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FARM EQUIPMENT's Ag Industry Watch

News, Information & Analysis for the Ag Equipment Marketer

February 15, 2006

FBI Looking into Bankrupt Iowa Dealer As Farm Customers Consider Options to Reclaim $22 Million

As a group of farmers from several states plan their next move in an attempt to recover $22 million they paid Walterman Implement in Dike, Iowa, before it was closed down in October, the FBI is now looking into the matter.

The Case-IH dealership was forced into Chapter 7 bankruptcy by creditors who claim Walterman double-financed several pieces of equipment. It is estimated that hundreds of farmers from Iowa and surrounding states lost thousands of dollars each after the dealership was closed.

Tom Witom, a spokesman for CNH America, the Racine, Wis.-based maker of Case IH equipment, indicates that the company is cooperating with "an FBI investigation into the business practices of Walterman."

The Iowa Attorney General's office is also involved in the case, but says that it is unclear what recourse farmers may have under either state or federal law.

Stanley Webb, a Mitchellville, Iowa, farmer, has filed suit against Case Credit Corp., CNH Capital America and Walker-Schork International, Inc. Webb claims that Case delivered a new combine registered in his name to the Rochelle, Ill., dealer, who sold it to a local farmer.

According to the *Des Moines Register*, about 130 farmers who claim to have lost thousands of dollars to Walterman, recently met in Maxwell, Iowa, to discuss their options.

"The first step is going to be to look into the facts. There are a lot of assertions going around," said attorney Matt Cronin, who is representing the group. "If there's a basis for a lawsuit — and it appears right now that there is — that will likely lead to litigation."

An undisclosed number of farmers had been making payments to the dealership ranging between $12,000 and $22,000 in a "roll" program that would have provided them with new and previously owned combines.

Many of Walterman's customers have outstanding notes with the financing company of CNH America. Some fear they may be obligated to pay off the loans, even if they do not own the equipment.

"We are sensitive to the issues of having to make payment, and will work to support our Case-IH customers. But,

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Dealers Expect 2006 New Equipment Pricing to Rise 3%

According to preliminary results from UBS Investment Research's 19th Semiannual Agricultural Dealer Survey, dealers say that new and used equipment prices continue to firm, but at a slower pace of growth. Additionally, dealers expect smaller price increases by manufacturers on new equipment in 2006.

Dealers also indicated that new equipment inventories have increased slightly since the last survey and are at normal levels. They also report that used equipment inventories have also increased since the spring but remain below normal. Survey results also indicate that delivery lead times have improved.

The results shown in the accompanying tables are based on 560 responses to the UBS survey as of February 2. The surveys were mailed to AGCO, Case-IH, Deere and New Holland agricultural equipment dealers.

TABLE 1. DEALER VIEWS ON NEW EQUIPMENT PRICES

Company	Weakening	Stable	Firming
AGCO	12%	42%	46%
Case-IH	14%	43%	42%
Deere & Co.	10%	53%	37%
New Holland	11%	58%	31%
Total	**12%**	**50%**	**38%**

New Equipment Pricing

Dealers indicate that new equipment prices continue to firm, but at a slower pace. As shown in Table 1, 38% of the survey respondents indicate that the price of new ag equipment is "Firming," while 12% say that it is "Weakening." UBS analyst David Bleustein says that this indicates that dealers believe price increases will continue.

In total, dealers feel pricing increases will soften somewhat from those seen during the 3 previous semi-annual

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FBI Looking...Continued from page 1

they did sign a binding contract that must be honored," said Frank Anglin III, Case IH North America Ag vice president in an interview with *Ag Industry Watch*. "We're not at fault, and to come after CNH when it was not knowledgeable about any wrongdoing does not reflect a broad perspective."

Case IH and CNH Capital, which forced Walterman into bankruptcy in late October, claims misappropriation of funds and unpaid debt totaling $22 million. Walterman has denied any wrongdoing.

According to filings in the case, employees of Walterman Implement sought contracts for the 2006 harvest season and collected deposits. The money was supposed to have been held in escrow by CNH Capital. But those deposits, which range from $15,000 to $22,000, were never deposited with CNH Capital or any other financial institution.

Anglin said that from a broad perspective, "customers should've realized that the situation could not work economically for the dealer." Despite the immediate losses, it is possible that farmers participating in the program for some time may have come out ahead.

When *AIW* asked what controls Case would be using to keep such a situation from repeating itself, Troy Price, VP North American Agricultural Financial Services, mentioned it was an isolated incident. "We have full confidence in our normal audit process for identifying and preventing situations like this from occurring again." A Birkey's Farm Store representative also defended Case IH's audit process.

As for inferences that Case IH was to blame or let things get out of control, Anglin insisted that it's not uncommon for a dealer to place orders well beyond his assigned number. "Dealers are selling outside of their area because other dealers have not been aggressive." While the scope of the situation was unique, Anglin says that 30% of dealers sell beyond their immediate geographic area.

Titan Machinery, based in Fargo, N.D., one of Case IH's largest Midwest dealerships, is acting as the agent for Case IH and will continue operating the dealership during bankruptcy proceedings.

In a February 10 telephone inteview with *AIW*, David Meyer, Titan's president & CEO, commented that little has changed with the situation. While Titan would eventually like to purchase the dealership, no decisions will be made while the case is pending. AIW

OTHER DEALERS SAY THEY 'SAW IT COMING'

As the Walterman Implement ordeal grinds itself through the legal system, some dealers say they "saw it coming." *Ag Industry Watch* spoke with several dealers that have observed the situation even before the dealer was forced into bankruptcy last fall. The dealers spoke to us but asked not to be identified.

When *Ag Industry Watch* editors visited with dealers in Iowa last summer, months before Walterman Implement was forced into bankruptcy, it was suggested that some things weren't right with the dealership in Dike.

"I told you they were going to go belly up," one dealer says now. "Walterman had a plan that worked for awhile, but they couldn't keep it going forever. Before they started handling Case, they handled Massey Ferguson. In the early '90s, they went to Case and said 'We'd like to be your dealer and we'll order 50 combines.'

"If you think about it," says the equipment dealer, "they went from last place in the Case-IH organization to one of the biggest in North America in 15 years without making an acquisition. That's pretty amazing. They did it from the inside out, while maintaining one store."

Dealers that *Ag Industry Watch* spoke to about the combine-roll program report that such selling schemes are at best a house of cards.

With the "roll" concept, when a new combine is sold, the goal is to have 6 different owners for that piece of equipment. It would take 6 years to get through the entire process.

One of the problems with the setup, say dealers, is that Walterman didn't get enough money for the equipment up front. There is also some question about how many hours the equipment accumulated as it proceeded through the roll program. One dealer pointed out that Iowa does not have laws prohibiting tampering with the hour meters on farm equipment.

It is estimated that Walterman Implement controlled 20% market share in the state of Iowa. It is also known that the dealership sold equipment in dozens of states beyond the Midwest. This gave it significant leverage within Case-IH in terms of volume discounts.

"Dike was selling on price," says one source. "Price shoppers are not loyal shoppers. I suspect CNH was cutting the dealership some lower priced deals on combines because of volume. Also, sometimes a dealership gets in so deep, the finance company knows he can't pay off his debt so they hope 'time' will right the situation and continue to extend credit and terms. As he gets in deeper, at some point there has to be a decision to pull the plug.

"With the huge inventory they had at Dike, it's hard for the finance companies to keep track of all the equipment, and maybe machines get financed twice. There may be no clear title on the equipment. I don't know exactly what took place, but when one dealer is moving as many combines as they were, you have to suspect some things were not right."

The entire Walterman affair is already impacting ag dealerships, particularly the larger dealer organizations.

"It's definitely changing the game," says another dealer. "You're going to see the bean counters come into the stores that are highly leveraged and they're going to be watching them closely for cash flow and whatever. They know they should have caught the Walterman situation sometime ago. It's going to put strain on the multi-store again. These guys are not going to be allowed to run a sloppy business anymore."

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Dealers expect Rise...Continued from page 1

TABLE 2. DEALER VIEWS ON NEW EQUIPMENT PRICE INCREASES IN 2006

Company	0%-1%	1%-2%	2%-3%	3%-4%	4%+
AGCO	2%	2%	44%	31%	21%
Case IH	1%	6%	39%	34%	21%
Deere & Co.	1%	5%	22%	48%	24%
New Holland	1%	10%	47%	27%	15%
Total	**1%**	**6%**	**38%**	**35%**	**20%**

TABLE 3. DEALER VIEWS ON USED EQUIPMENT PRICES IN 2006

Company	Weakening	Stable	Firming
AGCO	24%	5 7%	18%
Case IH	11%	7 5%	14%
Deere & Co.	8%	71%	22%
New Holland	21%	5 7%	22%
Total	**16%**	**6 5%**	**19%**

surveys. Still, prices are expected to rise as 35% see increases ranging between 3-4% and 38% say they believe pricing will rise between 2-3%. Table 2 provides a breakdown on expected equipment price increases by manufacturer.

Dealer comments demonstrate a continuing level of frustration with the higher equipment prices: "prices continue to escalate — too much for the market," "have been through the worst price increase period," "changing prices, constantly or adding some kind of surcharge," "I don't know how much more farmers will be able to pay," "I guess they see no reason to drop prices," "this comes after 5-20% increases in last 18 months."

Many dealers recognize that higher prices are the result of rising input costs. Their comments include: "freight is a big item in the west," "even though steel has leveled in last 6 months, manufacturers are catching up," "price increases in new tech equipment — wagons, tillage, etc. have not been rolled back with steel price decreases," "steel and energy costs are driving up equipment prices," "continued inflation driven by steel prices with short lines."

Used Equipment Pricing

Dealer responses to the survey indicate that used equipment prices are firming slightly. Overall, 19% say that previously owned ag equipment is "Firming" and 65% feel that it is "Stable."

Higher prices for new equipment is impacting used equipment in a variety of ways. Some dealers indicate that it is driving up the price of previously owned machinery, while others say that low interest rates on new equipment is slowing demand and lowering the price for used whole goods.

Comments from those dealers who see higher new equipment pricing pushing up used equipment prices included: "price increases on new machinery is helping late model used sales," "they are being supported by higher prices on new," "higher new has driven up used somewhat."

Those who see low-interest rates and "cheap financing programs" on new equipment affecting used equipment pricing offered these comments: "demand has slackened — sales of used are off 16% from 2004," "manufacturers are weakening used sales with 0% financing," "some low-rate programs are hurting the used market."

Despite all of this, most dealers feel that good quality used equipment remains in demand: "dealers are buyers for desirable used equipment," "good clean equipment still has a market," "good used hard to find (no trade ins)," "good, clean low-hour equipment will sell quickly," "high-value machines are scarce," "good late models strong — older equipment weak," "nice equipment is real strong, rough equipment impossible to sell."

Still, some dealers say the used equipment market is in for rough times: "slow this year versus last," "market for used equipment is shrinking," "no demand for used equipment — prices off 30%," "used machinery is a bad commodity — no small farmers to purchase these lines of used," "used inventory is junk left over" and "there is no demand for used equipment — too many new brands." AIW

FARM MACHINERY TICKER (AS OF 2/10/2006)

Mfr.	Symbol	2/10/06 Price	1/12/06 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	$17.52	$16.78	$21.46	$14.60	12.00	1.17M	1.17 B
Alamo	ALG	$22.80	$21.78	$ 6.10	$18.04	17.01	10,200	222.23 M
Art's Way	ARTW	$ 6.31	$ 6.10	$11.50	$ 4.50	9.28	4,700	12.39 M
Caterpillar	CAT	$68.75	$62.21	$69.75	$41.31	17.02	3.68 M	46.76 B
CNH	CNH	$20.08	$18.15	$22.38	$15.79	28.69	164,500	2.69 B
Deere	DE	$73.62	$69.28	$75.93	$56.99	12.54	1.52 M	17.31 B
Gehl	GEHL	$29.37	$28.07	$34.53	$14.83	16.78	75,700	352.50 M
Kubota	KUB	$45.24	$44.55	$48.00	$24.20	11.14	33,500	11.92 B

World Ag News

Claas has increased its ownership of Renault Agriculture in line with the agreed-upon schedule when the German manufacturer paid almost $99 million for a controlling 51% share of the French tractor firm and farm machinery retailing operation. The additional 29% of shares purchased from the Renault automotive group takes the Claas holding to 80%.

The Claas-Renault Agriculture assembly plant at Le Mans, France, is reported to have increased production by 25% from the 9,000 units it produced at the time of the acquisition, largely as a result of a 22% increase in export sales. The firm has hired an additional 300 employees to fill positions in manufacturing and R&D over the past 2 years. Moreover, Claas claims a three-fold improvement in product quality and reliability.

In contrast to most European tractor markets in 2005, sales in Germany ended ahead of the year at 23,506 units, up 6.2% compared with 2004 sales. According to figures from VDMA, the German machinery manufacturers' association, John Deere matched the market trend to maintain a 21.2% market share and remain the German market leader. Fendt's second-place share slipped slightly as it failed to keep pace with the market and the SDF group's Deutz-Fahr completed the top three with a 9.7% growth in sales.

Zetor made the biggest gain, leaping 54% to 117 units as supplies improved and customer confidence was regained after the Czech manufacturer's comprehensive business and production overhaul. Claas tractor sales grew 41% as German farmers took to the re-branded Renaults.

Belarus also experienced significant improvement while the ARGO Group's McCormick and Landini brands also made progress, with sales up 17% and 15%, respectively, ahead of the market trend.

The biggest loser was Case IH, which saw sales fall by 16.8% or 400 units. CNH stablemate New Holland followed suit with a less dramatic 4.6% sales slide.

France-based Kuhn saw a 9.2% sales increase to the equivalent of $603 million in 2005, thanks in part to a contribution from the Metasa seed drill company in Brazil that Kuhn acquired during the year. Excluding Metasa's figures, sales grew by 7.7%, which compares with 8.4% sales growth achieved in 2004.

Tractor marketing personnel have been poring over 2004 vehicle registration figures released by the U.K.'s Agricultural Engineering Association (AEA), a year in arrears in line with a European Commission ruling. They show that while CNH Global maintained its leading market share overall, sales of New Holland and Case IH tractors both slipped — the former by 4.3%, the latter by 9.5% — in a market that grew a modest 3.15% over the prior year.

The ARGO Group's McCormick unit was the biggest gainer with a 17% sales gain taking it past Case IH into the number four slot for the first time, albeit with barely half the sales of third-ranked Massey Ferguson, which grew in line with the market.

JCB Landpower and Fendt saw sales up by 13% and 15%, respectively, which is more than creditable given that both (especially JCB) focus on upper horsepower sectors rather than the main volume sectors of the U.K. market. In contrast, Renault dropped more than 8% and Valtra by almost 19%, probably as a result of distribution uncertainties following their acquisition by Claas and AGCO, respectively.

Amazonen-Werke H Dreyer (Amazone), Europe's third-largest agricultural equipment maker after Kverneland and Kuhn, reported a 6% increase in sales for its fiscal year ending September 2005.

Joint managing directors of the family-owned firm, Christian Dreyer and Dr. Justus Dreyer, say exports from the German company's factories accounted for 70% of the $253 million turnover. Sales growth in Eastern Europe, where Russia has become the company's second most important export market after France, was particularly significant, growing approximately 10%.

Last fall, Amazone established its own sales and support operation near Moscow to reflect the status of the Russian market where large cultivators and seed drills are the company's principal products.

In response to growing demand for such implements, Amazone has added 2 new production areas to its BBG-Amazone manufacturing operation near Leipzig in eastern Germany as part of a $12 million investment program.

Crop sprayer component production has also been increased at the plant, in part due to a partnership established last year with Amazone's fertilizer spreader and spraying equipment importer in Brazil. Stara is now assembling Amazone sprayers using locally fabricated chassis frames.

An auction of assets of the Dunor Potato Group is scheduled for this month in the Netherlands following the collapse of the Dutch-Norwegian joint venture. Dunor was established in March 2002 to combine the potato machinery interests of Kverneland, which owned a third of the company, and of Agrimac Holdings, which owned two-thirds.

The business had a complete range of equipment for seedbed preparation, harvesting and conveying potatoes using the familiar European brand names Underhaug, Amac and Climax.

The European potato equipment market, which is dominated by the German company Grimme, with sales in 2004 worth $126 million, is littered with casualties, including Netagco, the Dutch group that brought together a number of independent companies, and Scottish manufacturer Reekie.

Year-end ag equipment sales in South Africa last year were down 11% from 2004, according to the South African Agricultural Machinery Assn. While sales were expected to be lower due to corn growers' intentions to plant significantly less this season because of the fall in prices last year, machinery levels remained better than expected. AIW

Despite 3.3% Sales Increase, AGCO's 2005 Profits Slip

AGCO Corp. earned a substantially lower $31.6 million during the 2005 calendar year, despite a 3.3% increase in sales to $5.44 billion. The firm earned a wider $158.8 million during 2004 on lower revenue of $5.27 billion.

The Decatur, Ga., ag equipment maker incurred a loss of $63.8 million during the fourth quarter on a 9.7% decline in sales to $1.38 billion. During the 2004 final quarterly period, AGCO earned $50.7 million on sales of $1.53 billion.

The firm attributed the lower fourth quarter sales in 2005 to the impact of weaker market conditions in Western Europe and South America.

Its North American income from operations in the fourth quarter fell $9.9 million due to higher costs from the impact of the weak dollar on products produced primarily in Brazil, higher warranty costs, and increased marketing and engineering expenses related to new initiatives.

"In North America, while revenues remained flat, AGCO reported an operating loss partially due to strength in the Brazilian real vs. the U.S. dollar," says Andrew Obin, Merrill Lynch analyst.

"Although revenues in South America were better than expected, the market continued to remain weak with retail sales declining by 24% and 58% for tractors and combines, respectively."

"Our focus in the fourth quarter was on generating cash and reducing inventory levels," says Martin Richenhagen, AGCO president & CEO.

"Production levels in the fourth quarter of 2005 were approximately 30% lower than the prior year which allowed us to significantly reduce inventories from third quarter levels. Margin pressures from lower production and other factors along with softer market conditions in Western Europe and South America negatively impacted our fourth quarter operating results," he says.

The significant decline in industry demand in South America was the principal cause of the firm's operating income shortfall in 2005, according to the CEO.

"Our retail sales performance in 2005 was a positive sign that our products and core brands are gaining acceptance worldwide. For 2006, our goals are to improve margins and asset returns through the achievement of our cost reduction and inventory management initiatives."

AGCO says that North American industry unit retail sales of tractors for 2005 remained relatively flat compared with a year-ago, due to a decline in the compact tractor segment that was offset by increases in the utility and high horsepower tractor segments.

Industry unit retail sales of combines for the full year of 2005 were approximately 1% higher than the prior year. AIW

SLOWER SALES IN '06

AGCO's sales for 2006 are expected to be slightly below 2005 due to lower industry demand, planned dealer inventory reductions and currency translation, partially offset by improved pricing.

Despite the expected decline in sales, AGCO is targeting an improvement in its results in 2006 through increased operating margins and lower interest costs. In addition to its goal to improve earnings, AGCO is also targeting improvements in working capital utilization in 2006.

AGCO expects to lower its seasonal increases in dealer inventories throughout 2006 by leveling production and dealer deliveries compared to 2005. These actions are expected to lower sales and profits in the first half of 2006 compared to 2005.

"Through growth and productivity initiatives, we have set a target to improve annual earnings by up to 10% in 2006 and by 10-15% annually thereafter," the firm says.

CNH Ag Equipment Sales Slip 2%

Sales of Case IH and New Holland ag equipment drifted 2% lower in the fourth quarter of '05 compared to the same period a year earlier. Total sales were $1.8 billion for the quarter.

North American sales of CNH farm machinery were up 4% in the quarter.

During the period, CNH's production of tractors and combines was approximately 1% lower than retail unit sales in the quarter. Compared with 2004's fourth quarter, CNH reports that material costs, including steel and plastics, continued to increase, though at a more moderate pace.

CNH expects that for the full year, worldwide industry unit retail sales of agricultural tractors will be slightly lower than in 2005 in every major market, but should remain at among the highest levels of retail unit sales in the past 5 years. Industry unit retail sales of under-40 hp tractors in North America are expected to be down 5-10% from the high levels of 2005. Sales of over-40 hp tractors in North America are expected to remain at about the same level as in 2005. AIW

Terradox Takes On Deere Over GPS System

Terradox Corp., Calgary, Alberta, is challenging Deere & Co. over its alleged infringement of Terradox's copyright on its SiteWinder GPS guidance system.

According to Terradox, Deere's recently introduced Greenstar-2 GPS system features on-screen presentations that are virtually identical to Terradox's SiteWinder system, John Deere has caused considerable confusion among existing and potential SiteWinder users.

Gary Vanderploeg, president of Terradox, says "We are finding that customers in the market for GPS guidance systems are being profoundly confused by the similarities between the Greenstar-2 and our SiteWinder. This confusion in the market place is too much to ignore, and we have issued a legal challenge to John Deere to resolve this issue."

"The color scheme and screen layout of the SiteWinder is no accident. It appears that John Deere has lifted these attributes from us for inclusion in its GreenStar-2 system, without Terradox's permission". AIW

McCormick, Landini Combine to Form ARGO Tractors

ARGO S.p.a. of San Martino in Rio, Italy, announced on January 31 that it reorganized its ag equipment operations, creating ARGO Tractors to manufacture and market McCormick and Landini brand products throughout the world.

This new division of ARGO S.p.a., the holding company of the group, will control the manufacturing of tractors and components in France, Italy, and the U.K., as well as marketing them through a worldwide Landini-McCormick dealer network.

ARGO S.p.a. was established and acquired Landini S.p.a. in 1994. Valpadana S.p.a. compact tractors and SEP S.r.l. industrial mowers were acquired during the second half of the 1990s. In 2000, following the merger of Case and New Holland (CNH), antitrust intervention ordered CNH to sell certain factories. ARGO acquired the plants of:

- ✔ Doncaster in the U.K. where Case-IH Magnum tractors are assembled.
- ✔ St. Diziers in France, which manufactured the transmissions and powertrains for the tractors assembled in Doncaster.
- ✔ Breganze (VI) in Italy where combine harvesters are made.

These acquisitions, which were formally concluded in early 2001, more than doubled the manufacturing capabilities of the company. ARGO also acquired the McCormick tractor brand in 2001. The company was subsequently established under the business name of McCormick Tractors International, Ltd., and now distributes product through a network of more than 300 dealers.

ARGO Tractors S.p.a. will be controlled by ARGO S.p.a. and is responsible for manufacturing its farm tractor brands, as well as marketing through the Landini–McCormick dealer networks.

Laverda S.p.a. will oversee the combine harvester equipment operations of FellaWerke Gmbh and Gallignani S.p.a. and will constitute the Agricultural Machinery division.

The Argo Industrial Group has global sales in excess of $950 million and more than 3,200 employees. The Argo brands of farm machinery include: Fella, Gallignani, Landini, Laverda, McCormick, Pegoraro, Sep, and Valpadana. AIW

Farm Equipment Industry Notes & Newsmakers

Montana Tractors, Springdale, Ark., began assembling three new utility tractor models rated between 23-70 hp in January. The company says that it plans to assemble about 2,600 units during 2006. The new models include the T7074, T2334 and 60 Series.

Montana says parts for the 70-model and 23-model are sourced from a TYM plant in South Korea, while parts for the 60 Series-model are sourced from UTB of Romania.

The company said it would build 700 units of the T7074, or Montana 70 Series, which will be powered by 70-hp John Deere diesel engines. These are Montana's largest farm tractors, weighing 6,600 lb.

It also plans to produce 1,000 units of the 30 Series sub-compact farm tractors. The farm tractors will be powered by Mitsubishi diesel engines, with HST transmissions that deliver 23-27 hp. The firm said it would assemble 900 units of 60 Series model farm utility-type tractors that will generate horsepower in the range of 47, 52 and 68.

Farmtrac North America, Tarboro, N.C., will begin sub-assembling its largest farm tractor in the U.S. and plans to build 150 of the vehicles during 2006.

The firm said the 7115-model, an addition to the 7 Series line-up of farm tractors, would be powered by four-cylinder SAME Deutz-Fahr diesel engines that generate 114 hp and 100 PTO hp. These tractors will weigh 8,500 lb. and have a lift capacity of 13,670 lb.

Cub Cadet, Cleveland, Ohio, will sell several products from its line of premium lawn tractors through The Home Depot stores nationwide.

The Cub Cadet lawn tractors, including models from the Series 1000, RZT and Home Maintenance lines, will be available at The Home Depot starting at $1,699. Kohler Engines will power the vehicles.

The Home Depot will be the only home improvement retailer to offer Cub Cadet lawn tractors in stores nationwide.

Mahindra & Mahindra, Ltd., the Indian manufacturer of farm tractors and utility-type vehicles, reports that its profit during the third quarter of fiscal 2005-06 ended Dec. 31, surged by 75% on a 25% rise in revenue as demand for its vehicles continued to expand. M&M says it earned $530 million in the period from a 25% higher turnover of $503 million. A year ago, it earned $303 million.

During the fiscal 9-month period, the firm said it generated sharply wider profits of $122 million on higher revenue of $1.4 billion. This compares to a year-ago gain of $820 million from narrower turnover of $1.1 billion. M&M reports that it sold 63,196 units of farm tractors and other vehicles during the third quarter of fiscal 2005-06, a 14% expansion from last year. Farm tractor sales rose to 24,018 units in the most recent quarter, a 26% increase.

Kubota Corp., headquartered in Osaka, Japan, reported that its earnings during the 9 months of fiscal 2005-06, ended Dec. 31, fell 4.8% despite a 11.6% rise in sales due to higher income taxes. Meanwhile, the firm's outstanding long-term debt skyrocketed in the period by 37.5%.

Kubota says it earned a narrower $553.1 million during the period from higher revenue of $6.27 billion. A year ago, it netted $5.28 billion.

Sales of its farm tractors during the 9 months "maintained steady growth" in the North American market. Diesel engine sales in North America "also grew sharply."

U.S. Figures Down, Canada Up, Though USDA Report Brings New Concerns

North American large tractor retail sales fell 17% year-to-year in January, the steepest decline seen since November 2002, reports Robert McCarthy, analyst for Baird U.S. Equity Research. "However, inventory levels suggest that farm equipment manufacturers managed dealer inventory levels appropriately via industrywide production cuts," he says.

North American retail sales of row-crop tractors fell 18% vs. last January. McCarthy cautions that the month is of minor importance on a seasonal basis, contributing just 7% of annual sales over the past 5 years.

Overall, he says January's modest sales were consistent with the major ag equipment manufacturers' expectations as new, higher-priced Tier III-compliant machines were introduced to customers. "We expect sales in the more seasonally important months of March and April to better reveal the trajectory of equipment sales for the year," says McCarthy.

On a positive side, Canada's figures were substantially better in all categories with the exception of combines vs. a year ago. Meanwhile, North American retail sales of 40-100 hp tractors increased 4% in January vs. a year ago.

USDA Net Income Forecast

A look at the USDA's initial 2006 net cash income forecast in early February reinforces concerns that 2006 farm income may decline materially from the record levels reached during the past 2 years, says McCarthy.

The USDA projects 2006 net cash income to fall $18 billion to $64.8 billion (down 23%). The significant forecast decline in net cash income is due to a 1.5% expected drop in the value of U.S. agricultural production, compounded by a 3.7% rise in production expenses (namely interest payments and higher energy costs). Total farm receipts are expected to fall 2.7% to $249.7 billion, which McCarthy says is consistent with Deere's $246 billion forecast. AIW

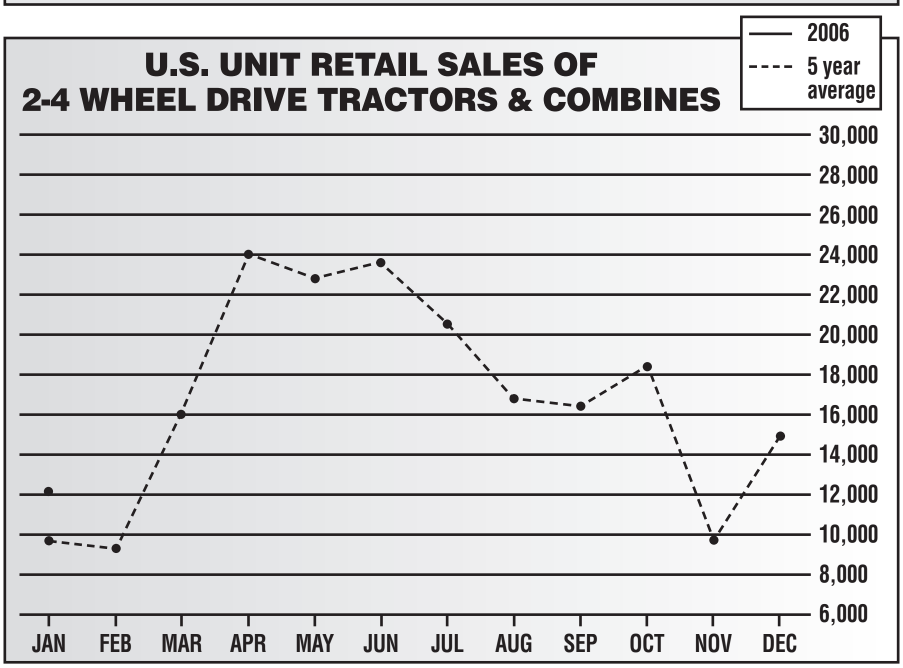
JANUARY U.S. UNIT RETAIL SALES

Equipment	January 2006	January 2005	Percent Change	YTD 2006	YTD 2005	Percent Change	December 2005 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	5,238	5,325	-1.6	5,238	5,325	-1.6	56,958
40-100 HP	4,613	4,528	+1.9	4,613	4,528	+1.9	30,102
100 HP Plus	1,698	2,103	-19.3	1,698	2,103	-19.3	6,529
Total-2WD	11,549	11,956	-3.4	11,549	11,956	-3.4	93,589
Total-4WD	222	266	-16.5	222	266	-16.5	870
Total Tractors	11,771	12,222	-3.7	11,771	12,222	-3.7	94,459
SP Combines	336	355	-5.4	336	355	-5.4	1,209

JANUARY CANADIAN UNIT RETAIL SALES

Equipment	January 2006	January 2005	Percent Change	YTD 2006	YTD 2005	Percent Change	December 2005 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	277	241	+14.9	277	241	+14.9	3,593
40-100 HP	391	302	+29.5	391	302	+29.5	2,574
100 HP Plus	158	147	+7.5	158	147	+7.5	1,424
Total-2WD	826	690	+19.7	826	690	+19.7	7,591
Total-4WD	29	26	+11.5	29	26	+11.5	185
Total Tractors	855	716	+19.4	855	716	+19.4	7,776
SP Combines	35	62	-43.5	35	62	-43.5	412

U.S. UNIT RETAIL SALES OF 2-4 WHEEL DRIVE TRACTORS & COMBINES



—Assn. of Equipment Manufacturers

Case IH Dealers Hear Clear Message on Competitive Lines

During an interview in his Racine, Wis., office in October, Frank Anglin III, Case IH Vice President-North American Agricultural Business, described his approach to dealers carrying competitive lines to *Ag Industry Watch*.

"Rather than setting forth an edict, I like to think we're earning the business back," he said, citing the Farmall tractor addition, improvements in MXM quality and other gains in parts availability, supply chain issues and responsiveness to dealers.

He also added that "Once we're where we need to be, and we are improving rapidly, we can take a more forceful stance with dealers."

Apparently, that day has arrived. Several Case IH dealers reported to *Ag Industry Watch* that the message they received during their mid-January Case IH dealer business meeting in Chicago was to rid the non-Case IH product lines from their stores. From those present that *Ag Industry Watch* spoke with, it seems that new Case IH Ag Business Worldwide President Mario Ferla provoked strong feelings from dealers with words expressing that he *expects* dealers' business today, and one mentioned that the words "non-negotiable" were uttered. A short list of independent manufacturers was cited during the meeting, including McCormick and Kinze.

Ag Industry Watch was not invited to the meeting and could not report the language directly, but the buzz was strong enough that Anglin felt compelled to address the matter during his luncheon speech at the Midwest Equipment Dealers Assn. meeting in Lake Geneva, Wis, on January 19.

Stating that he wanted to clarify to dealers that the point was about earning more of their business, he added that "We understand that, on planters for instance, we might offer only 60% of the total configurations that a dealer may need to be successful. No, we're not telling you that you can't carry Kinze anymore. We have not lost that perspective." Less than a week later, he made a full-dealer conference call to lend further clarification to matter.

> ***"Several dealers reported to Ag Industry Watch that the message they received during their mid-January dealer meeting was to rid the non-Case IH product lines from their stores..."***

In other comments about the importance of dealer profitability, he noted that dealers must begin to strike a balance between an emphasis on market share and margin. From *Ag Industry Watch*'s perspective, this isn't likely to occur as long as volume bonuses are based on market share figures.

Other conversations with those present turned up other concerns that dealers had following the meeting:

- that certain segments could be "left in the cold." Case IH has made it clear it wants to "dominate the cash crop segment," raising concerns over how well other segments, such as the 40-hp and under tractor, would be served and supported.
- a slide showing the future Case IH dealer-principal would own 7-10 stores left single-store operations feeling unimportant and/or vulnerable.
- a statement was made about re-entering with company-owned locations, although subsequent clarification by Anglin insisted that the context of the comment was only in a situation where an open point existed and a current dealer was unable to fill it.
- When Ferla was asked during the Case IH "Big Red Roundup" dealer meeting in Phoenix in early February about his expectations of dealers, he avoided commenting on what he said was "a touchy subject." He said that dealers would need to figure out the complex business landscape for themselves and how best to achieve synergies in the market. AIW