CNH GLOBAL N V
Form 20-F
March 05, 2008
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTIONS 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended December 31, 2007

or

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

or

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File Number 1-14528

CNH GLOBAL N.V.

(Exact name of registrant as specified in its charter)

Kingdom of The Netherlands

(State or other jurisdiction of incorporation or organization)

World Trade Center, Amsterdam Airport

Tower B, 10th Floor

Schiphol Boulevard 217

1118 BH Amsterdam

The Netherlands

(Address of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Shares, par value 2.25	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: 237,169,370 Common Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act of 1934. Yes ¨ No þ

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 þ No ¨

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

Large accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing: U.S. GAAP þ International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other ¨

If Other has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow: Item 17 ¨ or Item 18 ¨.

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

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PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

CNH Global N.V., (CNH), is incorporated in The Netherlands under the laws of the Netherlands. CNH combines the operations of New Holland N.V. (New Holland) and Case Corporation (Case), as a result of their business merger on November 12, 1999. As used in this report, all references to New Holland or Case refer to (1) the pre-merger business and/or operating results of either New Holland or Case (now a part of CNH America LLC (CNH America)) on a stand-alone basis, or (2) the continued use of the New Holland and Case product brands.

CNH prepares its annual consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The consolidated financial statements are expressed in U.S. dollars and, unless otherwise indicated, all financial data set forth in this annual report is expressed in U.S. dollars. Our worldwide agricultural equipment and construction equipment operations are collectively referred to as Equipment Operations. Our worldwide finance operations are referred to as Financial Services.

As of December 31, 2007, Fiat S.p.A. and its subsidiaries (Fiat or the Fiat Group) owned approximately 89% of CNH s outstanding common shares through Fiat Netherlands Holding N.V. (Fiat Netherlands.). For information on our share capital, see Item 10. Additional Information B. Memorandum and Articles of Association.

Fiat S.p.A. is a corporation organized under the laws of the Republic of Italy. The Fiat Group performs automotive manufacturing and financial service activities through companies located in 50 countries and is engaged in commercial activities with customers in more than 190 countries. It also manufactures other products and systems, principally automotive-related components, metallurgical products and production systems. In addition, it is involved in certain other sectors, including publishing and communications.

Certain financial information in this report has been presented by geographic area. CNH defines its geographic areas as (1) North America, (2) Western Europe, (3) Latin America and (4) Rest of World. As used in this report, all references to North America, Western Europe, Latin America and Rest of World are defined as follows:

North America United States and Canada.

Western Europe Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, The Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

Latin America Mexico, Central and South America, and the Caribbean Islands.

Rest of World Those areas not included in North America, Western Europe and Latin America, as defined above.

Certain market and share information in this report has been presented on a worldwide basis which includes all countries, with the exception of India. In this report, management estimates of market share information are generally based on retail unit data in North America, on registrations of equipment in most of Europe, Brazil, and various Rest of World markets and on retail and shipment unit data collected by a central information bureau appointed by equipment manufacturers associations including the Association of Equipment Manufactures (AEM) in North America, the Committee for European Construction Equipment (CECE) in Europe, the Associação Nacional dos Fabricantes de Veículos Automotores (ANFAVEA) in Brazil, the Japan Construction Equipment Manufactures Association (CEMA) and the Korea Construction Equipment Manufactures Association (KOCEMA), as well as on other shipment data collected by an independent service bureau. Not all agricultural or construction equipment is registered, and registration data may thus underestimate, perhaps substantially, actual retail industry unit sales demand, particularly for local manufacturers in China, Eastern Europe, Russia, Turkey, and Brazil. In addition, there may also be a period of time between the shipment, delivery, sale and/or registration of a unit, which must be estimated, in making any adjustments to the shipment, delivery, sale, or registration data to determine our estimates of retail unit data in any period.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. ***Selected Financial Data.***

The following selected consolidated financial data as of December 31, 2007 and 2006, and for each of the years ended December 31, 2007, 2006, and 2005 has been derived from the audited consolidated financial statements included in Item 18. This data should be read in conjunction with Item 5. Operating and Financial Review and Prospects and is qualified in its entirety by reference to the audited consolidated financial statements included in Item 18. Financial data as of December 31, 2005, 2004, and 2003, and for the years ended December 31, 2004, and 2003, has been derived from our previously-published, audited consolidated financial statements which are not included herein.

Beginning in 2005, CNH calculated basic earnings per share based on the requirements of Emerging Issues Task Force (EITF) Issue No. 03-06, Participating Securities and the Two Class Method under Financial Accounting Standards Board (FASB) Statement No. 128, Earnings per Share (EITF No. 03-06). EITF No. 03-06 requires the two-class method of computing earnings per share when participating securities, such as CNH s Series A Preference Shares (Series A Preferred Stock), are outstanding. The two-class method is an earnings allocation formula that determines earnings per share for common stock and participating securities based upon an allocation of earnings as if all of the earnings for the period had been distributed in accordance with participation rights on undistributed earnings. The application of EITF No. 03-06 did not impact 2004 or earlier basic earnings per share as the Series A Preferred Stock was not considered participating during these periods. The application of EITF No. 03-06 had an impact on the calculation of basic earnings per share in 2005. Subsequent to the conversion of the eight million shares of Series A Preferred Stock into CNH common shares on March 23, 2006, there have been no shares of Series A Preferred Stock outstanding.

In periods when the Series A Preferred Stock was outstanding, undistributed earnings, which represent net income, less dividends paid to common shareholders, was allocated to the Series A Preferred Stock based on the dividend yield of the common shares, which was impacted by the price of CNH common shares. For purposes of the basic earnings per share calculation, CNH used the average closing price of its common shares over the last thirty trading days of the period (Average Stock Price). As of December 31, 2005, the Average Stock Price was $17.47 per share. Had the Average Stock Price of the common shares been different, the calculation of the earnings allocated to Series A Preferred Stock may have changed. Additionally, the determination was impacted by the payment of dividends to common shareholders as the dividend paid is added to net income in the computation of basic earnings per share. Subsequent to the March 23, 2006, conversion of the Series A Preferred Stock, there has been no further impact on earnings per share.

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The following table contains our selected historical financial data as of and for each of the five years ended December 31, 2007, 2006, 2005, 2004 and 2003 in accordance with U.S. GAAP.

	For the Years Ended December 31, (in millions, except per share data)				
	2007	2006	2005	2004	2003
Consolidated Statement of Operations Data:					
Revenues:					
Net sales	$ 14,971	$ 12,115	$ 11,806	$ 11,545	$ 10,069
Finance and interest income	993	883	769	634	597
Total revenues	$ 15,964	$ 12,998	$ 12,575	$ 12,179	$ 10,666
Net income (loss)	$ 559	$ 292	$ 163	$ 125	$ (157)
Per share data:					
Basic earnings (loss) per share	$ 2.36	$ 1.37	$ 0.77	$ 0.94	$ (1.19)
Diluted earnings (loss) per share	$ 2.36	$ 1.23	$ 0.70	$ 0.54	$ (1.19)
Cash dividends declared per common share	$ 0.25	$ 0.25	$ 0.25	$ 0.25	$ 0.25

	As of December 31, (in millions)				
	2007	2006	2005	2004	2003
Consolidated Balance Sheet Data:					
Total assets	$ 23,745	$ 18,274	$ 17,318	$ 18,080	$ 17,727
Short-term debt	$ 4,269	$ 1,270	$ 1,522	$ 2,057	$ 2,110
Long-term debt, including current maturities	$ 5,367	$ 5,132	$ 4,765	$ 4,906	$ 4,886
Common shares at 2.25 par value	$ 595	$ 592	$ 315	$ 312	$ 309
Common shares outstanding	237	236	135	134	133
Shareholders equity	$ 6,302	$ 5,120	$ 5,052	$ 5,029	$ 4,874

B. ***Capitalization and Indebtedness*****.**

Not applicable.

C. ***Reasons for the Offer and Use of Proceeds*****.**

Not applicable.

D. ***Risk Factors*****.**

The following risks identified should be considered in conjunction with Item 5 Operating and Financial Review and Prospects beginning on page 48, and specifically, the other risks described in the Safe Harbor Statement on pages 84-85. Our results of operations may be affected by these identified risks and they are factors that, individually or in the aggregate, could make our actual results differ materially from expected and past results. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events, or otherwise. We invite you to consult any further related disclosures we make in our Form 6-K reports to the United States Securities and Exchange Commission (SEC).

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Risks Related to Our Business, Strategy and Operations

We may not fully realize, or realize within the anticipated time frame, the benefits of our margin improvement actions.

Our goal is to build upon our strengths to achieve our strategic objectives. The key elements of our initiatives are to:

- recapture our market share and develop stronger customer relationships;
- strengthen our customer and dealer after sales and support activities;
- continually improve product quality and reliability;
- continue developing Financial Services; and
- continue efforts to increase operational efficiencies and reduce costs.

Through the accomplishment of these initiatives, by 2010, our goal is to close the performance gap compared to our competitors and become best-in-class. If we achieve the anticipated results of our actions, we believe we will have substantially improved our position in the global agricultural and construction equipment markets and our financial condition. Our failure to successfully complete our initiatives could cause us to not fully realize our anticipated margin improvements, which could weaken our competitive position and adversely affect our financial condition and results of operations.

Our success depends on acceptance of new product introductions by the marketplace.

Our long term results depend on continued global demand for our brands and products. To achieve our business goals, we must develop and sell products, parts and support services that appeal to our dealers, OEMs, and customers. This is dependent on a number of factors including our ability to manage and maintain key dealer relationships, our ability to develop effective sales, advertising and marketing programs, and the strength of the economy. In addition, our success is dependent on continuing to introduce leading-edge innovations at the highest possible level of quality, with respect to both products and operations. This means we must be able to create or otherwise obtain intellectual property which will allow us to develop cost competitive products that appeal to our customers around the world. Failure to continue to deliver high quality, competitive products to the marketplace on a timely basis, or to predict market demands for, or gain market acceptance of, our products, could adversely affect our financial condition and results of operations.

You should read the discussion under the heading Item 4. Information on the Company B. Business Overview Products and Markets for a more detailed discussion regarding our products.

We depend on key suppliers for certain raw materials and components.

We purchase materials and components from third-party suppliers. We rely upon single suppliers for certain components, primarily those that require joint development between us and our suppliers. A significant change in the demand for, or supply of, or price of, any component part or commodity could adversely affect our profitability or our ability to obtain and fulfill orders. We cannot avoid exposure to global price fluctuations such as with the costs of steel, rubber, oil and related petroleum-based products, and our ability to realize the full extent of our margin improvement efforts depends on, among other things, our ability to raise equipment and parts prices sufficiently to recover any such material or component cost increases.

We are subject to currency exchange rate fluctuations and interest rate changes, which could adversely affect our financial performance.

We conduct operations in many areas of the world involving transactions denominated in a variety of currencies other than the U.S. dollar, including the Euro, the British pound, the Canadian and Australian dollars,

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the Japanese yen, and the Brazilian real. To prepare our consolidated financial statements, we must translate those assets, liabilities, expenses and revenues into U.S. dollars at the applicable exchange rates. As a result, increases and decreases in the value of the U.S dollar relative to other currencies will affect the amount of these items in our consolidated financial statements, even if their value has not changed in their original currency (currency translation risk). We do not hedge currency translation risk. In addition, we are subject to daily variations in currency values as we make payments in or convert monies received from different currencies (currency transaction risk). These events could have significant impacts on our results if an increase or decrease in the value of the U.S. dollar or other currencies is substantial.

Changes in interest rates affect our results of operations by, among other things, increasing or decreasing our borrowing costs, finance income, and the amount of interest compensation provided by Equipment Operations to Financial Services for wholesale financing and marketing programs.

We attempt to mitigate our transaction exposures through the use of financial hedging instruments. We have historically entered into, and expect to continue to enter into, hedging arrangements with respect to currency transaction risk, a substantial portion of which are with counterparties that are treasury subsidiaries of Fiat. As with all hedging instruments, there are risks associated with the use of foreign currency forward exchange contracts, as well as interest rate swap agreements and other risk management contracts. While the use of such hedging instruments provides us with protection from certain fluctuations in currency exchange and interest rates, we potentially forgo the benefits that might result from favorable fluctuations in currency exchange and interest rates. In addition, any default by the counterparties to these transactions could adversely affect our financial condition and results of operations.

These financial hedging transactions may not provide adequate protection against future currency exchange rate or interest rate fluctuations and, consequently, such fluctuations could adversely affect our financial condition and results of operations. See Item 11. Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to political, economic and other risks from operating a global business.

Our business is global and subject to the political, economic and other risks that are inherent in operating in numerous countries. These risks include changes in individual government regulations and policies, including the imposition of import and export duties and quotas, currency restrictions, expropriation, cancellation of contract rights, taxation, changes in world organization initiatives and agreements, such as the World Trade Organization (WTO) and Ex/Im Banks, and changes in the dynamics of the Company s competitors, customer needs and desires, and product offerings. The Company s efforts to profitably grow its businesses depend, to a large extent, on its continued success in managing these factors and their costs, and those of new markets. The costs of compliance or other liabilities related to such laws and regulations in the future could adversely affect our financial condition and results of operations.

An increase in health care or pension costs could adversely affect our results of operations and financial position.

The funded status of our pension and postretirement benefit plans is subject to, among other things, developments and changes in actuarial and other related assumptions. At both December 31, 2007, and 2006, pension plans which we fund had an underfunded status of approximately $232 million and $394 million, respectively. Pension plan obligations for plans that we do not currently fund were $545 million and $553 million at December 31, 2007, and 2006, respectively.

Actual developments, such as a significant change in the return on investment of the plan assets or a change in the portfolio mix of plan assets, may result in corresponding increases or decreases in the valuation of plan assets, particularly with respect to equity securities. In addition, changes in interest rates may result in increases or decreases in the valuation of plan assets consisting of debt securities. A change in plan asset values and/or a

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change in the rate of expected return on plan assets can result in significant changes to the expected return on plan assets in the following year and, as a consequence, could result in higher or lower net periodic pension costs.

As with certain of our defined benefit pension plans, in 2007 CNH began funding the U.S. Retiree Medical plan, although other postretirement benefit obligations remain unfunded. At December 31, 2007 and 2006, our other postretirement benefit obligations had an underfunded status of $1.2 billion and $1.5 billion, respectively.

See the heading Item 5. Operating and Financial Review and Prospects A. Operating Results Application of Critical Accounting Estimates and Pension and Other Postretirement Benefits, as well as Note 12: Employee Benefit Plans and Postretirement Benefits of our consolidated financial statements for the year ended December 31, 2007, for additional information on pension accounting.

Our unionized labor force and our contractual and legal obligations under collective bargaining agreements and labor laws could subject us to risks of work interruption or stoppage which could adversely impact our results.

In Europe, our employees are covered by various worker protection laws which afford employees, through local and central works councils, rights of consultation with respect to specific matters involving their employers business and operations, including the downsizing or closure of facilities and employment terminations. Labor agreements covering employees in certain European countries generally expire annually. The European worker protection laws and the collective bargaining agreements to which we are subject could impair our flexibility in streamlining existing manufacturing facilities and in restructuring our business.

In the United States, the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (the UAW) represents approximately 750 of our workers at facilities in Burlington, Iowa; Burr Ridge, Illinois; Racine, Wisconsin; and St. Paul, Minnesota. Additionally, the International Association of Machinists represents approximately 550 of our workers at our Fargo, North Dakota facility.

Overall, labor unions represent most of our production and maintenance employees worldwide. Although we believe our relations with our employees and our unions are generally positive, current or future issues with labor unions might not be resolved favorably and we may experience a work interruption or stoppage which could adversely affect our financial condition and results of operations.

Our success is largely dependent on the ability of our management team to operate and manage effectively.

Our success depends in large part on the ability of our executive officers and other members of senior management to operate and manage effectively, both independently and as a group. The loss of the services of any executive officer, senior manager or other key employee without adequate replacement or the inability to attract and retain new qualified personnel could have an adverse affect on our financial condition and results of operations.

Risks Particular to the Industries in Which We Operate

We operate in highly cyclical industries, which could affect our growth and results of operations.

Our business depends upon general activity levels in the agricultural and construction industries. Historically, these industries have been highly cyclical. Our Equipment Operations and Financial Services operations are subject to many factors beyond our control, such as:

- world economic conditions (including GDP growth);
- credit quality, availability and prevailing terms of credit for customers, including interest rates;

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- our access to credit;
- geopolitical, political and economic developments;
- the effect of changes in laws and regulations, governmental fiscal, monetary and trade policies;
- the responses of our competitors, suppliers and customers to changing cyclical conditions; and
- dealer financial condition and inventory management.

In addition, our operating results are susceptible to a number of industry-specific factors, including:

Agricultural Equipment Industry

- changes in farm income and farmland value;
- changes in farming practices;
- the level of worldwide farm output and demand for farm products;
- commodity prices and stock levels;
- government agricultural policies and subsidies;
- government policies related to and world-wide demand for fuel ethanol and biodiesel;
- changes in world organization initiatives or agreements (WTO, Ex/Im Banks and other non-governmental organizations);
- animal diseases and crop pests;
- genetic modification of crops (and their acceptance by customers);
- limits on agricultural imports; and
- weather.

Construction Equipment Industry

- prevailing levels of construction, especially housing starts;
- public spending on infrastructure;
- volatility of sales to rental companies;
- real estate values; and
- consumer confidence.

Financial Services

- cyclical nature of the agricultural and construction equipment industries which are the primary markets for our financial services;
- interest rates;
- stability of world capital markets;
- used equipment supply and prices; and
- availability and terms of funding through the Asset Backed Securitization (ABS) markets.

The nature of the agricultural and construction equipment industries is such that changes in demand can occur suddenly, resulting in imbalances in inventories, production capacity and prices for new and used equipment. Downturns may be prolonged and may result in significant losses during affected periods. Equipment manufacturers, including us, have responded to downturns in the past by reducing production and discounting product prices. These actions have resulted in restructuring charges and lower earnings for us in past affected periods. In the event of future downturns, we may need to undertake similar actions. Upturns also may be prolonged and result in lower than expected improvements in results as we and our suppliers invest to increase production capacities and efficiencies.

Changes in governmental agricultural policy in the U.S., Europe, and Brazil could adversely affect sales of agricultural equipment.

The Company s agricultural business is exposed to a variety of risks and uncertainties related to the action or inaction of governmental bodies. Government policies can affect the market for our agricultural equipment by regulating the levels of acreage planted, through direct subsidies affecting specific commodity prices, or through payments made directly to farmers. For example, in the United States, government subsidies are a key income driver for farmers raising certain commodity crops, in Europe subsidies are paid based on the size of the farms, and in Brazil, the government subsidizes the financing of agricultural equipment purchases. The existence of a high level of subsidies in these markets may reduce the effects of cyclicality in the agricultural equipment business. These policies and initiatives are subject to change which could reduce demand for agricultural equipment, and we could experience a decline in net sales.

In addition, international and multilateral institutions, such as the WTO, can affect the market for agricultural equipment through initiatives for changes in governmental policies and practices regarding agricultural subsidies, tariffs and the production of genetically modified organisms. In particular, the outcome of the global negotiations under the auspices of the WTO could have a material effect on the international flow of agricultural commodities and could cause severe dislocations within the farming industry as farmers shift production to take advantage of the various provisions of new programs. With uncertainty created by policy changes and reforms, farmers could delay purchasing agricultural equipment, causing a decline in industry unit volumes generally, and we could experience a decline in net sales.

You should read the discussion under the heading Item 4. Information on the Company B. Industry Overview Agricultural Equipment for a more detailed discussion of current governmental policies and proposed reforms.

Significant competition in the industries in which we operate may result in our competitors offering new or better products and services or lower prices, which could result in a loss of customers and a decrease in our revenues and a decline in our share of industry sales.

We operate in a highly competitive environment with global, regional and local competitors of differing strengths in the various markets throughout the world. Our equipment businesses compete on the basis of product performance, customer service, quality and price, and our products may not be able to compete successfully with those offered by our competitors. Aggressive pricing or other strategies pursued by competitors, unanticipated product improvements or difficulties, manufacturing difficulties, our failure to price our products competitively or an unexpected buildup in competitors new machine or dealer-owned rental fleets, leading to severe downward pressure on machine rental rates and/or used equipment prices, could result in a loss of customers, a decrease in our revenues and a decline in our share of industry sales. Our Financial Services operations compete with banks, finance companies and other financial institutions. Our Financial Services operations may be unable to compete successfully due to resources, products, licensing or other governmental regulations, and the number, type and focus of services offered. If our Equipment Operations or Financial Services are unable to effectively compete, it could have an adverse effect on our financial condition and results of operations.

Changes in demand for agricultural or construction equipment could impact our net sales and results of operations.

General economic conditions, commodity price and stock levels, net farm income levels, developments in biofuels, infrastructure spending rates, housing starts and commercial construction play a significant role in our

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results. As such factors increase or decrease around the world, demand for our products may be significantly impacted in a relatively short timeframe. Negative economic conditions or a negative outlook for any of these factors can dampen demand for farm and/or construction equipment. Rapid declines in demand can result in, among other things, an oversupply of equipment, a decline in price, the need for additional promotional programs and a decrease in factory utilization, all of which could adversely affect our financial condition and results of operations.

Positive economic conditions or positive outlooks for any of these factors can increase demand for farm and/or construction equipment. Rapid increases in demand can result in, among other things, an undersupply of equipment, increases in prices of our equipment, increases in our costs for materials and components, and increases in factory utilization demands (that either may not be possible due to constraints, affecting either us or our suppliers, or may not be sustainable for long periods of time without additional, potentially significant, capital expenditures). Producing our products is a capital intensive activity which can require significant amounts of time and capital investment to materially adjust production capacity and efficiency. Accordingly, we may not be able to accommodate large changes in demand which could impede our ability to operate effectively.

Also see Item 4. Information on the Company B. Business Overview Industry Overview.

Changes in the equipment rental business may affect our net sales and results of operations.

In recent years, short-term lease programs and commercial rental agencies for agricultural and construction equipment have expanded significantly in North America. In addition, larger rental companies (two of which have locations that are dealers of our equipment) have become sizeable purchasers of new equipment and can have a significant impact on total industry sales, prices and terms when they change the size of their fleets or adjust to more efficient rates of rental utilization. With changes in construction activity levels and rental utilization rates, rental companies may need to accelerate or postpone new equipment purchases for the replenishment of their fleets, without changing the size of their fleets. In addition, if changes in activity levels become more pronounced, the rental companies also may need to increase or decrease their fleet size to maintain efficient utilization rates. These changes can lead to more pronounced demand cyclicality, exacerbating increases or decreases in industry demand, particularly at either the beginning or end of a cycle as rental companies often are some of the first market participants to experience the change.

In addition, when correspondingly larger or smaller amounts of equipment come off lease or are replaced with newer equipment by rental agencies, there may be a significant increase in the availability of late-model used equipment which could impact used equipment prices. If used equipment prices were to decline significantly, sales and pricing of new equipment could be depressed. As a result, an oversupply of used equipment could adversely affect demand for, or the market prices of, our new and used equipment and our dealer inventory values and their financial condition. In addition, a decline in used equipment prices could have an adverse effect on residual values for leased equipment, which could adversely affect our results of operations and financial position.

The agricultural equipment industry is highly seasonal and seasonal fluctuations may cause our results of operations and working capital to fluctuate significantly from quarter to quarter.

The agricultural equipment business is highly seasonal because farmers traditionally purchase agricultural equipment in the spring and fall in connection with the main planting and harvesting seasons. Our net sales and results of operations have historically been the highest in the second quarter, reflecting the spring selling season in the Northern Hemisphere, and lowest in the third quarter, when many of our production facilities experience summer shut down periods, especially in Europe. Seasonal conditions also affect our construction equipment business, but to a lesser extent than in our agricultural equipment business.

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Our production levels are based upon estimated retail demand. These estimates take into account the timing of dealer shipments, which occur in advance of retail demand, dealer inventory levels, the need to retool manufacturing facilities to produce new or different models and the efficient use of manpower and facilities. We adjust production levels to take into account, among other things, changes in estimated demand, dealer inventory levels and labor disruptions. However, because we spread our production and wholesale shipments throughout the year, wholesale sales of agricultural equipment products in any given period may not reflect the timing of dealer orders and retail demand.

Estimated retail demand may exceed or be exceeded by actual production capacity in any given calendar quarter because we spread production throughout the year. If retail demand is expected to exceed production capacity for a quarter, then we may schedule higher production in anticipation of the expected retail demand. Often we anticipate that spring selling season demand may exceed production capacity in that period and schedule higher production, company and dealer inventories and wholesale shipments to dealers in the first quarter of the year. Thus our working capital and dealer inventories are generally at their highest levels during the February to May period and decline to the end of the