Purchase Agreement (the Option Agreement ) with Medem. Pursuant to the Option Agreement, Allscripts sold to Medem the irrevocable three-year option held by Allscripts for a total purchase price of $2,592. The fair value of the three-year option was estimated at approximately $200 at the time of investment on August 18, 2004 and the sale of the option resulted in a gain of approximately $2,392.

As of June 30, 2008, Allscripts owns 2,338 shares, or 18.7%, of Medem s Series A Voting Common Stock and 91 shares, or 4.6%, of Medem s Series B Common Stock (combined 16.8% equity ownership). Allscripts total investment in Medem is $2,900 under the cost basis of accounting as of June 30, 2008 and December 31, 2007 and is recorded in other assets on the consolidated balance sheets.

**9. Long-Term Debt and Bank Credit Facility**

In July 2004, Allscripts completed a private placement of $82,500 of 3.50% Senior Convertible Debentures due 2024 ( Notes ). The Notes can be converted, in certain circumstances, into approximately 7,300 shares of common stock based upon a conversion price of approximately $11.26 per share, subject to adjustment for certain events.

The Notes are only convertible under certain circumstances, including: (i) during any fiscal quarter if the closing price of Allscripts common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the preceding fiscal quarter exceeds $14.64 per share; (ii) if Allscripts calls the Notes for redemption; or (iii) upon the occurrence of certain specified corporate transactions, as defined. Allscripts has the right to deliver common stock, cash or a combination of cash and shares of common stock. The Notes were convertible during the quarter ended June 30, 2007 by virtue of the last reported sale price for Allscripts common stock having exceeded $14.64 for twenty consecutive days in the 30 trading-day period ending on each fiscal quarter end date but were not convertible during the quarter ended June 30, 2008. No notes were converted as of June 30, 2008 or June 30, 2007. The timing of our obligation on the Notes may change as it relates to funding interest payments and making a principal payment on the Notes based on whether the holders elect to convert the Notes. Upon conversion, Allscripts may redeem some or all of the Notes for cash any time on or after July 20, 2009 at the Notes full principal amount plus accrued and unpaid interest, if any. Holders of the Notes may require Allscripts to repurchase some or all of the Notes on July 15, 2009, 2014 and 2019 or, subject to certain exceptions, upon a change of control of Allscripts.

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On December 31, 2007, Allscripts and its subsidiaries entered into a new credit agreement the ( Credit Facility ) with JPMorgan Chase Bank, N.A., as sole administrative agent, which provides for a total unsecured commitment of $60,000 and matures on January 1, 2012. The Credit Facility is available in the form of letters of credit and revolving loans. As of June 30, 2008 and December 31, 2007, $50,000 in borrowings were outstanding and $0 in letters of credit were outstanding under the Credit Facility. The proceeds received by Allscripts under the Credit Facility were used to partially finance the acquisition of ECIN described in Note 3. The Credit Facility contains customary representations, warranties, covenants and events of default. The Credit Facility also contains certain financial covenants, including but not limited to, leverage and coverage ratios to be calculated on a quarterly basis. The interest rate for the Credit Facility will initially bear interest at LIBOR plus 0.80% and thereafter will be based upon Allscripts leverage ratio as of the last day of the most recently ended fiscal quarter or fiscal year, commencing with the date of delivery of Allscripts financial statements for the fiscal quarter ending June 30, 2008, pursuant to the terms of the Credit Facility.

Allscripts received approximately $49,906 in net proceeds under the Credit Facility after deduction for debt issuance costs. The debt costs of $94 have been capitalized other assets and are being amortized as interest expense over four years using the effective interest method.

In connection with the acquisition of A4, Allscripts assumed a secured promissory note with an aggregate principal amount of $3,400 as of March 2, 2006, maturing on October 31, 2015. The promissory note bears interest at 7.85% per annum, and principal and interest are due monthly. In the event of prepayment in full or in part, Allscripts will be subject to a prepayment fee of 1% or more, as described in the related promissory note agreement, of the amount of principal prepaid on the promissory note. The promissory note is secured by the former corporate facilities of A4 and any lease or rental payments as defined in the related agreements.

Long-term debt outstanding as of June 30, 2008 and December 31, 2007 consists of the following:

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| 3.5% Senior convertible debt | $82,500 | $82,500 |
| Long-term revolving Credit Facility, LIBOR plus 0.80% interest | 50,000 | 50,000 |
| 7.85% Secured promissory note | 2,804 | 2,941 |
| Total debt | 135,304 | 135,441 |
| Less: Current portion of long-term debt | 290 | 279 |
| Total long-term debt, net of current portion | $135,014 | $135,162 |

Interest expense for the three months ended June 30, 2008 and 2007 was $1,234 and $782, respectively, and $149 in debt issuance cost amortization for both periods. Interest expense for the six months ended June 30, 2008 and 2007 was $2,731 and $1,567, respectively, and $296 in debt issuance cost amortization for both periods.

**10. Income Taxes**

Allscripts adopted FASB Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes, on January 1, 2007. As a result of the implementation of FIN 48, we recorded an approximate $273 increase in the liability for unrecognized tax benefits, which was accounted for as an increase to the January 1, 2007 balance of goodwill in relation to the A4 acquisition on March 2, 2006. As of January 1, 2007, the gross amount of unrecognized tax benefits was $6,400 of which $6,400 was recorded as a reduction to certain tax carryovers. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is $4,600. All remaining amounts would be adjustments to goodwill.

Allscripts recognized accrued interest and penalties related to unrecognized tax benefits in income tax expense and has also accrued amounts as adjustments to goodwill. It is unlikely that the balance of the unrecognized tax benefits will change in any material amount in the next 12 months.

Allscripts and its subsidiaries file income tax returns in the U.S. federal jurisdiction and with various state jurisdictions. Tax years 1993 and forward remain open for examination for federal tax purposes. To the extent utilized in future years tax returns, net operating loss carryforwards at June 30, 2008 will remain subject to examination until the respective tax year is closed. The statute is similarly open for state income tax purposes.

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**11. Business Segments**

FAS No. 131, Disclosures about Segments of a Business Enterprise and Related Information, establishes standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to stockholders. Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Allscripts currently organizes its business around groups of similar products, which results in three reportable segments: software and related services; prepackaged medications; and information services. The software and related services segment derives its revenue from the sale and installation of clinical software that provides point-of-care decision support solutions, document imaging solutions, and the resale of related hardware. The prepackaged medications segment derives its revenue from the repackaging, sale, and distribution of medications and medical supplies. The information services segment primarily derives its revenue from the sale of interactive physician education sessions. Allscripts does not report its assets by segment. Allscripts does not allocate interest income, interest expense, other income or income taxes to its operating segments. In addition, Allscripts records corporate selling, general, and administration expenses, amortization of intangibles, restructuring and other related charges in its unallocated corporate costs. These costs are not included in the evaluation of the financial performance of Allscripts operating segments.

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| Revenue: | | | | |
| Software and related services | $68,179 | $54,681 | $126,797 | $105,921 |
| Prepackaged medications | 9,493 | 10,939 | 19,088 | 21,168 |
| Information services | 3,840 | 4,421 | 7,716 | 7,974 |
| Total revenue | $81,512 | $70,041 | $153,601 | $135,063 |
| Income from operations: | | | | |
| Software and related services | $19,950 | $16,914 | $34,574 | $31,125 |
| Prepackaged medications | 919 | 950 | 2,141 | 2,179 |
| Information services | 259 | 596 | 608 | 1,055 |
| Unallocated corporate | (16,267) | (10,990) | (31,253) | (19,566) |
| Income from operations | 4,861 | 7,470 | 6,070 | 14,793 |
| Interest income, interest expense, and other income (expense), net | (1,006) | 176 | (2,085) | 280 |
| Gain on sale of equity investment | | 2,392 | | 2,392 |
| Income from operations before income taxes | $3,855 | $10,038 | $3,985 | $17,465 |

**12. Subsequtext-align:left;font-size:10pt;">)**

(29.1
)
Payment of minimum tax withholdings on stock compensation
(11.9
)

(16.3
)
Purchase of or distribution to noncontrolling interests
(6.1
)

(2.6
)

| | | |
|---|---|---|
| Payment of debt issuance costs | (1.3) | — |
| Net cash used in financing activities | (141.7) | (44.9) |
| Effects of exchange rate changes on cash and cash equivalents | (11.8) | (24.0) |
| Decrease in cash and cash equivalents | (726.3) | (160.8) |
| Cash and cash equivalents, beginning of period | 1,047.2 | 781.3 |
| Cash and cash equivalents, end of period | $ 320.9 | $ 620.5 |

**See accompanying notes to condensed consolidated financial statements.**

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

## 1. BASIS OF PRESENTATION

The condensed consolidated financial statements of AGCO Corporation and its subsidiaries (the “Company” or “AGCO”) included herein have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary to present fairly the Company’s financial position, results of operations, comprehensive income 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 consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. Results for interim periods are not necessarily indicative of the results for the year.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”), which supersedes existing revenue recognition guidance under current U.S. GAAP. ASU 2014-09 outlines a comprehensive, single revenue recognition model that provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers at an amount that reflects the consideration expected to be received in exchange for those goods or services. Additional disclosures will also be required to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for reporting periods beginning after December 15, 2016 using either a full retrospective or a modified retrospective approach. Early adoption is not permitted. The Company is currently evaluating the impact of adopting this standard on the Company’s results of operations and financial condition.

In July 2013, the FASB issued ASU 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists” (“ASU 2013-11”). ASU 2013-11 requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryfoward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit is presented in the financial statements as a liability and is not combined with deferred tax assets. The standard is effective for fiscal years and interim periods within those years, beginning after December 15, 2013. Early adoption was permitted. The adoption of ASU 2013-11 did not have a material impact on the Company’s results of operations or financial condition.

## 2. ACQUISITIONS

On September 11, 2014, the Company acquired the remaining 39% interest of Santal Equipamentos S.A. Comércio e Indústria (“Santal”) for approximately R$9.0 million (or approximately $3.7 million). Santal is headquartered in Ribeirão Preto, Brazil, and manufactures and distributes sugar cane planting, harvesting, handling and transportation equipment as well as replacement parts across Brazil. Due to the fact that the Company and the seller each had a call option and put option, respectively, with varying dates with respect to the remaining 39% interest in Santal, the fair value of the redeemable noncontrolling interest had been recorded within “Temporary equity” in the Company’s Condensed Consolidated Balance Sheets. The acquisition of the remaining interest was funded with available cash on hand. The redemption and related amounts settled were reflected in “Additional paid-in capital” in the Company’s Condensed Consolidated Balance Sheets.

On August 1, 2014, the Company acquired Intersystems Holdings, Inc. (“Intersystems”) for approximately $134.4 million, net of cash acquired of approximately $4.1 million (or approximately $130.3 million, net). Intersystems, headquartered in Omaha, Nebraska, designs and manufactures commercial material handling solutions, primarily for the agricultural, biofuels and food and feed processing industries. The acquisition was financed with available cash on hand and the Company’s credit

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Notes to Condensed Consolidated Financial Statements - Continued
(unaudited)

facility (Note 5). The Company allocated the purchase price to the assets acquired and liabilities assumed based on preliminary estimates of their fair values as of the acquisition date. The acquired net assets consisted primarily of accounts receivable, inventories, accounts payable and accrued expenses, property, plant and equipment and customer relationship, technology and trademark intangible assets. The Company recorded approximately $46.3 million of customer relationship, technology and trademark identifiable intangible assets and approximately $89.6 million of goodwill associated with the acquisition. The goodwill recorded was reported within the Company's North American geographical reportable segment.

The acquired other identifiable intangible assets of Intersystems as of the date of the acquisition are summarized in the following table (in millions):

| Intangible Asset | Amount | Weighted-Average Useful Life | |
|---|---|---|---|
| Customer relationships | $28.0 | 15 | years |
| Technology | 11.3 | 15 | years |
| Trademarks | 7.0 | 16 | years |
| | $46.3 | | |

3. STOCK COMPENSATION PLANS

The Company recorded stock compensation (credit) expense as follows for the three and nine months ended September 30, 2014 and 2013 (in millions):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Cost of goods sold | $(1.8 ) | $0.4 | $(1.0 ) | $2.3 |
| Selling, general and administrative expenses | (21.0 ) | 5.5 | (9.8 ) | 31.9 |
| Total stock compensation (credit) expense | $(22.8 ) | $5.9 | $(10.8 ) | $34.2 |

Stock Incentive Plan

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

Employee Plans

The weighted average grant-date fair value of performance awards granted under the 2006 Plan during the nine months ended September 30, 2014 and 2013 was $53.87 and $51.01, respectively.

During the nine months ended September 30, 2014, the Company granted 887,198 awards related to the three-year performance period commencing in 2014 and ending in 2016, assuming the maximum target level of performance is achieved. The compensation expense associated with all awards granted under the 2006 Plan is amortized ratably over the vesting or performance period based on the Company's projected assessment of the level of performance that will be achieved and earned. Performance award transactions during the nine months ended September 30, 2014 were as follows and are presented as if the Company were to achieve its maximum levels of performance under the plan:

| | |
|---|---|
| Shares awarded but not earned at January 1 | 2,808,519 |

| | |
|---|---|
| Shares awarded | 887,198 |
| Shares forfeited or unearned | (123,260 ) |
| Shares earned | — |
| Shares awarded but not earned at September 30 | 3,572,457 |

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Notes to Condensed Consolidated Financial Statements - Continued
(unaudited)

As of September 30, 2014, 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 $3.5 million, and the weighted average period over which it is expected to be recognized is approximately one year.

During the three and nine months ended September 30, 2014, the Company recorded stock compensation expense of approximately $1.3 million and $3.9 million, respectively, associated with stock-settled appreciation rights ("SSAR") awards. During the three and nine months ended September 30, 2013, the Company recorded stock compensation expense of approximately $1.1 million and $3.4 million, respectively, associated with SSAR awards. The Company estimated the fair value of the grants using the Black-Scholes option pricing model. The weighted average grant-date fair value of SSARs granted under the 2006 Plan and the weighted average assumptions under the Black-Scholes option pricing model were as follows for the nine months ended September 30, 2014 and 2013:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| Weighted average grant-date fair value | $13.11 | $22.40 |
| Weighted average assumptions under Black-Scholes option pricing model: | | |
| Expected life of awards (years) | 3.0 | 5.5 |
| Risk-free interest rate | 0.9 % | 0.8 % |
| Expected volatility | 35.7 % | 50.5 % |
| Expected dividend yield | 0.8 % | 0.8 % |

SSAR transactions during the nine months ended September 30, 2014 were as follows:

| | |
|---|---|
| SSARs outstanding at January 1 | 1,094,836 |
| SSARs granted | 301,400 |
| SSARs exercised | (15,550) |
| SSARs canceled or forfeited | (20,631) |
| SSARs outstanding at September 30 | 1,360,055 |
| SSAR price ranges per share: | |
| Granted | $ 52.85-55.23 |
| Exercised | 21.45-52.94 |
| Canceled or forfeited | 21.45-56.98 |
| Weighted average SSAR exercise prices per share: | |
| Granted | $ 55.20 |
| Exercised | 33.17 |
| Canceled or forfeited | 52.77 |
| Outstanding at September | 48.36 |

At September 30, 2014, the weighted average remaining contractual life of SSARs outstanding was approximately four years. As of September 30, 2014, the total compensation cost related to unvested SSARs not yet recognized was approximately $10.0 million and the weighted-average period over which it is expected to be recognized is approximately two years.

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Notes to Condensed Consolidated Financial Statements - Continued
(unaudited)

The following table sets forth the exercise price range, number of shares, weighted average exercise price and remaining contractual life by groups of similar price as of September 30, 2014:

| | SSARs Outstanding | | | SSARs Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number of Shares | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| \$21.45 – \$32.01 | 153,125 | 1.4 | \$21.89 | 153,125 | \$21.89 |
| \$33.65 – \$43.39 | 125,525 | 2.4 | \$33.88 | 124,075 | \$33.76 |
| \$47.89 – \$63.64 | 1,081,405 | 4.8 | \$53.79 | 390,848 | \$53.45 |
| | 1,360,055 | | | 668,048 | \$42.56 |

The total fair value of SSARs vested during the nine months ended September 30, 2014 was approximately \$4.4 million. There were 692,007 SSARs that were not vested as of September 30, 2014. The total intrinsic value of both outstanding and exercisable SSARs as of September 30, 2014 was \$5.1 million. The total intrinsic value of SSARs exercised during the nine months ended September 30, 2014 was approximately \$0.3 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. In the event a director departs from the Company’s Board of Directors, the non-transferability period expires immediately. The plan allows each 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 that would be payable at the time of grant. The 2014 grant was made on April 24, 2014 and equated to 18,846 shares of common stock, of which 14,907 shares of common stock were issued after shares were withheld for taxes. The Company recorded stock compensation expense of approximately \$1.1 million during the nine months ended September 30, 2014 associated with these grants.

As of September 30, 2014, of the 10.0 million shares reserved for issuance under the 2006 Plan, approximately 2.5 million shares were available for grant, assuming the maximum number of shares are earned related to the performance award grants discussed above.

## 4. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of acquired intangible assets during the nine months ended September 30, 2014 are summarized as follows (in millions):

| | Trademarks and Tradenames | Customer Relationships | Patents and Technology | Land Use Rights | Total |
|---|---|---|---|---|---|
| Gross carrying amounts: | | | | | |
| Balance as of December 31, 2013 | \$118.6 | \$502.7 | \$89.1 | \$14.9 | \$725.3 |
| Acquisition | 7.0 | 28.0 | 11.3 | — | 46.3 |
| Adjustment | — | — | — | (4.8) | (4.8) |
| Foreign currency translation | (1.1) | (8.4) | (4.2) | (0.3) | (14.0) |

| | | | | | |
|---|---|---|---|---|---|
| Balance as of September 30, 2014 | $124.5 | $522.3 | $96.2 | $9.8 | $752.8 |

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| | Trademarks and Tradenames | Customer Relationships | Patents and Technology | Land Use Rights | Total |
|---|---|---|---|---|---|
| Accumulated amortization: | | | | | |
| Balance as of December 31, 2013 | $31.0 | $160.7 | $59.0 | $2.7 | $253.4 |
| Amortization expense | 4.6 | 23.4 | 2.3 | 0.1 | 30.4 |
| Foreign currency translation | (0.4) | (5.5) | (4.1) | (0.1) | (10.1) |
| Balance as of September 30, 2014 | $35.2 | $178.6 | $57.2 | $2.7 | $273.7 |

| | Trademarks and Tradenames |
|---|---|
| Indefinite-lived intangible assets: | |
| Balance as of December 31, 2013 | $93.7 |
| Foreign currency translation | (3.2) |
| Balance as of September 30, 2014 | $90.5 |

The Company currently amortizes certain acquired intangible assets, primarily on a straight-line basis, over their estimated useful lives, which range from five to 50 years.

Changes in the carrying amount of goodwill during the nine months ended September 30, 2014 are summarized as follows (in millions):

| | North America | South America | Europe/Africa/ Middle East | Asia/ Pacific | Consolidated |
|---|---|---|---|---|---|
| Balance as of December 31, 2013 | $424.0 | $190.7 | $506.6 | $57.4 | $1,178.7 |
| Acquisition | 89.6 | — | — | — | 89.6 |
| Foreign currency translation | — | (6.4) | (35.0) | (0.4) | (41.8) |
| Balance as of September 30, 2014 | $513.6 | $184.3 | $471.6 | $57.0 | $1,226.5 |

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.

5. INDEBTEDNESS

Indebtedness consisted of the following at September 30, 2014 and December 31, 2013 (in millions):

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| $1^1/4$% Convertible senior subordinated notes due 2036 | $— | $201.2 |
| $4^1/_2$% Senior term loan due 2016 | 252.6 | 275.0 |
| $5^7/8$% Senior notes due 2021 | 300.0 | 300.0 |
| Credit facility, expiring 2019 | 735.0 | 360.0 |
| Other long-term debt | 133.6 | 114.0 |
| | 1,421.2 | 1,250.2 |
| Less: Current portion of long-term debt | (88.4) | (110.5) |
| $1^1/4$% Convertible senior subordinated notes due 2036 | — | (201.2) |
| Total indebtedness, less current portion | $1,332.8 | $938.5 |

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Convertible Senior Subordinated Notes

The Company's 1 1/4% convertible senior subordinated notes, due December 15, 2036, were issued in December 2006 and provided 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 were converted in connection with certain change of control transactions occurring prior to December 15, 2013. The notes were unsecured obligations and were convertible into cash and shares of the Company's common stock upon satisfaction of certain conditions. Interest was 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. Holders of the Company's 1¼% convertible senior subordinated notes had the ability to convert the notes if, during any fiscal quarter, the closing sales price of the Company's common stock exceeded 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. The notes were convertible into shares of the Company's common stock at an effective price of $40.27 per share as of June 30, 2014, subject to adjustment, including to reflect the impact to the conversion rate upon payment of any dividends to the Company's stockholders. The effective price reflected a conversion rate for the notes of 24.8295 shares of common stock per $1,000 principal amount of notes.

The carrying amount of the equity component of the Company's 1 1/4% convertible senior subordinated notes was $54.3 million as of December 31, 2013. The discount on the liability component of the notes was fully amortized as of December 31, 2013. The interest expense recognized relating to the contractual interest coupon of the 1 1/4% convertible senior subordinated notes was approximately $0.9 million for the nine months ended September 30, 2014. The interest expense recognized relating to the contractual interest coupon and the amortization of the discount on the liability component of the notes was approximately $2.9 million and $8.8 million for the three and nine months ended September 30, 2013, respectively. The effective interest rate on the liability component for the 1 1/4% convertible senior subordinated notes for the nine months ended September 30, 2013 was 6.1%.

During 2014, holders of the Company's 1 1/4% convertible senior subordinated notes converted or the Company repurchased approximately $49.7 million of aggregate principal amount of the notes. In May 2014, the Company announced its election to redeem the remaining $151.5 million balance of the notes with a redemption date of June 20, 2014. Substantially all of the holders of the Company's notes elected to convert their remaining notes prior to the redemption date. During the nine months ended September 30, 2014, the Company issued a total of 1,437,465 shares of its common stock associated with the $81.0 million excess conversion value of all notes converted. The Company reflected the repayment of the principal of the notes totaling $201.2 million within "Repurchase or conversion of convertible senior subordinated notes" within the Company's Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014.

Due to the ability of the holders of the notes to convert the notes during the three months ending March 31, 2014, the Company classified the notes as a current liability as of December 31, 2013.

4 1/2% Senior Term Loan

The Company's €200.0 million (or approximately $252.6 million as of September 30, 2014) 4 1/2% senior term loan with Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. ("Rabobank") is due May 2, 2016. The Company has the ability to prepay the term loan before its maturity date. Interest is payable on the term loan at 4 1/2% per annum, payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. The term loan contains covenants restricting, among other things, the incurrence of indebtedness and the making of certain payments, including dividends, and is subject to acceleration in the event of default. The Company also has to fulfill financial covenants with respect to a total debt to EBITDA ratio and an interest coverage ratio.

5 7/8% Senior Notes

The Company's $300.0 million of 5 7/8% senior notes due December 1, 2021 constitute senior unsecured and unsubordinated indebtedness. Interest is payable on the notes semi-annually in arrears on June 1 and December 1 of each year. At any time prior to September 1, 2021, the Company may redeem the notes, in whole or in part from time to time, at its option, at a redemption price equal to the greater of (i) 100% of the principal amount plus accrued and unpaid interest, including additional interest, if any, to, but excluding, the redemption date, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest (exclusive of interest accrued to the date of redemption) discounted to the redemption date at the treasury rate plus 0.5%, plus accrued and unpaid interest, including additional interest, if any. Beginning

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September 1, 2021, the Company may redeem the notes, in whole or in part from time to time, at its option, at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest, including additional interest, if any.

Credit Facility

The Company's revolving credit and term loan facility consists of an $800.0 million multi-currency revolving credit facility and a $355.0 million term loan facility. The maturity date of the Company's credit facility is June 28, 2019 and the Company is not required to make quarterly payments towards the term loan facility. Interest accrues on amounts outstanding under the credit facility, at the Company's option, at either (1) LIBOR plus a margin ranging from 1.0% to 2.0% based on the Company's leverage ratio, or (2) the base rate, which is equal to the higher of (i) the administrative agent's base lending rate for the applicable currency, (ii) the federal funds rate plus 0.5%, and (iii) one-month LIBOR for loans denominated in US dollars plus 1.0% plus a margin ranging from 0.0% to 0.5% based on the Company's leverage ratio. The credit facility contains covenants restricting, among other things, the incurrence of indebtedness and the making of certain payments, including dividends, and is subject to acceleration in the event of a default. The Company also has to fulfill financial covenants with respect to a total debt to EBITDA ratio and an interest coverage ratio. As of September 30, 2014, the Company had $735.0 million of outstanding borrowings under the credit facility and availability to borrow approximately $420.0 million. As of December 31, 2013, the Company had $360.0 million of outstanding borrowings under its credit facility and availability to borrow approximately $600.0 million. The Company amended and restated its current credit facility agreement on June 30, 2014 to increase its multi-currency revolving credit facility from $600.0 million to $800.0 million and to maintain its $355.0 million term loan facility.

The carrying amounts of long-term debt under the Company's 4$^{1}$/2% senior term loan and credit facility approximate their fair values based on the borrowing rates currently available to the Company for loans with similar terms and average maturities. At September 30, 2014, the estimated fair value of the Company's 5$^{5}$/8% senior notes, based on the listed market value, was $339.8 million compared to the carrying value of $300.0 million. At December 31, 2013, the estimated fair values of the Company's 5$^{5}$/8% senior notes and 1$^{1}$/4% convertible senior subordinated notes, based on their listed market values, were $322.1 million and $290.5 million, respectively, compared to their carrying values of $300.0 million and $201.2 million, respectively.

Standby Letters of Credit and Similar Instruments

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 September 30, 2014 and December 31, 2013, outstanding letters of credit totaled $18.7 million and $16.7 million, respectively.

6. INVENTORIES

Inventories at September 30, 2014 and December 31, 2013 were as follows (in millions):

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Finished goods | $907.9 | $775.7 |
| Repair and replacement parts | 607.0 | 550.2 |
| Work in process | 205.5 | 109.0 |
| Raw materials | 594.7 | 581.2 |
| Inventories, net | $2,315.1 | $2,016.1 |

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## 7. PRODUCT WARRANTY

The warranty reserve activity for the three and nine months ended September 30, 2014 and 2013 consisted of the following (in millions):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance at beginning of period | $303.9 | $293.8 | $294.9 | $256.9 |
| Acquisition | 0.5 | — | 0.5 | — |
| Accruals for warranties issued during the period | 51.0 | 40.6 | 149.9 | 150.1 |
| Settlements made (in cash or in kind) during the period | (59.3) | (44.5) | (150.1) | (111.6) |
| Foreign currency translation | (13.7) | 7.3 | (12.8) | 1.8 |
| Balance at September 30 | $282.4 | $297.2 | $282.4 | $297.2 |

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. Approximately $241.0 million and $255.9 million of warranty reserves are included in “Accrued expenses” in the Company’s Condensed Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013, respectively. Approximately $41.4 million and $39.0 million of warranty reserves are included in “Other noncurrent liabilities” in the Company’s Condensed Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013, respectively.

## 8. NET INCOME PER COMMON SHARE

Basic net income 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 net income per common share assumes the exercise of outstanding SSARs, vesting of performance share awards, and the appreciation of the excess conversion value of the Company’s contingently convertible senior subordinated notes using the treasury stock method when the effects of such assumptions are dilutive. Dilution of weighted shares outstanding depended on the Company’s stock price for the excess conversion value of the contingently 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 net income per share for the three and nine months ended September 30, 2014 and 2013 is as follows (in millions, except per share data):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Basic net income per share: | | | | |
| Net income attributable to AGCO Corporation and subsidiaries | $65.0 | $126.2 | $332.8 | $457.9 |
| Weighted average number of common shares outstanding | 93.5 | 97.4 | 94.2 | 97.2 |
| Basic net income per share attributable to AGCO Corporation and subsidiaries | $0.70 | $1.30 | $3.53 | $4.71 |
| Diluted net income per share: | | | | |
| Net income attributable to AGCO Corporation and subsidiaries | $65.0 | $126.2 | $332.8 | $457.9 |
| Weighted average number of common shares outstanding | 93.5 | 97.4 | 94.2 | 97.2 |
| Dilutive SSARs and performance share awards | 0.2 | 0.7 | 0.3 | 0.9 |
| | 0.1 | 1.4 | 0.7 | 1.2 |

| | | | | |
|---|---|---|---|---|
| Weighted average assumed conversion of contingently convertible senior subordinated notes | | | | |
| Weighted average number of common shares and common share equivalents outstanding for purposes of computing diluted net income per share | 93.8 | 99.5 | 95.2 | 99.3 |
| Diluted net income per share attributable to AGCO Corporation and subsidiaries | $0.69 | $1.27 | $3.50 | $4.61 |

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SSARs to purchase approximately 1.1 million shares of the Company's common stock for the three and nine months ended September 30, 2014 and approximately 0.8 million shares of the Company's common stock for the three and nine months ended September 30, 2013 were outstanding but not included in the calculation of weighted average common and common equivalent shares outstanding because they had an antidilutive impact.

9. INCOME TAXES

At September 30, 2014 and December 31, 2013, the Company had approximately $130.9 million and $122.2 million, respectively, of unrecognized tax benefits, all of which would affect the Company's effective tax rate if recognized. At September 30, 2014 and December 31, 2013, the Company had approximately $58.4 million and $61.9 million, respectively, of accrued or deferred taxes related to uncertain income tax positions connected with ongoing tax audits in various jurisdictions that it expects to settle or pay in the next 12 months. The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes. At September 30, 2014 and December 31, 2013, the Company had accrued interest and penalties related to unrecognized tax benefits of $16.6 million and $14.4 million, respectively.
Generally, tax years 2008 through 2013 remain open to examination by taxing authorities in the United States and certain other foreign taxing jurisdictions.

10. 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 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. The Company's most significant translation exposures are the Euro, the British pound and the Brazilian real in relation to the United States dollar and the Swiss franc in relation to the Euro. 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. 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 policies allow for the use of derivative instruments to hedge exposures to movements in foreign currency and interest rates. The Company's policies prohibit the use of derivative instruments for speculative purposes.

Cash Flow Hedges

During 2014 and 2013, 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 were recorded in other comprehensive income (loss) and are subsequently reclassified into cost of goods sold during the period the sales and purchases are recognized. These amounts offset the effect of the changes in foreign currency rates on the related sale and purchase transactions. The amount of the net (loss) gain recorded in other comprehensive income that was reclassified into cost of goods sold during the nine months ended September 30, 2014 and 2013 was approximately $(0.4) million and $0.4 million, respectively, on an after-tax basis. The outstanding contracts as of September 30, 2014 range in maturity through December 2014.

The following table summarizes the activity in accumulated other comprehensive loss related to the derivatives held by the Company during the nine months ended September 30, 2014 (in millions):

| | Before-Tax Amount | Income Tax | After-Tax Amount |
|---|---|---|---|
| Accumulated derivative net losses as of December 31, 2013 | $(0.3) | $(0.1) | $(0.2) |
| Net changes in fair value of derivatives | (1.3) | 0.2 | (1.5) |
| Net losses reclassified from accumulated other comprehensive loss into income | 0.2 | (0.2) | 0.4 |
| Accumulated derivative net losses as of September 30, 2014 | $(1.4) | $(0.1) | $(1.3) |

The Company had outstanding foreign currency contracts with a notional amount of approximately $40.2 million and $50.3 million as of September 30, 2014 and December 31, 2013, respectively, that were entered into to hedge forecasted sale and purchase transactions.

Derivative Transactions Not Designated as Hedging Instruments

During 2014 and 2013, 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 September 30, 2014 and December 31, 2013, the Company had outstanding foreign currency contracts with a notional amount of approximately $3,137.9 million and $1,288.4 million, respectively, that were entered into to hedge receivables and payables that were denominated in foreign currencies other than the functional currency. Changes in the fair value of these contracts are reported in "Other expense, net." For the three and nine months ended September 30, 2014, the Company recorded a net gain of approximately $7.3 million and $13.2 million, respectively, within "Other expense, net" related to these contracts. For the three and nine months ended September 30, 2013, the Company recorded a net gain of approximately $21.2 million and $8.8 million, respectively, within "Other expense, 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.

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The table below sets forth the fair value of derivative instruments as of September 30, 2014 (in millions):

| | Asset Derivatives as of September 30, 2014 | | Liability Derivatives as of September 30, 2014 | |
|---|---|---|---|---|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Derivative instruments designated as hedging instruments: | | | | |
| Foreign currency contracts | Other current assets | $— | Other current liabilities | $1.6 |
| Derivative instruments not designated as hedging instruments: | | | | |
| Foreign currency contracts | Other current assets | 36.1 | Other current liabilities | 24.4 |
| Total derivative instruments | | $36.1 | | $26.0 |

The table below sets forth the fair value of derivative instruments as of December 31, 2013 (in millions):

| | Asset Derivatives as of December 31, 2013 | | Liability Derivatives as of December 31, 2013 | |
|---|---|---|---|---|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Derivative instruments designated as hedging instruments: | | | | |
| Foreign currency contracts | Other current assets | $— | Other current liabilities | $0.1 |
| Derivative instruments not designated as hedging instruments: | | | | |
| Foreign currency contracts | Other current assets | 13.9 | Other current liabilities | 5.3 |
| Total derivative instruments | | $13.9 | | $5.4 |

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.

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11. CHANGES IN STOCKHOLDERS' EQUITY AND TEMPORARY EQUITY

The following table sets forth changes in stockholders' equity and temporary equity attributed to AGCO Corporation and its subsidiaries and to noncontrolling interests for the nine months ended September 30, 2014 (in millions):

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Noncontrolling Interests | Total Stockholders' Equity | Temporary Equity |
|---|---|---|---|---|---|---|---|
| Balance, December 31, 2013 | $ 1.0 | $ 1,117.9 | $ 3,402.0 | $ (510.7 ) | $ 34.6 | $ 4,044.8 | $ — |
| Stock compensation | — | (11.0 ) | — | — | — | (11.0 ) | — |
| Issuance of performance award stock | — | (11.8 ) | — | — | — | (11.8 ) | — |
| SSARs exercised | — | (0.1 ) | — | — | — | (0.1 ) | — |
| Distribution to noncontrolling interest | — | — | — | — | (2.4 ) | (2.4 ) | — |
| Comprehensive income: | | | | | | | |
| Net income (loss) | — | — | 332.8 | — | 1.2 | 334.0 | (6.3 ) |
| Other comprehensive loss, net of reclassification adjustments: | | | | | | | |
| Foreign currency translation adjustments | — | — | — | (181.2 ) | — | (181.2 ) | (0.3 ) |
| Defined benefit pension plans, net of tax | — | — | — | 5.6 | — | 5.6 | — |
| Unrealized loss on derivatives, net of tax | — | — | — | (1.1 ) | — | (1.1 ) | — |
| Payment of dividends to stockholders | — | — | (30.9 ) | — | — | (30.9 ) | — |
| Purchases and retirement of common stock | (0.1 ) | (340.8 ) | — | — | — | (340.9 ) | — |
| Changes in noncontrolling interest | — | (11.7 ) | — | — | — | (11.7 ) | 6.6 |
| Balance, September 30, 2014 | $ 0.9 | $ 742.5 | $ 3,703.9 | $ (687.4 ) | $ 33.4 | $ 3,793.3 | $ — |

Total comprehensive loss attributable to noncontrolling interests and redeemable noncontrolling interest for the three and nine months ended September 30, 2014 and 2013 was as follows (in millions):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net loss | $ (2.5 ) | $ (1.0 ) | $ (5.1 ) | $ (2.5 ) |
| Other comprehensive loss: | | | | |
| Foreign currency translation adjustments | — | (0.1 ) | (0.3 ) | (0.3 ) |
| Total comprehensive loss | $ (2.5 ) | $ (1.1 ) | $ (5.4 ) | $ (2.8 ) |

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The following table sets forth changes in accumulated other comprehensive loss by component, net of tax, attributed to AGCO Corporation and its subsidiaries for the nine months ended September 30, 2014 (in millions):

| | Defined Benefit Pension Plans | Deferred Net (Losses) Gains on Derivatives | Cumulative Translation Adjustment | Total |
|---|---|---|---|---|
| Accumulated other comprehensive loss, December 31, 2013 | $(206.4) | $(0.2) | $(304.1) | $(510.7) |
| Other comprehensive loss before reclassifications | — | (1.5) | (181.2) | (182.7) |
| Net losses reclassified from accumulated other comprehensive loss | 5.6 | 0.4 | — | 6.0 |
| Other comprehensive income (loss), net of reclassification adjustments | 5.6 | (1.1) | (181.2) | (176.7) |
| Accumulated other comprehensive loss, September 30, 2014 | $(200.8) | $(1.3) | $(485.3) | $(687.4) |

The following table sets forth reclassification adjustments out of accumulated other comprehensive loss by component attributed to AGCO Corporation and its subsidiaries for the three and nine months ended September 30, 2014 (in millions):

| | Amount Reclassified from Accumulated Other Comprehensive Loss(1) | | |
|---|---|---|---|
| Details about Accumulated Other Comprehensive Loss Components | Three months ended September 30, 2014 | Nine months ended September 30, 2014 | Affected Line Item within the Condensed Consolidated Statements of Operations |
| Net losses on cash flow hedges | $0.3 | $0.2 | Cost of goods sold |
| | 0.1 | 0.2 | Income tax provision |
| Reclassification net of tax | $0.4 | $0.4 | |
| | | | |
| Defined benefit pension plans: | | | |
| Amortization of net actuarial loss | $2.2 | $6.6 | (2) |
| Amortization of prior service cost | 0.3 | 0.8 | (2) |
| Reclassification before tax | 2.5 | 7.4 | |
| | (0.6) | (1.8) | Income tax provision |
| Reclassification net of tax | $1.9 | $5.6 | |
| | | | |
| Net losses reclassified from accumulated other comprehensive loss | $2.3 | $6.0 | |

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(1) (Gains) losses included within the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2014.
(2) These accumulated other comprehensive loss components are included in the computation of net periodic pension and postretirement benefit cost. See Note 13 to the Company’s Condensed Consolidated Financial Statements.

Share Repurchase Program

In July 2012, the Company’s Board of Directors approved a share repurchase program under which the Company can repurchase up to $50.0 million of its common stock. This share repurchase program does not have an expiration date. In December 2013, the Company’s Board of Directors approved an additional share repurchase program under which the Company can repurchase up to $500.0 million of its common stock through an expiration date of June 2015.

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During the nine months ended September 30, 2014, the Company entered into accelerated repurchase agreements ("ASRs") with a financial institution to repurchase an aggregate of $290.0 million of shares of the Company's common stock. The Company has received approximately 5,389,119 shares during the nine months ended September 30, 2014 related to these ASRs. All shares received under the ASRs were retired upon receipt, and the excess of the purchase price over par value per share was recorded to "Additional paid-in capital" within the Company's Condensed Consolidated Balance Sheets.

Additionally, during the three months ended September 30, 2014, through open market transactions, the Company repurchased 1,049,376 shares of its common stock for approximately $50.9 million at an average price paid of $48.46 per share. Repurchased shares were retired on the date of purchase, and the excess of the purchase price over par value per share was recorded to "Additional paid-in capital" within the Company's Condensed Consolidated Balance Sheets.

Of the $550.0 million in approved share repurchase programs, the remaining amount authorized to be repurchased is approximately $190.5 million.

In November 2014, the Company entered into an ASR with a financial institution to repurchase an aggregate of $125.0 million of shares of the Company's common stock. The Company received approximately 2,020,785 shares to date in this transaction. The specific number of shares the Company will ultimately repurchase will be determined at the completion of the term of the ASR based on the daily volume-weighted average share price of the Company's common stock less an agreed upon discount. Upon settlement of the ASR, the Company may be entitled to receive additional shares of common stock, or under certain circumstances, be required to remit a settlement amount. The Company expects that additional shares will be received by the Company upon final settlement of its current ASR, which expires during the first quarter of 2015.

12. ACCOUNTS RECEIVABLE SALES AGREEMENTS

As of September 30, 2014 and December 31, 2013, the Company had accounts receivable sales agreements that permit the sale, on an ongoing basis, of a majority of its wholesale receivables in North America and Europe to its 49% owned U.S., Canadian and European retail finance joint ventures. As of September 30, 2014 and December 31, 2013, the cash received from receivables sold under the U.S., Canadian and European accounts receivable sales agreements was approximately $1.2 billion and $1.3 billion, respectively.

Under the terms of the accounts receivable agreements in North America and Europe, the Company pays an annual servicing fee related to the servicing of the receivables sold. The Company also pays the respective AGCO Finance entities a subsidized interest payment with respect to the sales agreements, calculated based upon LIBOR plus a margin on any non-interest bearing accounts receivable outstanding and sold under the sales agreements. These fees were reflected within losses on the sales of receivables included within "Other expense, net" in the Company's Condensed Consolidated Statements of Operations. The Company does not service the receivables after the sale occurs and does not maintain any direct retained interest in the receivables. The Company reviewed its accounting for the accounts receivable sales agreements and determined that these facilities should be accounted for as off-balance sheet transactions.

Losses on sales of receivables associated with the accounts receivable financing facilities discussed above, reflected within "Other expense, net" in the Company's Condensed Consolidated Statements of Operations, were approximately $4.8 million and $19.0 million during the three and nine months ended September 30, 2014, respectively. Losses on sales of receivables associated with the accounts receivable financing facilities discussed above, reflected within "Other expense, net" in the Company's Condensed Consolidated Statements of Operations, were approximately $6.7 million and $18.8 million during the three and nine months ended September 30, 2013, respectively.

The Company’s retail finance joint ventures in Brazil and Australia also provide wholesale financing to the Company’s dealers. The receivables associated with these arrangements are without recourse to the Company. The Company does not service the receivables after the sale occurs and does not maintain any direct retained interest in the receivables. As of September 30, 2014 and December 31, 2013, these retail finance joint ventures had approximately $56.5 million and $68.2 million, respectively, of outstanding accounts receivable associated with these arrangements. The Company reviewed its accounting for these arrangements and determined that these arrangements should be accounted for as off-balance sheet transactions.

In addition, the Company sells certain trade receivables under factoring arrangements to other financial institutions around the world. The Company reviewed the sale of such receivables and determined that these arrangements should be accounted for as off-balance sheet transactions.

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## 13. EMPLOYEE BENEFIT PLANS

Net periodic pension and postretirement benefit cost for the Company's defined pension and postretirement benefit plans for the three months ended September 30, 2014 and 2013 are set forth below (in millions):

| | Three Months Ended September 30, | |
|---|---|---|
| Pension benefits | 2014 | 2013 |
| Service cost | $4.3 | $4.5 |
| Interest cost | 9.4 | 9.1 |
| Expected return on plan assets | (11.2) | (9.7) |
| Amortization of net actuarial loss | 2.1 | 2.9 |
| Amortization of prior service cost | 0.2 | 0.2 |
| Net periodic pension cost | $4.8 | $7.0 |

| | Three Months Ended September 30, | |
|---|---|---|
| Postretirement benefits | 2014 | 2013 |
| Interest cost | $0.4 | $0.4 |
| Amortization of net actuarial loss | 0.1 | 0.1 |
| Amortization of prior service cost | 0.1 | 0.1 |
| Net periodic postretirement benefit cost | $0.6 | $0.6 |

Net periodic pension and postretirement benefit cost for the Company's defined pension and postretirement benefit plans for the nine months ended September 30, 2014 and 2013 are set forth below (in millions):

| | Nine Months Ended September 30, | |
|---|---|---|
| Pension benefits | 2014 | 2013 |
| Service cost | $12.9 | $13.7 |
| Interest cost | 28.2 | 27.4 |
| Expected return on plan assets | (33.6) | (29.2) |
| Amortization of net actuarial loss | 6.5 | 8.7 |
| Amortization of prior service cost | 0.6 | 0.6 |
| Net periodic pension cost | $14.6 | $21.2 |

| | Nine Months Ended September 30, | |
|---|---|---|
| Postretirement benefits | 2014 | 2013 |
| Service cost | $0.1 | $0.1 |
| Interest cost | 1.2 | 1.3 |
| Amortization of net actuarial loss | 0.1 | 0.4 |
| Amortization of prior service cost | 0.2 | 0.2 |
| Net periodic postretirement benefit cost | $1.6 | $2.0 |

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Notes to Condensed Consolidated Financial Statements - Continued
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The following table summarizes the activity in accumulated other comprehensive loss related to the Company's defined pension and postretirement benefit plans during the nine months ended September 30, 2014 (in millions):

| | Before-Tax Amount | Income Tax | After-Tax Amount |
|---|---|---|---|
| Accumulated other comprehensive loss as of December 31, 2013 | $(279.4) | $(73.0) | $(206.4) |
| Amortization of net actuarial loss | 6.6 | 1.5 | 5.1 |
| Amortization of prior service cost | 0.8 | 0.3 | 0.5 |
| Accumulated other comprehensive loss as of September 30, 2014 | $(272.0) | $(71.2) | $(200.8) |

During the nine months ended September 30, 2014, approximately $32.9 million of contributions had been made to the Company's defined pension benefit plans. The Company currently estimates its minimum contributions for 2014 to its defined pension benefit plans will aggregate approximately $42.7 million.
During the nine months ended September 30, 2014, the Company made approximately $1.3 million of contributions to its postretirement health care and life insurance benefit plans. The Company currently estimates that it will make approximately $1.9 million of contributions to its postretirement health care and life insurance benefit plans during 2014.

14. SEGMENT REPORTING

The Company's four reportable segments distribute a full range of agricultural equipment and related replacement parts. The Company evaluates segment performance primarily based on income from operations. Sales for each segment are based on the location of the third-party customer. The Company's selling, general and administrative expenses and engineering expenses are charged to each segment based on the region and division where the expenses are incurred. As a result, the components of income from operations for one segment may not be comparable to another segment. Segment results for the three and nine months ended September 30, 2014 and 2013 and assets as of September 30, 2014 and December 31, 2013 based on the Company's reportable segments are as follows (in millions):

| Three Months Ended September 30, | North America | South America | Europe/Africa/ Middle East | Asia/ Pacific | Consolidated |
|---|---|---|---|---|---|
| 2014 | | | | | |
| Net sales | $531.3 | $455.0 | $1,026.0 | $142.5 | $2,154.8 |
| Income (loss) from operations | 37.3 | 36.4 | 57.0 | (1.0) | 129.7 |
| Depreciation | 15.1 | 7.1 | 34.1 | 4.8 | 61.1 |
| Capital expenditures | 14.0 | 14.1 | 35.7 | 10.0 | 73.8 |
| 2013 | | | | | |
| Net sales | $686.6 | $572.3 | $1,086.4 | $130.6 | $2,475.9 |
| Income (loss) from operations | 78.1 | 71.9 | 98.4 | (2.6) | 245.8 |
| Depreciation | 13.6 | 5.8 | 30.9 | 2.1 | 52.4 |
| Capital expenditures | 25.0 | 13.5 | 40.7 | 10.4 | 89.6 |

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Notes to Condensed Consolidated Financial Statements - Continued
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| Nine Months Ended September 30, | North America | South America | Europe/Africa/ Middle East | Asia/ Pacific | Consolidated |
|---|---|---|---|---|---|
| 2014 | | | | | |
| Net sales | $1,865.0 | $1,248.8 | $3,783.8 | $340.9 | $7,238.5 |
| Income (loss) from operations | 188.3 | 94.2 | 366.0 | (5.6) | 642.9 |
| Depreciation | 44.5 | 19.9 | 104.3 | 11.7 | 180.4 |
| Capital expenditures | 50.7 | 30.6 | 117.8 | 30.2 | 229.3 |
| 2013 | | | | | |
| Net sales | $2,099.7 | $1,578.0 | $3,878.6 | $370.9 | $7,927.2 |
| Income from operations | 271.8 | 179.9 | 403.0 | 2.1 | 856.8 |
| Depreciation | 37.8 | 18.5 | 90.9 | 6.6 | 153.8 |
| Capital expenditures | 52.5 | 44.1 | 142.4 | 24.8 | 263.8 |
| Assets | | | | | |
| As of September 30, 2014 | $1,144.9 | $810.1 | $2,415.4 | $408.2 | $4,778.6 |
| As of December 31, 2013 | 1,002.8 | 773.5 | 2,368.9 | 289.5 | 4,434.7 |

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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Segment income from operations | $129.7 | $245.8 | $642.9 | $856.8 |
| Corporate expenses | (28.7) | (29.5) | (88.3) | (85.5) |
| Stock compensation credit (expense) | 21.0 | (5.5) | 9.8 | (31.9) |
| Restructuring and other infrequent expenses | (2.9) | — | (2.9) | — |
| Amortization of intangibles | (10.4) | (11.8) | (30.4) | (35.9) |
| Consolidated income from operations | $108.7 | $199.0 | $531.1 | $703.5 |

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Segment assets | $4,778.6 | $4,434.7 |
| Cash and cash equivalents | 320.9 | 1,047.2 |
| Receivables from affiliates | 145.4 | 124.3 |
| Investments in affiliates | 432.2 | 416.1 |
| Deferred tax assets, other current and noncurrent assets | 640.7 | 672.2 |
| Intangible assets, net | 569.6 | 565.6 |
| Goodwill | 1,226.5 | 1,178.7 |
| Consolidated total assets | $8,113.9 | $8,438.8 |

15. COMMITMENTS AND CONTINGENCIES

Off-Balance Sheet Arrangements

Guarantees

The Company maintains a remarketing agreement with its U.S. retail finance joint venture, whereby the Company is obligated to repurchase repossessed inventory at market values. The Company has an agreement with its U.S. retail finance

joint venture which limits the Company’s purchase obligations under this arrangement to $6.0 million in the aggregate per calendar year. The Company believes that any losses that might be incurred on the resale of this equipment will not materially impact the Company’s financial position or results of operations, due to the fair value of the underlying equipment.

At September 30, 2014, the Company guaranteed indebtedness owed to third parties of approximately $122.1 million, primarily related to dealer and end-user financing of equipment. Such guarantees generally obligate the Company to repay outstanding finance obligations owed to financial institutions if dealers or end users default on such loans through 2019. The Company believes the credit risk associated with these guarantees is not material to its financial position or results of operations. Losses under such guarantees have historically been insignificant. In addition, the Company generally would expect to be able to recover a significant portion of the amounts paid under such guarantees from the sale of the underlying financed farm equipment, as the fair value of such equipment is expected to be sufficient to offset a substantial portion of the amounts paid.

Other

The Company sells a majority of its wholesale receivables in North America and Europe to its 49% owned U.S., Canadian and European retail finance joint ventures. The Company also sells certain accounts receivable under factoring arrangements to financial institutions around the world. The Company reviewed the sale of such receivables and determined that these facilities should be accounted for as off-balance sheet transactions.

Legal Claims and Other Matters

On June 27, 2008, the Republic of Iraq filed a civil action in federal court in the Southern District of New York, Case No. 08 CIV 59617, naming as defendants one of the Company’s French subsidiaries and two of its other foreign subsidiaries that participated in the United Nations Oil for Food Program (the “Program”). Ninety-one other entities or companies also were named as defendants in the civil action due to their participation in the Program. The complaint purports to assert claims against each of the defendants seeking damages in an unspecified amount. On February 6, 2013, the federal court dismissed the complaint with prejudice. The plaintiff has appealed the decision and the appellate process is ongoing. Although the Company’s subsidiaries intend to vigorously defend against this action, it is not possible at this time to predict the outcome of this action or its impact, if any, on the Company, although if the outcome was adverse, the Company could be required to pay damages.

On October 30, 2012, a third-party complaint was filed in federal court in the Southern District of Texas, Case No. 09 CIV 03884, naming as defendants one of the Company’s French subsidiaries and two of its other foreign subsidiaries. Sixty other entities or companies also were named as third-party defendants. The complaint asserts claims against the defendants, certain of which are also third-party plaintiffs, seeking unspecified damages arising from their participation in the Program. The third-party plaintiffs seek contribution from the third-party defendants. On February 12, 2014, the federal court dismissed the third-party complaint with prejudice. The third-party plaintiffs have not appealed this dismissal, but have until after the resolution of the underlying case to do so. Although the Company’s subsidiaries intend to vigorously defend against this action, it is not possible at this time to predict the outcome of the action or its impact, if any, on the Company, although if the outcome was adverse, the Company could be required to pay damages.

In August 2008, as part of routine audits, the Brazilian taxing authorities disallowed deductions relating to the amortization of certain goodwill recognized in connection with a reorganization of the Company’s Brazilian operations and the related transfer of certain assets to the Company’s Brazilian subsidiaries. The amount of the tax disallowance through September 30, 2014, not including interest and penalties, was approximately 131.5 million Brazilian reais (or approximately $53.8 million). The amount ultimately in dispute will be greater because of interest and penalties. The Company has been advised by its legal and tax advisors that its position with respect to the deductions is allowable under the tax laws of Brazil. The Company is contesting the disallowance and believes that it is not likely that the assessment, interest or penalties will be required to be paid. However, the ultimate outcome will not be determined until the Brazilian tax appeal process is complete, which could take several years.

The Company is a party to various other 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 statements as a whole, including its results of operations and financial condition.

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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, the 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 and 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 inventories. However, 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 three months ended September 30, 2014, we generated net income of $65.0 million, or $0.69 per share, compared to net income of $126.2 million, or $1.27 per share, for the same period in 2013. For the first nine months of 2014, we generated net income of $332.8 million, or $3.50 per share, compared to net income of $457.9 million, or $4.61 per share, for the same period in 2013.

Net sales during the three and nine months ended September 30, 2014 were $2,154.8 million and $7,238.5 million, respectively, which were approximately 13.0% and 8.7% lower than the three and nine months ended September 30, 2013, respectively, due to softer global market conditions.

Income from operations for the three months ended September 30, 2014 was $108.7 million compared to $199.0 million for the same period in 2013. Income from operations was $531.1 million for the nine months ended September 30, 2014 compared to $703.5 million for the same period in 2013. The decrease in income from operations for the three and nine months was primarily a result of lower sales and production levels and a weaker product mix.

Regionally, income from operations in our Europe/Africa/Middle East ("EAME"), South American and North American regions decreased during the three and nine months ended September 30, 2014 compared to the same periods in 2013 as a result of lower net sales and production levels and a weaker sales mix. Income from operations in our Asia/Pacific region improved slightly in the three months ended September 30, 2014 and decreased in the first nine months of 2014 compared to the same periods in 2013. Lower net sales and increased expenses associated with our new factory in China caused the decrease in the first nine months of 2014 compared to 2013.

#### Industry Unit Retail Sales

Favorable growing conditions and forecasts for strong yields and crop production in 2014 have resulted in lower prices for all major commodities. With prospects for lower farm income impacting farmer sentiment, industry demand has softened in all major agricultural equipment markets during the first nine months of 2014 compared to the first nine months of 2013.

In North America, industry unit retail sales of utility and high horsepower tractors for the first nine months of 2014 was flat compared to the first nine months of 2013. Industry unit retail sales of combines for the first nine months of 2014 decreased by approximately 18% compared to the first nine months of 2013. Within industry tractor sales, significant declines were experienced in high horsepower tractors, which are primarily used in row crop applications, and were offset by increased sales of low horsepower tractors due to improved economics for dairy and livestock producers.

In Western Europe, industry unit retail sales of tractors for the first nine months of 2014 decreased by approximately 7% compared to the first nine months of 2013. Industry unit retail sales of combines for the first nine months of 2014 decreased by approximately 10% compared to the first nine months of 2013. Market results by country remained mixed during the first nine months of 2014, with declines in the key markets of France and Germany being partially offset by improved demand in the United Kingdom and parts of Southern Europe.

South American industry unit retail sales of tractors in the first nine months of 2014 decreased approximately 16% compared to the same period in 2013. Industry unit retail sales of combines for the first nine months of 2014 decreased by approximately 23% compared to the first nine months of 2013. The decline was most pronounced in Brazil and Argentina. In Brazil, delayed funding for the region's government subsidized financing program, lower commodity prices and weak conditions in the sugarcane sector negatively impacted demand.

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

STATEMENTS OF OPERATIONS

Net sales for the three months ended September 30, 2014 were $2,154.8 million compared to $2,475.9 million for the same period in 2013. Net sales for the first nine months of 2014 were $7,238.5 million compared to $7,927.2 million for the same period in 2013. Foreign currency translation negatively impacted net sales by approximately $17.3 million, or 0.7%, in the three months ended September 30, 2014 and by approximately $57.3 million, or 0.7%, during the nine months ended September 30, 2014.

The following table sets forth, for the three and nine months ended September 30, 2014, the impact to net sales of currency translation by geographical segment (in millions, except percentages):

| | Three Months Ended September 30, | | Change | | Change Due to Currency Translation | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | $ | % | $ | % |
| North America | $531.3 | $686.6 | $(155.3) | (22.6)% | $(3.0) | (0.4)% |
| South America | 455.0 | 572.3 | (117.3) | (20.5)% | (12.0) | (2.1)% |
| Europe/Africa/Middle East | 1,026.0 | 1,086.4 | (60.4) | (5.6)% | (2.7) | (0.2)% |
| Asia/Pacific | 142.5 | 130.6 | 11.9 | 9.1% | 0.4 | 0.3% |
| | $2,154.8 | $2,475.9 | $(321.1) | (13.0)% | $(17.3) | (0.7)% |

| | Nine Months Ended September 30, | | Change | | Change Due to Currency Translation | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | $ | % | $ | % |
| North America | $1,865.0 | $2,099.7 | $(234.7) | (11.2)% | $(18.8) | (0.9)% |
| South America | 1,248.8 | 1,578.0 | (329.2) | (20.9)% | (122.8) | (7.8)% |
| Europe/Africa/Middle East | 3,783.8 | 3,878.6 | (94.8) | (2.4)% | 89.9 | 2.3% |
| Asia/Pacific | 340.9 | 370.9 | (30.0) | (8.1)% | (5.6) | (1.5)% |
| | $7,238.5 | $7,927.2 | $(688.7) | (8.7)% | $(57.3) | (0.7)% |

Regionally, net sales in North America decreased during the three and nine months ended September 30, 2014 compared to the same periods in 2013. Decreases in sales of high horsepower tractors, sprayers and implements were partially offset by sales growth in lower horsepower tractors. In the EAME region, net sales decreased during the three and nine months ended September 30, 2014 compared to the same periods in 2013. Sales declines in France, Germany and Eastern Europe were offset by sales growth in Africa and Turkey. Net sales in South America decreased during the three and nine months ended September 30, 2014 compared to the same periods in 2013 primarily due to lower sales volumes in Brazil and Argentina, as well as the negative impact of currency translation. In the Asia/Pacific region, net sales increased during the three months ended September 30, 2014 and decreased during the first nine months of 2014 compared to the same periods in 2013. The decrease in net sales during the nine months ended September 30, 2014 were primarily driven by declines in net sales of protein production equipment. We estimate the worldwide average price increase was approximately 1.6% and 1.4% during the three and nine months ended September 30, 2014, respectively, compared to the same prior year periods. Consolidated net sales of tractors and combines, which comprised approximately 60% and 62% of our net sales in the three and nine months ended September 30, 2014, respectively, decreased approximately 18% and 13% in the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. Unit sales of tractors and combines decreased approximately 8% and 10% during the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The difference between the unit sales decrease and the decrease in net sales was primarily the result of foreign currency translation, pricing and sales mix changes.

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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):

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| | $ | % of Net Sales[1] | | $ | % of Net Sales[1] | |
| Gross profit | $421.9 | 19.6 | % | $556.2 | 22.5 | % |
| Selling, general and administrative expenses | 221.7 | 10.3 | % | 258.1 | 10.4 | % |
| Engineering expenses | 78.2 | 3.6 | % | 87.3 | 3.5 | % |
| Restructuring and other infrequent expenses | 2.9 | 0.1 | % | — | — | % |
| Amortization of intangibles | 10.4 | 0.5 | % | 11.8 | 0.5 | % |
| Income from operations | $108.7 | 5.0 | % | $199.0 | 8.0 | % |

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| | $ | % of Net Sales[1] | | $ | % of Net Sales[1] | |
| Gross profit | $1,568.3 | 21.7 | % | $1,799.6 | 22.7 | % |
| Selling, general and administrative expenses | 751.0 | 10.4 | % | 793.5 | 10.0 | % |
| Engineering expenses | 252.9 | 3.5 | % | 266.7 | 3.4 | % |
| Restructuring and other infrequent expenses | 2.9 | — | % | — | — | % |
| Amortization of intangibles | 30.4 | 0.4 | % | 35.9 | 0.5 | % |
| Income from operations | $531.1 | 7.3 | % | $703.5 | 8.9 | % |

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(1) Rounding may impact summation of amounts.

Gross profit as a percentage of net sales decreased for both the three and nine months ended September 30, 2014 compared to the same periods in 2013. Lower sales and production levels and a weaker product mix were largely offset by cost containment measures. Unit production of tractors and combines decreased 11% and 13%, respectively, during the three and nine months ended September 30, 2014 compared to the same periods in 2013. We recorded a net credit of approximately $1.8 million and $1.0 million of stock compensation within cost of goods sold during the three and nine months ended September 30, 2014, respectively, compared to $0.4 million and $2.3 million of stock compensation expense for the comparable periods in 2013, respectively, as is more fully explained below and in Note 3 to our Condensed Consolidated Financial Statements.

Selling, general and administrative ("SG&A") expenses as a percentage of net sales increased for the nine months ended September 30, 2014 compared to the same period in 2013 primarily due to the decline in net sales. Engineering expenses increased slightly as a percentage of net sales during the three and nine months ended September 30, 2014 compared to the same periods in 2013 primarily due to lower net sales. We recorded a net credit of approximately $21.0 million and $9.8 million of stock compensation within SG&A expenses during the three and nine months ended September 30, 2014, respectively. The net credit was due to a reversal of approximately $24.1 million of previously recorded long-term stock compensation expense. We recorded stock compensation expense of $5.5 million and $31.9 million for the comparable periods in 2013, respectively, as is more fully explained in Note 3 to our Condensed Consolidated Financial Statements.

The restructuring and other infrequent expenses of $2.9 million recorded in the three and nine months ended September 30, 2014 were primarily severance and other related costs associated with the rationalization of our North

American and South American operations.

Interest expense, net was $13.9 million and $43.5 million for the three and nine months ended September 30, 2014, respectively, compared to $14.1 million and $40.2 million for the comparable periods in 2013, respectively. The increase for the nine months ended September 30, 2014 compared to the same period in 2013 was primarily due to lower interest income resulting from lower cash levels.

Other expense, net was $10.1 million and $34.2 million for the three and nine months ended September 30, 2014, respectively, compared to $11.3 million and $25.2 million during the same periods in 2013, respectively, due to foreign exchange losses in 2014. Losses on sales of receivables, related to our accounts receivable sales agreements with AGCO Finance in North America and Europe, were $4.8 million and $19.0 million for the three and nine months ended September 30, 2014, respectively, compared to $6.7 million and $18.8 million for the comparable periods in 2013, respectively.

We recorded an income tax provision of $34.2 million and $163.8 million for the three and nine months ended September 30, 2014, respectively, compared to $62.5 million and $219.8 million for the comparable periods in 2013, respectively. Our effective tax rate was higher during the three and nine months ended September 30, 2014 compared to the same periods in 2013 due to a change in the mix of income in various tax jurisdictions.

Equity in net earnings of affiliates, which is primarily comprised of income from our retail finance joint ventures, was $12.0 million and $38.1 million for the three and nine months ended September 30, 2014, respectively, compared to $14.1 million and $37.1 million for the comparable periods in 2013, respectively. Refer to “Retail Finance Joint Ventures” for further information regarding our retail finance joint ventures and their results of operations.

RETAIL FINANCE JOINT VENTURES

Our AGCO Finance retail finance joint ventures provide retail financing to end customers and wholesale financing to our dealers in the United States, Canada, Brazil, Europe, Argentina and Australia. The joint ventures are owned 49% by AGCO and 51% by a wholly-owned subsidiary of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (“Rabobank”), a financial institution based in the Netherlands. The majority of the assets of the retail finance joint ventures represent finance receivables. The majority of the liabilities represent notes payable and accrued interest. Under the various joint venture agreements, Rabobank or its affiliates provide financing to the joint ventures, primarily through lines of credit. We do not guarantee the debt obligations of the joint ventures. As of September 30, 2014, our capital investment in the retail finance joint ventures, which is included in “Investment in affiliates” on our Condensed Consolidated Balance Sheets, was $407.3 million compared to $390.2 million as of December 31, 2013. The total finance portfolio in our retail finance joint ventures was approximately $9.3 billion and $9.4 billion as of September 30, 2014 and December 31, 2013, respectively. The total finance portfolio as of September 30, 2014 included approximately $7.8 billion of retail receivables and $1.5 billion of wholesale receivables from AGCO dealers. The total finance portfolio as of December 31, 2013 included approximately $7.8 billion of retail receivables and $1.6 billion of wholesale receivables from AGCO dealers. The wholesale receivables either were sold directly to AGCO Finance without recourse from our operating companies or AGCO Finance provided the financing directly to the dealers. For the nine months ended September 30, 2014, our share in the earnings of the retail finance joint ventures, included in “Equity in net earnings of affiliates” on our Condensed Consolidated Statements of Operations, was $35.7 million compared to $37.1 million for the same period in 2013.

The total finance portfolio in our retail finance joint venture in Brazil was approximately $1.7 billion and $1.8 billion as of September 30, 2014 and December 31, 2013, respectively. As a result of weak market conditions in Brazil in 2005 and 2006, a substantial portion of this portfolio had been included in a payment deferral program directed by the Brazilian government relating to retail contracts entered into during 2004, where scheduled payments were rescheduled several times between 2005 and 2008. The impact of the deferral program resulted in higher delinquencies and lower collateral coverage for the portfolio. While the joint venture currently considers its reserves for loan losses adequate, it continually monitors its reserves considering borrower payment history, the value of the underlying equipment financed and further payment deferral programs implemented by the Brazilian government. To date, our retail finance joint ventures in markets outside of Brazil have not experienced any significant changes in the credit quality of their finance portfolios. However, there can be no assurance that the portfolio credit quality will not deteriorate, and, given the size of the portfolio relative to the joint ventures' levels of equity, a significant adverse change in the joint ventures' performance would have a material impact on the joint ventures and on our operating results.

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

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 credit facility and accounts receivable sales agreement facilities.

We believe that the following facilities, together with available cash and internally generated funds, will be sufficient to support our working capital, capital expenditures and debt service requirements for the foreseeable future:

- Our €200.0 million (or approximately $252.6 million as of September 30, 2014) 4$^{1}$/2% senior term loan, which matures in 2016 (see further discussion below).
- Our $300.0 million of 5$^{7}$/8% senior notes, which mature in 2021 (see further discussion below).
- Our revolving credit and term loan facility, consisting of a $800.0 million multi-currency revolving credit facility and a $355.0 million term loan facility, which expires in June 2019. As of September 30, 2014, $380.0 million was outstanding under the multi-currency revolving credit facility and $355.0 million was outstanding under the term loan facility (see further discussion below).
- Our accounts receivable sales agreements with our retail finance joint ventures in the United States, Canada and Europe. As of September 30, 2014, approximately $1.2 billion of cash had been received under these agreements (see further discussion below).

In addition, although we are in complete compliance with the financial covenants contained in these facilities and currently expect to continue to maintain such compliance, should we ever encounter difficulties, our historical relationship with our lenders has been strong and we anticipate their continued long-term support of our business.

Current Facilities

Our €200.0 million 4$^{1}$/2% senior term loan with Rabobank is due May 2, 2016. We have the ability to prepay the term loan before its maturity date. Interest is payable on the term loan at 4$^{1}$/2% per annum, payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. The term loan contains covenants restricting, among other things, the incurrence of indebtedness and the making of certain payments, including dividends, and is subject to acceleration in the event of default. We also must fulfill financial covenants with respect to a total debt to EBITDA ratio and an interest coverage ratio.

Our $300.0 million of 5$^{7}$/8% senior notes due December 1, 2021 constitute senior unsecured and unsubordinated indebtedness. Interest is payable on the notes semi-annually in arrears on June 1 and December 1 of each year. At any time prior to September 1, 2021, we may redeem the notes, in whole or in part from time to time, at our option, at a redemption price equal to the greater of (i) 100% of the principal amount plus accrued and unpaid interest, including additional interest, if any, to but excluding, the redemption date, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest (exclusive of interest accrued to the date of redemption) discounted to the redemption date at the treasury rate plus 0.5%, plus accrued and unpaid interest, including additional interest, if any. Beginning September 1, 2021, we may redeem the notes, in whole or in part from time to time, at our option, at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest, including additional interest, if any.

Our revolving credit facility and term loan facility consists of an $800.0 million multi-currency revolving credit facility and a $355.0 million term loan facility. The maturity date of our credit facility is June 28, 2019. We are not required to make quarterly payments towards the term loan facility. Interest accrues on amounts outstanding under the credit facility, at our option, at either (1) LIBOR plus a margin ranging from 1.0% to 2.0% based on our leverage ratio, or (2) the base rate, which is equal to the higher of (i) the administrative agent’s base lending rate for the applicable currency, (ii) the federal funds rate plus 0.5%, and (iii) one-month LIBOR for loans denominated in US dollars plus 1.0% plus a margin ranging from 0.0% to 0.5% based on our leverage ratio. The credit facility contains covenants restricting, among other things, the incurrence of indebtedness and the making of certain payments, including dividends, and is subject to acceleration in the event of a default. We also must fulfill financial covenants with respect to a total debt to EBITDA ratio and an interest coverage ratio. As of September 30, 2014, we had $735.0 million of outstanding borrowings under the credit facility and availability to borrow approximately $420.0 million. As of December 31, 2013, we had $360.0 million of outstanding borrowings under our credit facility and availability to borrow approximately $600.0 million. We amended and restated our current credit facility agreement on June 30, 2014 to increase our multi-currency revolving credit facility from $600.0 million to $800.0 million and to maintain our $355.0 million term loan facility.

Our accounts receivable sales agreements in North America and Europe permit the sale, on an ongoing basis, of a majority of our receivables to our 49% owned U.S., Canadian and European retail finance joint ventures. The sales of all receivables are without recourse to us. We do not service the receivables after the sale occurs, and we do not maintain any direct retained interest in the receivables. These agreements are accounted for as off-balance sheet transactions and have the effect of reducing accounts receivable and short-term liabilities by the same amount. As of September 30, 2014 and December 31, 2013, the cash received from receivables sold under the U.S., Canadian and European accounts receivable sales agreements was approximately $1.2 billion and $1.3 billion, respectively.

Our AGCO Finance retail finance joint ventures in Brazil and Australia also provide wholesale financing to our dealers. The receivables associated with these arrangements are also without recourse to us. As of September 30, 2014 and December 31, 2013, these retail finance joint ventures had approximately $56.5 million and $68.2 million, respectively, of outstanding accounts receivable associated with these arrangements. These arrangements are accounted for as off-balance sheet transactions. In addition, we sell certain trade receivables under factoring arrangements to other financial institutions around the world. These arrangements are also accounted for as off-balance sheet transactions.

Former Facilities

Our 1¹/4% convertible senior subordinated notes, due December 15, 2036, were issued in December 2006 and provided 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 were converted in connection with certain change of control transactions occurring prior to December 15, 2013. The notes were unsecured obligations and were convertible into cash and shares of our common stock upon satisfaction of certain conditions. Interest was payable on the notes at 1¹/4% per annum, payable semi-annually in arrears in cash on June 15 and December 15 of each year. Holders of our 1¼% convertible senior subordinated notes had the ability to convert the notes if, during any fiscal quarter, the closing sales price of our common stock exceeded 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. The notes were convertible into shares of our common stock at an effective price of $40.27 per share as of June 30, 2014, subject to adjustment, including to reflect the impact to the conversion rate upon payment of any dividends to our stockholders. The effective price reflected a conversion rate for the notes of 24.8295 shares of common stock per $1,000 principal amount of notes.

The carrying amount of the equity component of our 1¹/4% convertible senior subordinated notes was $54.3 million as of December 31, 2013. The discount on the liability component of the notes was fully amortized as of December 31, 2013. The interest expense recognized relating to the contractual interest coupon of the 1¹/4% convertible senior subordinated notes was approximately $0.9 million for the nine months ended September 30, 2014. The interest expense recognized relating to the contractual interest coupon and the amortization of the discount on the liability component of the notes was approximately $2.9 million and $8.8 million for the three and nine months ended September 30, 2013, respectively. The effective interest rate on the liability component for the 1¹/4% convertible senior subordinated notes for the nine months ended September 30, 2013 was 6.1%.

During 2014, holders of our 1¹/4% convertible senior subordinated notes converted or we repurchased approximately $49.7 million of aggregate principal amount of the notes. In May 2014, we announced our election to redeem the remaining $151.5 million balance of the notes with a redemption date of June 20, 2014. Substantially all of the holders of our notes elected to convert their remaining notes prior to the redemption date. During the nine months ended September 30, 2014, we issued a total of 1,437,465 shares of our common stock associated with the $81.0 million excess conversion value of all notes converted. We reflected the repayment of the principal of the notes totaling

$201.2 million within “Repurchase or conversion of convertible senior subordinated notes” within our Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014.

The $1^1/4$% convertible senior subordinated notes impacted the diluted weighted average shares outstanding which was dependent on our stock price for the excess conversion value using the treasury stock method. Refer to Notes 5 and 8 of our Condensed Consolidated Financial Statements for further discussion.

Cash Flows

Cash flows used in operating activities were approximately $215.3 million for the first nine months of 2014 compared to cash flows provided by operating activities of $169.0 million for the first nine months of 2013. 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 $1,841.8 million in working capital at September 30, 2014, as compared with $1,705.1 million at December 31, 2013 and $1,761.9 million at September 30, 2013. Accounts receivable and inventories, combined, at September 30, 2014 were $442.0 million and $34.6 million higher than at December 31, 2013 and September 30, 2013, respectively. The increase in accounts receivable and inventories during the first nine months of 2014 was a result of softer order volumes across all markets, higher replacement parts inventory to support seasonal requirements, an increase in inventory levels in part to support the transition of production to Tier 4 emission complaint products and seasonality.

Capital expenditures for the first nine months of 2014 were $229.3 million compared to $263.8 million for the first nine months of 2013. We anticipate that capital expenditures for the full year of 2014 will be approximately $350.0 million to $375.0 million and will primarily be used to meet new engine emission requirements, support the development and enhancement of new and existing products and complete our assembly factory in China.

Our debt to capitalization ratio, which is total indebtedness divided by the sum of total indebtedness and stockholders’ equity, was 27.3% and 23.6% at September 30, 2014 and December 31, 2013, respectively.

Share Repurchase Program

In July 2012, the Company’s Board of Directors approved a share repurchase program under which the Company can repurchase up to $50.0 million of its common stock. This share repurchase program does not have an expiration date. In December 2013, the Company’s Board of Directors approved an additional share repurchase program under which the Company can repurchase up to $500.0 million of its common stock through an expiration date of June 2015.

During the nine months ended September 30, 2014, the Company entered into accelerated repurchase agreements (“ASRs”) with a financial institution to repurchase an aggregate of $290.0 million of shares of the Company’s common stock. The Company has received approximately 5,389,119 shares during the nine months ended September 30, 2014 related to these ASRs. All shares received under the ASRs were retired upon receipt, and the excess of the purchase price over par value per share was recorded to “Additional paid-in capital” within the Company’s Condensed Consolidated Balance Sheets.

Additionally, during the three months ended September 30, 2014, through open market transactions, the Company repurchased 1,049,376 shares of its common stock for approximately $50.9 million at an average price paid of $48.46 per share. Repurchased shares were retired on the date of purchase, and the excess of the purchase price over par value per share was recorded to “Additional paid-in capital” within the Company’s Condensed Consolidated Balance Sheets.

Of the $550.0 million in approved share repurchase programs, the remaining amount authorized to be repurchased is approximately $190.5 million.

In November 2014, we entered into an ASR with a financial institution to repurchase an aggregate of $125.0 million of shares of our common stock. We received approximately 2,020,785 shares to date in this transaction. The specific number of shares we will ultimately repurchase will be determined at the completion of the term of the ASR based on the daily volume-weighted average share price of our common stock less an agreed upon discount. Upon settlement of the ASR, we may be entitled to receive additional shares of common stock, or under certain circumstances, be required to remit a settlement amount. We expect that additional shares will be received by us upon final settlement of our current ASR, which expires during the first quarter of 2015.

COMMITMENTS, OFF-BALANCE SHEET ARRANGEMENTS AND CONTINGENCIES

We are party to a number of commitments and other financial arrangements, which may include “off-balance sheet” arrangements. At September 30, 2014, we guaranteed indebtedness owed to third parties of approximately $122.1 million, primarily related to dealer and end-user financing of equipment. We also sell a majority of our wholesale receivables in North America and Europe to our 49% owned U.S., Canadian and European retail finance joint ventures. In addition, at September 30, 2014, we had outstanding designated and non-designated foreign exchange contracts with a gross notional amount of approximately $3,178.1 million. Refer to “Liquidity and Capital Resources” and “Item 3. Quantitative and Qualitative

Disclosures about Market Risk-Foreign Currency Risk Management,” as well as to Notes 10, 12 and 15 of our Condensed Consolidated Financial Statements, for further discussion of these matters.

Contingencies

In June 2008, the Republic of Iraq filed a civil action against three of our foreign subsidiaries that participated in the United Nations Oil for Food Program (the “Program”). On February 6, 2013, the federal court dismissed the complaint with prejudice. The plaintiff has appealed the decision and the appellate process is ongoing. Further, a third-party complaint was filed on October 30, 2012 involving a federal court action naming as defendants three of our foreign subsidiaries that participated in the Program. On February 12, 2014, the federal court dismissed the complaint with prejudice. The third-party plaintiffs have not appealed this dismissal, but have until after the resolution of the underlying case to do so.

As part of routine audits, the Brazilian taxing authorities disallowed deductions relating to the amortization of certain goodwill recognized in connection with a reorganization of our Brazilian operations and the related transfer of certain assets to our Brazilian subsidiaries.

Refer to Note 15 of our Condensed Consolidated Financial Statements for further discussion of these matters.

## OUTLOOK

Lower commodity prices and reduced farm income have resulted in a decline in worldwide industry demand during 2014 compared to 2013 across all major global agricultural markets, particularly in the row crop sector. Our net sales in 2014 are expected to be lower compared to 2013, due to the impact of the projected industry declines and partially offset by pricing and market share gains. Net income in 2014 is expected to be lower compared to 2013, primarily due to lower production and sales volumes and a weaker product mix.

## 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 disclosures 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 judgments 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, 2013.

## 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” and “Outlook.” Forward-looking statements reflect assumptions, expectations, projections, intentions or beliefs about future events. These statements, which may relate to such matters as earnings, net sales, industry demand, market conditions, commodity prices, farm incomes, general economic outlook, availability of financing, expansion of assembly capabilities, product development, engineering expenses, production and sales volumes, pricing and market share initiatives, compliance with loan covenants, share repurchases, capital expenditures and working capital and debt service requirements 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 believe 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. Adverse changes in any of the following factors could cause actual results to differ materially from the forward-looking statements:

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- general economic and capital market conditions;
- availability of credit to our retail customers;
- the worldwide demand for agricultural products;
- grain stock levels and the levels of new and used field inventories;
- cost of steel and other raw materials;
- energy costs;
- performance and collectability of the accounts receivable originated or owned by AGCO or AGCO Finance;
- 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;
- production levels and capacity constraints at our facilities, including those resulting from plant expansions and systems upgrades;
- integration of recent and future acquisitions;
- our expansion plans in emerging markets;
- supply constraints;
- our cost reduction and control initiatives;
- our research and development efforts;
- dealer and distributor actions;
- regulations affecting privacy and data protection;
- 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, 2013.

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.

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

### FOREIGN CURRENCY RISK MANAGEMENT

We have significant manufacturing operations in the United States, 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 are denominated in the currency of the customer location, with the exception of sales in the Middle East, Africa, Asia and parts of South America where net sales are primarily denominated in British pounds, Euros or United States dollars (See “Segment Reporting” in Note 13 to our Consolidated Financial Statements for the year ended December 31, 2013 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 and the Euro in relation to the British pound. Fluctuations in the value of foreign currencies create exposures, which can adversely affect our results of operations.

We attempt to manage our transactional foreign currency 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, we hedge certain, but not all, of our exposures through the use of foreign currency contracts. 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 and the Swiss franc in relation to the Euro. When practical, this translation impact is reduced by financing local operations with local borrowings. Our hedging policy prohibits use of foreign currency contracts for speculative trading purposes.

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 cash flow hedges of forecasted transactions as well as non-designated derivative instruments. Changes in the fair value of non-designated derivative contracts are reported in current earnings. During 2014 and 2013, we designated certain foreign currency contracts as cash flow hedges of forecasted 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 are subsequently reclassified into cost of goods sold during the period the sales and purchases are recognized. These amounts offset the effect of the changes in foreign currency rates on the related sale and purchase transactions. The amount of the net (loss) gain recorded in other comprehensive income that was reclassified into cost of goods sold during the nine months ended September 30, 2014 and 2013 was approximately $(0.4) million and $0.4 million, respectively, on an after-tax basis. The outstanding contracts as of September 30, 2014 range in maturity through December 2014.

Assuming a 10% change relative to the currency of the hedge contract, this could negatively impact the fair value of the foreign currency instruments by approximately $2.7 million as of September 30, 2014. Using the same sensitivity analysis as of September 30, 2013, the fair value of such instruments would have decreased by approximately $59.9 million. Due to the fact that these instruments are primarily entered into for hedging purposes, the gains or losses on the contracts would largely be offset by losses and gains on the underlying firm commitment or forecasted transaction.

### 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 notes and senior term loan. Our floating rate exposure is related to our credit facility and our accounts receivable sales facilities, which are tied to changes in U.S. and European LIBOR rates. Assuming a 10% increase in interest rates, “Interest expense, net” and “Other expense, net” for the nine months ended September 30, 2014 would have increased, collectively, by approximately $3.6 million.

We had no interest rate swap contracts outstanding during the nine months ended September 30, 2014.

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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 September 30, 2014, 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 September 30, 2014 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 other legal claims and actions incidental to our business. These items are more fully discussed in Note 15 to our Condensed Consolidated Financial Statements.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The table below sets forth information with respect to purchases of our common stock made by or on behalf of us during the three months ended September 30, 2014:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1] | Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)[1][2] |
|---|---|---|---|---|
| July 1, 2014 through July 31, 2014 [2] | 1,210,204 | $53.74 | 1,210,204 | $241.4 |
| August 1, 2014 through August 31, 2014 | 950,002 | $48.46 | 950,002 | $195.3 |
| September 1, 2014 through September 30, 2014 | 99,374 | $48.45 | 99,374 | $190.5 |
| Total | 2,259,580 | $52.77 | 2,259,580 | $190.5 |

[1] In July 2012, our Board of Directors approved a share repurchase program under which we can repurchase up to $50.0 million of our common stock. This share repurchase program does not have an expiration date. In December 2013, our Board of Directors approved an additional share repurchase program under which we can repurchase up to $500.0 million of our common stock through an expiration date of June 2015.

[2] In February 2014, we entered into an ASR agreement with a third-party financial institution to repurchase $250.0 million of our common stock. The ASR agreement resulted in the initial delivery of 3,441,495 shares of our common stock, representing approximately 70% of the shares expected to be repurchased in connection with the transaction. In July 2014, the remaining 1,210,204 shares under the ASR agreement were delivered. As reflected in the table above, the average price paid per share for the ASR agreement was the volume-weighted average stock price of our common stock over the term of the ASR agreement. Refer to Note 11 of our Condensed Consolidated Financial Statements for a further discussion of this matter.

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ITEM 6. EXHIBITS

| Exhibit Number | Description of Exhibit | The filings referenced for incorporation by reference are AGCO Corporation |
|---|---|---|
| 31.1 | Certification of Martin Richenhagen | Filed herewith |
| 31.2 | Certification of Andrew H. Beck | Filed herewith |
| 32.1 | Certification of Martin Richenhagen and Andrew H. Beck | Furnished herewith |
| 101.INS | XBRL Instance Document | Filed herewith |
| 101.SCH | XBRL Taxonomy Extension Schema | Filed herewith |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase | Filed herewith |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase | Filed herewith |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase | Filed herewith |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase | Filed 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.

Date: November 7, 2014

AGCO CORPORATION
Registrant

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

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