

SANUWAVE Health, Inc.  
Form S-1/A  
February 13, 2018

As filed with the Securities and Exchange Commission on February 12, 2018  
Registration No. 333-213774

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

AMENDMENT NO. 3 TO  
FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

SANUWAVE Health, Inc.  
(Exact name of registrant as specified in its charter)

Nevada	3841	20-1176000
(State or other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

3360 Martin Farm Road, Suite 100  
Suwanee, Georgia 30024  
(770) 419-7525

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Kevin A. Richardson, II  
Acting Chief Executive Officer  
SANUWAVE Health, Inc.  
3360 Martin Farm Road, Suite 100  
Suwanee, Georgia 30024  
(770) 419-7525

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies of all communications, including communications sent to agent for service, should be sent to:

John C. Ethridge, Jr., Esq.  
Smith, Gambrell & Russell, LLP  
Promenade II, Suite 3100  
1230 Peachtree Street, N.E.  
Atlanta, Georgia 30309  
(404) 815-3500

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

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If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.



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 definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered (1)	Amount to be registered	Proposed maximum offering price per share (4)	Proposed maximum aggregate offering price	Amount of registration fee (5)
Common Stock, \$0.001 par value	28,541,183	\$0.179000	\$5,108,871.76	\$592.12
Common Stock, \$0.001 par value (2)	30,356,668	\$0.179000	\$5,433,843.57	\$629.78
Common Stock, \$0.001 par value (3)	2,830,000	\$0.179000	\$506,570.00	\$58.71
Total (5)	61,727,851		\$11,049,285.33	\$1,280.61

(1) Pursuant to Rule 416, the securities being registered hereunder include such indeterminate number of additional shares of common stock as may be issued after the date hereof as a result of stock splits, stock dividends or similar transactions.

(2) Represents shares of common stock issuable upon the exercise of warrants issued to the selling shareholders.

(3) Represents shares of common stock issuable upon the exercise of warrants issued to the placement agent.

(4) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933, as amended, based on the per share average of the high and low reported prices for the common stock on the Over the Counter Bulletin Board as of February 2, 2018.

(5) Pursuant to the registration statement on Form S-1, SEC File No. 333-208676 which was declared effective on February 16, 2016, the registrant registered 23,545,114 shares of common stock for resale and \$4,400,000 of units and common stock underlying warrants and in connection therewith paid a registration fee of \$632.76, of which \$2,418,900 of such units and common stock underlying warrants remained registered and unsold. Pursuant to Rule 457(p), the registration fee associated with the unsold securities is offset from the registration fee associated with this registration statement and such unsold securities from the previous registration statement are deemed deregistered. Accordingly, the registration fee due in connection with this filing is offset by \$433.26 (based on \$243.58 for the \$2,418,900 of securities unsold by the Registrant plus \$189.68 for the \$1,883,609 of securities unsold by selling shareholders thereunder) for such deregistered securities.

Pursuant to Rule 429 under the Securities Act, the prospectus contained in this Registration Statement is a combined prospectus and also relates to an aggregate of (a) up to 28,660,004 shares of common stock issuable upon the exercise of warrants that were registered and sold to certain selling stockholders described herein, 2,051,501 shares of common stock issuable upon the exercise of warrants that were registered and issued to certain placement agents described herein and 23,545,114 shares of common stock that were registered for resale (the "2016 Previously Registered Securities") under the registrant's Registration Statement on Form S-1 (File No. 333-208676), which was declared effective on February 17, 2016 (the "2016 Prior Registration Statement"); and (b) up to 1,561,348 shares of common stock issuable upon the exercise of warrants that were registered (together with the 2016 Previously Registered Securities, the "Previously Registered Securities") under the registrant's Registration Statement on Form S-1 (File No. 333-195263), which was declared effective on May 6, 2014 (together with the 2016 Prior Registration Statement, the "Prior Registration Statements"). Upon effectiveness, this Registration Statement constitutes a post-effective amendment to each of the Prior Registration Statements, which post-effective amendments shall hereafter become effective concurrently with the effectiveness of this Registration Statement in accordance with Section 8(c) of the Securities Act. If any Previously Registered Securities under the Prior Registration Statements are offered and sold before the effective date of this Registration Statement, the amount of the Previously Registered Securities so sold will not be included in the prospectus hereunder. The filing fee payable in connection with each of the Prior Registration Statements was previously paid at the time of its initial filing. The breakdown of each of the total share counts in this paragraph corresponding to each Prior Registration Statement has been provided in the three additional tables immediately following the Selling Stockholder's Table in the section entitled "Selling Stockholders" of the prospectus contained in this Registration Statement.



The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

#### EXPLANATORY NOTE

Pursuant to Rule 429 under the Securities Act, the prospectus contained in this Registration Statement is a combined prospectus and also relates to an aggregate of (a) up to 28,660,004 shares of common stock issuable upon the exercise of warrants that were registered and sold to certain selling stockholders described herein, 2,051,501 shares of common stock issuable upon the exercise of warrants that were registered and issued to certain placement agents described herein and 23,545,114 shares of common stock that were registered for resale (the "2016 Previously Registered Securities") under the registrant's Registration Statement on Form S-1 (File No. 333-208676), which was declared effective on February 17, 2016 (the "2016 Prior Registration Statement"); and (b) up to 1,561,348 shares of common stock issuable upon the exercise of warrants that were registered (together with the 2016 Previously Registered Securities, the "Previously Registered Securities") under the registrant's Registration Statement on Form S-1 (File No. 333-195263), which was declared effective on May 6, 2014 (together with the 2016 Prior Registration Statement, the "Prior Registration Statements"). Upon effectiveness, this Registration Statement constitutes a post-effective amendment to each of the Prior Registration Statements, which post-effective amendments shall hereafter become effective concurrently with the effectiveness of this Registration Statement in accordance with Section 8(c) of the Securities Act. If any Previously Registered Securities under the Prior Registration Statements are offered and sold before the effective date of this Registration Statement, the amount of the Previously Registered Securities so sold will not be included in the prospectus hereunder. The filing fee payable in connection with each of the Prior Registration Statements was previously paid at the time of its initial filing.

This Registration Statement is also being filed to register 28,541,183 additional shares of the registrant's common stock for resale by selling shareholders, 30,356,668 additional shares of the registrant's common stock issuable upon the exercise of warrants that were sold to selling shareholders, and 2,830,000 additional shares of the registrant's common stock issuable upon the exercise of warrants that were issued to the placement agent.

The breakdown of each of the total share counts in this Explanatory Note corresponding to each Prior Registration Statement has been provided in the three additional tables immediately following the Selling Stockholder's Table in the section entitled "Selling Stockholders" of the prospectus contained in this Registration Statement.





The information in this prospectus is not complete and may be changed. Neither the Company, nor our selling stockholders, may sell the securities described herein until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell the securities and we are not soliciting offers to buy these securities in any state or jurisdiction where the offer or sale is not permitted.

Preliminary Prospectus, Subject to Completion, Dated February 12, 2018.

117,545,818 Shares  
(Common Stock, \$0.001 par value)

This prospectus relates to the issuance or sale of up to 117,545,818 shares of our Common Stock, consisting of (1) sale by the selling stockholders listed in the prospectus of 52,086,297 outstanding shares of Common Stock by such selling stockholders, (2) issuance of 60,578,020 shares of Common Stock upon the exercise of certain warrants held by such selling stockholders and (3) issuance of 4,881,501 shares of Common Stock upon exercise of certain warrants held by certain placement agents for the private placements described herein. The shares offered by this prospectus may be sold by the selling stockholders, from time to time, in the over-the-counter market or other national securities exchange or automated interdealer quotation system on which our Common Stock is then listed or quoted, through negotiated transactions or otherwise at market prices prevailing at the time of sale or at negotiated prices, or otherwise in compliance with the “Plan of Distribution” contained herein.

We will receive none of the proceeds from the sale of the shares by the selling stockholders. We may receive proceeds upon the exercise of outstanding warrants for shares of Common Stock covered by this prospectus if the warrants are exercised for cash. We will bear all expenses of registration incurred in connection with this offering, but all selling and other expenses incurred by the selling stockholders will be borne by them.

We agreed to pay each Placement Agent described herein a fee of (i) ten percent (10%) of the aggregate purchase price of the securities sold in the private placement and (ii) warrants to purchase ten percent (10%) of the number of shares sold in the private placement. The Placement Agents, collectively, were initially issued warrants to purchase 5,831,667 shares of Common Stock at an exercise price of \$0.08 per share, of which warrants relating to 950,166 shares have previously been exercised and such shares were issued pursuant to an effective registration statement and are not being offered hereunder. The registration statement of which this prospectus is a part also covers the shares of Common Stock issuable from time to time upon the exercise of the placement agent’s warrants. Certain placement agent’s warrants and the underlying shares of Common Stock are subject to compliance with the requirements of the Financial Industry Regulatory Authority, Inc., or FINRA.

See “Plan of Distribution” beginning on page 22 of this prospectus for more information regarding the above compensation payable to the placement agent.

Our Common Stock is quoted on the OTC Bulletin Board under the symbol SNWV.OB. The high and low bid prices for shares of our Common Stock on February 2, 2018, were \$0.175 and \$0.183 per share, respectively, based upon bids that represent prices quoted by broker-dealers on the OTC Bulletin Board. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not represent actual transactions.

Investing in our securities involves a high degree of risk. See “Risk Factors” beginning on page 6 of this prospectus for a discussion of information that should be considered in connection with an investment in our securities.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A

CRIMINAL OFFENSE.

Brokers or dealers effecting transactions in these securities should confirm that the securities are registered under the applicable state law or that an exemption from registration is available.

The date of this prospectus is \_\_\_\_\_, 2018



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## PROSPECTUS SUMMARY

This summary highlights selected information contained in greater detail elsewhere in this prospectus. This summary may not contain all of the information that you should consider before investing in our Common Stock. You should carefully read the entire prospectus, including “Risk Factors” and the consolidated financial statements, before making an investment decision.

Unless the context requires otherwise, the words “SANUWAVE,” “we,” “Company,” “us,” and “our” in this prospectus refer to SANUWAVE Health, Inc. and our subsidiaries.

### About This Prospectus

You may rely only on the information contained in this prospectus or that we have referred you to. We have not authorized anyone to provide you with different information. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the securities offered by this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus nor any sale made in connection with this prospectus shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information contained by reference to this prospectus is correct as of any time after its date.

### Our Company

We are a shock wave technology company using a patented system of noninvasive, high-energy, acoustic shock waves for regenerative medicine and other applications. Our initial focus is regenerative medicine – utilizing noninvasive, acoustic shock waves to produce a biological response resulting in the body healing itself through the repair and regeneration of tissue, musculoskeletal, and vascular structures. Our lead regenerative product in the United States is the dermaPACE® device, used for treating diabetic foot ulcers, is cleared in the United States by the Food and Drug Administration.

Our portfolio of healthcare products and product candidates activate biologic signaling and angiogenic responses, including new vascularization and microcirculatory improvement, helping to restore the body’s normal healing processes and regeneration. We intend to apply our Pulsed Acoustic Cellular Expression (PACE®) technology in wound healing, orthopedic, plastic/cosmetic and cardiac conditions. We will begin marketing our dermaPACE System for sale in the United States in 2018. We generate our revenues from sales of the European Conformity Marking (CE Mark) devices and accessories in Europe, Canada, Asia and Asia/Pacific.

We believe we have demonstrated that our patented technology is safe and effective in stimulating healing in chronic conditions of the foot and the elbow through our United States FDA Class III PMA approved OssaTron® device, and in the stimulation of bone and chronic tendonitis regeneration in the musculoskeletal environment through the utilization of our OssaTron, Evotron®, and orthoPACE® devices in Europe and Asia. Our lead product candidate for the global wound care market, dermaPACE, has received the CE Mark allowing for commercial use on acute and chronic defects of the skin and subcutaneous soft tissue.

### Product Overview; Strategy

We are focused on developing our Pulsed Acoustic Cellular Expression (PACE) technology to activate healing in:

wound conditions, including diabetic foot ulcers, venous and arterial ulcers, pressure sores, burns and other skin eruption conditions;

orthopedic applications, such as eliminating chronic pain in joints from trauma, arthritis or tendons/ligaments inflammation, speeding the healing of fractures (including nonunion or delayed-union conditions), improving bone density in osteoporosis, fusing bones in the extremities and spine, and other potential sports injury applications;

plastic/cosmetic applications such as cellulite smoothing, graft and transplant acceptance, skin tightening, scarring and other potential aesthetic uses; and

cardiac applications for removing plaque due to atherosclerosis improving heart muscle performance.

In addition to healthcare uses, our high-energy, acoustic pressure shock waves, due to their powerful pressure gradients and localized cavitation effects, may have applications in secondary and tertiary oil exploitation, for cleaning industrial waters, for sterilizing food liquids and finally for maintenance of industrial installations by disrupting biofilms formation. Our business approach will be through licensing and/or partnership opportunities.

For more information about the Company, see the section entitled “Business” in this prospectus.





## Risks Associated with Our Business

Our business is subject to numerous risks, as more fully described in the section entitled “Risk Factors” immediately following this prospectus summary. We have a limited operating history and have incurred substantial losses since inception. We expect to continue to incur losses for the foreseeable future and are unable to predict the extent of future losses or when we will become profitable, if at all. Our products are in various stages of research and development, with only the dermaPACE System having received regulatory approval in the United States. Our ability to generate revenue in the future will depend heavily on the successful development and commercialization of our product candidates. Even if we succeed in developing and commercializing one or more of our product candidates, we may never generate sufficient sales revenue to achieve and sustain profitability. We may be unable to maintain and protect our intellectual property, which could have a substantial impact on our ability to generate revenue. Our products are subject to regulation by governmental authorities in the United States and in other countries. Failure to comply with such regulations or to receive the necessary approvals or clearances for our product and product candidates may have a material adverse effect on our business.

## Trading Market

Our Common Stock is quoted on the OTCQB under the symbol “SNWV.”

## Corporate Information

We were incorporated in the State of Nevada on May 6, 2004, under the name Rub Music Enterprises, Inc. (“RME”). SANUWAVE, Inc. was incorporated in the State of Delaware on July 21, 2005. In December 2006, Rub Music Enterprises, Inc. ceased operations and became a shell corporation.

On September 25, 2009, RME and RME Delaware Merger Sub, Inc., a Nevada corporation and wholly-owned subsidiary of RME (the “Merger Sub”) entered into a reverse merger agreement with SANUWAVE, Inc. Pursuant to the Merger Agreement, the Merger Sub merged with and into SANUWAVE, Inc., with SANUWAVE, Inc. as the surviving entity (the “Merger”) and a wholly-owned subsidiary of the Company.

In November 2009, we changed our name to SANUWAVE Health, Inc. Our principal executive offices are located at 3360 Martin Farm Road, Suite 100, Suwanee, Georgia 30024, and our telephone number is (770) 419-7525. Our website address is [www.sanuwave.com](http://www.sanuwave.com). The information on our website is not a part of this prospectus.

## About this Offering

### Securities being offered by the Selling Stockholders

Total Common Stock being offered	117,545,818 shares
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- Outstanding Common Stock by the selling shareholders	52,086,297 shares
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- Common Stock issuable upon exercise of certain warrants	60,578,020 shares
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- Common Stock  
issuable upon exercise of 4,881,501 shares  
placement agent warrants

Use of Proceeds                      We will not receive any proceeds from the sale of shares of Common Stock by selling stockholders in this offering, except cash for the warrant exercise, which if all such warrants are exercised, would be approximately \$5,164,003. Proceeds, if any, received from the exercise of such warrants, would be used for working capital purposes.

Risk Factors                              See "Risk Factors" beginning on page 3 of this prospectus for a discussion of factors you should carefully consider before deciding to invest in our Common Stock.

OTCQB                                      SNWV



## Summary Financial Information

The summary financial information set forth below is derived from and should be read in conjunction with our consolidated financial statements, including the notes thereto, appearing at the end of this prospectus.

	Nine Months Ended		Year Ended	
	September 30,	September 30,	December 31,	December 31,
	2017	2016	2016	2015

## Consolidated Statement of Operations Data

Revenue	\$422,199	\$728,382	\$1,376,063	\$965,501
Net loss	\$(2,760,794)	\$(3,986,509)	\$(6,439,040)	\$(4,810,285)
Weighted average shares outstanding	138,711,527	97,798,261	107,619,869	63,025,202
Net loss per share - basic and diluted	\$(0.02)	\$(0.04)	\$(0.06)	\$(0.08)

## Consolidated Balance Sheet Data (at end of period)

Working deficit	\$(9,096,580)	\$(355,723)	\$(7,002,324)	\$(851,805)
Total assets	\$565,310	\$1,135,428	\$1,004,870	\$958,361
Total liabilities	\$9,588,573	\$6,749,089	\$7,916,470	\$6,836,197
Total stockholders' deficit	\$(9,023,263)	\$(5,613,661)	\$(6,911,600)	\$(5,877,836)

## RISK FACTORS

Investing in our Common Stock involves a high degree of risk. You should carefully consider the following risk factors and all other information contained in this prospectus, including the consolidated financial statements and the related notes appearing at the end of this prospectus, before purchasing our Common Stock. If any of the following risks actually occur, they may materially harm our business and our financial condition and results of operations. In any such event, the market price of our Common Stock could decline and you could lose all or part of your investment.

## Risks Related to our Business

We generate only minimal revenues and we continue to experience operating losses.

Since our inception, we have experienced recurring losses from operations. As of September 30, 2017, we had an accumulated deficit of \$102,194,242. We generate only minimal revenues and we continue to experience operating losses. We anticipate that our operating losses will continue and we will continue to incur losses in future periods unless and until we are successful in significantly increasing our revenues and cash flow. There are no assurances that we will be able to increase our revenues and cash flow to a level which supports profitable operations and provides sufficient funds to pay our obligations.

We will be required to raise additional funds to finance the commercialization of the dermaPACE; we may not be able to do so, and/or the terms of any financings may not be advantageous to us.

The continuation of our business is dependent upon raising additional capital. At September 30, 2017, we had cash and cash equivalents totaling \$40,226. For the nine months ended September 30, 2017 and 2016, the net cash used by operating activities was \$944,831 and \$2,708,973, respectively. For the years ended December 31, 2016 and 2015, the net cash used by operating activities was \$3,199,453 and \$3,473,456, respectively. We need additional financial support for the commercialization of the dermaPACE, which may include: raising additional capital through the issuance of common or preferred stock, securities convertible into common stock, or secured or unsecured debt, an investment by a strategic partner in a specific clinical indication or market opportunity; or selling all or a portion of our assets. These possibilities, to the extent available, may be on terms that result in significant dilution to our existing shareholders. We will require additional capital to support development and continue our operations. Such additional capital may not be available on terms that are favorable to us, if at all. If we are unable to raise such additional funds, we may be forced to cease operations.

We have a history of losses and we may continue to incur losses and may not achieve or maintain profitability.

For the nine months ended September 30, 2017, we had a net loss of \$2,760,794 and used \$944,831 of cash in operations. For the year ended December 31, 2016, we had a net loss of \$6,439,040 and used \$3,199,453 of cash in operations. As of September 30, 2017, we had an accumulated deficit of \$102,194,242 and a total stockholders' deficit of \$9,023,263. As a result of our significant research, clinical development, regulatory compliance and general and administrative expenses, we expect to incur losses as we incur expenses related to commercialization of the dermaPACE System and research and development of the non-medical uses of the technology. Even if we succeed in developing and commercializing one or more of our product candidates, we may not be able to generate sufficient revenues and we may never achieve or be able to maintain profitability.



If we are unable to successfully raise additional capital, our future clinical trials and product development could be limited and our long term viability may be threatened; however, if we do raise additional capital, your percentage ownership as a shareholder could decrease and constraints could be placed on the operations of our business.

We have experienced negative operating cash flows since our inception and have funded our operations primarily from proceeds received from sales of our capital stock, the issuance of convertible promissory notes, the issuance of notes payable to related parties, the issuance of promissory notes, the sale of our veterinary division in June 2009 and product sales. We will seek to obtain additional funds in the future through equity or debt financings, or strategic alliances with third parties, either alone or in combination with equity financings. These financings could result in substantial dilution to the holders of our common stock, or require contractual or other restrictions on our operations or on alternatives that may be available to us. If we raise additional funds by issuing debt securities, these debt securities could impose significant restrictions on our operations. Any such required financing may not be available in amounts or on terms acceptable to us, and the failure to procure such required financing could have a material adverse effect on our business, financial condition and results of operations, or threaten our ability to continue as a going concern.

A variety of factors could impact our need to raise additional capital, the timing of any required financings and the amount of such financings. Factors that may cause our future capital requirements to be greater than anticipated or could accelerate our need for funds include, without limitation:

unforeseen developments during our clinical trials;

delays in timing of receipt of required regulatory approvals;

unanticipated expenditures in research and development or manufacturing activities;

delayed market acceptance of any approved product;

unanticipated expenditures in the acquisition and defense of intellectual property rights;

the failure to develop strategic alliances for the marketing of some of our product candidates;

additional inventory builds to adequately support the launch of new products;

unforeseen changes in healthcare reimbursement for procedures using any of our approved products;

inability to train a sufficient number of physicians to create a demand for any of our approved products;

lack of financial resources to adequately support our operations;

difficulties in maintaining commercial scale manufacturing capacity and capability;

unforeseen problems with our third party manufacturers, service providers or specialty suppliers of certain raw materials;

unanticipated difficulties in operating in international markets;

unanticipated financial resources needed to respond to technological changes and increased competition;

unforeseen problems in attracting and retaining qualified personnel;

the impact of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act (collectively the PPACA) on our operations:

the impact of changes in the U.S. health care law and policy on our operations:

enactment of new legislation or administrative regulations;

the application to our business of new court decisions and regulatory interpretations;

claims that might be brought in excess of our insurance coverage;

the failure to comply with regulatory guidelines; and

the uncertainty in industry demand and patient wellness behavior.

In addition, although we have no presently binding commitments or understandings to do so, we are seeking to expand our operations and product line through acquisitions or joint ventures. Any acquisition or joint venture would likely increase our capital requirements.

We are no longer able to rely on Prides Capital Partners, LLC and NightWatch Capital LLC for financial support, and as a result must rely on third parties for financing.

In the past, we have relied on Prides Capital Partners, LLC (together with its affiliates, "Prides Capital") and NightWatch Capital LLC (together with its affiliates, "NightWatch Capital") for the ongoing financial support necessary to operate our business. As of December 31, 2015, both Prides Capital and NightWatch Capital have liquidated, and they will not provide us with any additional financing or financial support in the future. To the extent we must obtain financing to support our cash needs, we will be entirely reliant on unrelated third parties. We do not have any lines of credit or other financing arrangements in place with banks or other financial institutions. We will require additional financing in the future, and additional financing may not be available at times, in amounts or on terms acceptable to us, or at all, which would have a material adverse effect on our business.





We have entered into a line of credit with a related party.

On December 29, 2017, we entered into a line of credit agreement with A. Michael Stolarski, a member of the board of directors of the Company. The agreement established a line of credit in the amount of \$370,000 with an annualized interest rate of 6%. The line of credit may be called for payment upon demand.

Our product candidates may not be developed or commercialized successfully.

Our product candidates are based on a technology that has not been used previously in the manner we propose and must compete with more established treatments currently accepted as the standards of care. Market acceptance of our products will largely depend on our ability to demonstrate their relative safety, efficacy, cost-effectiveness and ease of use.

We are subject to the risks that:

the FDA or a foreign regulatory authority finds our product candidates ineffective or unsafe;

we do not receive necessary regulatory approvals;

the regulatory review and approval process may take much longer than anticipated, requiring additional time, effort and expense to respond to regulatory comments and/or directives;

the reimbursement for our products is difficult to obtain or is too low, which can hinder the introduction and acceptance of our products in the market;

we are unable to get our product candidates in commercial quantities at reasonable costs; and

the patient and physician community does not accept our product candidates.

In addition, our product development program may be curtailed, redirected, eliminated or delayed at any time for many reasons, including:

adverse or ambiguous results;

undesirable side effects that delay or extend the trials;

the inability to locate, recruit, qualify and retain a sufficient number of clinical investigators or patients for our trials; and

regulatory delays or other regulatory actions.

We cannot predict whether we will successfully develop and commercialize our product candidates. If we fail to do so, we will not be able to generate substantial revenues, if any.

The medical device/therapeutic product industries are highly competitive and subject to rapid technological change. If our competitors are better able to develop and market products that are safer and more effective than any products we may develop, our commercial opportunities will be reduced or eliminated.

Our success depends, in part, upon our ability to maintain a competitive position in the development of technologies and products. We face competition from established medical device, pharmaceutical and biotechnology companies, as well as from academic institutions, government agencies, and private and public research institutions in the United States and abroad. Many of our principal competitors have significantly greater financial resources and expertise than we do in research and development, manufacturing, pre-clinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved products. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements, or mergers with, or acquisitions by, large and established companies, or through the development of novel products and technologies.

The industry in which we operate has undergone, and we expect it to continue to undergo, rapid and significant technological change, and we expect competition to intensify as technological advances are made. Our competitors may develop and commercialize pharmaceutical, biotechnology or medical devices that are safer or more effective, have fewer side effects or are less expensive than any products that we may develop. We also compete with our competitors in recruiting and retaining qualified scientific and management personnel, in establishing clinical trial sites and patient registration for clinical trials, and in acquiring technologies complementary to our programs or advantageous to our business.

If our products and product candidates do not gain market acceptance among physicians, patients and the medical community, we may be unable to generate significant revenues, if any.

Even if we obtain regulatory approval for our product candidates, they may not gain market acceptance among physicians, healthcare payers, patients and the medical community. Market acceptance will depend on our ability to demonstrate the benefits of our approved products in terms of safety, efficacy, convenience, ease of administration and cost effectiveness. In addition, we believe market acceptance depends on the effectiveness of our marketing strategy, the pricing of our approved products and the reimbursement policies of government and third party payers. Physicians may not utilize our approved products for a variety of reasons and patients may determine for any reason that our product is not useful to them. If any of our approved products fail to achieve market acceptance, our ability to generate revenues will be limited.



We may not successfully establish and maintain licensing and/or partnership arrangements for our technology for non-medical uses, which could adversely affect our ability to develop and commercialize our non-medical technology.

Our strategy for the development, testing, manufacturing and commercialization of our technology for non-medical uses generally relies on establishing and maintaining collaborations with licensors and other third parties. We may not be able to obtain, maintain or expand these or other licenses and collaborations or establish additional licensing and collaboration arrangements necessary to develop and commercialize our product candidates. Even if we are able to obtain, maintain or establish licensing or collaboration arrangements, these arrangements may not be on favorable terms and may contain provisions that will restrict our ability to develop, test and market our product candidates. Any failure to obtain, maintain or establish licensing or collaboration arrangements on favorable terms could adversely affect our business prospects, financial condition or ability to develop and commercialize our technology for non-medical uses.

We expect to rely at least in part on third party collaborators to perform a number of activities relating to the development and commercialization of our technology for non-medical uses, including possibly the design and manufacture of product materials, potentially the obtaining of regulatory approvals and the marketing and distribution of any successfully developed products. Our collaborators also may have or acquire rights to control aspects of our product development programs. As a result, we may not be able to conduct these programs in the manner or on the time schedule we may contemplate. In addition, if any of these collaborators withdraw support for our programs or product candidates or otherwise impair their development, our business could be negatively affected. To the extent we undertake any of these activities internally, our expenses may increase.

We currently purchase most of our product component materials from single suppliers. If we are unable to obtain product component materials and other products from our suppliers that we depend on for our operations, or find suitable replacement suppliers, our ability to deliver our products to market will likely be impeded, which could have a material adverse effect on us.

We depend on suppliers for product component materials and other components that are subject to stringent regulatory requirements. We currently purchase most of our product component materials from single suppliers and the loss of any of these suppliers could result in a disruption in our production. If this were to occur, it may be difficult to arrange a replacement supplier because certain of these materials may only be available from one or a limited number of sources. Our suppliers may encounter problems during manufacturing due to a variety of reasons, including failure to follow specific protocols and procedures, failure to comply with applicable regulations, equipment malfunction and environmental factors. In addition, establishing additional or replacement suppliers for these materials may take a substantial period of time, as certain of these suppliers must be approved by regulatory authorities.

If we are unable to secure, on a timely basis, sufficient quantities of the materials we depend on to manufacture our products, if we encounter delays or contractual or other difficulties in our relationships with these suppliers, or if we cannot find replacement suppliers at an acceptable cost, then the manufacturing of our products may be disrupted, which could increase our costs and have a material adverse effect on our business and results of operations.

The loss of our key management would likely hinder our ability to execute our business plan.

As a small company with seven employees, our success depends on the continuing contributions of our management team and qualified personnel. Our success depends in large part on our ability to attract and retain highly qualified personnel. We face intense competition in our hiring efforts from other pharmaceutical, biotechnology and medical device companies, as well as from universities and nonprofit research organizations, and we may have to pay higher salaries to attract and retain qualified personnel. The loss of one or more of these individuals, or our inability to attract additional qualified personnel, could substantially impair our ability to implement our business plan.

We face an inherent risk of liability in the event that the use or misuse of our product candidates results in personal injury or death.

The use of our product candidates in clinical trials and the sale of any approved products may expose us to product liability claims which could result in financial loss. Our clinical and commercial product liability insurance coverage may not be sufficient to cover claims that may be made against us. In addition, we may not be able to maintain insurance coverage at a reasonable cost, or in sufficient amounts or scope, to protect us against losses. Any claims against us, regardless of their merit, could severely harm our financial condition, strain our management team and other resources, and adversely impact or eliminate the prospects for commercialization of the product candidate, or sale of the product, which is the subject of any such claim. Although we do not promote any off-label use, off-label uses of products are common and the FDA does not regulate a physician's choice of treatment. Off-label uses of any product for which we obtain approval may subject us to additional liability.



We are subject to a variety of risks due to our operations outside of the U.S.

Our foreign operations are, and will continue to be, subject to a number of risks including:

failure to obtain or maintain the same degree of protection against infringement of our intellectual property rights as we have in the U.S.;

multiple foreign regulatory requirements that are subject to change and that could impact our ability to manufacture and sell our products;

changes in tariffs, trade barriers, and regulatory requirements;

protectionist laws and business practices that favor local competitors, which could slow our growth in foreign markets;

local or national regulations that make it difficult or impractical to market or use our products;

U.S. relations with the governments of the foreign countries in which we operate;

inability or regulatory limitations on our ability to move goods across borders;

the risks associated with foreign currency exchange rate fluctuations;

difficulty in establishing, staffing, and managing foreign operations;

the expense of establishing facilities and operations in new foreign markets;

building and maintaining an organization capable of supporting geographically dispersed operations;

anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act, and other local laws prohibiting corrupt payments to governmental officials;

economic weakness, including inflation, or political instability in particular foreign economies and markets; and

business interruptions due to natural disasters, outbreak of disease, and other events beyond our control.

On June 23, 2016, the United Kingdom (the “UK”) held a referendum in which voters approved an exit from the European Union (the “EU”), commonly referred to as “Brexit.” On March 29, 2017, the UK formally notified the EU of its intention to withdraw pursuant to Article 50 of the Lisbon Treaty. The withdrawal of the UK from the EU will take effect either on the effective date of the withdrawal agreement or, in the absence of agreement, two years after the UK provided its notice of withdrawal. As a result of the referendum, the British government has begun negotiating the terms of the UK’s future relationship with the EU, including the terms of trade between the UK and the EU. Although it is unknown what those terms will be, it is possible that there will be greater restrictions on imports and exports between the UK and EU countries, increased regulatory complexities, and economic and political uncertainty in the region.

In addition, the U.S. federal government has made recent proposals and explicit statements about its intention to make changes to U.S. trade policy, including signing an executive order to withdraw from the negotiating process of the



Trans-Pacific Partnership, renegotiate the terms of NAFTA, and imposing border taxes on imports into the U.S. Any legislation enacted that impacts the relationship between the U.S. and Mexico and/or the continuity of NAFTA could adversely affect our foreign prospects. If enacted, any legislation taken by the U.S. federal government that restricts trade, such as tariffs, trade barriers, and other protectionist or retaliatory measures taken by governments in Europe, Asia, and other countries, could adversely impact our ability to sell products and services in our foreign markets.

Furthermore, an increase in the value of the U.S. dollar relative to foreign currencies could make our products less competitive and/or less affordable in foreign markets.

If we are unable to meet and manage these risks, our foreign operations may not be successful, which would limit the growth of our business and could have a material adverse effect on our business, financial condition, result of operations, or cash flows.

Changes in our effective tax rate may impact our results of operations.

We are subject to taxes in the U.S. and other jurisdictions. Tax rates in these jurisdictions may be subject to significant change due to economic and/or political conditions. A number of other factors may also impact our future effective tax rate including:

the jurisdictions in which profits are determined to be earned and taxed;

the resolution of issues arising from tax audits with various tax authorities;

changes in valuation of our deferred tax assets and liabilities;

increases in expenses not deductible for tax purposes, including write-offs of acquired intangibles and impairment of goodwill in connection with acquisitions;

changes in availability of tax credits, tax holidays, and tax deductions;

changes in share-based compensation; and

changes in tax laws or the interpretation of such tax laws and changes in generally accepted accounting principles.

On December 22, 2017, the U.S. federal government enacted the Tax Cuts and Jobs Act (“2017 Tax Act”). The 2017 Tax Act significantly changed the existing U.S. corporate income tax laws by, among other things, lowering the corporate tax rate, implementing a territorial tax system, and imposing a one-time deemed repatriation toll tax on cumulative undistributed foreign earnings, for which we have not previously provided U.S. taxes. Given the timing, scope, and magnitude of the changes enacted by the 2017 Tax Act, along with on-going implementation efforts, guidance, and other developments from U.S. regulatory and standard-setting bodies, the completion of the accounting for certain tax items may be subject to material change. Any significant changes to our future effective tax rate, including final resolution of provisional amounts relating to effects of the 2017 Tax Act, may result in a material adverse effect on our business, financial condition, results of operations, or cash flows.



## Regulatory Risks

The results of our clinical trials may be insufficient to obtain regulatory approval for our product candidates.

We will only receive regulatory approval to commercialize a product candidate if we can demonstrate to the satisfaction of the FDA or the applicable foreign regulatory agency, in well designed and conducted clinical trials, that the product candidate is safe and effective. If we are unable to demonstrate that a product candidate is safe and effective in advanced clinical trials involving large numbers of patients, we will be unable to submit the necessary application to receive regulatory approval to commercialize the product candidate. We face risks that:

the product candidate may not prove to be safe or effective;

the product candidate's benefits may not outweigh its risks;

the results from advanced clinical trials may not confirm the positive results from pre-clinical studies and early clinical trials;

the FDA or comparable foreign regulatory authorities may interpret data from pre-clinical and clinical testing in different ways than us; and

the FDA or other regulatory agencies may require additional or expanded trials and data.

We are subject to extensive governmental regulation, including the requirement of FDA approval or clearance, before our product candidates may be marketed.

The process of obtaining FDA approval is lengthy, expensive and uncertain, and we cannot be sure that our product candidates will be approved in a timely fashion, or at all. If the FDA does not approve or clear our product candidates in a timely fashion, or at all, our business and financial condition would likely be adversely affected. The FDA has determined that our technology and product candidates constitute "medical devices", and are thus subject to review by the Center for Devices and Radiological Health. However, we cannot be sure that the FDA will not select a different center and/or legal authority for one or more of our other product candidates, in which case applicable governmental review requirements could vary in some respects and be more lengthy and costly.

Both before and after approval or clearance of our product candidates, we, our product candidates, our suppliers and our contract manufacturers are subject to extensive regulation by governmental authorities in the United States and other countries. Failure to comply with applicable requirements could result in, among other things, any of the following actions:

warning letters;

fines and other monetary penalties;

unanticipated expenditures;

delays in FDA approval and clearance, or FDA refusal to approve or clear a product candidate;

product recall or seizure;

interruption of manufacturing or clinical trials;

operating restrictions;

injunctions; and

criminal prosecutions.

In addition to the approval and clearance requirements, numerous other regulatory requirements apply, both before and after approval or clearance, to us, our products and product candidates, and our suppliers and contract manufacturers. These include requirements related to the following:

testing;

manufacturing;

quality control;

labeling;

advertising;

promotion;

distribution;

export;

reporting to the FDA certain adverse experiences associated with the use of the products; and

obtaining additional approvals or clearances for certain modifications to the products or their labeling or claims.

We are also subject to inspection by the FDA to determine our compliance with regulatory requirements, as are our suppliers and contract manufacturers, and we cannot be sure that the FDA will not identify compliance issues that may disrupt production or distribution, or require substantial resources to correct.

The FDA's requirements may change and additional government regulations may be promulgated that could affect us, our product candidates, and our suppliers and contract manufacturers. We cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative action. There can be no assurance that we will not be required to incur significant costs to comply with such laws and regulations in the future, or that such laws or regulations will not have a material adverse effect upon our business.



Patients may discontinue their participation in our clinical studies, which may negatively impact the results of these studies and extend the timeline for completion of our development programs.

Clinical trials for our product candidates require sufficient patient enrollment. We may not be able to enroll a sufficient number of patients in a timely or cost-effective manner. Patients enrolled in our clinical studies may discontinue their participation at any time during the study as a result of a number of factors, including withdrawing their consent or experiencing adverse clinical events, which may or may not be judged to be related to our product candidates under evaluation. If a large number of patients in a study discontinue their participation in the study, the results from that study may not be positive or may not support a filing for regulatory approval of the product candidate.

In addition, the time required to complete clinical trials is dependent upon, among other factors, the rate of patient enrollment. Patient enrollment is a function of many factors, including the following:

the size of the patient population;

the nature of the clinical protocol requirements;

the availability of other treatments or marketed therapies (whether approved or experimental);

our ability to recruit and manage clinical centers and associated trials;

the proximity of patients to clinical sites; and

the patient eligibility criteria for the study.

We rely on third parties to conduct our clinical trials, and their failure to perform their obligations in a timely or competent manner may delay development and commercialization of our device.

We engage a clinical research organization (CRO) and other third party vendors to assist in the conduct of our clinical trials. There are numerous sources that are capable of providing these services. However, we may face delays outside of our control if these parties do not perform their obligations in a timely or competent fashion or if we are forced to change service providers. Any third party that we hire to conduct clinical trials may also provide services to our competitors, which could compromise the performance of their obligations to us. If we experience significant delays in the progress of our clinical trials, the commercial prospects for the product could be harmed and our ability to generate product revenues would be delayed or prevented. Any failure of the CRO and other third party vendors to successfully accomplish clinical trial monitoring, data collection, safety monitoring and data management and the other services they provide for us in a timely manner and in compliance with regulatory requirements could have a material adverse effect on our ability to complete clinical development of our product and obtain regulatory approval. Problems with the timeliness or quality of the work of the CRO may lead us to seek to terminate the relationship and use an alternate service provider. However, making such changes may be costly and may delay our clinical trials, and contractual restrictions may make such a change difficult or impossible. Additionally, it may be difficult to find a replacement organization that can conduct our trials in an acceptable manner and at an acceptable cost.

We may be required to suspend or discontinue clinical trials due to unexpected side effects or other safety risks that could preclude approval of our product candidates.

Our clinical trials may be suspended at any time for a number of reasons. For example, we may voluntarily suspend or terminate our clinical trials if at any time we believe that they present an unacceptable risk to the clinical trial patients. In addition, the FDA or other regulatory agencies may order the temporary or permanent discontinuation of our clinical trials at any time if they believe that the clinical trials are not being conducted in accordance with applicable regulatory requirements or that they present an unacceptable safety risk to the clinical trial patients.

Administering any product candidate to humans may produce undesirable side effects. These side effects could interrupt, delay or halt clinical trials of our product candidates and could result in the FDA or other regulatory authorities denying further development or approval of our product candidates for any or all targeted indications. Ultimately, some or all of our product candidates may prove to be unsafe for human use. Moreover, we could be subject to significant liability if any patient suffers, or appears to suffer, adverse health effects as a result of participating in our clinical trials.

Regulatory approval of our product candidates may be withdrawn at any time.

After regulatory approval has been obtained for medical device products, the product and the manufacturer are subject to continual review, including the review of adverse experiences and clinical results that are reported after our products are made available to patients, and there can be no assurance that such approval will not be withdrawn or restricted. Regulators may also subject approvals to restrictions or conditions, or impose post-approval obligations on the holders of these approvals, and the regulatory status of such products may be jeopardized if such obligations are not fulfilled. If post-approval studies are required, such studies may involve significant time and expense.





The manufacturing facilities we use to make any of our products will also be subject to periodic review and inspection by the FDA or other regulatory authorities, as applicable. The discovery of any new or previously unknown problems with the product or facility may result in restrictions on the product or facility, including withdrawal of the product from the market. We will continue to be subject to the FDA or other regulatory authority requirements, as applicable, governing the labeling, packaging, storage, advertising, promotion, recordkeeping, and submission of safety and other post-market information for all of our product candidates, even those that the FDA or other regulatory authority, as applicable, had approved. If we fail to comply with applicable continuing regulatory requirements, we may be subject to fines, suspension or withdrawal of regulatory approval, product recalls and seizures, operating restrictions and other adverse consequences.

Federal regulatory reforms may adversely affect our ability to sell our products profitably.

From time to time, legislation is drafted and introduced in the United States Congress that could significantly change the statutory provisions governing the clearance or approval, manufacture and marketing of a medical device. In addition, FDA regulations and guidance are often revised or reinterpreted by the agency in ways that may significantly affect our business and our products. It is impossible to predict whether legislative changes will be enacted or FDA regulations, guidance or interpretations changed, and what the impact of such changes on us, if any, may be.

Failure to obtain regulatory approval in foreign jurisdictions will prevent us from marketing our products abroad.

International sales of our products and any of our product candidates that we commercialize are subject to the regulatory requirements of each country in which the products are sold. Accordingly, the introduction of our product candidates in markets outside the United States will be subject to regulatory approvals in those jurisdictions. The regulatory review process varies from country to country. Many countries impose product standards, packaging and labeling requirements, and import restrictions on medical devices. In addition, each country has its own tariff regulations, duties and tax requirements. The approval by foreign government authorities is unpredictable and uncertain, and can be expensive. Our ability to market our approved products could be substantially limited due to delays in receipt of, or failure to receive, the necessary approvals or clearances.

Prior to marketing our products in any country outside the United States, we must obtain marketing approval in that country. Approval and other regulatory requirements vary by jurisdiction and differ from the United States' requirements. We may be required to perform additional pre-clinical or clinical studies even if FDA approval has been obtained.

If we fail to obtain an adequate level of reimbursement for our approved products by third party payers, there may be no commercially viable markets for our approved products or the markets may be much smaller than expected.

The availability and levels of reimbursement by governmental and other third party payers affect the market for our approved products. The efficacy, safety, performance and cost-effectiveness of our product and product candidates, and of any competing products, will determine the availability and level of reimbursement. Reimbursement and healthcare payment systems in international markets vary significantly by country, and include both government sponsored healthcare and private insurance. To obtain reimbursement or pricing approval in some countries, we may be required to produce clinical data, which may involve one or more clinical trials, that compares the cost-effectiveness of our approved products to other available therapies. We may not obtain international reimbursement or pricing approvals in a timely manner, if at all. Our failure to receive international reimbursement or pricing approvals would negatively impact market acceptance of our approved products in the international markets in which those approvals are sought.

We believe that, in the future, reimbursement for any of our products or product candidates may be subject to increased restrictions both in the United States and in international markets. Future legislation, regulation or reimbursement policies of third party payers may adversely affect the demand for our products currently under development and limit our ability to sell our products on a profitable basis. In addition, third party payers continually attempt to contain or reduce the costs of healthcare by challenging the prices charged for healthcare products and services. If reimbursement for our approved products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, market acceptance of our approved products would be impaired and our future revenues, if any, would be adversely affected.



Healthcare policy changes may have a material adverse effect on us.

In March 2010, the former U.S. President signed into law the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act (collectively, the PPACA), which substantially changes the way healthcare is financed by both governmental and private insurers, encourages improvements in the quality of healthcare items and services, and significantly impacts the biotechnology and medical device industries. The PPACA includes, among other things, the following measures:

a 2.3% excise tax on any entity that manufactures or imports medical devices offered for sale in the United States, with limited exceptions, began in 2013 but a two year moratorium has been issued for sales during 2016 and 2017 and new legislation was passed in January 2018 such that the tax will be delayed until January 1, 2020;

a new Patient-Centered Outcomes Research Institute to oversee, identify priorities and conduct comparative clinical effectiveness research;

payment system reforms including a national pilot program on payment bundling to encourage hospitals, physicians and other providers to improve the coordination, quality and efficiency of certain healthcare services through bundled payment models;

an independent payment advisory board that will submit recommendations to reduce Medicare spending if projected Medicare spending exceeds a specified growth rate; and

a new abbreviated pathway for the licensure of biological products that are demonstrated to be biosimilar or interchangeable with a licensed biological product.

Certain of these provisions are still being implemented, and could meaningfully change the way healthcare is delivered and financed, and could have a material adverse impact on numerous aspects of our business. In the future, there may continue to be additional proposals relating to the reform of the United States healthcare system. Certain of these proposals could limit the prices we are able to charge for our products or the amounts of reimbursement available for our products, and could limit the acceptance and availability of our products. The adoption of some or all of these proposals could have a material adverse effect on our business, results of operations and financial condition.

Additionally, initiatives sponsored by government agencies, legislative bodies and the private sector to limit the growth of healthcare costs, including price regulation and competitive pricing, are ongoing in markets where we do business. We could experience an adverse impact on our operating results due to increased pricing pressure in the United States and in other markets. Governments, hospitals and other third party payors could reduce the amount of approved reimbursement for our products or deny coverage altogether. Reductions in reimbursement levels or coverage or other cost-containment measures could adversely affect our future operating results.

If we fail to comply with the United States Federal Anti-Kickback Statute and similar state laws, we could be subject to criminal and civil penalties and exclusion from the Medicare and Medicaid programs, which would have a material adverse effect on our business and results of operations.

A provision of the Social Security Act, commonly referred to as the Federal Anti-Kickback Statute, prohibits the offer, payment, solicitation or receipt of any form of remuneration in return for referring, ordering, leasing, purchasing or arranging for, or recommending the ordering, purchasing or leasing of, items or services payable by Medicare, Medicaid or any other Federal healthcare program. The Federal Anti-Kickback Statute is very broad in scope and

many of its provisions have not been uniformly or definitively interpreted by existing case law or regulations. In addition, most of the states have adopted laws similar to the Federal Anti-Kickback Statute, and some of these laws are even broader than the Federal Anti-Kickback Statute in that their prohibitions are not limited to items or services paid for by Federal healthcare programs, but instead apply regardless of the source of payment. Violations of the Federal Anti-Kickback Statute may result in substantial civil or criminal penalties and exclusion from participation in Federal healthcare programs.

All of our financial relationships with healthcare providers and others who provide products or services to Federal healthcare program beneficiaries are potentially governed by the Federal Anti-Kickback Statute and similar state laws. We believe our operations are in compliance with the Federal Anti-Kickback Statute and similar state laws. However, we cannot be certain that we will not be subject to investigations or litigation alleging violations of these laws, which could be time-consuming and costly to us and could divert management's attention from operating our business, which in turn could have a material adverse effect on our business. In addition, if our arrangements were found to violate the Federal Anti-Kickback Statute or similar state laws, the consequences of such violations would likely have a material adverse effect on our business, results of operations and financial condition.

Product quality or performance issues may be discovered through ongoing regulation by the FDA and by comparable international agencies, as well as through our internal standard quality process.

The medical device industry is subject to substantial regulation by the FDA and by comparable international agencies. In addition to requiring clearance or approval to market new or improved devices, we are subject to ongoing regulation as a device manufacturer. Governmental regulations cover many aspects of our operations, including quality systems, marketing and device reporting. As a result, we continually collect and analyze information about our product quality and product performance through field observations, customer feedback and other quality metrics. If we fail to comply with applicable regulations or if post market safety issues arise, we could be subject to enforcement sanctions, our promotional practices may be restricted, and our marketed products could be subject to recall or otherwise impacted. Each of these potential actions could result in a material adverse effect on our business, operating results and financial condition.



The use of hazardous materials in our operations may subject us to environmental claims or liability.

We conduct research and development and manufacturing operations in our facility. Our research and development process may, at times, involve the controlled use of hazardous materials and chemicals. We will conduct experiments that are common in the medical device industry, in which we may use small quantities of chemicals, including those that are corrosive, toxic and flammable. The risk of accidental injury or contamination from these materials cannot be eliminated. We do not maintain a separate insurance policy for these types of risks. In the event of an accident or environmental discharge or contamination, we may be held liable for any resulting damages, and any liability could exceed our resources. We are subject to Federal, state and local laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. The cost of compliance with these laws and regulations could be significant.

#### Risks Related to Intellectual Property

The protection of our intellectual property is critical to our success and any failure on our part to adequately protect those rights could materially adversely affect our business.

Our commercial success depends to a significant degree on our ability to:

obtain and/or maintain protection for our product candidates under the patent laws of the United States and other countries;

defend and enforce our patents once obtained;

obtain and/or maintain appropriate licenses to patents, patent applications or other proprietary rights held by others with respect to our technology, both in the United States and other countries;

maintain trade secrets and other intellectual property rights relating to our product candidates; and

operate without infringing upon the patents, trademarks, copyrights and proprietary rights of third parties.

The degree of intellectual property protection for our technology is uncertain, and only limited intellectual property protection may be available for our product candidates, which may prevent us from gaining or keeping any competitive advantage against our competitors. Although we believe the patents that we own or license, and the patent applications that we own or license, generally provide us a competitive advantage, the patent positions of biotechnology, biopharmaceutical and medical device companies are generally highly uncertain, involve complex legal and factual questions and have been the subject of much litigation. Neither the United States Patent & Trademark Office nor the courts have a consistent policy regarding the breadth of claims allowed or the degree of protection afforded under many biotechnology patents. Even if issued, patents may be challenged, narrowed, invalidated or circumvented, which could limit our ability to stop competitors from marketing similar products or limit the length of term of patent protection we may have for our products. Further, a court or other government agency could interpret our patents in a way such that the patents do not adequately cover our current or future product candidates. Changes in either patent laws or in interpretations of patent laws in the United States and other countries may diminish the value of our intellectual property or narrow the scope of our patent protection.

We also rely upon trade secrets and unpatented proprietary know-how and continuing technological innovation in developing our products, especially where we do not believe patent protection is appropriate or obtainable. We seek to protect this intellectual property, in part, by generally requiring our employees, consultants, and current and

prospective business partners to enter into confidentiality agreements in connection with their employment, consulting or advisory relationships with us, where appropriate. We also require our employees, consultants, researchers and advisors who we expect to work on our products and product candidates to agree to disclose and assign to us all inventions conceived during the work day, developed using our property or which relate to our business. We may lack the financial or other resources to successfully monitor and detect, or to enforce our rights in respect of, infringement of our rights or breaches of these confidentiality agreements. In the case of any such undetected or unchallenged infringements or breaches, these confidentiality agreements may not provide us with meaningful protection of our trade secrets and unpatented proprietary know-how or adequate remedies. In addition, others may independently develop technology that is similar or equivalent to our trade secrets or know-how. If any of our trade secrets, unpatented know-how or other confidential or proprietary information is divulged to third parties, including our competitors, our competitive position in the marketplace could be harmed and our ability to sell our products successfully could be severely compromised. Enforcing a claim that a party illegally obtained and is using trade secrets that have been licensed to us or that we own is also difficult, expensive and time consuming, and the outcome is unpredictable. In addition, courts outside the United States may be less willing to protect trade secrets. Costly and time consuming litigation could be necessary to seek to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could have a material adverse effect on our business. Moreover, some of our academic institution licensees, evaluators, collaborators and scientific advisors have rights to publish data and information to which we have rights. If we cannot maintain the confidentiality of our technologies and other confidential information in connection with our collaborations, our ability to protect our proprietary information or obtain patent protection in the future may be impaired, which could have a material adverse effect on our business.





In particular, we cannot assure you that:

we or the owners or other inventors of the patents that we own or that have been licensed to us, or that may be issued or licensed to us in the future, were the first to file patent applications or to invent the subject matter claimed in patent applications relating to the technologies upon which we rely;

others will not independently develop similar or alternative technologies or duplicate any of our technologies;

any of our patent applications will result in issued patents;

the patents and the patent applications that we own or that have been licensed to us, or that may be issued or licensed to us in the future, will provide a basis for commercially viable products or will provide us with any competitive advantages, or will not be challenged by third parties;

the patents and the patent applications that have been licensed to us are valid and enforceable;

we will develop additional proprietary technologies that are patentable;

we will be successful in enforcing the patents that we own or license and any patents that may be issued or licensed to us in the future against third parties;

the patents of third parties will not have an adverse effect on our ability to do business; or

our trade secrets and proprietary rights will remain confidential.

Accordingly, we may fail to secure meaningful patent protection relating to any of our existing or future product candidates or discoveries despite the expenditure of considerable resources. Further, there may be widespread patent infringement in countries in which we may seek patent protection, including countries in Europe and Asia, which may instigate expensive and time consuming litigation which could adversely affect the scope of our patent protection. In addition, others may attempt to commercialize products similar to our product candidates in countries where we do not have adequate patent protection. Failure to obtain adequate patent protection for our product candidates, or the failure by particular countries to enforce patent laws or allow prosecution for alleged patent infringement, may impair our ability to be competitive. The availability of infringing products in markets where we have patent protection, or the availability of competing products in markets where we do not have adequate patent protection, could erode the market for our product candidates, negatively impact the prices we can charge for our product candidates, and harm our reputation if infringing or competing products are manufactured to inferior standards.

Patent applications owned by or licensed to us may not result in issued patents, and our competitors may commercialize the discoveries we attempt to patent.

The patent applications that we own and that have been licensed to us, and any future patent applications that we may own or that may be licensed to us, may not result in the issuance of any patents. The standards that the United States Patent & Trademark Office and foreign patent offices use to grant patents are not always applied predictably or uniformly and can change. Consequently, we cannot be certain as to the type and scope of patent claims to which we may in the future be entitled under our license agreements or that may be issued to us in the future. These applications may not be sufficient to meet the statutory requirements for patentability and, therefore, may not result in enforceable patents covering the product candidates we want to commercialize. Further, patent applications in the United States that are not filed in other countries may not be published or generally are not published until at least 18 months after

they are first filed, and patent applications in certain foreign countries generally are not published until many months after they are filed. Scientific and patent publication often occurs long after the date of the scientific developments disclosed in those publications. As a result, we cannot be certain that we will be the first creator of inventions covered by our patents or applications, or the first to file such patent applications. As a result, our issued patents and our patent applications could become subject to challenge by third parties that created such inventions or filed patent applications before us or our licensors, resulting in, among other things, interference proceedings in the United States Patent & Trademark Office to determine priority of discovery or invention. Interference proceedings, if resolved adversely to us, could result in the loss of or significant limitations on patent protection for our products or technologies. Even in the absence of interference proceedings, patent applications now pending or in the future filed by third parties may prevail over the patent applications that have been or may be owned by or licensed to us or that we may file in the future, or may result in patents that issue alongside patents issued to us or our licensors or that may be issued or licensed to us in the future, leading to uncertainty over the scope of the patents owned by or licensed to us or that may in the future be owned by us or our freedom to practice the claimed inventions.



Our patents may not be valid or enforceable, and may be challenged by third parties.

We cannot assure you that the patents that have been issued or licensed to us would be held valid by a court or administrative body or that we would be able to successfully enforce our patents against infringers, including our competitors. The issuance of a patent is not conclusive as to its validity or enforceability, and the validity and enforceability of a patent is susceptible to challenge on numerous legal grounds, including the possibility of reexamination proceedings brought by third parties in the United States Patent & Trademark Office against issued patents and similar validity challenges under foreign patent laws. Challenges raised in patent infringement litigation brought by or against us may result in determinations that patents that have been issued or licensed to us or any patents that may be issued to us or our licensors in the future are invalid, unenforceable or otherwise subject to limitations. In the event of any such determinations, third parties may be able to use the discoveries or technologies claimed in these patents without paying licensing fees or royalties to us, which could significantly diminish the value of our intellectual property and our competitive advantage. Even if our patents are held to be enforceable, others may be able to design around our patents or develop products similar to our products that are not within the scope of any of our patents.

In addition, enforcing the patents that we own or license and any patents that may be issued to us in the future against third parties may require significant expenditures regardless of the outcome of such efforts. Our inability to enforce our patents against infringers and competitors may impair our ability to be competitive and could have a material adverse effect on our business.

Issued patents and patent licenses may not provide us with any competitive advantage or provide meaningful protection against competitors.

The discoveries or technologies covered by issued patents we own or license may not have any value or provide us with a competitive advantage, and many of these discoveries or technologies may not be applicable to our product candidates at all. We have devoted limited resources to identifying competing technologies that may have a competitive advantage relative to ours, especially those competing technologies that are not perceived as infringing on our intellectual property rights. In addition, the standards that courts use to interpret and enforce patent rights are not always applied predictably or uniformly and can change, particularly as new technologies develop. Consequently, we cannot be certain as to how much protection, if any, will be afforded by these patents with respect to our products if we, our licensees or our licensors attempt to enforce these patent rights and those rights are challenged in court.

The existence of third party patent applications and patents could significantly limit our ability to obtain meaningful patent protection. If patents containing competitive or conflicting claims are issued to third parties, we may be enjoined from pursuing research, development or commercialization of product candidates or may be required to obtain licenses, if available, to these patents or to develop or obtain alternative technology. If another party controls patents or patent applications covering our product candidates, we may not be able to obtain the rights we need to those patents or patent applications in order to commercialize our product candidates or we may be required to pay royalties, which could be substantial, to obtain licenses to use those patents or patent applications.

In addition, issued patents may not provide commercially meaningful protection against competitors. Other parties may seek and/or be able to duplicate, design around or independently develop products having effects similar or identical to our patented product candidates that are not within the scope of our patents.

Limitations on patent protection in some countries outside the United States, and the differences in what constitutes patentable subject matter in these countries, may limit the protection we have under patents issued outside of the United States. We do not have patent protection for our product candidates in a number of our target markets. The failure to obtain adequate patent protection for our product candidates in any country would impair our ability to be

commercially competitive in that country.

The ability to market the products we develop is subject to the intellectual property rights of third parties.

The biotechnology, biopharmaceutical and medical device industries are characterized by a large number of patents and patent filings and frequent litigation based on allegations of patent infringement. Competitors may have filed patent applications or have been issued patents and may obtain additional patents and proprietary rights related to products or processes that compete with or are similar to ours. We may not be aware of all of the patents potentially adverse to our interests that may have been issued to others. Because patent applications can take many years to issue, there may be currently pending applications, unknown to us, which may later result in issued patents that our product candidates or proprietary technologies may infringe. Third parties may claim that our products or related technologies infringe their patents. Further, we, our licensees or our licensors, may need to participate in interference, opposition, protest, reexamination or other potentially adverse proceedings in the United States Patent & Trademark Office or in similar agencies of foreign governments with regards to our patents, patent applications, and intellectual property rights. In addition, we, our licensees or our licensors may need to initiate suits to protect our intellectual property rights.



Litigation or any other proceeding relating to intellectual property rights, even if resolved in our favor, may cause us to incur significant expenses, divert the attention of our management and key personnel from other business concerns and, in certain cases, result in substantial additional expenses to license technologies from third parties. Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources. An unfavorable outcome in any patent infringement suit or other adverse intellectual property proceeding could require us to pay substantial damages, including possible treble damages and attorneys' fees, cease using our technology or developing or marketing our products, or require us to seek licenses, if available, of the disputed rights from other parties and potentially make significant payments to those parties. There is no guarantee that any prevailing party would offer us a license or that we could acquire any license made available to us on commercially acceptable terms. Even if we are able to obtain rights to a third party's patented intellectual property, those rights may be nonexclusive and, therefore, our competitors may obtain access to the same intellectual property. Ultimately, we may be unable to commercialize our product candidates or may have to cease some of our business operations as a result of patent infringement claims, which could materially harm our business. We cannot guarantee that our products or technologies will not conflict with the intellectual property rights of others.

If we need to redesign our products to avoid third party patents, we may suffer significant regulatory delays associated with conducting additional studies or submitting technical, clinical, manufacturing or other information related to any redesigned product and, ultimately, in obtaining regulatory approval. Further, any such redesigns may result in less effective and/or less commercially desirable products, if the redesigns are possible at all.

Additionally, any involvement in litigation in which we, our licensees or our licensors are accused of infringement may result in negative publicity about us or our products, injure our relations with any then-current or prospective customers and marketing partners, and cause delays in the commercialization of our products.

#### Risks Related to our Common Stock

Our stock price is volatile.

The market price of our Common Stock is volatile and could fluctuate widely in response to various factors, many of which are beyond our control, including the following:

our ability to obtain additional financing and, if available, the terms and conditions of the financing;

changes in the timing of clinical trial enrollment, the results of our clinical trials and regulatory approvals for our product candidates or failure to obtain such regulatory approvals;

changes in our industry;

additions or departures of key personnel;

sales of our Common Stock;

our ability to execute our business plan;

operating results that fall below expectations;

period-to-period fluctuations in our operating results;



new regulatory requirements and changes in the existing regulatory environment; and  
general economic conditions and other external factors.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our Common Stock.

There is currently a limited trading market for our Common Stock and we cannot predict how liquid the market might become.

To date, there has been a limited trading market for our Common Stock and we cannot predict how liquid the market for our common stock might become. Our Common Stock is quoted on the Over-the-Counter market (OTCQB), which is an inter-dealer, over-the-counter market that provides significantly less liquidity than the New York Stock Exchange or the NASDAQ Stock Market. The quotation of our Common Stock on the OTCQB does not assure that a meaningful, consistent and liquid trading market exists. The market price for our Common Stock is subject to volatility and holders of our common stock may be unable to resell their shares at or near their original purchase price, or at any price. In the absence of an active trading market:

investors may have difficulty buying and selling, or obtaining market quotations for our Common Stock;

market visibility for our Common Stock may be limited; and

a lack of visibility for our Common Stock may have a depressive effect on the market for our common stock.



Trading for our Common Stock is limited under the SEC's penny stock regulations, which has an adverse effect on the liquidity of our common stock.

The trading price of our Common Stock is less than \$5.00 per share and, as a result, our Common Stock is considered a "penny stock," and trading in our common stock is subject to the requirements of Rule 15c-9 under the Securities Exchange Act of 1934, as amended (Exchange Act). Under this rule, broker-dealers who recommend low-priced securities to persons other than established customers and accredited investors must satisfy special sales practice requirements. Generally, the broker-dealer must make an individualized written suitability determination for the purchaser and receive the purchaser's written consent prior to the transaction.

Regulations of the Securities and Exchange Commission (the "SEC") also require additional disclosure in connection with any trades involving a "penny stock," including the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and its associated risks. These requirements severely limit the liquidity of securities in the secondary market because only a few brokers or dealers are likely to undertake these compliance activities. Compliance with these requirements may make it more difficult for holders of our Common Stock to resell their shares to third parties or to otherwise dispose of them in the market.

As an issuer of "penny stock", the protection provided by the federal securities laws relating to forward looking statements does not apply to us.

Although federal securities laws provide a safe harbor for forward-looking statements made by a public company that files reports under the federal securities laws, this safe harbor is not available to issuers of penny stocks. As a result, we will not have the benefit of this safe harbor protection in the event of any legal action based upon a claim that the material provided by us contained a material misstatement of fact or was misleading in any material respect because of our failure to include any statements necessary to make the statements not misleading. Such an action could hurt our financial condition.

We have not paid dividends in the past and do not expect to pay dividends in the future. Any return on investment may be limited to the value of our Common Stock.

We have never paid cash dividends on our Common Stock and do not anticipate doing so in the foreseeable future. The payment of dividends on our Common Stock will depend on earnings, financial condition and other business and economic factors affecting us at such time as our board of directors may consider relevant. If we do not pay dividends, our Common Stock may be less valuable because a return on your investment will only occur if our stock price appreciates.

The rights of the holders of our Common Stock may be impaired by the potential rights of future holders (if any) of the Company's preferred stock.

Our board of directors has the right, without stockholder approval, to issue preferred stock with voting, dividend, conversion, liquidation or other rights which could adversely affect the voting power and equity interest of the holders of Common Stock, which could be issued with the right to more than one vote per share, and could be utilized as a method of discouraging, delaying or preventing a change of control. The possible negative impact on takeover attempts could adversely affect the price of our Common Stock.

Although we have no present intention to issue any additional shares of preferred stock or to create any additional series of preferred stock, we may issue such shares in the future.

We have never held an annual meeting for the election of directors.

Pursuant to the provisions of the Nevada Revised Statutes (the “NRS”), directors are to be elected at the annual meeting of the stockholders. Pursuant to the NRS and our bylaws, our board of directors is granted the authority to fix the date, time and place for annual stockholder meetings. No date, time or place has yet been fixed by our board for the holding of an annual stockholder meeting. Pursuant to the NRS and our bylaws, each of our directors holds office after the expiration of his term until a successor is elected and qualified, or until the director resigns or is removed. Under the provisions of the NRS, if an election of our directors has not been made by our stockholders within 18 months of the last such election, then an application may be made to the Nevada district court by stockholders holding a minimum of 15% of our outstanding stockholder voting power for an order for the election of directors in the manner provided in the NRS.

We have not sought an advisory stockholder vote to approve the compensation of our named executive officers.

Rule 14a-21 under the Exchange Act requires us to seek a separate stockholder advisory vote at our annual meeting at which directors are elected to approve the compensation of our named executive officers, not less frequently than once every three years (say-on-pay vote), and, at least once every six years, to seek a separate stockholder advisory vote on the frequency with which we will submit advisory say-on-pay votes to our stockholders (say-on-frequency vote). In 2013, the year in which Rule 14a-21 became applicable to smaller reporting companies, we did not submit to our stockholders a say-on-pay vote to approve an advisory resolution regarding our compensation program for our named executive officers, or a say-on-frequency vote. Consequently, the board of directors has not considered the outcome of our say-on-pay vote results when determining future compensation policies and pay levels for our named executive officers.



## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including the sections titled “Prospectus Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business,” contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act of 1933. Statements in this prospectus that are not historical facts are hereby identified as “forward-looking statements” for the purpose of the safe harbor provided by Section 21E of the Exchange Act and Section 27A of the Securities Act of 1933, as amended (the “Securities Act”). Forward-looking statements convey our current expectations or forecasts of future events. All statements in this prospectus, including those made by the management of the Company, other than statements of historical fact, are forward-looking statements. Examples of forward-looking statements include statements regarding the Company’s future financial results, operating results, business strategies, projected costs, products, competitive positions, management’s plans and objectives for future operations, and industry trends. These forward-looking statements are based on management’s estimates, projections and assumptions as of the date hereof and include the assumptions that underlie such statements. Forward-looking statements may contain words such as “may,” “will,” “should,” “could,” “would,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential” and “could” or other negative of these terms, or other comparable terminology. These forward-looking statements include, among other things, statements about:

market acceptance of and demand for dermaPACE and our product candidates;

regulatory actions that could adversely affect the price of or demand for our approved products;

our intellectual property portfolio;

timing of clinical studies and eventual FDA approval of our products;

our marketing and manufacturing capacity and strategy;

estimates regarding our capital requirements, and anticipated timing of the need for additional funds;

product liability claims;

economic conditions that could adversely affect the level of demand for our products;

financial markets; and

the competitive environment.

Any or all of our forward-looking statements in this prospectus may turn out to be inaccurate. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. They may be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties, including the risks, uncertainties and assumptions described in the section titled “Risk Factors.” In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus may not occur as contemplated, and actual results could differ materially from those anticipated or implied by the forward-looking statements.

You should read this prospectus and the registration statement of which this prospectus is a part completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of the forward-looking statements in this prospectus by these cautionary statements.

You should not unduly rely on these forward-looking statements, which speak only as of the date of this prospectus. Unless required by law, we undertake no obligation to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise. You should, however, review the factors and risks we describe in the reports we will file from time to time with the SEC after the date of this prospectus.

#### USE OF PROCEEDS

This prospectus relates to shares of our Common Stock that may be offered and sold from time to time by the selling stockholders who will receive all of the proceeds from the sale of the shares and shares issuable upon the exercise of warrants. We will not receive any proceeds from the sale of shares of Common Stock by selling stockholders in this offering, except cash for the warrant exercise, which if all such warrants are exercised, would be approximately \$5,164,003. Proceeds, if any, received from the exercise of such warrants, would be used for working capital purposes.

We will bear all expenses of registration incurred in connection with this offering, but all commissions, selling and other expenses incurred by the selling stockholders to underwriters, agents, brokers and dealers will be borne by them. We estimate that our expenses in connection with the filing of the registration statement of which this prospectus is a part will be approximately \$15,000.





## SELLING STOCKHOLDERS

### Description of Transactions Related to Securities Initially Registered Herewith:

#### Registration of Restricted Stock Acquired in Private Transactions from the Company Over Three Years Ago

The Company is registering for the first time 241,182 shares of restricted Common Stock owned by A. Michael Stolarski acquired in private transactions from the Company over three years ago.

#### June 2016 Warrants issued for consulting services

In June 2016, the Company issued 500,000 warrants to purchase shares of Common Stock at an exercise price of \$0.08 per warrant to Millennium Park Capital LLC. Each Class L Warrant represents the right to purchase one share of Common Stock. The warrants vested upon issuance and expire on March 17, 2019. This issuance was made pursuant to the exemption from registration provided by Section 4(a)(2) of the Act and Rule 506 of Regulation D thereunder. The Company did not utilize any form of general solicitation or general advertising in connection with the issuance.

#### August 2016 Private Placement

On August 24, 2016, the Company entered into a Securities Purchase Agreement with certain “accredited investors” (as that term is defined in the Commission’s Regulation D) (the “Purchasers”) for the issuance of an aggregate total 28,300,001 shares of the Company’s common stock, par value \$0.001 per share (the “Common Stock”) for an aggregate total purchase price of \$1,698,000. The Company intends to use the proceeds from the private placement for working capital and general corporate purposes.

In addition, the Company, in connection with the private placement, issued to the Purchasers an aggregate total of 28,300,001 warrants (the “Class L Warrants”) to purchase shares of Common Stock at an exercise price of \$0.08 per warrant. Each Class L Warrant represents the right to purchase one share of Common Stock. The warrants vested upon issuance and expire on March 17, 2019.

Pursuant to the terms of a Registration Rights Agreement that the Company entered with the Purchasers in connection with the private placement, the Company is required to file a registration statement or registration statements with the Commission that cover the resale by the Purchasers in the private placement of the shares of Common Stock and the shares of Common Stock issuable upon exercise of the Class L Warrants. The failure on the part of the Company to satisfy certain deadlines described in the Registration Rights Agreement may subject the Company to payment of certain monetary penalties.

Anthony M. Stolarski, a member of our board of directors and an existing shareholder of the Company and Michael Nemelka, the brother of a member of our board of directors and an existing shareholder of the Company, were purchasers in this private placement.

At the closing of the private placement, we paid WestPark Capital, Inc., the placement agent for the private placement, a fee of (i) ten percent (10%) of the aggregate purchase price of the securities sold in the private placement and (ii) warrants to purchase ten percent (10%) of the number of shares sold in the private placement. Accordingly, the Placement Agent was issued warrants to purchase 2,830,000 shares of Common Stock at an exercise price of \$0.08 per share.

In a cashless exercise, the Purchasers exercised Class L Warrants to purchase 583,333 shares of Common Stock at an exercise price of \$0.08 per share and subsequently sold such shares pursuant to Rule 144 and Section 3(a)(9); therefore, such shares are not being registered hereunder and are not reflected in the fee table, prospectus cover or Exhibit 5.1 hereto. The total shares being registered hereunder related to this August 2016 Private Placement are (1) 28,300,001 shares of Common Stock and (2) 27,716,668 shares of Common Stock underlying the Class L Warrants.

August 2016 Warrants issued for consulting services

In August 2016, the Company issued 2,140,000 warrants to purchase shares of Common Stock at an exercise price of \$0.08 per warrant to Millennium Park Capital LLC. Each Class L Warrant represents the right to purchase one share of Common Stock. The warrants vested upon issuance and expire on March 17, 2019. This issuance was made pursuant to the exemption from registration provided by Section 4(a)(2) of the Act and Rule 506 of Regulation D thereunder. The Company did not utilize any form of general solicitation or general advertising in connection with the issuance.



Description of Transactions Related to Securities Previously Registered Under File Nos. 333-208676 and 333-195263:

Series A Warrants

On March 17, 2014, we completed a private placement to ten institutional and individual accredited investors for the issuance of an aggregate total of 6,210,000 shares of Common Stock and 6,175 shares of Series A Convertible Preferred Stock for an aggregate total purchase price of \$9,280,000. Each share of Series A Convertible Preferred Stock is convertible into 2,000 shares of Common Stock at the option of the holder. The net proceeds received by the Company were \$8,562,500, net of offering costs of \$717,500.

As part of the private placement, the investors were issued an aggregate total of 23,200,000 Series A Warrants to purchase shares of Common Stock at an exercise price of \$0.50 per share. The warrants vested upon issuance and expire after five years. In addition, the investors were issued an aggregate total of 13,920,000 Series B Warrants to purchase shares of Common Stock at an exercise price of \$1.50 per share. The warrants vested upon issuance and expire after one year. For each of the warrants, the holder will be able to exercise the warrant on a cashless basis, if at the time of exercise, a registration statement covering the shares of our Common Stock underlying such warrants is not effective.

There are currently 1,561,348 Series A Warrants outstanding as of the filing of this prospectus at an exercise price of \$0.0334 per share.

Series A Warrant Conversion

On January 13, 2016, the Company entered into an Exchange Agreement (the "Exchange Agreement") with certain beneficial owners (the "Investors") of Series A warrants (the "Warrants") to purchase shares of the Company's common stock, \$0.001 par value per share (the "Common Stock"), pursuant to which the Investors exchanged (the "Exchange") all of their respective Warrants for either (i) shares of Common Stock or (ii) shares of Common Stock and shares of the Company's Series B Convertible Preferred Stock, \$0.001 par value (the "Preferred Stock").

The Exchange was based on the following exchange ratio (the "Exchange Ratio"): 1 Series A Warrant = 0.4685 shares of capital stock. Investors who, as a result of the Exchange, owned in excess of 9.99% (the "Ownership Threshold") of the outstanding Common Stock, received a mixture of Common Stock and shares of Preferred Stock. They received Common Stock up to the Ownership Threshold, and received shares of Preferred Stock beyond the Ownership Threshold (but the total shares of Common Stock and Preferred Stock issued to such holders was still based on the same Exchange Ratio). The relative rights, preferences, privileges and limitations of the Preferred Stock are as set forth in the Company's Certificate of Designation of Series B Convertible Preferred Stock, which was filed with the Secretary of State of the State of Nevada on January 12, 2016 (the "Series B Certificate of Designation").

In the Exchange an aggregate number of 23,701,428 Warrants were exchanged for 7,447,954 shares of Common Stock and 293 shares of Preferred Stock. Pursuant to the Series B Certificate of Designation, each of the Preferred Stock shares is convertible into shares of Common Stock at an initial rate of 1 Preferred Stock share for 12,500 Common Stock shares, which conversion rate is subject to further adjustment as set forth in the Series B Certificate of Designation. Pursuant to the terms of the Series B Certificate of Designation, the holders of the Preferred Stock shares will generally be entitled to that number of votes as is equal to the number of shares of Common Stock into which the Preferred Stock may be converted as of the record date of such vote or consent, subject to the Beneficial Ownership Limitation.

In connection with entering into the Exchange Agreement, the Company also entered into a Registration Rights Agreement, dated January 13, 2016, with the Investors. The Registration Rights Agreement requires that the Company

file with the SEC a registration statement to register for resale the shares of the Common Stock issued in connection with the Exchange and the Common Stock issuable upon conversion of the Preferred Stock shares (the “Preferred Stock Conversion Shares”). The registration statement was declared effective by the SEC on February 16, 2016.



## 2016 Equity Offering

On March 11, 2016, April 6, 2016, and April 15, 2016, pursuant to an effective registration statement filed with the SEC on Form S-1 (Registration No. 333-208676) pursuant to the Act, in conjunction with an equity offering of securities (the “2016 Equity Offering”) with select accredited investors, the Company issued an aggregate of 25,495,835, 3,083,334 and 1,437,501, respectively, “units” for an aggregate purchase price of \$1,529,750, \$185,000, and \$86,200, respectively. Each unit consisted of one share of Common Stock and one warrant (the “Class L Warrants”) to purchase one share of Common Stock at an exercise price of \$0.08 per share. The warrants vested upon issuance and expire on March 17, 2019.

The mandatory prepayment of principal on the notes payable equal to 20% of the proceeds received by the Company was waived by HealthTronics, Inc. for this 2016 Equity Offering.

Michael N. Nemelka, the brother of a member of the Company’s board of directors and an existing shareholder of the Company, was a purchaser in the 2016 Equity Offering of \$100,000.

At the closing of the 2016 Equity Offering, the Company paid Newport Coast Securities, Inc., the placement agent for the equity offering, cash compensation based on the gross proceeds of the private placement and 3,001,667 Class L Warrants.

The Purchasers have previously exercised 1,356,666 Class L Warrants to purchase shares of Common Stock at an exercise price of \$0.08 per share, and the Placement Agent previously exercised 950,166 Class L Warrants to purchase shares of Common Stock at an exercise price of \$0.08 per share. Such shares were either issued pursuant to the previous registration statement or were issued in cashless exercises and resold pursuant to Rule 144 and Section 3(a)(9), are not being registered or offered hereunder and are not reflected in the fee table, prospectus cover or Exhibit 5.1 hereto.

Distribution of Prides Capital Fund I, L.P. and NightWatch Capital Partners II, L.P.

In September 2015, Prides Capital Fund I, L.P. distributed 9,220,771 of Common Stock of the Company to the partners as a part of the liquidation of the fund. In December 2015, NightWatch Capital Partners II, L.P. distributed 1,904,145 of Common Stock of the Company to the partners as a part of the liquidation of the fund.

## Selling Stockholder Table

The table set forth below lists the selling stockholders and other information regarding the beneficial ownership (as determined under Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder) of the shares of Common Stock held by each of the selling stockholders. Following this table are three additional tables that detail which of each selling stockholder’s offered securities were previously registered for sale on the registration statements under File Numbers 333-195263, 333-208676 and 333-213774.

The selling stockholders identified in this prospectus may offer the shares of our common stock at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale or at negotiated prices. See “Plan of Distribution” for additional information.

Unless otherwise indicated, we believe, based on information supplied by the following persons, that the persons named in the table below have sole voting and investment power with respect to all shares of common stock that they beneficially own. The registration of the offered shares does not mean that any or all of the selling stockholders will offer or sell any of the shares of common stock upon any such exchange.







	Name of Beneficial Owner	Number of Shares beneficially owned prior to this offering		Number of Shares being offered (1)	
		Number	Percent	Number	Percent
(11)	Kevin A. Richardson, II	9,559,216	7.0%	531,244	*
(12)	A. Michael Stolarski	6,848,423	5.0%	4,724,626	3.4%
	Lisa E. Sundstrom	1,514,500	1.1%	-	-
(3)	John F. Nemelka	746,503	*	46	*
	Alan Rubino	719,800	*	-	-
	All directors and executive officers as a group (5 persons)	19,888,442	14.5%		
	Principal and/or Selling Shareholders:				
(18)	John McDermott	9,999,999	7.2%	9,999,999	7.2%
(4)	RA Capital Healthcare Fund, L.P.	9,956,624	7.2%	9,956,624	7.2%
(16)	James McGraw	7,079,167	5.1%	7,079,167	5.1%
(5)	Jerome Gildner	6,666,667	4.8%	6,666,667	4.8%
(21)	Nicholas Carosi III	6,000,000	4.3%	6,000,000	4.3%
(8)	Nainoor Thakore	5,833,334	4.2%	5,833,334	4.2%
(22)	Todd W Arbiture	5,833,333	4.2%	5,833,333	4.2%
(2)	Prides Capital Fund I, LP	5,514,081	4.0%	4,851,719	4.0%
(14)		5,000,001	3.6%	5,000,001	3.6%

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(19)	Horberg Enterprises LP Michael Nemelka		4,505,336	3.2%	4,505,336	
Berlin		Graders, Engineering Center		50		Leased
<b>Brazil</b>						
Belo Horizonte		Construction Equipment; Engineering Center		505		Owned
Curitiba		Tractors; Combine Harvesters; Engineering Center		113		Owned
Piracicaba		Sugar Cane Harvesters		108		Owned
<b>Canada</b>						
Saskatoon		Planting and Seeding Equipment; Components; Engineering Center		635		Owned
<b>Belgium</b>						
Antwerp		Components		850		Leased
Zedelgem		Combine Harvesters; Hay and Forage; Engineering Center		1,549		Owned
<b>Others</b>						
St. Valentin, Austria		Tractors		462		Leased
Shanghai, China		Tractors		775		Leased (B)
New Delhi, India		Tractors; Engineering Center		355		Owned
Plock, Poland		Combine Harvesters; Components		1,022		Owned
Queretaro, Mexico		Components		53		Leased
Amsterdam, The Netherlands		Administrative		2		Leased

(A) -in thousands of square feet

(B) -consolidated joint venture

(C) -Facility to close by the end of 2008.

(D) -Facility to close by the end of 2007.

In addition, we own or lease a number of other manufacturing and non-manufacturing facilities, including office facilities, parts depots and dealerships worldwide, some of which are not currently active.

### **Environmental Matters**

Our operations and products are subject to extensive environmental laws and regulations in the countries in which we operate. We have an ongoing Pollution Prevention Program to reduce industrial waste, air emissions and water usage. We also have regional programs designed to implement environmental management practices and compliance, to promote continuing environmental improvements and to identify and evaluate environmental risks at manufacturing and other facilities worldwide.

Our engines and equipment are subject to extensive statutory and regulatory requirements that impose standards with respect to air emissions. Further emissions reductions in the future from non-road engines and equipment have been promulgated or are contemplated in the United States as well as by non-U.S. regulatory authorities in many jurisdictions throughout the world. We expect that we may make significant capital and research expenditures to comply with these standards now and in the future. We anticipate that these costs are likely to increase as emissions limits become more stringent. At this time, however, we are not able to quantify the dollar

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amount of such expenditures as the levels and timing are not agreed by the regulatory bodies. The failure to comply with these current and anticipated emission limits could result in adverse effects on future financial results.

Capital expenditures for environmental control and compliance in 2006 were approximately \$5.7 million and we expect to spend approximately \$7.9 million in 2007. The Clean Air Act Amendments of 1990 and European Commission directives directly affect the operations of all of our manufacturing facilities in the United States and Europe, respectively, currently and in the future. The manufacturing processes affected include painting and coating operations. Although capital expenditures for environmental control equipment and compliance costs in future years will depend on legislative, regulatory and technological developments that cannot accurately be predicted at this time, we anticipate that these costs are likely to increase as environmental requirements become more stringent. We believe that these capital costs, exclusive of product-related costs, will not have a material adverse effect on our business, financial position or results of operations.

Pursuant to the Comprehensive Environmental Response, Compensation and Liability Act ( CERCLA ), which imposes strict and, under certain circumstances, joint and several liability for remediation and liability for natural resource damages, and other federal and state laws that impose similar liabilities, we have received inquiries for information or notices of our potential liability regarding 47 non-owned sites at which hazardous substances allegedly generated by us were released or disposed ( Waste Sites ). Of the Waste Sites, 21 are on the National Priority List promulgated pursuant to CERCLA. For 40 of the Waste Sites, the monetary amount or extent of our liability has either been resolved; we have not been named as a potentially responsible party ( PRP ); or our liability is likely de minimis. In September, 2004, the United States Environmental Protection Agency ( U.S. EPA ) proposed listing the Parkview Well Site in Grand Island, Nebraska for listing on the National Priorities List ( NPL ) and which was finalized in April, 2006. Within its proposal U.S. EPA discussed two alleged alternatives, one of which identified historical on-site activities that occurred during prior ownership at CNH America s Grand Island manufacturing plant property as a possible contributing source of area groundwater contamination. CNH America filed comments on the proposed listing which reflected its opinion that the data does not support U.S. EPA s alleged scenario. After subsequent remedial investigations were completed by the U.S. EPA and us in 2006, U.S. EPA announced that it will proceed with a remediation funded by the Federal Superfund without further participation by CNH. In December, 2004, a toxic tort suit was filed by area residents against us, certain of our subsidiaries including CNH America, and prior owners of the property. While we are unable to predict the outcome of this proceeding, we believe that we have strong legal and factual defenses, and we will vigorously defend this lawsuit. Because estimates of remediation costs are subject to revision as more information becomes available about the extent and cost of remediation and because settlement agreements can be reopened under certain circumstances, our potential liability for remediation costs associated with the 47 Waste Sites could change. Moreover, because liability under CERCLA and similar laws can be joint and several, we could be required to pay amounts in excess of our pro rata share of remediation costs. However, when appropriate, our understanding of the financial strength of other PRPs has been considered in the determination of our potential liability. We believe that the costs associated with the Waste Sites will not have a material adverse effect on our business, financial position or results of operations.

We are conducting environmental investigatory or remedial activities at certain properties that are currently or were formerly owned and/or operated or which are being decommissioned. We believe that the outcome of these activities will not have a material adverse effect on our business, financial position or results of operations.

The actual costs for environmental matters could differ materially from those costs currently anticipated due to the nature of historical handling and disposal of hazardous substances typical of manufacturing and related operations, the discovery of currently unknown conditions, and as a result of more aggressive enforcement by regulatory authorities and changes in existing laws and regulations. As in the past, we plan to continue funding our costs of environmental compliance from operating cash flows.

Based upon information currently available, management estimates potential environmental liabilities including remediation, decommissioning, restoration, monitoring, and other closure costs associated with current or formerly owned or operated facilities, the Waste Sites, and other claims to be in the range of \$33 million to \$79 million. As of December 31, 2006, environmental reserves of approximately \$50 million had been established to address these specific estimated potential liabilities. Such reserves are undiscounted. After considering these

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reserves, management is of the opinion that the outcome of these matters will not have a material adverse effect on our financial position or results of operations.

**Item 4A. Unresolved Staff Comments**

None.

**Item 5. Operating and Financial Review and Prospects**

*Overview of Businesses*

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:

- the credit quality, availability and prevailing terms of credit for customers, including interest rates;
- our access to credit;
- adverse geopolitical, political and economic developments in our existing markets;
- the effect of changes in laws and regulations;
- the response of our competitors to adverse cyclical conditions; and
- dealer inventory management.

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

*Agricultural Equipment Industry*

- changes in farm income and farmland value;
- the level of worldwide farm output and demand for farm products;
- commodity prices;
- government agricultural policies and subsidies;
- animal diseases and crop pests;
- limits on agricultural imports; and
- weather.

*Construction Equipment Industry*

- prevailing levels of construction, especially housing starts, and levels of industrial production;

public spending on infrastructure;

volatility of sales to rental companies;

real estate values; and

consumer confidence.

*Financial Services*

cyclical nature of the above-mentioned agricultural and construction equipment industries which are the primary markets for our financial services;

interest rates;



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general economic and capital market conditions;

used equipment prices; and

availability of funding through the ABS markets.

The nature of the agricultural and construction equipment industries is such that a downturn in demand can occur suddenly, resulting in excess inventories, un-utilized production capacity and reduced prices for new and used equipment. These downturns may be prolonged and may result in significant losses to us 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.

***A. Operating Results.***

The Consolidated data in this section includes CNH Global N.V. and its consolidated subsidiaries and conforms to the requirements of Statement of Financial Accounting Standards ( SFAS ) No. 94 (as amended) Consolidation of All Majority-Owned Subsidiaries. In the supplemental consolidating data in this section, Equipment Operations (with Financial Services on the equity basis) include primarily CNH Global N.V.'s agricultural and construction equipment operations. The supplemental Financial Services consolidating data in this section include primarily CNH Global N.V.'s financial services business. Transactions between Equipment Operations and Financial Services have been eliminated to arrive at the Consolidated data. This presentation is consistent with the other consolidated and supplemental financial information presented throughout this report. The operations and key financial measures and financial analysis differ significantly for manufacturing and distribution businesses and financial services businesses; therefore, management believes that certain supplemental disclosures are important in understanding our consolidated operations and financial results.

**2006 Compared to 2005**

*Overview of Results*

Our net income of \$292 million in 2006 compared to a net income of \$163 million in 2005. The increase in earnings resulted primarily from the positive results of Financial Services and the strength of our Construction Equipment businesses in Western Europe and Latin America.

Our Agricultural Equipment business gross margin increased in dollars and as a percent of net sales compared with 2005. Higher pricing (\$164 million), favorable currency (\$37 million), and favorable manufacturing efficiencies (\$45 million) offset unfavorable volume and mix (\$147 million), and economics (\$29 million), particularly for higher steel costs. The Company's destocking actions have affected both Tractors and Combine units sales worldwide and more than offset Latin America's tractor industry recovery and the impact of new products.

Construction Equipment's results improved significantly in 2006, as gross margin increased both in dollars and as a percent of net sales. Improved price realization (\$121 million), favorable currency (\$29 million), and the impacts of manufacturing efficiencies (\$21 million) more than offset higher economics (\$15 million). Volume and mix was essentially flat as destocking actions offset strong industry volumes.

Financial Services' net income increased to \$222 million in 2006, compared to \$200 million in 2005. The increase in net income reflects portfolio growth in North America and Brazil and higher gains on asset backed securitizations

partially offset by higher funding costs, higher sales, general and administrative ( SG&A ) expenses, including increased provisions for credit losses on the Brazilian agricultural portfolio as a result of government sponsored renegotiation programs, and higher other expense. The total managed portfolio at the end of 2006 increased by over 12% to \$15.5 billion, compared to \$13.8 billion at December 31, 2005.

**Table of Contents***Revenues*

Consolidated revenues for 2006 totaled approximately \$13.0 billion as compared to approximately \$12.6 billion in 2005. Consolidated revenues were up approximately 3% compared to 2005. This reflects higher revenues at Financial Services and the impact of variations in foreign exchange rates. The largest component of our consolidated revenues is our net sales of agricultural and construction equipment, which were \$12.1 billion in 2006 as compared to approximately \$11.8 billion in 2005. Adjusted for the impact of variations in foreign exchange rates, net sales of equipment were essentially flat with 2005 levels.

*Net Sales of Equipment*

Net sales of our Equipment Operations for the years ended December 31, 2006 and 2005 by geographic area were as follows:

	2006	2005
	(in millions)	
<b>Net sales</b>		
North America	\$ 5,354	\$ 5,698
Western Europe	3,843	3,643
Latin America	1,001	768
Rest of World	1,917	1,697
Total net sales	\$ 12,115	\$ 11,806

Net sales of equipment were up 3% in 2006, primarily due to variations in foreign exchange rates. The change in net sales excluding the impact of currency reflected an increase in net sales of construction equipment of approximately 8% and a decrease in net sales of agricultural equipment of approximately 2%.

*Agricultural Equipment*

	2006	2005
	(in millions)	
<b>Net sales</b>		
North America	\$ 3,247	\$ 3,552
Western Europe	2,566	2,517
Latin America	549	455
Rest of World	1,447	1,319
Total net sales	\$ 7,809	\$ 7,843

Net sales of agricultural equipment in 2006 were approximately flat compared to 2005. Excluding the results of variations in foreign exchange rates, agricultural equipment net sales would have been down 2%. Worldwide, in

addition to the currency impact, net sales increased primarily from improved price realization (\$164 million) and from new products (\$68 million). These positive factors were offset by a reduction in net sales from lower sales of equipment and unfavorable mix (\$331 million), primarily resulting from the Company's destocking actions.

In North America, net sales of agricultural equipment decreased by about 9% in 2006 compared with 2005, including increases related to variations in foreign exchange rates of approximately 1%. Wholesale unit sales of tractors and combines decreased by approximately 16.5%. Total market demand for agricultural tractors in North America was down 3% compared with 2005. Demand for under 40-horsepower tractors decreased by 3%. Industry demand for mid-sized (40- to 100-horsepower) tractors was slightly up; demand for large two wheel drive tractors over 100-horsepower decreased by approximately 13%, while demand for four wheel drive articulated tractors decreased by 15%. Combine market demand was down approximately 7%. Our wholesale unit sales declined as our overall agricultural tractor market penetration decreased slightly, while our combine market penetration was slightly positive compared to 2005.

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In Western Europe, net sales of agricultural equipment increased by 2%. Variations in foreign exchange rates accounted for 1%. Overall tractor and combine market demand, as measured in units, increased by about 2% in 2006. Our wholesale unit sales declined slightly as market penetration was almost flat for both tractors and combines.

In Latin America, net sales of agricultural equipment in 2006 were 21% higher than in 2005, including increases related to variations in foreign exchange rates of approximately 7%. Market demand for tractors was up by approximately 1% led by a 16% increase in Brazilian tractor industry demand. Market demand for combines decreased by 36% led by a 31% decline in Brazil. Tractor market demand in Argentina, instead, decreased by about 12% and the market in Argentina for combines declined by approximately 31%. Market demand was influenced by levels of commodity prices and local exchange rates vis-à-vis the U.S. dollar which is the currency in which most commodities are priced. Year-over-year, our unit wholesale volumes in Latin America increased led by an increase in market penetration for both tractors and combines.

In these major markets, net sales of agricultural equipment in 2006 were 2% lower than in 2005, including increases related to variations in foreign exchange rates of approximately 2%. Market demand for tractors was down by approximately 1% and demand for combines decreased by 13% led by the decrease of the Latin American combine market. Our wholesale unit sales declined but market penetration was essentially flat for tractors and slightly positive for combines.

In Rest of World, net sales of agricultural equipment in 2006 increased by approximately 10% compared to 2005. Variations in foreign exchange rates, had a nominal impact. Wholesale unit sales of tractors and combines in 2006 were lower than in 2005. Market penetration declined for both tractors and combines.

Overall in 2006, worldwide market demand, on a unit basis, for major agricultural equipment product lines was approximately 9% higher than in 2005. Worldwide demand for tractors increased by about 9%, on the strength of a 25% increase in demand in Rest of World markets. Worldwide demand for combines was estimated to be down approximately 7% over the level in 2005, driven by a 36% decline in combine industry volumes in Latin America. On a unit basis, our worldwide retail sales of major agricultural equipment increased. Our overall tractor market share declined by about 0.9 percentage points from 2005, and our combine market share increased approximately 0.7 percentage points. In total, we under produced retail demand by about 1%. At year-end, total company and dealer inventories were about one-half of a month lower than at year-end 2005, on a forward months supply basis.

*Construction Equipment*

	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>	
<b>Net sales</b>		
North America	\$ 2,107	\$ 2,146
Western Europe	1,277	1,126
Latin America	452	313
Rest of World	470	378
Total net sales	\$ 4,306	\$ 3,963

Net sales of construction equipment increased by approximately 9% in 2006 compared with 2005. Approximately 1% of this increase resulted from the variations in foreign exchange rates. Worldwide, in addition to the currency impact,

net sales increased from improved net price realization (\$121 million), higher volumes and improved product mix (\$51 million) and from new products (\$87 million).

In North America, net sales of construction equipment decreased by approximately 2% in 2006 compared with 2005 including a partial offset due to the variations in foreign exchange rates of approximately 1%. The market demand for backhoe loaders and for skid steer loaders decreased by 13%, the market demand for heavy construction equipment increased by about 3%. The total North American market demand for construction equipment decreased

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by about 6% compared with 2006. Our total heavy and light equipment wholesale unit sales decreased due to lower market demand, but we maintained our overall market penetration.

In Western Europe, net sales of construction equipment increased by 13% including variations in foreign exchange rates of about 1%. Overall market demand for total heavy and light equipment, as measured in units, increased by approximately 9% in 2006. Our overall wholesale unit sales increased and our market penetration was stable.

In Latin America, net sales of construction equipment increased by 44% in 2006 compared with 2005, including approximately 8 percentage points related to variations in foreign exchange rates. Total Latin American market demand, as measured in units, increased by about 29%, including a 37% increase in market demand for backhoe loaders, a 30% increase in market demand for skid steer loaders and a 24% increase in market demand for heavy construction equipment. Our total heavy and light equipment wholesale unit sales increased, and our overall market penetration also increased.

In these major markets, net sales of construction equipment in 2006 were 6% higher than in 2005, including increases related to variations in foreign exchange rates of approximately 2%. Market demand for backhoe loaders was down by approximately 4% and demand for skid steer loaders decreased by 9%, however market demand for heavy construction equipment was up by 8%. Our wholesale unit sales declined slightly and market penetration was up for backhoe loaders and skid steer loaders and down slightly for heavy construction equipment. Overall, our market penetration was up.

In Rest of World, where we have a minimal presence, net sales of construction equipment increased by 24% in 2006 compared with 2005. Variations in foreign exchange rates had a nominal impact on net sales of equipment in Rest of World Markets. Total Rest of World market demand, as measured in units, increased by about 24%, including a 33% increase in market demand for backhoe loaders, a 19% increase in market demand for skid steer loaders and a 23% increase in market demand for heavy construction equipment. Our total heavy and light equipment wholesale unit sales in Rest of World increased, and our overall market penetration was up.

Worldwide market demand for major construction equipment product lines in which we compete, on a unit basis, increased by about 8% in 2006 compared with 2005. Market demand increased in every market except for North America and for all of our major product categories except for the skid steer loaders. World market demand for backhoe loaders, on a unit basis, increased by about 7% while demand for skid steer loaders decreased by about 5%. In total, worldwide market demand for light construction equipment, on a unit basis, increased approximately 10%. Worldwide demand for our heavy construction equipment product lines increased by approximately 14%. On a unit basis, our construction equipment market penetration was down approximately 0.3 percentage points. Production was about 1% higher than retail unit volumes for the year. At year-end total company and dealer inventories were about one month lower than at year-end 2005, on a forward months supply basis.

### *Finance and Interest Income*

Consolidated finance and interest income increased from \$769 million in 2005 to \$883 million in 2006 largely due to the increase in Financial Services revenues. Revenues for Financial Services totaled \$952 million in 2006, an increase of \$151 million from the \$801 million reported in 2005. The increase in revenues reflects portfolio growth in North America and Brazil and higher gains on asset backed securitizations.

### *Costs and Expenses*

Costs of goods sold was stable at approximately the same level as 2005, and, as a percentage of net sales of equipment, decreased from 84.1% in 2005 to 82.0% in 2006. Gross margin (net sales of equipment less cost of goods

sold), expressed as a percentage of net sales of equipment, improved to 18.0% in 2006 compared to 15.9% in 2005, primarily on the strength of our agricultural and construction equipment operations in Europe. This increase in gross margin percentage reflected an increase in the gross margins of both construction equipment and agricultural equipment from 2005. In total, the gross margin increase, expressed in dollars, reflects higher pricing (\$285 million), favorable currency (\$66 million), manufacturing efficiencies (\$66 million), and purchasing savings



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(\$35 million) which more than offset unfavorable volume and mix (\$151 million) and economics (\$44 million). Capacity utilization in 2006 was approximately 63%, compared to approximately 64% in 2005.

In 2006, consolidated SG&A expenses increased by \$71 million to approximately \$1.25 billion from \$1.18 billion in the prior year, reflecting increases at both Equipment Operations and at Financial Services. In Equipment Operations, SG&A expenses increased by \$51 million to \$1.0 billion in 2006 from \$964 million in 2005, and increased as a percentage of net sales of equipment, from 8.2% in 2005 to 8.4% in 2006. The increase in SG&A expenses in Equipment Operations was driven primarily by increased investments to better support CNH's dealers and enhance global sourcing initiatives as well as expenses attributable to variations in foreign exchange rates, and inflation.

At Financial Services, SG&A expenses increased by \$20 million. The increase was due mainly to increase in headcount, higher year-over-year provisions for credit losses on the Brazilian Agricultural portfolio as a result of government sponsored renegotiation programs and expenses attributable to our variable compensation plan. Also see Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Sources of Funding for a discussion of recent actions taken by the Brazilian government.

Delinquency percentages for our North American core portfolio were 1.7% and 1.9% for 2006 and 2005, respectively, and annual loss percentages for the North American core portfolio increased to 0.5% at December 31, 2006, from 0.4% at December 31, 2005. Delinquency percentages for our Latin American portfolio were 8.1% and 4.0% for 2006 and 2005, respectively, and annual loss percentages for the Latin American core portfolio increased to 0.5% at December 31, 2006, from 0.1% at December 31, 2005.

Total salaried headcount increased by about 200 persons, from approximately 10,100 at the end of 2005 to approximately 10,300 at the end of 2006. The majority of the increases in salaried personnel were to support the growth of Financial Services North American credit card, insurance portfolio, and retail servicing operations, and to support Equipment Operations product development, quality and strategic sourcing initiatives.

Ongoing R&D expenses increased by \$64 million from \$303 million in 2005 to \$367 million in 2006. The increase was accounted for by investments to improve product quality and reliability and to support new emission compliant products and variations in foreign exchange rates. Excluding currency variations, R&D expenses increased by approximately \$62 million. Expressed as a percentage of net sales of equipment, R&D expenses increased to 3.0% in 2006 compared with 2.6% in 2005.

Our consolidated worldwide employment level has declined by approximately 100 persons from approximately 25,400 at the end of 2005 to approximately 25,300 at the end of 2006, largely due to reductions of hourly headcount in North America. As indicated above, year-end 2006 salaried headcount increased from approximately 10,100 at year-end 2005 to approximately 10,300 at year-end 2006.

During 2006, we recorded \$96 million in pre-tax restructuring costs, consisting of \$94 million in Equipment Operations and \$2 million in Financial Services. These restructuring costs primarily relate to severance and other employee-related costs incurred due to headcount reductions, and in the United States, the closure of two manufacturing facilities. In 2006, we recorded \$34 million of restructuring expense relating to the headcount reduction plan and \$17 million relating to the industrial manufacturing and logistic reorganization in North America. CNH anticipates that the cost of these actions, in total, will be approximately \$100 million before tax. Approximately \$50 million, before tax, was recognized in the fourth quarter of 2006 with the balance to be recognized in 2007 and beyond. Additionally, we recorded \$13 million related to the closure of our Berlin facility and \$10 million related to an agricultural equipment manufacturing line rationalization. See Note 11: Restructuring of our consolidated financial statements for a detailed analysis of our restructuring programs.

Consolidated Interest expenses-Fiat affiliates decreased from \$99 million in 2005 to \$66 million in 2006 principally due to a decrease at Equipment Operations from \$72 million in 2005 to \$49 million in 2006, the majority of which relates to the repayment of debt with Fiat in conjunction with the early 2006 bond issuance. Interest expenses-other increased, reflecting increased funding requirements at Financial Services to support portfolio growth.

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Equipment Operations provides interest free floor plan financing to its dealers, primarily in North America, to support wholesale net sales of equipment to its dealers. In Western Europe, Equipment Operations provides extended payment terms to its dealers to allow them to convert purchases into retail sales and then pay us for their purchases. Financial Services purchases these receivables from Equipment Operations, manages the deal credit exposure, controls losses and provides funding. Equipment Operations reimburses Financial Services for interest free or low rate financing. This is included in Interest compensation to Financial Services. Interest compensation to Financial Services by Equipment Operations increased by \$76 million in 2006 to \$235 million because of high balances of interest free financing provided and the full year impact in 2006 of our initiative to centralize management of wholesale receivables within Financial Services.

Other, net increased to \$359 million in 2006 from \$280 million in 2005. The increase in Other, net was primarily attributable to increased inactive benefit costs and higher litigation and product liability provisions.

*Tax Rates Consolidated*

For the year ended December 31, 2006, our effective income tax rate was 39.6%. Our effective tax rate differs from the Dutch statutory rate of 29.6% due primarily to the impact of tax losses in certain jurisdictions where no immediate tax benefit is recognized, the impact of utilizing tax losses against which valuation allowances were recorded, higher tax rates in certain jurisdictions and the reversal of valuation reserves on deferred tax assets in certain jurisdictions where it is now deemed more likely than not that the assets will be realized. Also, see Note 10: Income Taxes of our consolidated financial statements.

*Equity In Income (Loss) of Unconsolidated Subsidiaries and Affiliates*

During 2006, total Equity in income (loss) of unconsolidated subsidiaries and affiliates was a net profit of \$56 million, \$8 million more than the \$48 million reported in 2005. Financial Services equity in income of unconsolidated subsidiaries decreased \$1 million during 2006 due to slightly lower results in Europe. Equity in income from our unconsolidated Equipment Operations activities increased from a profit of \$39 million in 2005 to a profit of \$48 million in 2006, more than accounted for by improvements in Turkey, Mexico and Pakistan.

*Net Income*

For the year ended December 31, 2006, our consolidated net income, including the impact of pre-tax restructuring charges of \$96 million, was \$292 million. This compares to a 2005 consolidated net income of \$163 million, which included pre-tax restructuring charges of \$73 million. On a diluted basis, earnings per share was \$1.23 in 2006 compared to diluted earnings per share of \$0.70 in 2005, based on diluted weighted average shares outstanding of 236.8 million and 234.4 million, respectively. Based on the jurisdictions impacted by our restructuring actions, we utilized an effective tax rate of 26% and 18%, respectively, in 2006 and 2005 to evaluate the results of our operations, net of these restructuring costs.

*Effect of Currency Translation*

For financial reporting purposes, we convert the financial results of each of our operating companies into U.S. dollars, using average exchange rates calculated with reference to those rates in effect during the year. As a result, any change from year to year in the U.S. dollar value of the other currencies in which we incur costs or receive income is reflected in a currency translation effect on our financial results.

The impact of currency translation on the results of Financial Services operations is minimal, reflecting the geographic concentration of such wholly-owned operations within the U.S. For Equipment Operations, the impact of currency translation on net sales has generally been offset by the translation impact on costs and expenses.

During 2006, all of the currencies of our major operations, as compared with the U.S. dollar, strengthened except for the Australian dollar which weakened approximately 1.2% and the Japanese yen which weakened approximately 5.7%. Specifically the British pound (1.2%), the euro (0.9%), the Canadian dollar (7.1%), and the Brazilian real (11.7%) strengthened when compared to the U.S. dollar. The impact of all currency movements

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(including transactions and hedging costs) increased net sales by approximately \$183 million or 1.5% and increased the absolute gross margin by approximately \$66 million or 3.0%. However, the impact on net income was an increase of approximately \$55 million, as SG&A and R&D costs increased by approximately \$10 million.

**2005 Compared to 2004***Overview of Results*

Our net income of \$163 million in 2005 compared to a net income of \$125 million in 2004. The increase in earnings resulted primarily from the positive results of Financial Services and the strength of our Construction Equipment businesses in the Americas.

Our Agricultural Equipment business gross margin remained flat in dollars but increased slightly as a percent of net sales compared with 2004. Higher pricing, favorable currency and favorable manufacturing efficiencies offset unfavorable volume and mix, and economics, particularly for higher steel costs. Improvements in North America and Western Europe were offset by declines in Latin America, where industry retail unit sales dropped 19% for tractors and 58% for combines due to the strong Brazilian real exchange rate which cut significantly into export farmers profitability and a severe drought in the southern Brazilian states.

Construction Equipment's results improved significantly in 2005, as gross margin increased both in dollars and as a percent of net sales. Improved price realization, volume and mix, and the impacts of our manufacturing rationalization actions more than offset higher steel costs and other economics.

Financial Services' net income increased to \$200 million in 2005, compared to \$159 million in 2004. The significant increase in the results of Financial Services reflects better spreads on our ABS transactions and higher net interest margins measured in dollars. Continued improvements in portfolio quality have resulted in steady declines in past due and delinquency rates in the core business of Financial Services. The total managed portfolio at the end of 2005 increased by approximately 4% to \$13.8 billion, compared to \$13.3 billion at December 31, 2004.

*Revenues*

Consolidated revenues for 2005 totaled approximately \$12.6 billion as compared to approximately \$12.2 billion in 2004. Consolidated revenues were up approximately 3% compared to 2004. This reflects higher revenues at Financial Services and the impact of variations in foreign exchange rates. The largest component of our consolidated revenues is our net sales of agricultural and construction equipment, which were \$11.8 billion in 2005 as compared to approximately \$11.5 billion in 2004. Adjusted for the impact of variations in foreign exchange rates, net sales of equipment were essentially flat with 2004 levels.

*Net Sales of Equipment*

Net sales of our Equipment Operations for the years ended December 31, 2005 and 2004 by geographic area were as follows:

	2005	2004
	(in millions)	
<b>Net sales</b>		
North America	\$ 5,698	\$ 5,241

Western Europe	3,643	3,834
Latin America	768	913
Rest of World	1,697	1,557
Total net sales	\$ 11,806	\$ 11,545

Net sales of equipment were up 2% in 2005, primarily due to variations in foreign exchange rates. The change in net sales excluding the impact of currency reflected an increase in net sales of construction equipment of approximately 11% and a decrease in net sales of agricultural equipment of approximately 4%.

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	<b>2005</b>	<b>2004</b>
	<b>(in millions)</b>	
<b>Net sales</b>		
North America	\$ 3,552	\$ 3,383
Western Europe	2,517	2,681
Latin America	455	715
Rest of World	1,319	1,221
<b>Total net sales</b>	<b>\$ 7,843</b>	<b>\$ 8,000</b>

Net sales of agricultural equipment in 2005 were approximately 2% lower than in 2004. Excluding the results of variations in foreign exchange rates, agricultural equipment net sales would have been down 6%. Worldwide, in addition to the currency impact, net sales increased primarily from improved price realization and from new products. These positive factors were offset by a reduction in net sales from lower sales of equipment and unfavorable mix.

Overall in 2005, worldwide market demand, on a unit basis, for major agricultural equipment product lines was approximately 7% higher than in 2004. Worldwide demand for tractors increased by about 8%, on the strength of a 34% increase in demand in Rest of World markets. Industry demand in North America was flat compared with 2004, while demand in Western Europe is estimated to have declined by approximately 6% and tractor industry demand in Latin America is estimated to have declined by 19%. Worldwide demand for combines was estimated to be down approximately 14% over the level in 2004, driven by a 58% decline in combine industry volumes in Latin America. Market demand in North America was up slightly compared with 2004 while demand in Western Europe increased by about 10% and in Rest of World markets by about 19%. On a unit basis, our worldwide retail sales of major agricultural equipment declined. Our overall tractor market share declined by about 3.1 percentage points from 2004, and our combine market share declined approximately 2.1 percentage points. In total, we over produced retail demand by about 5%. At year-end, total company and dealer inventories were about one month higher than at year-end 2004, on a forward months supply basis.

In North America, net sales of agricultural equipment increased by about 5% in 2005 compared with 2004, including increases related to variations in foreign exchange rates of approximately 1%. Wholesale unit sales of tractors and combines decreased by approximately 6%. Total market demand for agricultural tractors in North America was flat compared with 2004. Demand for under 40-horsepower tractors decreased by 4%. Industry demand for mid-sized (40- to 100-horsepower) tractors increased by about 6%; demand for large two wheel drive tractors over 100-horsepower increased by approximately 1%, while demand for four wheel drive articulated tractors decreased, but by less than 1%. Combine market demand was up by 1%. Our wholesale unit sales declined as our overall agricultural tractor market penetration decreased by about one and one-half percentage points, while our combine market penetration was the same as in 2004. We overproduced retail demand by approximately 12% during the year.

In Western Europe, net sales of agricultural equipment decreased by 6%. Variations in foreign exchange rates had no impact on net sales of equipment in Western Europe. Overall tractor market demand, as measured in units, decreased by about 10% in 2005 and overall combine market demand increased by about 6%. Our wholesale unit sales declined slightly as market penetration decreased by about two percentage points for both tractors and combines. Production was at almost the same level as retail unit sales during the year.

In Latin America, net sales of agricultural equipment in 2005 were 36% lower than in 2004, despite an approximately 11% strengthening due to variations in foreign exchange rates. Market demand for tractors decreased by approximately 19% and demand for combines decreased by 58% led by a 38% decline in tractor industry demand and a 73% decline in combine industry demand in Brazil. Tractor market demand in Argentina, however, increased by about 5%, continuing the recovery started in 2003 from the low levels experienced in 2002 after the devaluation of the Argentine peso, while, the market in Argentina for combines declined by approximately 37%. Market demand was influenced by levels of commodity prices and local exchange rates vis-à-vis the U.S. dollar which is the



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currency in which most commodities are priced. Year-over-year, our unit wholesale volumes in Latin America decreased by approximately 42%, with a substantially worse mix of higher valued combines, due to the market declines and a decrease in market penetration of about three percentage points for tractors and five percentage points for combines. Production was approximately 10% lower than retail unit sales during the year to reduce inventories given the depressed market conditions.

In Rest of World, net sales of agricultural equipment in 2005 increased by approximately 8% compared to 2004. Variations in foreign exchange rates, accounted for about 2 percentage points of the increase. Wholesale unit sales of tractors and combines in 2005 were about 24% higher than in 2004 and production was higher than retail unit demand by about 3%. Market penetration declined by about 6 percentage points for tractors and decreased by about 1 percentage point for combines.

*Construction Equipment*

	<b>2005</b>	<b>2004</b>
	<b>(in millions)</b>	
<b>Net sales</b>		
North America	\$ 2,146	\$ 1,858
Western Europe	1,126	1,153
Latin America	313	198
Rest of World	378	336
Total net sales	\$ 3,963	\$ 3,545

Net sales of construction equipment increased by approximately 12% in 2005 compared with 2004. Approximately 1% of this increase resulted from the variations in foreign exchange rates. Worldwide, in addition to the currency impact, net sales increased from improved net price realization, higher volumes and improved product mix and from new products.

Worldwide market demand for major construction equipment product lines in which we compete, on a unit basis, increased by about 8% in 2005 compared with 2004. Market demand increased in all markets and for all of our major product categories. World market demand for backhoe loaders, on a unit basis, increased by about 15% while demand for skid steer loaders increased by about 4%. In total, worldwide market demand for light construction equipment, on a unit basis, increased approximately 13%. Worldwide demand for our heavy construction equipment product lines increased by approximately 8%. On a unit basis, our construction equipment market penetration declined by approximately 1 percentage point. Worldwide wholesale unit volumes of our major construction equipment products increased by approximately 4%. Production was about 5% higher than retail unit volumes for the year. At year-end total company and dealer inventories were about one-half of a month higher than at year-end 2004, on a forward months supply basis.

In North America, net sales of construction equipment increased by approximately 16% in 2005 compared with 2004. Variations in foreign exchange rates increased net sales by about 1%. Wholesale unit sales of our total heavy and light construction equipment products increased by almost 4% and production was approximately 6% higher than retail sales. Wholesale unit sales of backhoe loaders and heavy construction equipment products increased, while wholesale unit sales of skid steer loaders declined, primarily due to the delayed launch of our new generation of skid steer loader products during the first half of the year. The total North American market demand for light and heavy construction

equipment increased by about 13%, including increases of 9% for backhoe loaders, 1% for skid steer loaders and 15% for heavy construction equipment. Our total heavy and light equipment wholesale unit sales increased due to higher market demand, but our overall market penetration decreased by about two percentage points. We overproduced retail demand by approximately 6% during the year.

In Western Europe, net sales of construction equipment decreased by 2%. Variations in foreign exchange rates has no impact on net sales of equipment in Western Europe. Overall market demand for total heavy and light equipment, as measured in units, increased by approximately 7% in 2005. Production was approximately 3% higher than retail unit sales and wholesale unit sales declined slightly. In early 2005, in Western Europe and Latin America,

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we consolidated our New Holland Construction brand family into one distribution network structure to better serve our customer base with a greater selection of products in the dealer network and to strengthen our marketing and parts and service support to our dealers. This consolidation was the last phase of finalizing our worldwide dual brand, dual distribution network structure. In connection with this consolidation, we terminated certain dealer relationships in Europe where overlapping geographic presence would have made ongoing business impractical for maintaining multiple dealerships. In the first half of 2005 this consolidation had a negative impact on our net sales of equipment, but we were able to begin to increase net sales in the second half of the year and participate in the industry up-turn. Our total heavy and light equipment wholesale unit sales decreased due to the network consolidation and our overall market penetration decreased by about one percentage point. We overproduced retail demand by approximately 4% during the year.

In Latin America, net sales of construction equipment increased by 58% in 2005 compared with 2004, including approximately 13 percentage points related to variations in foreign exchange rates. Total Latin American market demand, as measured in units, increased by about 30%, including a 47% increase in market demand for backhoe loaders, a 32% increase in market demand for skid steer loaders and a 21% increase in market demand for heavy construction equipment. Our total heavy and light equipment wholesale unit sales in Latin America increased by about 22%, and our overall market penetration decreased by about one percentage point. We produced at a level that approximates retail sales.

In Rest of World, where we have a minimal presence, net sales of construction equipment increased by 13% in 2005 compared with 2004. Variations in foreign exchange rates had minimal impact on net sales of equipment in Rest of World Markets. Total Rest of World market demand, as measured in units, increased by about 11%, including a 29% increase in market demand for backhoe loaders, a 15% increase in market demand for skid steer loaders and a 4% increase in market demand for heavy construction equipment. Our total heavy and light equipment wholesale unit sales in Rest of World increased by about 17%, and our overall market penetration was at approximately the same level as in 2004. We under-produced retail sales by approximately 2%.

*Finance and Interest Income*

Consolidated finance and interest income increased from \$634 million in 2004 to \$769 million in 2005 largely due to the increase in Financial Services revenues. Revenues for Financial Services totaled \$801 million in 2005, an increase of \$129 million from the \$672 million reported in 2004. The increase in revenues reflects higher wholesale financing rates due to increases in the U.S. Prime Rate, higher average receivables balances, and higher ABS revenues and volumes.

*Costs and Expenses*

Costs of goods sold increased by \$152 million to \$9.9 billion in 2005, and, as a percentage of net sales of equipment, decreased from 84.7% in 2004 to 84.1% in 2005. Gross margin (net sales of equipment less cost of goods sold), expressed as a percentage of net sales of equipment, improved to 15.9% in 2005 compared to 15.3% in 2004, primarily on the strength of our agricultural and construction equipment operations in North America. This increase in gross margin percentage reflected an increase in the gross margin of construction equipment from 14.8% in 2004 to 16.0% in 2005, and an increase in the gross margin of agricultural equipment from 15.5% in 2004 to 15.8% in 2005. In total, the gross margin increase, expressed in dollars, reflects higher pricing, favorable currency and profit improvement actions which more than offset unfavorable volume and mix, economics and higher warranty and freight costs. Capacity utilization in 2005 was approximately 64%, compared to approximately 65% in 2004.

In 2005, consolidated SG&A expenses increased by \$77 million to approximately \$1.2 billion from \$1.1 billion in the prior year, reflecting increases at both Equipment Operations and at Financial Services. In Equipment Operations,

SG&A expenses increased by \$45 million to \$964 million in 2005 from \$919 million in 2004, and increased as a percentage of net sales of equipment, from 8.0% in 2004 to 8.2% in 2005. The increase in SG&A expenses in Equipment Operations was driven primarily by variations in foreign exchange rates, inflation, and increased investments to better support CNH's dealers, enhance global sourcing initiatives and strengthen logistics

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operations, as well as expenses attributable to our variable compensation plan. Total salaried headcount increased by about 200 persons, from approximately 9,900 at the end of 2004 to approximately 10,100 at the end of 2005. The majority of the increases in salaried personnel were at Equipment Operations to support CNH's global sourcing initiatives.

At Financial Services, SG&A expenses increased by \$32 million. The increase was due mainly to higher U.S. labor costs, higher year-over-year provisions for loan losses and expenses attributable to our variable compensation plan.

Although we believe that the cessation of originations in the non-core portfolios has significantly reduced the potential for additional future charges, we may need to record additional loan loss provisions if there is an unanticipated deterioration in market conditions affecting the underlying industries. The following information summarizes the significance of these non-core portfolios relative to our total managed loan portfolios and certain performance-related data as of December 31, 2005, 2004, and 2003:

	2005	2004	2003
	(in millions)		
Non-core portfolio	\$ 78	\$ 131	\$ 330
Percentage of total portfolio	0.6%	1.0%	2.7%
Delinquency percentage(1)	28%	27%	29%
Annual loss percentage(2)	1%	4%	15%
Allowance for credit losses	\$ 34	\$ 50	\$ 68

(1) Calculated as the percentage of loans in the relevant portfolio more than 30 days past due.

(2) Calculated as the ratio of the annual loss to the average portfolio for the year.

By comparison, delinquency percentages for our North American core portfolio were 1.9% and 2.5% for 2005 and 2004, respectively, and annual loss percentages for the North American core portfolio increased to 0.4% at December 31, 2005, from 0.3% at December 31, 2004.

Ongoing R&D expenses increased by \$26 million from \$277 million in 2004 to \$303 million in 2005. The increase was accounted for by variations in foreign exchange rates and investments to improve product quality and to support new emission compliant products. Excluding currency variations, R&D expenses increased by approximately \$22 million. Expressed as a percentage of net sales of equipment, R&D expenses increased to 2.6% in 2005 compared with 2.4% in 2004.

Our consolidated worldwide employment level has declined by approximately 300 persons from approximately 25,700 at the end of 2004 to approximately 25,400 at the end of 2005, largely due to the significant deterioration of market conditions in Brazil. As indicated above, year-end 2005 salaried headcount increased from approximately 9,900 at year-end 2004 to approximately 10,100 at year-end 2005.

During 2005, we recorded \$73 million in pre-tax restructuring costs, including \$71 million in Equipment Operations and \$2 million in Financial Services. These restructuring costs primarily relate to severance and other costs incurred due to headcount reductions, facility closings and our recently announced brand initiatives. In 2005, we recorded \$30 million of restructuring expense relating to the closure of the Berlin, Germany construction equipment manufacturing facility. This charge primarily relates to costs to be incurred for severance under on-going benefit arrangements. Subsequent to December 31, 2005, CNH will incur additional charges for the closure of the facility in Berlin related to lease termination, additional severance and other closure costs. See Note 11: Restructuring of our consolidated financial statements for a detailed analysis of our restructuring programs.

Consolidated Interest expenses-Fiat affiliates rose from \$88 million in 2004 to \$99 million in 2005 principally due to an increase at Equipment Operations from \$63 million in 2004 to \$72 million in 2005, the majority of which

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relates to additional debt in Brazil. Interest expenses-other increased, reflecting the trend of rates in the U.S. and, especially at the end of the year, in Europe.

Equipment Operations provides interest free floor plan financing to its dealers, primarily in North America, to support wholesale net sales of equipment to its dealers. In Western Europe, Equipment Operations provides extended payment terms to its dealers to allow them to convert purchases into retail sales and then pay us for their purchases. Financial Services purchases these receivables from Equipment Operations, manages the deal credit exposure, controls losses and provides funding. Equipment Operations reimburses Financial Services for interest free or low rate financing. This is included in Interest compensation to Financial Services. Interest compensation to Financial Services by Equipment Operations increased by \$46 million in 2005 to \$159 million because of high balances of interest free financing provided and the enlargement of the European receivables securitization program which has transferred management of additional receivables from Equipment Operations to Financial Services.

Other, net increased to \$280 million in 2005 from \$265 million in 2004. The increase in Other, net was primarily attributable to increased pension costs and a reduction of gains on sales of fixed assets which didn't occur in 2005. Offsetting these increases was lower operating lease depreciation at Financial Services as that portfolio runs off the books.

*Tax Rates Consolidated*

Our effective tax rate was approximately 45% in 2005. In 2005, we reached an agreement with a government agency regarding tax positions taken during 2000, which resulted in a reduction of tax expense and previously provided tax liabilities. Also during 2005, additional tax expense was recognized in certain entities as valuation reserves were established against previously recognized tax assets due to a current evaluation of recent results of operations and anticipated future operations at these entities. For 2005, tax rates differ from the Dutch statutory rate of 31.5% due primarily to the recording of valuation allowances discussed above and the impact of tax losses in certain jurisdictions where no immediate tax benefit is recognized, offset by the tax settlement also discussed above. Also, see Note 10: Income Taxes of our consolidated financial statements.

*Equity In Income (Loss) of Unconsolidated Subsidiaries and Affiliates*

During 2005, total Equity in income (loss) of unconsolidated subsidiaries and affiliates was a net profit of \$48 million, \$20 million more than the \$28 million reported in 2004. Financial Services equity in income of unconsolidated subsidiaries increased \$1 million during 2005 due primarily to improved results at our joint venture with BPLG in Europe. Equity in income from our unconsolidated Equipment Operations activities increased from a profit of \$20 million in 2004 to a profit of \$39 million in 2005. Results in Japan, Mexico, Europe and the U.S. improved; partially offset by declines at our joint ventures in Turkey and Pakistan.

*Net Income*

For the year ended December 31, 2005, our consolidated net income, including the pre-tax impact of restructuring charges of \$73 million, was \$163 million. This compares to a 2004 consolidated net income of \$125 million, which included pre-tax restructuring charges of \$104 million. On a diluted basis, earnings per share (EPS) was \$0.70 in 2005 compared to diluted earnings per share of \$0.54 in 2004, based on diluted weighted average shares outstanding of 234.4 million and 233.5 million, respectively. Based on the jurisdictions impacted by our restructuring actions, we utilized an effective tax rate of 18% and 35%, respectively, in 2005 and 2004 to evaluate the results of our operations, net of these restructuring costs.

*Effect of Currency Translation*

For financial reporting purposes, we convert the financial results of each of our operating companies into U.S. dollars, using average exchange rates calculated with reference to those rates in effect during the year. As a result, any change from year to year in the U.S. dollar value of the other currencies in which we incur costs or receive income is reflected in a currency translation effect on our financial results.



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The impact of currency translation on the results of Financial Services operations is minimal, reflecting the geographic concentration of such wholly-owned operations within the U.S. For Equipment Operations, the impact of currency translation on net sales has generally been offset by the translation impact on costs and expenses.

During 2005, all of the currencies of our major operations, as compared with the U.S. dollar, strengthened except for the British pound which weakened approximately 0.7%. Specifically the Australian dollar (3.7%), the euro (0.1%), the Canadian dollar (7.3%), and the Brazilian real (20.3%) strengthened when compared to the U.S. dollar. The impact of all currency movements (including transactions and hedging costs) increased net sales by approximately \$161 million or 1.4% and increased the absolute gross margin by approximately \$32 million or 1.8%. However, the impact on net income was a decrease of approximately \$5 million, as SG&A and R&D costs increased by approximately \$18 million while Other, net, interest expense and Equity in income (loss) of unconsolidated subsidiaries and affiliates also increased. The impact on taxes and minority interests was a slight benefit.

## **Application of Critical Accounting Estimates**

The preparation of our financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results may differ from these estimates under different assumptions or conditions. Our senior management has discussed the development and selection of the critical accounting policies, related accounting estimates and the disclosure set forth below with the Audit Committee of our Board of Directors. We believe that our most critical accounting estimates, which are those that require management's most difficult, subjective and complex judgments, are summarized below. Our other accounting policies are described in the notes to the consolidated financial statements.

### *Allowance for Credit Losses*

Our wholesale and retail notes receivables have a significant concentration of credit risk in the agricultural and construction equipment industry and are subject to potential credit losses. We have reserved for the expected credit losses based on past experience with similar receivables including current and historical past due amounts, dealer termination rates, write-offs and collections. We believe that our reserves are adequate; however, if the financial condition of our customers deteriorates resulting in an impairment of their ability to make payments, additional allowances may be required.

The total allowance for credit losses at December 31, 2006, 2005, and 2004 were \$258 million, \$247 million, and \$211 million, respectively. The total allowances for credit losses increased in both 2006 and 2005 primarily due to the worsening of the Brazilian Agricultural portfolio performance and an increase in global portfolios.

The assumptions used in evaluating our exposure to credit losses involve estimates and significant judgment. The historical loss experience on the receivable portfolios represents one of the key assumptions involved in determining the allowance for credit losses. Holding other estimates constant, a 0.1 percentage point increase or decrease in estimated loss experience on the receivable portfolios would result in an increase or decrease of approximately \$10 million to the allowance for credit losses at December 31, 2006.

### *Equipment on Operating Lease Residual Values*

Our Financial Services segment purchases equipment that it then leases to retail customers under operating leases. Income from these operating leases is recognized over the term of the lease. Financial Services' decision on whether or

not to offer lease financing to customers is based upon, in part, estimated residual values of the leased equipment, which are calculated at the lease inception date. Realization of the residual values, a major component in determining the ultimate profitability of a lease transaction, is dependent on Financial Services' future ability to market the equipment under the then prevailing market conditions. We continually evaluate whether events and circumstances have occurred which impact the estimated residual values of equipment on operating leases. Although realization is not assured, management believes that the estimated residual values are realizable.

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Total operating lease residual values at December 31 2006, 2005, and 2004 were \$143 million, \$108 million, and \$170 million, respectively.

Estimates used in determining end-of-lease market values for equipment on operating leases significantly impact the amount and timing of depreciation expense. If future market values for this equipment were to decrease 5% from our present estimates, the total impact would be to increase our depreciation on equipment on operating leases by approximately \$7 million. This amount would be charged to depreciation during the remaining lease terms such that the net investment in operating leases at the end of the lease terms would be equal to the revised residual values. Initial lease terms generally range from three to four years.

*Off-Balance Sheet Financing*

In connection with our securitization of retail receivables, we retain interest-only strips and other interests in the securitized receivables. Interest-only strips represent rights to future cash flows arising after the investors in the securitization trust have received the return for which they contracted and other expenses of the trust are paid. Our retained interests are subordinate to the investors' interests. Gain or loss on sale of receivables depends in part on the fair value of the retained interests at the date of transfer. Additionally, retained interests after transfer are measured for impairment based on the fair value of the retained interests at the measurement date. We estimate fair value based on the present value of future expected cash flows using our estimate of key assumptions—credit losses, prepayment spreads, and discount rates commensurate with the risks involved. While we use our best estimates, there can be significant differences between those estimates and actual results.

The significant assumptions used in estimating the fair values of retained interests from sold receivables, which remain outstanding, and the sensitivity of the current fair value to a 10% and 20% adverse change at December 31, 2006, are as follows:

	<b>Weighted Average Assumptions</b>	<b>10% Change</b>	<b>20% Change (in millions)</b>
Constant prepayment rate	17.87%	\$ .2	\$ .5
Expected credit loss rate	.71%	\$ 3.1	\$ 6.3
Discount rate	10.65%	\$ 4.2	\$ 8.3
Remaining maturity in months	17		

The changes shown above are hypothetical. They are computed based on variations of individual assumptions without considering the interrelationship between these assumptions. As a change in one assumption may affect the other assumptions, the magnitude of the impact on fair value of actual changes may be greater or less than those illustrated above. Weighted-average remaining maturity represents the weighted-average number of months that the current collateral balance is expected to remain outstanding.

*Recoverability of Long-lived Assets*

Long-lived assets includes property, plant and equipment, goodwill and other intangible assets such as patents and trademarks. We evaluate the recoverability of property, plant and equipment and finite lived intangible assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully

recoverable. We assess the recoverability of property, plant and equipment and finite lived intangible assets by comparing the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceed the fair value of the assets, based on a discounted cash flow analysis.

Goodwill and indefinite-lived intangible assets are tested for impairment annually, and they will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. We perform our annual impairment review during the fourth quarter of each year. Impairment testing for goodwill is done at a reporting unit level. Beginning in 2006, we have identified five reporting units: CaseIH and New Holland agricultural equipment brands, Case and New Holland Construction

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construction equipment brands, and Financial Services. To determine fair value, we have relied on two valuation models: guideline company method and discounted cash flow.

Our estimates of cash flows may differ from actual cash flow due to, among other things, technological changes, economic conditions and the achievement of the anticipated benefits of our profit improvement initiatives.

*Realization of Deferred Tax Assets*

We have deferred tax assets of \$2.8 billion and a valuation allowance against these assets of \$1.1 billion as of December 31, 2006. Of this amount, \$1.2 billion of the deferred tax assets and a corresponding valuation allowance of \$1.0 billion relate to tax loss carry forwards.

We have recorded a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. In completing this determination, we generally evaluate, by taxing jurisdiction, recent losses after considering the impact of nonrecurring items, the impact of the cyclical nature of the business on past and future profitability, our expectations of sufficient future taxable income prior to the years in which the carry forwards expire as well as the impact of our profit improvement initiatives on future earnings. CNH's expectations of future profitability were based on assumptions regarding market share, the profitability of new model introductions and the benefits from capital and operating restructuring actions.

Reference is made to Note 10: Income Taxes of our consolidated financial statements for further information on our accounting practices related to the realizability of deferred tax assets.

*Sales Allowances*

We grant certain sales incentives to stimulate sales of our products to retail customers. The expense for such incentive programs is reserved for and recorded as a deduction in arriving at our net sales amount at the time of the sale of the product to the dealer. The amounts of incentives to be paid are estimated based upon historical data, future market demand for our products, field inventory levels, announced incentive programs, competitive pricing and interest rates, among other things. If market conditions were to decline, we may take actions to increase customer incentives possibly resulting in an increase in the deduction recorded in arriving at our net sales amount at the time the incentive is offered.

The sales incentive accruals at December 31, 2006, 2005, and 2004 were \$552 million, \$533 million, and \$407 million, respectively. The total allowance accruals recorded at the end of December 31, 2006, increased compared to the end of 2005 and 2004 primarily due to revenue growth and our focus on recapturing market share.

The estimation of the sales allowance accrual is impacted by many assumptions. One of the key assumptions is the historical percentage of sales allowance costs to net sales from dealers. Over the last three years, this percent has varied by approximately plus or minus 0.25 percentage points, compared to the average sales allowance costs to net sales percentage during the period. Holding other assumptions constant, if this experience were to increase or decrease 0.25 percentage points, the sales allowances for the year ended December 31, 2006, would increase or decrease by approximately \$37 million.

*Warranty Costs and Campaigns*

At the time a sale of a piece of equipment to a dealer is recognized or when an extended warranty program is sold, we record the estimated future warranty costs for the product. We generally determine our total warranty liability by applying historical claims rate experience to the estimated amount of equipment that has been sold and is still under

warranty based on dealer inventories and retail sales. Campaigns are formal post-production modification programs approved by management. The liability for such programs are recognized when approved, based on an estimate of the total cost of the program. Our warranty and campaign obligations are affected by component failure rates, replacement costs and dealer service costs, partially offset by recovery from certain of our vendors. If actual failure rates or costs to replace and install new components differ from our estimates, a revision in the modification and warranty liability would be required.

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The product warranty, extended warranty and campaign accruals at December 31, 2006, 2005, and 2004 were \$277 million, \$247 million, and \$239 million, respectively. The increase in 2006 was primarily due to revenue growth and our intensified focus on improving product quality and reliability.

Estimates used to determine the product warranty accruals are significantly impacted by the historical percentage of warranty claims costs to net sales. Over the last three years, this percentage has varied by approximately 0.1 percentage points, compared to the warranty costs to net sales percentage during the period. Holding other assumptions constant, if this estimated percentage were to increase or decrease 0.1 percentage points, the warranty expense for the year ended December 31, 2006, would increase or decrease by approximately \$15 million.

Reference is made to Note 14: Commitments and Contingencies of our consolidated financial statements for further information on our accounting practices and recorded obligations related to modification programs and warranty costs.

*Defined Benefit Pension and Other Postretirement Benefits*

As more fully described in Note 12: Employee Benefit Plans and Postretirement Benefits of our consolidated financial statements, we sponsor pension and other retirement plans in various countries. In the U.S. and the U.K., we have major defined benefit pension plans that are separately funded. Our pension plans in Germany and certain other countries, however, are not funded. We actuarially determine these pension and other postretirement costs and obligations using several statistical and judgmental factors, which attempt to anticipate future events. These assumptions include discount rates, rates for expected returns on plan assets, rates for compensation, mortality rates, retirement rates, health care cost trend rates, as determined by us within certain guidelines. Actual experiences different from that assumed and changes in assumptions can result in gains and losses that we have not yet recognized in our consolidated financial statements. We recognize net gain or loss as a component of our pension and other retirement plans expense for the year if, as of the beginning of the year, such unrecognized net gain or loss exceeds 10% of the greater of (1) the projected benefit obligation or (2) the fair or market value of the plan assets at year end. In such case, the amount of amortization we recognize is the resulting excess divided by the average remaining service period of active employees expected to receive benefits under the plan.

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The following table shows the effects of a one percentage-point change in our primary defined benefit pension and other postretirement benefit actuarial assumptions on 2006 pension and other postretirement benefit costs and obligations:

	2006 Benefit Cost (income)/expense		Year End Benefit Obligation increase/(decrease)	
	One Percentage- Point Increase	One Percentage- Point Decrease	One Percentage- Point Increase	One Percentage- Point Decrease
	(in millions)			
Pension benefits U.S.:				
Assumed discount rate	(8.7)	8.5	(121.3)	134.9
Expected long-term rate of return on plan assets	(9.0)	9.0	N/A	N/A
Pension benefits International:				
Assumed discount rate	(9.9)	14.5	(271.0)	317.0
Expected rate of compensation increase	8.5	(6.6)	48.0	(44.5)
Expected long-term rate of return on plan assets	(10.7)	10.7	N/A	N/A
Other postretirement benefits:				
Assumed discount rate	(15.5)	15.6	(142.7)	159.2
Assumed health care cost trend rate (initial and ultimate)	33.0	(25.8)	158.8	(133.3)

The assumed discount rate is used to discount future benefit obligations back to today's dollars. The discount rate assumptions used to determine the U.S. obligations at December 31, 2006, were based on the Towers Perrin Cash Flow Matching System ( TPCFMS ), which was designed by Towers Perrin to provide a means for plan sponsors to value the liabilities of their plans. TPCFMS develops and provides support for a customized discount rate based on each plan's expected annual size and timing of benefit payments in future years or estimated duration. TPCFMS incorporates a hypothetical yield curve based on a portfolio with yields within the 10th to 90th percentiles from about 500 Aa-graded, non-callable bonds. Prior to using the TPCFMS rates, the discount rate assumptions for benefit expenses in 2005 and 2004 were based on the Moody's Aa bond yield. For non-U.S. plans, benchmark yield data of high-quality fixed income investments for which the timing and amounts of payments match the timing and amounts of projected benefit payments is used to derive discount rate assumptions.

The expected long-term rate of return on plan assets reflects the expected return based on the outlook for inflation, fixed income returns, and equity returns, while also considering asset allocation and investment strategy, premiums for active management to the extent asset classes are actively managed and plan expenses. Historical return patterns and correlations, consensus return forecasts and other relevant financial factors are analyzed to check for reasonability and appropriateness.

The expected weighted-average rate of return on plan assets was 8.25% for 2006 and 2005 for U.S. plans. The expected weighted-average rate of return on plan assets was 7.01% and 7.16% for 2006 and 2005 for non-U.S. plans (primarily in the U.K. and Canada).



The actual return on plan assets in 2006 was 10.5% for U.S. plan assets and 7.8% for U.K. plan assets.

The assumed health care trend rate represents the rate at which health care costs are assumed to increase. Rates are determined based on company-specific experience, consultation with actuaries and outside consultants, and various trend factors including general and health care sector-specific inflation projections from the United States Department of Health and Human Services Health Care Financing Administration. The initial trend is a short-term assumption based on recent experience and prevailing market conditions. The ultimate trend is a long-term

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assumption of health care cost inflation based on general inflation, incremental medial inflation, technology, new medicine, government cost shifting, utilization changes, aging population and changing mix of medical services.

As a result of recent experience we will maintain the 2006 initial annual estimated rate of increase in the per capita cost of healthcare at 10% for 2007 despite earlier expectations that this rate would decrease.

### *Product Liability Reserve*

Our product liability reserve is established based upon reported claims and actuarial estimates for incurred but not reported losses. This reserve is based on estimates and ultimate settlements may vary significantly from our estimates due to changes in the estimated exposure on claims or growth in the number of claims.

### *Income Tax Reserves*

We are periodically subject to audits of our various income tax returns by taxing authorities. These audits review tax filing positions, including the allocation of income among our tax jurisdictions. We believe that some of our tax positions could be challenged by the taxing authorities. The estimate of our tax contingency reserves contain uncertainties because management must use judgment to estimate the exposure associated with our various tax filing positions. Although management believes that the judgments and estimates are reasonable, actual results could differ, and we may be exposed to losses or gains that could be material. An unfavorable tax settlement would likely require use of our cash and may result in an increase in our effective income tax rate in the period of resolution. A favorable tax settlement would be recognized as a reduction in our effective income tax rate in the period of resolution.

## **New Accounting Pronouncements**

In February, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* ( SFAS No. 159 ). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. The fair value option established by SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. We are in the process of determining the impact SFAS No. 159 will have on our financial position and results of operations.

In September, 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB SFAS Nos. 87, 88, 106, and 132(R) ( SFAS No. 158 ). SFAS No. 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, *postretirement benefit plans* ) to recognize the funded status of their postretirement benefit plans in the statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position, and provide additional disclosures. On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158. The effect of adopting SFAS No. 158 on the Company's financial condition at December 31, 2006, has been included in the accompanying consolidated financial statements. SFAS No. 158 did not have an effect on the Company's consolidated financial condition at December 31, 2005, or 2004. SFAS No. 158's provisions regarding the change in the measurement date of postretirement benefit plans are not applicable as the Company already uses a measurement date of December 31 for its postretirement benefit plans. See Note 12

Employee Benefit Plans and Postretirement Benefits of our consolidated financial statements for further discussion of the effect of adopting SFAS No. 158 on the Company's consolidated financial statements.

In September, 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( SFAS No. 157 ). SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted. We

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have not yet determined the impact, if any; the implementation of SFAS No. 157 may have on our financial position or results of operations.

In July, 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*—An Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The FASB standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are in the process of determining the impact FIN 48 will have on our financial position and results of operations.

In March, 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets* an amendment of FASB Statement No. 140 (SFAS No. 156). SFAS No. 156 amends SFAS No. 140 with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective for fiscal years beginning after September 15, 2006; however, early adoption is permitted as of the beginning of an entity's fiscal year. We have determined the impact of SFAS No. 156 will not be material to our financial position or results of operations upon adoption.

In February, 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*—an amendment of FASB Statements No. 133 and 140 (SFAS No. 155). SFAS No. 155 amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*—A Replacement of FASB Statement 125 (SFAS No. 140) and resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, *Application of Statement 133 to Beneficial Interest in Securitized Financial Assets*. SFAS No. 155: (a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; (b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133; (c) establishes a requirement to evaluate beneficial interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; (d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and, (e) eliminates restrictions on a qualifying special-purpose entity's ability to hold passive derivative financial instruments that pertain to beneficial interests that are or contain a derivative financial instrument. SFAS No. 155 also requires presentation within the financial statements that identifies those hybrid financial instruments for which the fair value election has been applied and information on the income statement impact of the changes in fair value of those instruments. SFAS No. 155 is effective for fiscal years beginning after September 15, 2006, although early adoption is permitted as of the beginning of an entity's fiscal year. We have determined the impact of SFAS No. 155 will not be material to our financial position or results of operations upon adoption.

### ***B. Liquidity and Capital Resources.***

The following discussion of liquidity and capital resources principally focuses on consolidated statements of cash flows, our consolidated balance sheets and off-balance sheet financing. Our operations are capital intensive and subject to seasonal variations in financing requirements for dealer receivables and dealer and company inventories. Whenever necessary, funds from operating activities are supplemented from external sources. We expect to have available to us cash reserves and cash generated from operations and from sources of debt and financing activities that are sufficient to fund our working capital requirements, capital expenditures, including acquisitions, and debt service at least through the end of 2007.

## **Cash Flows**

Our cash flows from operating activities are primarily a result of net income, adjusted for non-cash provisions and working capital requirements. Our cash flows from investing and financing activities principally reflects capital

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expenditures, changes in deposits with Fiat affiliates cash management pools, our level of investment in financial receivables, changes in our funding structure and dividend payments.

The \$71 million decrease in consolidated cash and cash equivalents, during the year ended December 31, 2006, reflects the utilization of cash in our investing and financing activities, which more than offset the positive cash flow from operating activities. Cash and cash equivalents at Financial Services increased by \$84 million, while cash and cash equivalents at Equipment Operations decreased by \$155 million.

*Cash Flows from Operating Activities*

	<b>For the Years Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(in millions)</b>		
Equipment Operations	\$ 715	\$ 849	\$ 879
Financial Services	(39)	(240)	200
Eliminations	(69)	(60)	(109)
Consolidated	\$ 607	\$ 549	\$ 970

Equipment Operations generated operating cash flow in 2006 from net income of \$292 million, adjusted for non-cash provisions and increases in inventory, accounts payables and accrued liabilities. The slight reduction in year-over-year cash flows from operating activities in Equipment Operations reflects a higher level of cash paid for income taxes and a deterioration in working capital which offset the growth of net income which was up from \$163 million in 2005.

Financial Services used \$39 million of cash for operating activities in 2006, as a result of net income of \$222 million, offset by an increase in the dealer receivable level and decreases in accrued and other liabilities. The year-over-year improvement in cash flows from operating activities of Financial Services is primarily attributable to the stabilization of wholesale volumes, which only slightly increased in 2006, the effect of wholesale receivable sales from Equipment Operation in Brazil and increased receivable sales in other countries such as France.

*Cash Flows from Investing Activities*

	<b>For the Years Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(in millions)</b>		
Equipment Operations	\$ (88)	\$ 331	\$ 22
Financial Services	(346)	172	(503)
Eliminations		13	85
Consolidated	\$ (434)	\$ 516	\$ (396)

The utilization of the cash flows in investing activities at Equipment Operations reflects our increased capital expenditures which more than offset the reduction of the deposits in the Fiat affiliates cash management pools. Capital expenditures were principally related to our initiatives to introduce new products, enhance manufacturing efficiency, further integrate our operations and expand environmental and safety programs.

Cash flows used in investing activities at Financial Services reflected the high level of the investment in retail receivables, up approximately \$769 million from 2005 to approximately \$6.1 billion at the end of 2006, and investments in equipment on operating leases which is up approximately \$62 million from 2005. Offsetting these uses of cash were proceeds from retail securitizations, collections of retail receivables and collections of retained interests resulting from previous securitization transactions which were up approximately \$371 million from 2005.

**Table of Contents***Cash Flows from Financing Activities*

	<b>For the Years Ended</b>		
	<b>December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(in millions)</b>		
Equipment Operations	\$ (792)	\$ (952)	\$ (754)
Financial Services	447	132	453
Eliminations	69	47	24
Consolidated	\$ (276)	\$ (773)	\$ (277)

At Equipment Operations, proceeds from the issuance of the 7 1/8% Senior Notes due 2014 for \$500 million were principally used to refinance maturing debt. Cash from operating activities and existing liquidity mainly funded the increase of \$378 million of intersegment notes, the repayment of \$364 million of short term financing facilities and the payment of \$59 million of dividend to common shareholders.

In 2006, Financial Services debt reflects additional short-term debt positions, mainly intercompany notes from Equipment Operations, which were used to fund increased levels of receivable activity. Long-term debt also increased, reflecting higher retail activity in Brazil and Australia. In 2006, Financial Services paid dividends and returned capital to Equipment Operations of approximately \$69 million, compared to \$60 million in 2005.

**Credit Ratings**

As of the date of this report, our long-term unsecured debt was rated BB (positive outlook) by S&P; Ba3 (stable outlook) by Moody's; and BB High (stable trend) by DBRS.

As of the date of this report, Fiat's long-term unsecured debt was rated BB (positive outlook) by S&P; Ba2 (positive outlook) by Moody's; BB (positive trend) by DBRS and BB (positive outlook) by Fitch.

Recent ratings actions include:

On March 12, 2007, Moody's affirmed CNH's long-term senior unsecured debt rating of Ba3 and upgraded their outlook from negative to stable.

On February 12, 2007, Moody's upgraded Fiat's long-term senior unsecured debt rating to Ba2 with a positive outlook.

On January 26, 2007, S&P affirmed Fiat's and CNH's BB corporate credit ratings and revised its rating outlook for each to positive from stable.

On January 26, 2007, Fitch upgraded Fiat's long-term senior unsecured debt rating to BB with a positive outlook.

On April 8, 2006, S&P upgraded Fiat's and CNH's corporate credit ratings to BB (stable outlook).



On February 22, 2006, in connection with Case New Holland, Inc. s announced 7.125% Senior Notes offering, Moody s reaffirmed their Ba3 rating of CNH s long-term senior unsecured debt, with a negative outlook.

On February 22, 2006, in connection with Case New Holland, Inc. s announced 7.125% Senior Notes offering, DBRS reaffirmed their BB High rating of CNH s long-term senior unsecured debt, with a stable trend.

On February 21, 2006, in connection with Case New Holland, Inc. s announced 7.125% Senior Notes offering, S&P reaffirmed its BB rating of CNH s long-term senior unsecured debt, with a stable outlook.

On November 8, 2005, DBRS assigned an issuer rating of BB to Fiat, with a stable trend.

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### **Sources of Funding**

#### *Funding Policy*

Our policy is to maintain a high degree of flexibility with our funding and investment options by using a broad variety of financial instruments to maintain our desired level of liquidity.

In managing our liquidity requirements, we are pursuing a financing strategy that includes maintaining continuous access to a variety of financing sources, including U.S. and international capital markets, commercial bank lines, and funding Financial Services with a combination of receivables securitizations and on-book financing. In addition, a significant portion of our financing has historically come from Fiat and Fiat affiliates and it may again in the future.

A summary of our strategy is:

To fund Equipment Operations short-term financing requirements and to ensure near-term liquidity, we rely primarily on bank facilities. We also maintain a funding relationship with Fiat through the overdraft facilities granted to us under the cash pooling arrangements operated by Fiat in a number of jurisdictions. We manage our aggregate short-term borrowings so as not to exceed availability under our lines of credit with banks and with Fiat.

As funding needs of Equipment Operations are determined to be of a longer-term nature, we will access medium- and long-term debt markets, as appropriate, to refinance short-term borrowings and replenish our liquidity.

We maintain unutilized committed lines of credit and other liquidity facilities, complemented by available cash and cash equivalents and Deposits in Fiat affiliates cash management pools, to cover our expected funding needs on both a short-term and long-term basis.

The most significant source of liquidity for our Financial Services business is asset securitizations to finance the receivables we originate, including wholesale receivables purchased from Equipment Operations. We intend to continue to cultivate our recourse to the ABS and ABCP markets worldwide, based on the acceptance of the performance and characteristics of our receivables, the performance of our existing securities and the continuing growth of such markets.

We complement our ABS funding strategy for Financial Services with access to bank facilities, both short- and long-term, to the capital markets and to Fiat funding via its cash pooling arrangements. In Brazil, Financial Services continues to utilize financing provided by the Brazilian development agencies to support the growth of the agricultural sector of the economy. Financial Services has also relied in the past and may continue to rely on intersegment notes from Equipment Operations.

On a global level, we will continue to evaluate alternatives to ensure that Financial Services continues to have access to capital on favorable terms in support of their business, including through equity investments by global or regional partners in joint venture or partnership opportunities (similar to our arrangement entered into with BPLG), additional funding from Fiat, new funding arrangements or a combination of any of the foregoing.

#### *Consolidated Debt*

As of December 31, 2006, and 2005, our consolidated debt was as detailed in the table below:

	<b>Consolidated</b>		<b>Equipment Operations</b>		<b>Financial Services</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>					
Long-term debt excluding current maturities	\$ 4,072	\$ 3,706	\$ 2,366	\$ 2,011	\$ 1,803	\$ 1,695
Current maturities of long-term debt	1,060	1,059	53	385	1,007	674
Short-term debt	1,270	1,522	488	826	2,130	1,763
<b>Total debt</b>	<b>\$ 6,402</b>	<b>\$ 6,287</b>	<b>\$ 2,907</b>	<b>\$ 3,222</b>	<b>\$ 4,940</b>	<b>\$ 4,132</b>

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As of December 31, 2006, we had a combined \$1.7 billion of cash and cash equivalents and Deposits in Fiat affiliates cash management pools available, a decrease of \$154 million as compared to \$1.8 billion as of December 31, 2005.

We believe that Net Debt, defined as total debt less intersegment notes receivable, Deposits in Fiat affiliates cash management pools and cash and cash equivalents ( Net Debt ), is a useful analytical tool for measuring our effective borrowing requirements. Our ratio of Net Debt to Net Capitalization provides useful supplementary information to investors so that they may evaluate our financial performance using the same measures we use. Net Capitalization is defined as the summation of Net Debt and Total Shareholders' Equity. Net Debt and Net Capitalization are non-GAAP measures. These non-GAAP financial measures should not be considered as a substitute for, nor superior to, measures of financial performance prepared in accordance with U.S. GAAP.

The calculation of Net Debt and Net Debt to Net Capitalization as of December 31, 2006, and 2005 and the reconciliation of Net Debt to Total Debt, the U.S. GAAP financial measure that we believe to be most directly comparable, are shown below:

	<b>Consolidated</b>		<b>Equipment Operations</b>		<b>Financial Services</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>(in millions, except percentages)</b>					
Total debt	\$ 6,402	\$ 6,287	\$ 2,907	\$ 3,222	\$ 4,940	\$ 4,132
Less:						
Cash and cash equivalents	1,174	1,245	703	858	471	387
Deposits with Fiat	497	580	496	578	1	2
Intersegment notes receivables			1,445	1,067		
Net debt	4,731	4,462	263	719	4,468	3,743
Total shareholders' equity	5,120	5,052	5,120	5,052	1,788	1,587
Net capitalization	\$ 9,851	\$ 9,514	\$ 5,383	\$ 5,771	\$ 6,256	\$ 5,330
Net debt to net capitalization	48%	47%	5%	12%	71%	70%

The following table computes Total Debt to Total Capitalization, the U.S. GAAP financial measure which we believe to be most directly comparable to Net Debt to Net Capitalization.

	<b>Consolidated</b>		<b>Equipment Operations</b>		<b>Financial Services</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>(in millions, except percentages)</b>					
Total debt	\$ 6,402	\$ 6,287	\$ 2,907	\$ 3,222	\$ 4,940	\$ 4,132
Total shareholders' equity	5,120	5,052	5,120	5,052	1,788	1,587
Total capitalization	\$ 11,522	\$ 11,339	\$ 8,027	\$ 8,274	\$ 6,728	\$ 5,719

Total debt to total capitalization	56%	55%	36%	39%	73%	72%
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The decline in Equipment Operations Net Debt primarily reflects positive cash flow from operations, including the reduction of working capital which was driven by the increased level of wholesale receivable activity in Europe and Latin America.

The increase in Financial Services Net Debt principally reflects borrowings to fund growth in the retail portfolio in North America and Brazil.

*Long term debt*

As of December 31, 2006, our consolidated long-term debt was \$5.1 billion, including \$1.1 billion of current maturities, compared to \$4.8 billion and \$1.1 billion, respectively, as of the end of the prior year.

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Equipment Operations long-term debt as of December 31, 2006, which was \$2.4 billion, including \$53 million of current maturities, consisted of approximately \$2.3 billion in bonds and medium-term notes, and \$133 million of medium-term loans with third parties. As of December 31, 2006, Financial Services long-term debt, was \$2.8 billion, including \$1.0 billion of current maturities, and consisted primarily of \$1.6 billion of borrowings under committed credit lines related to our retail lending activities in Brazil, (amortizing over the life of the assets), \$1.1 billion of other long-term borrowings from third parties, \$52 million of affiliated notes with Fiat and \$126 million in bonds maturing in 2007.

On August 1, and September 16, 2003, Case New Holland issued a total of \$1.05 billion of 9 1/4% Senior Notes due 2011 which are fully and unconditionally guaranteed by us and certain of our direct and indirect subsidiaries. The 2011 Senior Notes are redeemable starting from August 1, 2007, at certain redemption prices. On May 18, 2004, Case New Holland issued a total of \$500 million of 6% Senior Notes due 2009, which are fully and unconditionally guaranteed by us and certain of our direct and indirect subsidiaries.

On March 3, 2006, Case New Holland issued a total of \$500 million of its 7.125% Senior Notes. The 7.125% Senior Notes, which are fully and unconditionally guaranteed by us and certain of our direct and indirect subsidiaries, are due in 2014. Case New Holland principally used the proceeds from the offering to refinance debt with or guaranteed by Fiat. The 2014 Senior Notes are redeemable starting from March 1, 2010 at certain redemption prices.

*Certificates of deposit*

Our Brazilian Financial Services subsidiary, Banco CNH, continued its local certificate of deposit program and had \$94 million outstanding as of December 31, 2006. Banco CNH has obtained local credit ratings by Fitch Ratings of A+ for its long-term obligations and F-1 for its short-term obligations.

*Credit and liquidity facilities*

As of December 31, 2006, we had approximately \$3.6 billion available under our \$6.8 billion total lines of credit, including the asset-backed liquidity facilities described below. Approximately \$2.1 billion drawn under such lines is classified as long-term debt, while \$1.1 billion is classified as short-term debt. Our ability to incur additional debt may be limited by certain covenants in the Senior Notes as discussed above and our bank credit agreements.

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The following table summarizes our credit facilities at December 31, 2006:

	Borrower(A)	Currency	Maturity	Facility		Total	Available	Guar
				Total (in millions)	Drawn Equipment Operations Financial Services			
<b>Committed lines:</b>								
revolving credit facility	Both	Multiple	February 2008	\$ 1,000	\$ 209	\$ 143	\$ 352	\$ 648
revolving credit facility	EO	Multiple	July 2008	395				395
revolving credit facility	FS	US\$	October 2009	150		150	150	
Subsidized revolving credit facility	FS	Brazil Real	Various from January 2007 to October 2013	1,571		1,571	1,571	
revolving credit lines other	EO	Brazil Real	Various from January 2007 to December 2010	128	128		128	
revolving credit lines other	FS	Australia \$	Various from January 2008 to July 2008	95		47	47	48
				3,339	337	1,911	2,248	1,091
<b>Uncommitted Lines:</b>								
revolving shared credit facilities other	EO	Multiple	July 2008	922				922
receivable securitizations	FS	US\$	January 2007	1,200		283	283	917
accounts receivable securitizations	FS	US\$	June 2007	250		155	155	95
receivable securitizations	FS	Canada \$	July 2007	258		20	20	238
receivable securitizations	FS	Australia \$	March 2008	316		106	106	210
interest								
revolving credit lines	FS	US\$	December 2008	300		174	174	126
	EO	Multiple	January 2007	111	111		111	
	EO	Multiple Danish	January 2007	11	5		5	6
	FS	Krone	January 2007	88		82	82	6
				3,456	116	820	936	2,520
<b> revolving credit facilities</b>				\$ 6,795	453	2,731	3,184	\$ 3,611
<b> Short-term portion</b>					(389)	(681)	(1,070)	

Term credit					
s		\$ 64	\$ 2,050	\$ 2,114	
Amount above with or					
guaranteed by Fiat					
s	\$ 3,270	\$ 211	\$ 1,088	\$ 1,299	\$ 1,971

- (A) - Borrower is either an Equipment Operations ( EO ) entity, a Financial Services ( FS ) entity or Both.
- (B) - Up to \$795 million (1.7 billion Brazilian real) of subsidized financing provided by Banco Nacional de Desenvolvimento Economico e Social ( BNDES ) is guaranteed by Fiat.
- (C) - Includes an \$8 million uncommitted line guaranteed by Fiat. At December 31, 2006, \$2 million of this line was drawn and the remainder was available.

Committed lines of credit

As of December 31, 2006, we had \$1.1 billion available under our \$3.3 billion total committed lines of credit. The majority of such lines are supported by a guarantee from Fiat.



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The \$1.0 billion revolving facility with Fiat (the Amended Facility Agreement ) was renewed on January 22, 2007, and matures on February 28, 2008. It serves as the umbrella under which we borrow from Fiat and its affiliates for day-to-day liquidity needs under the cash pooling arrangements operated by Fiat affiliates.

The 300 million (\$395 million) syndicated credit facility represents the amount allocated to us by Fiat under a 1.0 billion (\$1.3 billion) Fiat syndicated facility which matures in July, 2008, and remained undrawn at December 31, 2006. Loans under this facility bear interest at fluctuating rates based on EURIBOR (or other index rates, such as LIBOR depending on the currency borrowed), plus a margin relating to the credit ratings of Fiat. Fiat and each current borrower under the credit facility (other than CNH) has jointly and severally guaranteed the performance of the obligations of all borrowers under the new facility. This facility contains a number of affirmative and negative covenants, including financial covenants based on Fiat results, limitations on indebtedness, liens, acquisitions and dispositions, and certain reporting obligations. Failure to comply with these covenants, payment defaults or other events of default under the facility could cause the facility to terminate and all loans outstanding under the facility to become due, regardless of whether the default related to CNH. In addition to paying interest on any borrowings it makes under this facility, CNH is required to pay the commitment fees applicable to the 300 million (\$395 million) allocation as well as its pro rata share (based on the number of borrowers from time to time, currently one-sixth) of the remaining commitment fees and other fees relating to the facility.

Financial Services has certain dedicated committed credit facilities available to them which are mostly utilized. In particular, approximately \$1.6 billion was drawn by our Brazilian Financial Services subsidiary under long-term financing arrangements provided by BNDES, supported by the Brazilian government under agricultural development programs. Under such programs, BNDES provides credit lines to us at subsidized interest rates, such that we can provide subsidized financing to farmers for purchases of agricultural equipment. Because of the severe regional droughts and low local agricultural commodity prices in Brazil, the Brazilian government granted a payment moratorium to certain of the farmers in the worst affected areas. Under this industry wide payment moratorium program, the government postponed approximately \$376 million (Brazilian Real 804 million) of installment payments due to us in 2006 by one year and rescheduled out the full remaining value of the affected outstanding financing (approximately \$1.1 billion or Brazilian Real 2.3 billion) by one additional year. At the same time BNDES rescheduled the maturity and payments due by us on the supporting credit lines provided by BNDES. All other financial services participants in the program, were similarly affected for any such financings subject to the moratorium. Because of the reschedulings, we substantially increased our credit loss provisions during the year, to provision for lower equipment residual values over the longer loan amortization period.

**Uncommitted lines of credit**

Our \$1.1 billion of uncommitted lines of credit, as of December 31, 2006, primarily reflects the 700 million (\$922 million) portion of the 1.0 billion (\$1.3 billion) syndicated credit facility shared with other Fiat entities. It also reflects facilities available to us in Europe and certain other jurisdictions, under which we discount or factor certain wholesale receivables primarily for our Equipment Operations business, on a with recourse basis.

*Asset-backed programs*

We also have access to ABCP liquidity facilities through which we may sell retail receivables generated by Financial Services in the United States, Australia and Canada. We utilize these facilities to fund the origination of receivables prior to selling such receivables in the term ABS markets. Under these facilities, the maximum amount of proceeds that can be accessed at one time is \$2.3 billion.

Subsequent to December 31, 2006, we have extended the U.S. facility through January, 2008.

*Cash, cash equivalents, Deposits with Fiat and Intersegment notes receivable*

Cash and cash equivalents were \$1.2 billion as of December 31, 2006, compared to \$1.2 billion as of December 31, 2005. The following table shows cash and cash equivalents, together with additional information on

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Deposits with Fiat and intersegment notes receivable, which together contribute to our definition of Net Debt as of December 31, 2006, and 2005.

	<b>Consolidated</b>		<b>Equipment Operations</b>		<b>Financial Services</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
			<b>(in millions)</b>			
Cash and cash equivalents	\$ 1,174	\$ 1,245	\$ 703	\$ 858	\$ 471	\$ 387
Deposits with Fiat	\$ 497	\$ 580	\$ 496	\$ 578	\$ 1	\$ 2
Intersegment notes receivable:						
Short-term	\$	\$	\$ 1,348	\$ 1,067	\$	\$
Long-term			97			
Total intersegment notes receivables	\$	\$	\$ 1,445	\$ 1,067	\$	\$

The amount of Deposits with Fiat and cash and cash equivalents held by us on a consolidated basis fluctuates daily. The ratio of cash equivalents to Deposits with Fiat also varies, as a function of the cash flows of those CNH subsidiaries that participate in the various cash pooling systems managed by Fiat worldwide.

As of December 31, 2006, Equipment Operations held a total of \$1.4 billion in intersegment notes receivable from Financial Services subsidiaries, of which \$97 million are notes maturing in 2008, 2009, 2010, and 2011. The short-term notes held by Equipment Operations typically represent a form of a cash management optimization tool in place in those jurisdictions where at present the most efficient structure is for Equipment Operations to lend directly to Financial Services, such as the U.S., Canada, and Australia.

*Debt and Deposits with Fiat*

Our debt and Deposits with Fiat as of December 31, 2006, and 2005, respectively, can be analyzed as follows:

	<b>Consolidated</b>		<b>Equipment Operations</b>		<b>Financial Services</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
			<b>(in millions)</b>			
Long-term debt with Fiat excluding current maturities	\$ 19	\$ 133	\$	\$ 95	\$ 19	\$ 38
Current maturities of long-term debt with Fiat	33	413		279	33	134
Short-term debt with Fiat	438	565	260	479	178	86
Total debt with Fiat	490	1,111	260	853	230	258
Less Deposits with Fiat	(497)	(580)	(496)	(578)	(1)	(2)

Net Debt and deposits with Fiat	\$	(7)	\$	531	\$	(236)	\$	275	\$	229	\$	256
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On December 31, 2006, our outstanding consolidated debt with Fiat and its affiliates was \$490 million, or approximately 8% of our consolidated debt, compared to \$1.1 billion or approximately 18% as of December 31, 2005. The reduction resulted primarily from the operating cash flows and the use of proceeds from the issuance in March, 2006, of \$500 million Case New Holland 7 1/8% Senior Notes due 2014.

The total amount of consolidated debt with Fiat and Fiat affiliates outstanding as of December 31, 2006, included \$352 million in short-term debt, drawn under a \$1 billion revolving credit line granted to us by Fiat and maturing on February 28, 2008, and an additional \$138 million, of which \$51 million is related to the funding of our Brazilian equipment operations subsidiary, and \$87 million is related to notes funding Financial Services subsidiaries. An additional \$947 million of consolidated third-party debt outstanding under certain facilities was guaranteed by Fiat or a Fiat subsidiary at December 31, 2006.

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Like other companies that are part of multinational groups, we participate in a group-wide cash management system with the Fiat Group. Under this system, which is operated by Fiat in a number of jurisdictions, the cash balances of Fiat Group members, including us, are aggregated at the end of each business day in central pooling accounts, the Fiat affiliates cash management pools. As well as being invested by Fiat in highly rated, highly liquid money market instruments or bank deposits, our positive cash deposits, if any, at the end of any given business day may be applied by Fiat to offset negative balances of other Fiat Group members and vice versa.

At December 31, 2006, CNH had approximately \$497 million of cash deposited in the Fiat affiliates cash management pools compared with \$580 million at the end of the prior year. Of the total amount deposited with Fiat as of December 31, 2006, the principal components included \$19 million deposited by our North American subsidiaries with a Fiat treasury vehicle in the United States, \$337 million deposited by certain of our European subsidiaries with a vehicle managing cash in most of Europe excluding Italy, and \$141 million deposited by our Italian subsidiaries with a vehicle managing cash in Italy. Historically, our debt exposure towards each of these vehicles has usually been higher than the amounts deposited with them; however, no legal right of offset exists for these positions. At December 31, 2006, deposits with the Fiat treasury vehicles in Europe exceeded our debt exposure toward them.

**Securitization**

The following table summarizes the principal amount of our retail and wholesale ABS programs in the United States, Canada, Australia and Europe, and classified as off-balance sheet at December 31, 2006, and 2005:

	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>	
Wholesale receivables	\$ 3,650	\$ 3,113
Retail and other notes and finance leases	4,873	4,580
Total	\$ 8,523	\$ 7,693

**Wholesale**

We sell wholesale receivables on a revolving basis to privately and publicly structured securitization facilities. The receivables are initially sold to a wholly-owned Special Purpose Entity ( SPE ), which is consolidated by CNH, but legally isolate the receivables from our creditors. Upon the sale of receivables to a qualifying special purpose entity ( QSPE ) in a securitization transaction, receivables are removed from our consolidated balance sheet and proceeds are received for the difference between the receivables sold and the retained undivided interests that are required to be retained by us. These transactions are utilized as an alternative to the issuance of debt and allow us to realize a lower cost of funds due to the asset-backed nature of the receivables and the credit enhancements offered to investors.

In the event charge-offs reduce the receivables pool sold, the investors in the facility have recourse against our retained undivided interests in the sold receivables. These retained undivided interests fluctuate with the size of the sold portfolio, as they are specified as percentages of the sold receivables. Investors have no recourse to us in excess of these retained undivided interests. We continue to service the sold receivables and receive a fee, which approximates the fair value of the servicing obligation.

The facilities consist of a master trust facility in the U.S., Canada and Australia. The U.S. master trust facility consists of the following: \$750 million term senior and subordinated asset-backed notes with a three year maturity issued in June, 2005, \$750 million term senior and subordinated asset-backed notes issued with a three year maturity in July, 2006, and a 364-day, \$800 million conduit facility that is renewable annually (June, 2007) at the sole discretion of the purchasers. The Canadian master trust facility consists of the following: C\$189 million (\$163 million) term senior and subordinated asset-backed notes with a three year maturity issued in July, 2004, C\$189 million (\$163 million) term senior and subordinated asset-backed notes with a three year maturity issued in July, 2006, and a 364-day C\$250 million (\$215 million) conduit facility that is renewable annually (August, 2007) at

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the sole discretion of the purchaser. The Australian facility consists of a 364-day, A\$180 million (\$142 million) conduit facility that is renewable annually (May, 2007) at the sole discretion of the purchaser.

In addition, certain of our Equipment Operations subsidiaries in Europe sell euro and British pound denominated wholesales receivables, directly or indirectly, to an Irish trust. This trust consists of two bank-sponsored conduits under a 500 million, (\$659 million) plus £40 million (\$78 million) 364-day facility maturing in July, 2007. As part of the extension of our wholesale receivable management practices in North America to other regions, we will continue to have certain of our European Financial Services subsidiaries purchase wholesale receivables from Equipment Operations subsidiaries and become sellers into the Irish trust.

Each of the facilities contain minimum portfolio performance thresholds which, if breached, would trigger an early amortization of the asset-backed notes issued by each respective Trust and preclude us from selling additional receivables originated on a prospective basis. The occurrence of an early amortization event would increase the amount of receivables and associated debt on our consolidated balance sheet.

As of December 31, 2006, CNH had the following wholesale receivable securitization facilities:

	Receivables Sold		Outstanding		Retained Undivided Interest	
	Local Currency	US\$	Local Currency	US\$	Local Currency	US\$
United States	\$ 2,770	\$ 2,770	\$ 2,297	\$ 2,297	\$ 473	\$ 473
Canada	C\$ 703	606	C\$ 540	466	C\$ 163	140
Europe	866	1,141	628	827	238	314
Australia	A\$ 103	82	A\$ 76	60	A\$ 27	22

As of December 31, 2005, CNH had the following wholesale receivable securitization facilities:

	Receivables Sold		Outstanding		Retained Undivided Interest	
	Local Currency	US\$	Local Currency	US\$	Local Currency	US\$
United States	\$ 2,406	\$ 2,406	\$ 1,954	\$ 1,954	\$ 452	\$ 452
Canada	C\$ 569	489	C\$ 445	382	C\$ 124	107
Europe	814	960	601	709	213	251
Australia	A\$ 149	109	A\$ 108	79	A\$ 41	30

The retained undivided interests provide recourse to investors in the event of default and are recorded at cost, which approximates fair value due to the short-term nature of the receivables.

*Retail*

We securitize and transfer financial assets, using financial asset securitization procedures, as an alternative funding source to borrowing. Securitization of assets allows us to diversify funding sources while contributing to lower our overall cost of funds. Within CNH's asset securitization program, qualifying retail finance receivables are sold to limited purpose, bankruptcy-remote consolidated subsidiaries of CNH, where required by bankruptcy laws. In turn, these subsidiaries establish separate trusts to which the receivables are transferred in exchange for proceeds from asset-backed securities issued by the trusts. This allows the SPE to issue highly-rated securities in a highly liquid and efficient market, thereby providing us with a cost-effective source of funding. Termination of our ABS activities would reduce the number of funding resources currently available to us for funding our finance activities. Any such reduction of funding sources could increase our cost of funds and reduce our profit margins, which could materially adversely affect our results of operations.



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We maintain access to the asset-backed term market in the United States, Canada, and Australia. During 2006, SPE affiliates of our U.S. Financial Services subsidiaries executed \$2.5 billion in retail asset-backed transactions and SPE affiliates of our Canadian Financial Services subsidiaries executed C\$440 million (\$385 million) in retail asset-backed transactions. The securities in each of these transactions are backed by agricultural and construction equipment retail receivables contracts and finance leases originated through our dealerships. Financial Services applied the proceeds from the securitizations to repay outstanding debt. At December 31, 2006, \$4.9 billion of asset-backed securities issued to investors out of the U.S., Canadian and Australian SPEs were still outstanding with a weighted average remaining maturity of between 24 to 26 months.

Due to the nature of the assets held by the SPEs and the limited nature of each SPE's activities, each SPE is classified as a QSPE under SFAS No. 140. In accordance with SFAS No. 140, assets and liabilities of QSPEs are not consolidated in our consolidated balance sheets.

We agree to service the receivables transferred to the QSPEs for a fee and earn other related ongoing income customary with the programs and in accordance with U.S. GAAP. We also may retain all or a portion of subordinated interests in the QSPEs. These interests are reported as assets in our consolidated balance sheets. The amount of the fees earned and the levels of retained interests that we maintain are quantified and described in Note 3: Accounts and Notes Receivable of our consolidated financial statements.

No recourse provisions exist that allow holders of the asset-backed securities issued by the QSPEs to put those securities back to us although we provide customary representations and warranties that could give rise to an obligation to repurchase from the QSPE receivables for which the representations and warranties are not true. Moreover, we do not guarantee any securities issued by the QSPEs. Our exposure related to these QSPEs is limited to the cash deposits held for the benefit of the holders of the asset-backed securities issued by the QSPEs including the retained interests in the QSPEs, which are reported in our consolidated balance sheets. The QSPEs have a limited life and generally terminate upon final distribution of amounts owed to investors or upon exercise of a cleanup-call option by us, in our role as Servicer, when the servicing of the sold contracts becomes burdensome.

We intend to continue our financing activity in the United States, Canadian and Australian asset-backed term markets as long as it continues to provide low rate financing.

Our ABS program is further described in Note 3: Accounts and Notes Receivable, of our consolidated financial statements.

*Other Restricted Receivables*

A portion of our retail note securitizations are accounted for as secured borrowings. Retail notes related to these programs were transferred, without recourse, to bankruptcy remote SPEs which in turn issued debt to investors. The SPEs supporting the secured borrowings to which the retail notes are transferred are included in the Company's consolidated balance sheets as the transactions do not meet the criteria for derecognition under SFAS No. 140.

The following table summarizes CNH's other restricted receivables at December 31, 2006, and 2005:

	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>	
ABCP conduit facilities	\$ 441	\$ 434

Australia retail receivables	456	246
U.S. retained undivided interests	185	194
U.S. credit card receivables	174	160
Receivables sold without recourse		35
Total other restricted receivables	\$ 1,256	\$ 1,069

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The secured borrowings related to these restricted securitized retail notes are obligations that are payable as the retail notes are liquidated. Repayment of the secured borrowings depend primarily on cash flows generated by the restricted assets.

### **Pension and Other Postretirement Benefits**

#### *Pension Benefit Obligations*

*Current funding and asset allocation.* Plan assets, which are primarily held in trusts and invested to provide for current and future pension benefits, partially offset our projected pension benefit obligations. Plan assets primarily consist of investments in equity securities, debt securities, and cash.

The funded status of our pension benefit obligations expresses the extent to which plan assets are available to satisfy our obligations. At both December 31, 2006, and 2005, our pension plans had an underfunded status of \$1.0 billion. Pension plan obligations for plans that we do not currently fund were \$553 million and \$521 million at December 31, 2006, and 2005, respectively.

During 2006, we contributed \$179 million to our pension benefit plans. The improvement in the funded status of our pension benefit plans in 2006 is mainly attributable to these contributions, and overall favorable returns on assets which more than offset benefit payments and other factors. Actual rates of return for U.S. and U.K. plans, our primary plans, were positive at 10.5% and 7.8%, respectively.

The Pension Protection Act of 2006 ( PPA ) was enacted in August, 2006, and established, among other things, new standards for funding of U.S. defined benefit pension plans. One of the primary objectives of the PPA is to improve the financial integrity of underfunded plans through the requirement of additional contributions. We are evaluating the PPA and whether to retain or forgo the unused funding standard accounts credit balance ( Credit Balance ) which we generated by making contributions in excess of the required minimum funding in prior years. The minimum contribution level should we retain the Credit Balance under current assumptions would be \$67 million in 2008 trending down to \$51 million in 2011, with the plan projected to be fully funded by 2014. The minimum contribution level should we decide not to retain the Credit Balance under current assumptions would be \$29 million in 2008 trending down to \$12 million in 2011, with the plan projected to be fully funded by 2012. For 2007, the Company anticipates making a discretionary contribution of up to \$120 million, which will have an impact on the funding amounts for 2008-2014. We will continue to consider making discretionary contributions to our own pension and other benefit plans in the future, based on availability of cash and other options available to us.

*Further funding requirements.* During 2006, we contributed \$120 million to our U.S. defined benefit pension plans and we anticipate that we will make contributions in 2007 of up to \$120 million. During 2006, we contributed \$59 million to our International defined benefit plans and we anticipate that we will make contributions in 2007 of up to \$62 million.

*Future pension expense.* We estimate that our total pension benefit expense in 2007 will be less than our 2006 expense of \$81 million.

#### *Other Postretirement Benefit Obligations*

*Current funding and asset allocation.* These benefit obligations are currently unfunded although we continue to evaluate making discretionary contributions. At December 31, 2006, and 2005, our other postretirement benefit obligations had an underfunded status of \$1.5 billion, and \$1.7 billion, respectively.

*Further funding requirements.* We are not required by law or labor agreements to make contributions to our other postretirement benefit plans. We anticipate that cash requirements for other postretirement employee benefit costs will increase in 2007 when compared to 2006.

*Future postretirement benefit expense.* We estimate that our total other postretirement benefit expense in 2007 will be approximately the same as our 2006 expense of \$154 million. This is the result of continued higher healthcare cost trend rates offset by higher discount rates and benefit changes.

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See Item 5. Operating and Financial Review and Prospects A. Operating Results Application of Critical Accounting Estimates, as well as Note 12: Employee Benefit Plans and Postretirement Benefits of our consolidated financial statements for additional information on pension and other postretirement benefits accounting.

***C. Research and Development, Patents and Licenses, etc.***

Our research, development and engineering personnel design, engineer, manufacture and test new products, components, and systems. We incurred \$367 million, \$303 million, and \$277 million of R&D costs in the years ended December 31, 2006, 2005, and 2004, respectively.

We also benefit from the R&D expenditures of our unconsolidated joint ventures, which are not included in our R&D figures, and from the continuing engineering efforts of our suppliers.

**Patents and Trademarks**

*Agricultural Equipment* We are promoting the New Holland, Case IH and Steyr brands and logos as the primary brand names for our agricultural equipment products. We sell some products under heritage brand names or sub-brand names such as Braud, FiatAllis, Flexi-Coil, Austoft, Concord, DMI and Tyler.

*Construction Equipment* For construction equipment under New Holland, we are promoting the New Holland and Kobelco brands in particular regions of the world. For construction equipment under Case, we are promoting the Case construction brand name and logo.

Most of these brand names have been registered as trademarks in the principal markets in which we use them. Other than the New Holland, Case and Case IH trademarks, we do not believe that our business is materially dependent on any single patent or trademark or group of patents or trademarks.

We, through our Case IH and New Holland brands in Agricultural Equipment and Case and New Holland Construction brands in Construction Equipment, have a significant tradition of technological innovation in the agricultural and construction equipment industries. We hold over 3,500 patents and over 940 additional applications are pending. We believe that we are among the market leaders for patented innovations in the product classes in which we compete.

***D. Trend Information.***

**Agricultural Equipment Market Outlook**

U.S. farm income is expected to improve 5% in 2007. U.S. farm cash receipts are expected to increase modestly driven by higher commodity prices. The increase of ethanol production is expected to drive corn and soybean prices higher. Corn acreage is expected to increase 7 to 10%.

Outside of North America, the European agricultural markets are expected to remain at 2006 retail unit sales levels. Latin American markets will continue to improve driven by higher commodity prices for sugar and cash grains.

On this basis, we expect the agricultural equipment market industry retail unit sales to be modestly up in 2007.

**Construction Equipment Market Outlook**

North American construction spending is expected to be down in 2007 due to the decline in housing starts. Growth is expected to resume in 2008 and 2009.

Outside of North America, construction activity is expected to continue its growth. In this environment, the worldwide construction equipment industry retail unit sales should generally remain strong for both heavy and light equipment.

**Table of Contents****E. Off-Balance Sheet Arrangements.**

We have incorporated a discussion of our off-balance sheet arrangements into our discussion of liquidity and capital resources. Please see Item 5. Operating and Financial Review and Prospectus A. Operating Results Application of Critical Accounting Estimates Off-Balance Sheet Financing for a detailed description of our off-balance sheet arrangements.

**F. Tabular Disclosure of Contractual Obligations.**

The following table sets forth the aggregate amounts of our contractual obligations and commitments with definitive payment terms that will require significant cash outlays in the future. The commitment amounts as of December 31, 2006, are as follows:

	Total	Payments Due by Period			After 5 years
		Less than 1 year	1-3 years (in millions)	4-5 years	
Long-term debt	\$ 5,132	\$ 1,060	\$ 1,899	\$ 1,389	\$ 784
Interest on fixed rate debt <sup>(1)</sup>	1,119	267	407	291	154
Interest on floating rate debt <sup>(1)</sup>	609	171	257	160	21
Operating leases <sup>(2)</sup>	207	40	53	37	77
Joint venture funding requirements	23	10	13		
Total contractual cash obligations	\$ 7,090	\$ 1,548	\$ 2,629	\$ 1,877	\$ 1,036

(1) The interest funding requirements are based on the 2006 interest rates and the assumption that short-term debt will be renewed for the next five years.

(2) Minimum rental commitments.

As noted in the table above, we are a participant in a joint venture which has a Note Agreement with an outstanding balance of approximately \$45 million at December 31, 2006. We are required to fund \$23 million of the principal with payments of \$10 million in 2007 and \$13 million in 2008.

**Other Liabilities**

We expect that our Other Long-term Liabilities and Purchase Obligations, described below, will be funded with cash flows from operations and additional borrowings under our credit facilities.

We had cash interest payments of approximately \$122 million for the year ended December 31, 2006, on floating rate debt. If the average floating interest rate increased by 0.5%, our cash payment would have increased approximately \$5 million for the year.

At December 31, 2006, Financial Services has various agreements to extend credit for the following financing arrangements:

	<b>Total Credit Limit</b>	<b>Utilized (in millions)</b>	<b>Unfunded Amount</b>
Private label credit card	\$ 3,518	\$ 203	\$ 3,315
Wholesale and dealer financing	5,546	3,414	2,132

In the normal course of business, CNH and its subsidiaries provide indemnification for guarantees it arranges in the form of bonds guaranteeing the payment of value added taxes, performance bonds, custom bonds, bid bonds, and bonds related to litigation. As of December 31, 2006, total commitments of this type were approximately \$145 million.



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As of December 31, 2006, we have restructuring reserves totaling approximately \$85 million. These will be settled in cash, primarily by December 31, 2007. During 2007 and 2008, we anticipate total cash payments for restructuring costs to be approximately \$150 million and \$20 million, respectively.

While our funding policy requires contributions to our defined benefit plans equal to the amounts necessary to, at a minimum, satisfy the funding requirements as prescribed by the laws and regulations of each country, we do make discretionary contributions when management determines it is prudent to do so. For 2007, we project total contributions to our defined benefit plans of approximately \$182 million, including currently anticipated discretionary contributions of up to \$120 million to our U.S. plans.

Our other postretirement benefit plans are currently unfunded although we continue to evaluate making discretionary contributions. We are required to make contributions equal to the amount of current plan expenditures, less participant contributions. For 2007, we anticipate contributions to our other postretirement benefit plans of approximately \$93 million prior to consideration of any discretionary contributions.

We expect to pay income taxes in 2007 of approximately \$39 million for income taxes due for years ended December 31, 2006, and prior. Income tax payments beyond 2007 are contingent on many variable factors and cannot be reasonably predicted.

## **Purchase Obligations**

We estimate that for 2007, expenditures for property, plant and equipment and other investments to support our margin improvement initiatives, our new product programs and other requirements may be approximately \$300 million. Additionally, we anticipate expenditures of approximately \$300 million in 2007 by our Financial Services segment for equipment that will be leased to customers under operating lease arrangements.

Purchase orders made in the ordinary course of business are excluded from this section. Any amounts for which we are liable under purchase orders are reflected in our consolidated balance sheets as accounts payable.

## ***G. Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995.***

This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact contained in this filing, including statements regarding our competitive strengths, business strategy, future financial position, budgets, projected costs and plans and objectives of management, are forward-looking statements. These statements may include terminology such as may, expect, could, should, intend, estimate, anticipate, believe, outlook, continue, remain, on track, goal, or similar t

Our outlook is predominantly based on our interpretation of what we consider key economic assumptions and involves risks and uncertainties that could cause actual results to differ. Crop production and commodity prices are strongly affected by weather and can fluctuate significantly. Housing starts and other construction activity are sensitive to interest rates and government spending. Some of the other significant factors for us include general economic and capital market conditions, the cyclical nature of our business, customer buying patterns and preferences, foreign currency exchange rate movements, our hedging practices, our and our customers' access to credit, actions by rating agencies concerning the ratings on our debt and asset backed securities and the ratings of Fiat S.p.A., risks related to our relationship with Fiat S.p.A., political uncertainty and civil unrest or war in various areas of the world, pricing, product initiatives and other actions taken by competitors, disruptions in production capacity, excess inventory levels, the effect of changes in laws and regulations (including government subsidies and international trade regulations), technology difficulties, results of our research and development activities, changes in environmental

laws, employee and labor relations, pension and health care costs, relations with and the financial strength of dealers, the cost and availability of supplies from our suppliers, raw material costs and availability, energy prices, real estate values, animal diseases, crop pests, harvest yields, government farm programs and consumer confidence, housing starts and construction activity, concerns related to modified organisms and fuel and fertilizer costs. Additionally, our achievement of the anticipated benefits of our margin improvement initiatives depends upon, among other things, industry volumes as well as our ability to effectively rationalize our operations and to execute our brand strategy.

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The expectations reflected in our forward-looking statements may not prove to be correct. Our actual results could differ materially from those anticipated in these forward-looking statements. All written and oral forward-looking statements attributable to us are expressly qualified in their entirety by the factors we disclose that could cause our actual results to differ materially from our expectations. We undertake no obligation to update or revise publicly any forward-looking statements.

**Item 6. Directors, Senior Management and Employees*****A. Directors and Senior Management.***

At the Annual General Meeting ( AGM ) of Shareholders held on April 7, 2006, we changed the term of office and composition of the Board of Directors. The Board now consists of eleven directors, seven of which will be independent directors as provided in the listing standards and rules of the NYSE. The directors serve for a term of one year and may stand for re-election the following year.

At the April 7, 2006 AGM, Léo W. Houle, Dr. Rolf M. Jeker, Dr. Peter Kalantzis, John Lanaway and Jacques Theurillat were elected as new independent Board members. Mrs. Katherine M. Hudson, and Messrs. Michael E. Murphy and James L.C. Provan did not stand for re-election.

As of March 26, 2007, our directors and our executive officers are as set forth below:

<b>Name</b>	<b>Position with CNH</b>	<b>Director/ Executive Officer Since</b>
Harold D. Boyanovsky	President and Chief Executive Officer, Director	2005/1999
Dr. Edward A. Hiler	Director	2002
Léo W. Houle	Director	2006
Dr. Rolf M. Jeker	Director	2006
Dr. Peter Kalantzis	Director	2006
John Lanaway	Director	2006
Kenneth Lipper	Director	1996
Ferruccio Luppi	Director	2005
Sergio Marchionne	Director, Chairman of the Board	2004
Paolo Monferino	Director	2000
Jacques Theurillat	Director	2006
Rubin J. McDougal	Chief Financial Officer	2006
Randal W. Baker	President, Case IH Agricultural Equipment	2006
Steven Bierman	President, CNH Capital	2005
Ugo De Carolis	President, Parts and Service	2007
Franco Fenoglio	President, New Holland Construction Equipment	2005
Michel Lecomte	Retiring President, Parts and Service	2000
James E. McCullough	President, Case Construction Equipment	2005
Lorenzo Sistino	President, New Holland Agricultural Equipment	2006
Carlo De Bernardi	Vice President, Internal Audit	2004
Roberto Miotto	Senior Vice President, General Counsel and Secretary	1991

Roberto Pucci	Senior Vice President, Human Resources	2005
Georg Richartz	Senior Vice President, Supply Chain and Logistics	2006
Loris Spaltini	Senior Vice President, Strategic Sourcing	2006

Harold D. Boyanovsky, Director and President and Chief Executive Officer, born on August 15, 1944, was appointed President, Construction Equipment Business on September 1, 2002, President and Chief Executive Officer on February 28, 2005 and Director on December 7, 2005. He served as President, Worldwide Agricultural Equipment Products of CNH from November 1999 to October 2002. Prior to the business merger of New Holland and Case, he served as a Senior Vice President of Case from May 1997 to November 1999. Between December 1966

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and November 1999, Mr. Boyanovsky served in a variety of executive positions with Case and International Harvester.

Dr. Edward A. Hiler, Director, born on May 14, 1939, was elected a Director of CNH on May 7, 2002. Dr. Hiler presently serves the Texas A&M University System as the Ellison Chair in International Floriculture and Professor of Horticultural Science. He previously held the position of Vice Chancellor for Agriculture and Life Sciences and Dean of the College of Agriculture and Life Sciences. He is also Director of the Texas Agricultural Experiment Station. Since joining the faculty of Texas A&M as an assistant professor in 1966, Dr. Hiler has held a series of positions including professor and head of the University's Department of Agricultural Engineering, and deputy chancellor for Academic and Research Programs of the Texas A&M University system. Dr. Hiler earned his Ph.D. in Agricultural Engineering at The Ohio State University, and he has served as President of the American Society of Agricultural Engineers and is an elected member of the National Academy of Engineering. He consults on aspects of water conservation, environmental quality, and energy from biological processes to various government agencies and the U.S. Congress. A licensed professional engineer and recipient of numerous educational and research awards, Dr. Hiler is the author of over 100 professional publications.

Léo W. Houle, Director, born on August 24, 1947, was elected a Director of CNH on April 7, 2006. Mr. Houle has been Chief Talent Officer of BCE Inc. and Bell Canada, Canada's largest communications company, since June 2001. Prior to joining BCE and Bell Canada Mr. Houle was Senior Vice-President, Corporate Human Resources of Algroup Ltd., a Swiss-based diversified industrial company. From 1966 to 1987, Mr. Houle held various managerial positions with the Bank of Montreal, the last of which was Senior Manager, Human Resources Administration Centers. In 1987, Mr. Houle joined the Mardon Group Limited as Group Vice-President, Human Resources until 1994 when Algroup Ltd. acquired Lawson Mardon Group at which time he was appointed Head of Human Resources for the packaging division of Algroup and in 1997 Head of Corporate Human Resources of Algroup, Ltd. Mr. Houle completed his studies at the College St- Jean in Edmonton, attended the Executive Development Program in Human Resources at the University of Western Ontario in 1987 and holds the designation of Certified Human Resources Professional (CHRP) from the Province of Ontario.

Dr. Rolf M. Jeker, Director, born July 30, 1946, was elected a Director of CNH on April 7, 2006. Dr. Jeker has been working as Executive Vice President and a member of the Group Executive Board of SGS Société Générale de Surveillance, SA, Geneva, Switzerland from May 1999 to July 2006. From June 1990 to May 1999, Dr. Jeker served as Under-Secretary and State Secretary of State a.i. for Foreign Economic Affairs; Chairman of Swiss Export Risk Guarantee Board and Chairman of the Swiss Investment Risk Guarantee Board. Dr. Jeker is a member of the Board of Directors of Precious Woods Holding Ltd.; Chairman of the Board of the Swiss Export Promotion Office; member of the Foreign Economic Relations Committee of Economiesuisse; Chairman of the My Climate-CLIPP Foundation; and Member of the Board of the Swiss Climate Penny Foundation. Dr. Jeker holds a Masters and Ph.D. in Economics, business and public administration from the University of St. Gall, Switzerland. Dr. Jeker is the author of various books and articles on development and finance.

Dr. Peter Kalantzis, Director, born December 12, 1945, was elected a Director of CNH on April 7, 2006. Dr. Kalantzis has been working as an independent consultant since October 2000. Prior to 2000, he was responsible for Alusuisse-Lonza Group's corporate development and actively involved in the de-merger and stock market launch of Lonza, as well as the merger process of Alusuisse and Alcan. Dr. Kalantzis served as head of the Chemicals Division of Alusuisse-Lonza Group from 1991 until 1996. In 1991 Dr. Kalantzis was appointed Executive Vice-President and Member of the Executive Committee of the Alusuisse-Lonza Group. Between 1971 and 1990 he held a variety of positions at Lonza Ltd. in Basel. Dr. Kalantzis is Chairman of the Board of Directors of Movenpick-Holding, Cham, (Switzerland); Chairman of the Board of Clair Finanz Holding AG, Cham; Member of the Board of Directors of Hansa, AG, Baar (Switzerland); Chairman of the Board of Directors of PrivatAir Holding SA, Geneva; Member of the Boards of Directors of Lonza Group AG, Basel; of Lamda Development AG, Athens; and of Paneuropean Oil and

Industrial Holdings SA, Luxembourg. From 1993 until 2002, he served on the Board of the Swiss Chemical and Pharmaceutical Association as Vice-President and in 2001-2002 as President. Dr. Kalantzis holds a PH.D. in Economics and Political Sciences from the University of Basel and engaged in research as a member of the Institute for Applied Economics Research at the University of Basel between 1969 and 1971.

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John Lanaway, Director, born on April 13, 1950, was elected a Director of CNH on April 7, 2006. Mr. Lanaway has been working as Chief Financial Officer, North America, of Ogilvy & Mather, one of the largest marketing communications networks in the world. Previously, he has held the positions of Chief Financial Officer and Senior Vice President at Geac Computer Corporation Limited from 1999 to 2001; Chief Financial Officer of Algorithmics Incorporated from 1997 to 1999; and Senior Vice President and Chief Financial Officer at Spar Aerospace from 1995 to 1996. Beginning in 1985 to 1995 Mr. Lanaway held various positions with Lawson Mardon, including Sector Vice President, Labels North America from 1993 to 1995; Group Vice President and Chief Financial Officer from 1989 to 1992; General Manager, Lawson Mardon Graphics from 1988 to 1989; and Vice President, Financial Reporting and Control from 1985 to 1987. He served as Client Service Partner at Deloitte & Touche from 1980 to 1985 and as Student-Staff Accountant-Supervisor-Manager from 1971 to 1980. Mr. Lanaway graduated from the Institute of Chartered Accountants of Ontario, C.A. and has a Bachelor of Arts degree from the University of Toronto.

Kenneth Lipper, Director, born on June 19, 1941, was elected a Director of CNH on February 10, 1996. He is Executive Vice President of Cushman & Wakefield, Inc. since 2005, where he has served as Senior Advisor since 2004 and Chairman of Lipper & Company, LLC since 1987. Previously, he was the Deputy Mayor of the City of New York under Mayor Edward Koch from 1983 to 1985. He was a managing director and general partner of Salomon Brothers during the years 1976-1982 and an associate and general partner at Lehman Brothers during the years 1969-1975. Prior to that, Mr. Lipper was the Director of Industrial Policy for the Office of Foreign Direct Investment at the U.S. Department of Commerce and an associate with the law firm of Fried, Frank, Harris, Shriver & Jacobson. Mr. Lipper received an Academy Award in 1999 as Producer of *The Last Days* and has been involved as a producer and/or author in *The Winter Guest*, *City Hall*, and *Wall Street*. He is a partner and co-publisher of the celebrated biography series *Penguin Lives*, under the Lipper/Viking Penguin imprint. Mr. Lipper is a Trustee of the Council of Excellence in Government, the Governor's Committee on Scholastic Achievement and a member of the Council on Foreign Relations, Economic Club of New York and The Century Club. Mr. Lipper received a B.A. from Columbia University, a J.D. from Harvard Law School and Masters in Civil Law from New York University/Faculty of Law & Economics, Paris.

Ferruccio Luppi, Director, born on November 3, 1950, was appointed a Director of CNH on June 28, 2005. Mr. Luppi has been Senior Vice President of Business Development of Fiat S.p.A. since April 2005. He is also Chief Executive Officer of Business Solutions S.p.A., following his appointment in January, 2004 and he is also President of Fiat Services S.p.A. He was Chief Financial Officer of Fiat S.p.A. from October 2002 to December 2003. Prior to joining Fiat, Mr. Luppi was named Managing Director and a member of the Board of Directors of the Worms Group at the beginning of 1998, an investment holding company listed on the Paris Stock Exchange. He began his career at the Worms Group in 1997 as head of the Industrial Investments Control Department. From 1984 until 1996, Mr. Luppi worked at the IFIL Group, where he was first responsible for Equity Investments Control and then head of the Group's Development and Control Department. From 1973 to 1983, Mr. Luppi was associated with several major Italian corporate groups. Mr. Luppi holds a degree in Economics. He is on the boards of Fiat Group Automobiles S.p.A., Iveco S.p.A. and Ferrari S.p.A.

Sergio Marchionne, Director and Chairman of the Board, born on June 17, 1952, was appointed a Director of CNH on July 22, 2004, and Chairman of the Board on April 7, 2006. Mr. Marchionne has been Chief Executive Officer of Fiat S.p.A. since June, 2004, whose Board of Directors he joined in May, 2003. He is also Chief Executive Officer of Fiat Group Automobiles S.p.A., Fiat's car division, since February 2005. He has been a member of the Board of SGS S.A. since May 2001. From February, 2002 to June, 2004, he served as Chief Executive Officer and Managing Director of SGS, Vice-Chairman since June, 2004 and Chairman since March, 2006. He served as a member of the Board of Serono S.A. from May, 2000 until December, 2006. From October, 1999 until January, 2002, Mr. Marchionne served as Chief Executive Officer and Board member of Lonza Group AG, which was spun-off from Alusuisse-Lonza Group in October, 1999. Mr. Marchionne served as Chairman of Lonza Group AG from October, 2002 until April, 2005. He previously worked at Alusuisse-Lonza in various capacities and as Chief Executive Officer from 1996 until October,

2000. From January 2006, he is also Chairman of ACEA (European Automobile Manufacturers Association). In addition to his professional responsibilities at Fiat, Mr. Marchionne is a member of the Supervisory Board of Hochtief AG, of Fondazione Giovanni Agnelli, of Assonime (Association for



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Italy's limited liability companies). Mr. Marchionne received an LLB from Osgoode Hall Law School in Toronto, Canada and an MBA from the University of Windsor, Canada. He is a barrister and solicitor and a Chartered Accountant. Mr. Marchionne holds dual Canadian and Italian nationalities and is a resident of Switzerland.

Paolo Monferino, Director, born on December 15, 1946, served as President and Chief Operating Officer of CNH from March 24, 2000 to November 7, 2000. On November 8, 2000, Mr. Monferino was appointed a Director and President and Chief Executive Officer, leading the overall management of CNH, including the execution of the Company's wide-ranging integration plan. Mr. Monferino resigned as President and Chief Executive Officer on February 28, 2005 and became Chief Executive Officer of Iveco, the lead company of Fiat Group's Commercial Vehicle Sector. Mr. Monferino has more than 20 years of experience in the agricultural and construction equipment business beginning in the United States with Fiatallis, a joint venture between Fiat's construction equipment business and Allis Chalmers. In 1983, he was named Chief Executive Officer of Fiatallis' Latin American operations in Brazil. Two years later, he was appointed Chief Operating Officer at Fiatallis and in 1987 was named the Chief Operating Officer at FiatAgri, the farm machinery division of the Fiat Group. Following Fiat Geotech's 1991 acquisition of Ford New Holland, Mr. Monferino was named Executive Vice President of the new company headquartered in London. He was responsible for strategy and business development, including product, marketing and industrial policies.

Jacques Theurillat, Director, born on March 20, 1959, was elected a Director of CNH on April 7, 2006. Mr. Theurillat served as Serono's Deputy CEO until December, 2006. In addition to his role as Deputy CEO, he was appointed Senior Executive Vice President, Strategic Corporate Development in May 2006 and was responsible for developing the Company's global strategy and pursuing Serono's acquisition and in-licensing initiatives. From 2002 to 2006, Mr. Theurillat served as Serono's President of European and International Sales & Marketing. In this position he was responsible for Serono's commercial operations in Europe, IBO, Asia-Pacific, Oceania/Japan, Latin America and Canada. He became a Board member in May 2000. From 1996 to 2002, he was Chief Financial Officer. He previously served as Managing Director of the Istituto Farmacologico Serono in Rome, where he started in 1994. In 1993, he was appointed Vice President Taxes and Financial Planning for Serono. In 1990-1993, Mr. Theurillat worked outside Serono, running his own law and tax firm. Before that, he was Serono's Corporate Tax Director, a post to which he was appointed in 1988. He first joined Serono in 1987 as a Corporate Lawyer working on projects such as the company's initial public offering. Mr. Theurillat is a Swiss barrister and holds Bachelor of Law degrees from both Madrid University and Geneva University. He also holds a Swiss Federal Diploma (Tax Expert) and has a Master's degree in Finance.

Rubin J. McDougal, Chief Financial Officer, born on March 30, 1957, who assumed the role of CNH's Chief Financial Officer on October 14, 2006, has had more than 20 years of experience in finance, strategic planning, and business development with Whirlpool Corporation. Most recently, he was Vice President - Finance, North America Region. From 2001 to 2004, he was CFO of Whirlpool Europe. From 1993 to 1996, he was located in Asia and was in charge of strategic planning and business development. Mr. McDougal earned a Bachelor of Arts degree with a concentration in marketing, graduated cum laude, from the University of Utah and an MBA degree with a concentration in finance in 1989 from Western Michigan University.

Randal W. Baker, President, Case IH Agricultural Equipment, born on June 10, 1963, was appointed President, Case IH Agricultural Equipment on September 13, 2006. Mr. Baker also served CNH as Senior Vice President for Logistics and Supply Chain from October, 2005, until October, 2006. From 2004 to 2005, as Vice President North America marketing, Mr. Baker directed the CNH agricultural marketing, parts and service operations. His background includes 20 years in the construction and mining industry; and he has operational experience in marketing, service and customer support, quality systems, and domestic and international sales. Mr. Baker received a Bachelor of Science degree in mining engineering from South Dakota School of Mines and Technology in 1986.



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Steven Bierman, President, CNH Capital, born on March 20, 1955, was appointed President, CNH Capital on September 30, 2005, and was previously Vice President of Commercial Finance for CNH Capital. Prior to joining CNH, Mr. Bierman was employed by Fremont General Corporation in Santa Monica, California, from 1998 to 2004. From 2002 to 2004, Mr. Bierman served as Chief Information Officer for Fremont Investment and Loan, a subsidiary of Fremont General Corporation. From 1998 to 2002, Mr. Bierman was employed by Fremont Financial Corporation, also a subsidiary of Fremont General Corporation, first as Senior Vice President for its syndicated loan group and after as President and Chief Operating Officer. Between 1996 and 1998, Mr. Bierman served as Senior Vice President/National Credit Manager of the Union Bank of California in the Commercial Finance Division. From 1986 to 1996, Mr. Bierman held a variety of positions with General Electric Capital Corporation. Additionally, Mr. Bierman is a Certified Public Accountant.

Ugo De Carolis, President, CNH Parts and Service (replacing Michel Lecomte, retiring in March 2007), born on October 6, 1965, has been appointed President, CNH Parts & Service in March 2007. Prior to joining CNH, he was CEO of Leasys, a Fiat Group company specialized in fleet management and long-term vehicle leasing. From 1997 to 2003, he covered various positions of growing responsibility within GE Capital Services in Italy. From 1993 to 1997, Mr. De Carolis, who earned a degree in Mechanical Engineering from the University of Rome, held various roles in the fields of process engineering and technical reliability at Procter & Gamble in Italy and Great Britain.

Franco Fenoglio, President, New Holland Construction Equipment, born on March 31, 1953, was appointed President, New Holland Construction Equipment on September 30, 2005. Prior to joining CNH, Mr. Fenoglio held positions with Iveco as Vice President, Commercial Operations from August, 1999, until March, 2004; Senior Vice President Sales and Marketing from March, 2004, until May, 2005; and Senior Vice President, International Operations and Business Development from May, 2005, until his appointment with CNH.

Michel Lecomte, Retiring President, Parts and Service, born on January 27, 1949, was appointed President, Parts and Service on September 15, 2006 and is retiring at the end of March, 2007. Mr. Lecomte was Chief Financial Officer from November 8, 2000 until October 13, 2006. Mr. Lecomte served as President, Financial Services and President, CNH Capital until 2003. Prior to joining CNH, Mr. Lecomte served as Chief Financial Officer of Iveco, a sector of the Fiat Group and Transolver, Iveco's financial services business. From 1989 to 1996, he served as Chief Financial Officer of the Framatome Group based in France. Mr. Lecomte also served as Chief Financial Officer of CertainTeed Corporation in the United States from 1984 to 1989.

James E. McCullough, President, Case Construction Equipment, born on June 27, 1950, was appointed President, Case Construction Equipment on September 30, 2005, and was previously President, Construction Equipment N.A. of CNH from June 2003. Mr. McCullough served as Senior Vice President, Construction Equipment Commercial Operations, N.A. from 2002 to 2003 and Senior Vice President, Case Commercial Operations Worldwide from 1999 to 2002. Prior to the business merger of New Holland and Case, he served as Vice President and General Manager, Case Construction Equipment Division from 1995 to 1998. Between 1988 and 1990, Mr. McCullough served in a variety of positions with Case.

Lorenzo Sistino, President, New Holland Agricultural Equipment, born on May 12, 1962, was appointed President, New Holland Agricultural Equipment, on December 5, 2006. He has been in charge of the Light Commercial Vehicles (LCVs) activities of the Fiat Group automobile division since October, 2004, and responsible for worldwide sales of the Fiat brand since June, 2005. During his tenure, Fiat LCVs achieved major results including the increasing of market share especially in Europe. Mr. Sistino joined Fiat in 1987, and he was given positions of increasing responsibility in marketing and sales in particular in the Lancia and LCVs brands.

Carlo De Bernardi, Vice President, Internal Audit, born on December 4, 1959, was appointed Vice President of Internal Audit on November 12, 2004. He joined CNH America LLC on May 1, 2000 after a career that began in 1984 when he joined the Internal Audit function of Fiat SpA (then Fiat Revi) as a junior auditor and progressed to the position of director responsible for New Holland sector audits. In October 1999 he was appointed Internal Audit Director for New Holland N.V., headquartered in Brentford, U.K.. Mr. De Bernardi earned a degree in economics in 1983 from Facolta di Economia e Commercio in Turin, Italy. He earned the Certified Internal Auditor (CIA) designation in 2003.

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Roberto Miotto, Senior Vice President, General Counsel and Secretary, born on December 15, 1946, has served as Senior Vice President, General Counsel and Secretary of CNH since November, 1999. Prior to the business merger of New Holland and Case, Mr. Miotto served as Vice President, General Counsel and Secretary of New Holland. Prior to that, Mr. Miotto served in a variety of executive positions with the Fiat Group.

Roberto Pucci, Senior Vice President, Human Resources, born on December 19, 1963, was appointed Senior Vice President, Human Resources on November 1, 2005. Prior to joining CNH, Mr. Pucci served as Vice President, Human Resources for Agilent Technologies Europe from January, 2003, until October, 2005. Prior to January, 2003, Mr. Pucci was Director, Compensation and Benefits with Agilent. From 1987 until April, 1999, Mr. Pucci served in various human resources capacities with Hewlett-Packard in Europe.

Georg Richartz, Senior Vice President, Supply Chain and Logistics, CNH, born August 8, 1956, in Düren, Germany, was appointed Senior Vice President of Supply Chain and Logistics on December 5, 2006. Mr. Richartz served in Turin, Italy as Senior Vice President of Supply Chain and Logistics of CNH since November, 2006, coming from Fiat Auto where he held a similar position since July, 2005. Previously, he had a long career at Volkswagen AG, starting in 1981. Mr. Richartz graduated with a degree in mechanical engineering in 1981 specializing in automotive engineering from the Aachen University of Technology; and in 1997, he completed work on his doctorate degree at the Otto-von-Guericke University in Magdeburg.

Loris Spaltini, Senior Vice President, Strategic Sourcing, born in Turin, Italy in 1959, was appointed Senior Vice President Purchasing for CNH and Iveco in October, 2005. He is currently managing the combined responsibility for the two sectors of Fiat Group. He began his professional career in 1984, with Andersen Consulting (now Accenture), where he worked for five years as a business consultant in several automotive companies, mainly focusing on manufacturing, purchasing, and logistics. In 1989, he entered the Fiat Group and served in different group companies that mainly supplied components. Mr. Spaltini moved from the suppliers' side to the customers' side in 1998 entering the Fiat Auto Purchasing Department in Turin as International Development Director. In 2000, he was named International Development and Global Sourcing Director in the GM-FIAT WorldWide Purchasing JV, holding the full responsibility of purchasing activities in Fiat Auto emerging markets such as India, Egypt, China, and Thailand. Two years later, he was appointed by GM-FIAT WorldWide Purchasing Europe as Italy CEO before moving in July, 2003, to Iveco as global purchasing Senior Vice President and member of the Iveco Strategy Board. Mr. Spaltini holds a degree in Electrical Engineering from the Politecnico of Turin, Italy. He completed his academic curriculum with a Master in Business Administration from Istud Institute in Stresa, Italy.

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The following table summarizes remuneration paid or accrued in cash or common shares to Directors for the year ended December 31, 2006, excluding directors who are employees of Fiat and are not compensated by CNH:

<b>Dr. Edward A. Hiler</b>	<b>Léo W. Houle</b>	<b>Katherine M. Hudson</b>	<b>Dr. Rolf M. Jeker</b>	<b>Dr. Peter Kalantzis</b>	<b>John B. Lanaway</b>	<b>Kenneth Lipper</b>	<b>Michael E. Murphy</b>	<b>James L.C. Provan</b>	<b>Jacques Theurillat</b>	<b>Pa Monfer</b>
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 15
12,500						10,000				
77,500	25,000	87,500	16,876	45,000	27,000		46,279	51,279	37,500	
							8,759	8,759		
							8,770	8,770		
			11,243		8,999					
			11,249		9,017					
			11,250		6,750					

\$ 90,000 \$ 25,000 \$ 87,500 \$ 50,618 \$ 45,000 \$ 51,766 \$ 10,000 \$ 63,808 \$ 68,808 \$ 37,500 \$ 15

(1) Mr. Monferino resigned as President and Chief Executive Officer on February 28, 2005. The amount shown represents reimbursement of taxes owed and paid via compensation.

Outside directors also may elect to have a portion of their compensation paid in stock and/or stock options. See CNH Outside Directors, Compensation Plan and Share Ownership below. Directors who are employees of Fiat do not receive compensation from CNH.

**CNH Outside Directors Compensation Plan**

The CNH Global N.V. Outside Directors Compensation Plan ( CNH Directors Plan ), as amended on April 28, 2006, provides for the payment of: (1) an annual retainer fee of \$65,000; (2) a committee membership fee of \$25,000; and (3) a committee chair fee of \$10,000 (collectively, the Fees ) to independent outside members of the Board in the form of cash, and/or common shares of CNH, and/or options to purchase common shares of CNH. In addition, on April 7, 2006, outside directors received a one-time grant of 4,000 options to purchase common shares of CNH that vest on the third anniversary of the grant date. Each quarter the outside directors elect the form of payment of 1/4 of their Fees. If the elected form is options, the outside director will receive as many options as the amount of Fees that the director elects to forego, multiplied by four and divided by the fair market value of a common share, such fair market value being equal to the average of the highest and lowest sale price of a common share on the last trading day of each quarter on the New York Stock Exchange. Stock options granted as a result of such an election vest immediately upon grant, but shares purchased under options cannot be sold for six months following the date of grant. At December 31, 2006 and 2005, there were 772,296 and 1 million common shares, respectively reserved for issuance under the CNH Directors Plan. Outside directors do not receive benefits upon termination of their service as directors.

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The following table reflects option activity under the CNH Directors' Plan for the years ended December 31, 2006, and 2005:

	2006		2005	
	Shares	Exercise Price*	Shares	Exercise Price*
Outstanding at beginning of year	169,042	\$ 21.71	142,005	\$ 22.41
Granted	54,589	25.75	31,037	17.90
Forfeited	(33,874)	38.60	(4,000)	17.28
Exercised	(62,987)	14.10		
Outstanding at end of year	126,770	23.16	169,042	21.71
Exercisable at end of year	82,770	22.43	141,872	22.50

\* Weighted-average

The following table summarizes outstanding stock options under the CNH Directors' Plan at December 31, 2006:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Shares Outstanding	Contractual Life*	Exercise Price*	Shares Exercisable	Exercise Price*
\$ 9.15 - \$15.70	23,271	6.2	\$ 11.64	23,271	\$ 11.64
\$15.71 - \$26.20	50,150	8.6	20.25	34,150	20.72
\$26.21 - \$40.00	48,104	8.2	27.98	20,104	28.36
\$40.01 - \$56.00	1,622	3.8	49.31	1,622	49.31
\$56.01 - \$77.05	3,623	3.3	62.87	3,623	62.87

\* Weighted-average

***CNH Equity Incentive Plan***

The CNH Equity Incentive Plan, as amended (the "CNH EIP") provides for grants of various types of awards to officers and employees of CNH and its subsidiaries. In 2006, the CNH EIP was amended to reserve an additional 10,300,000 shares, raising total reserved shares to 15,900,000. The amended CNH EIP now requires that Shareholders, at the AGM or any Extraordinary General Meeting, ratify and approve the maximum number of shares available under the CNH EIP. In connection with this new requirement, CNH received written confirmation from Fiat, which at the time owned approximately 90% of CNH's issued and outstanding common stock, that Fiat would vote at the next AGM to approve the increase in available shares under the CNH EIP.

***Stock Option Grants***



Prior to 2006, certain stock option grants were issued which vest ratably over four years from the grant date and expire after ten years. Certain performance-based options, which had an opportunity for accelerated vesting tied to the attainment of specified performance criteria were issued; however, the performance criteria was not achieved. In any event, vesting of these options occurs seven years from the grant date. All options granted prior to 2006 have a contract life of ten years.

Except as noted below, the exercise prices of all options granted under the CNH EIP are equal to or greater than the fair market value of CNH common shares on the respective grant dates. During 2001, CNH granted stock options with an exercise price less than the quoted market price of our common shares at the date of grant. The exercise price of this grant was based upon the average closing price of CNH common shares on the New York Stock Exchange for the thirty-day period preceding the date of grant.

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In 2006, the CNH Long-Term Incentive ( LTI ) awards discussed below were replaced by plans providing performance based stock options, performance based restricted shares, and cash. As a part of this change, CNH, in September 2006, granted approximately 2.0 million performance based stock options under its CNH EIP. Target performance levels for 2006 were not achieved resulting in only 387,510 shares vesting. All of the other performance based stock options were forfeited. One-third of the options vested with the approval of 2006 results by the Board of Directors in February, 2007. The remaining options will vest equally on the first and second anniversary of the initial vesting date. Options granted under the EIP in 2006 have a five year contractual life.

The following table reflects option activity under the CNH EIP for the years ended December 31, 2006 and 2005:

	2006		2005	
	Shares	Exercise Price*	Shares	Exercise Price*
Outstanding at beginning of year	2,041,070	\$ 34.62	2,464,575	\$ 33.68
Granted	2,010,046	21.20	10,000	18.06
Forfeited	(1,814,131)	22.84	(254,805)	49.83
Exercised	(476,519)	16.20	(178,700)	16.18
Outstanding at end of year	1,760,466	36.42	2,041,070	34.62
Exercisable at end of year	1,361,650	40.48	1,747,634	36.76

\* Weighted-average

The following table summarizes outstanding stock options under the CNH EIP at December 31, 2006:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Shares Outstanding	Contractual Life *	Exercise Price *	Shares Exercisable	Exercise Price*
\$10.00 - \$19.99	364,316	5.6	\$ 16.20	364,316	\$ 16.21
\$20.00 - \$29.99	387,510	5.2	21.20		
\$30.00 - \$39.99	523,600	4.6	31.70	523,600	31.70
\$40.00 - \$69.99	485,040	3.1	68.85	474,084	68.85

\* Weighted-average

*Performance Share Grants*

Under the CNH EIP, performance-based restricted shares may also be granted. CNH establishes the period and conditions of performance for each award and holds the shares during the performance period. Performance-based

restricted shares vest upon the attainment of specified performance objectives. Certain performance-based restricted shares vest no later than seven years from the award date.

In 2004, a LTI award for which payout is tied to achievement of specified performance objectives was approved under the CNH EIP for selected key employees and executive officers. The LTI awards are subject to the achievement of certain performance criteria over a 3-year performance cycle. At the end of the 3-year performance cycle, any earned awards will be satisfied equally with cash and CNH common shares as determined at the beginning of the performance cycle, for minimum, target, and maximum award levels.

As a transition to the LTI, the first award for the 2004-2006 performance cycle provided an opportunity to receive an accelerated payment of 50% of the targeted award after the first two years of the performance cycle. Objectives for the first two years of the performance cycle were met and an accelerated payment of cash and 66,252 shares were issued in 2006. Ultimately, the cumulative results for the 2004-2006 performance cycle were achieved and the remaining award was issued in early 2007.

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A second 3 year LTI award for the 2005-2007 performance cycle was granted in 2005. Vesting will occur if performance objectives are achieved after 2007 results are approved by the Board of Directors.

In connection with changes to the LTI, CNH granted approximately 2.2 million performance based, non-vested share awards under the CNH EIP to approximately 200 of the Company's top executives. These shares were to cliff vest when 2008 results are approved by the Board of Directors (estimated to be February 2009) if specified fiscal year 2008 targets were achieved. In December 2006, CNH extended this grant by providing participants an additional opportunity for potential partial payouts should these targets not be achieved until 2009 or 2010. All other terms remained unchanged. The grant date fair value on the date of the modification ranges from \$26.27 per share to \$27.35 per share depending on the service period over which the grant ultimately vests. The fair value is based on the market value of CNH's common shares on the date of the grant modification and is adjusted for the estimated value of dividends which are not available to participants during the vesting period. Depending on the period during which targets are achieved, the estimated expense over the service period can range from approximately \$28 million to \$52 million (current estimate is \$38 million). If specified targets are not achieved by 2010, the shares granted will not vest.

As of December 31, 2006, outstanding performance shares under the 2006, 2005, and 2004 awards under the CNH EIP were as follows:

	<b>2006 Award</b>	<b>2005 Award</b>	<b>2004 Award</b>
Granted	4,475,000	195,946	235,134
Cancelled	(2,237,500)		
Exercised			(66,252)
Forfeited		(45,834)	(119,442)
Outstanding	2,237,500	150,112	49,440

As of December 31, 2006, there were 10,642,793 common shares available for issuance under the CNH EIP.

During 2000, we granted performance-based restricted shares which, in any event, vest seven years after grant.

**Stock-Based Compensation Fair Value Assumptions**

The Black-Scholes pricing model was used to calculate the fair value of stock options. The weighted-average assumptions used under the Black-Scholes pricing model were as follows:

	<b>2006</b>		<b>2005</b>		<b>2004</b>	
	<b>Directors Plan</b>	<b>CNH EIP</b>	<b>Directors Plan</b>	<b>CNH EIP</b>	<b>Directors Plan</b>	<b>CNH EIP</b>
Risk-free interest rate	4.8%	4.5%	3.9%	3.7%	3.4%	3.5%
Dividend yield	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
Stock price volatility	71.0%	34.7%	72.0%	71.5%	75.0%	75.3%

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Option life (years)	5.00	3.25	5.00	5.00	5.00	5.00
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Based on this model, the weighted-average fair value of stock options awarded for the years ended December 31, 2006, 2005, and 2004 were as follows:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
CNH Directors Plan	\$ 14.61	\$ 10.13	\$ 9.94
CNH EIP	\$ 5.78	\$ 10.18	\$ 10.61

The risk-free interest rate is based on the current U.S. Treasury rate for a bond of approximately the expected life of the options. The expected volatility is based on the historical activity of CNH's common shares looking back over a period at least equal to the expected life of the options. The 2006 CNH EIP grant expected life was based on the average of the vesting term of 30 months and the original contract term of five years. The expected dividend

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yield was based on the annual dividend of \$.25 per share which has been paid on CNH's common shares over the last three years. Expected life for other grants was based on management estimates.

The fair value of performance based restricted shares is based on the market value of CNH's common shares on the date of the grant modification and is adjusted for the estimated value of dividends which are not available to participants during the vesting period.

**Fiat Stock Option Program**

Certain employees of CNH participate in stock option plans of Fiat ( Fiat Plans ) whereby participants are granted options to purchase ordinary shares of Fiat ( Fiat Shares ). A summary of options under the Fiat Plans as of December 31, 2006 follows:

Date of Grant	Date of Grant Share Price	Exercise Price		Options					
	Price	Original	Current	Granted	Transfers	Forfeitures	Exercises	Outstanding	Exercisable
3/30/1999	29.38	28.45	26.12	53,300	17,900	(40,500)		30,700	30,700
2/18/2000	33.00	30.63	28.12	102,500	51,000	(74,500)		79,000	79,000
2/27/2001	26.77	27.07	24.85	50,000	(20,000)	(30,000)			
10/31/2001	18.06	18.00	16.52	249,000	53,000	(173,000)		129,000	129,000
9/12/2002	11.88	11.16	10.39	513,000	27,000	(292,000)	(51,000)	197,000	197,000

The original exercise prices were determined by an average of the price of Fiat Shares on the Italian Stock Exchange prior to grant. Following Fiat capital increases in January 2002 and July 2003, the exercise prices were adjusted by applying the factors calculated by the Italian Stock Exchange. The Fiat capital increase in September 2005 did not give rise to exercise price adjustments. The options vested ratably over a four year period. No options to purchase Fiat Shares were issued to employees of CNH subsequent to 2002. All options under the Fiat Plans expire eight years after the grant date. The fair value of these options did not result in a material amount of compensation expense.

**Executive Officers Compensation**

The aggregate amount of compensation paid to or accrued for executive officers that held office during 2006 was approximately \$6.1 million, including \$443,000 of pension and similar benefits paid or set aside by CNH.

Certain executives participate in a plan approved by the Board of Directors of Fiat and CNH (the Individual Top Hat Scheme ), which provides a lump sum to be paid in installments if an executive, in certain circumstances, leaves Fiat and/or its subsidiaries before the age of 65. Contributions to the Individual Top Hat Scheme totaled \$256,000 and \$659,000 in 2006 and 2005, respectively. Of these amounts, \$256,000 and \$234,000, respectively related to executive officers of CNH.

**C. Board Practices.**

Responsibility for our management lies with our Board of Directors, which supervises the policies of CNH and the general course of corporate affairs. The members of the Board are appointed at the meetings of shareholders, serve for a term of one year, and stand for re-election every year. See A. Directors and Senior Management above.

We are subject to both Dutch law and the laws and regulations applicable to foreign private issuers in the U.S. The Dutch Corporate Governance Code (the Dutch Code ), which became effective as of January 1, 2004, the Sarbanes-Oxley Act of 2002 and the NYSE listing standards are of particular significance.

Both the Dutch and NYSE corporate governance regimes were adopted with the goal of restoring trust and confidence in the honesty, integrity and transparency of how business is conducted at public companies. Because these corporate governance regimes are based on the same principles, they are similar in many respects. However, certain differences exist between Dutch and NYSE corporate governance rules, as described below. We also disclose significant differences between our corporate governance practices and those required of domestic

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companies by the NYSE listing standards on our internet website at [www.cnh.com](http://www.cnh.com). Any deviations from the Dutch Code not particularly herein described are attributable to our compliance with the NYSE rules referred to below. In general we believe that our corporate governance practices and guidelines (the Guidelines ) are consistent with those required of foreign private issuers listed on the NYSE. Our Guidelines were approved by the Board on March 24, 2005, and by our shareholders on May 3, 2005.

We have a one-tier management structure, i.e. a management board which may be comprised of both members having responsibility for our day-to-day operations, who are referred to as executive directors, and members not having such responsibility, referred to as non-executive directors. A majority of our directors will be non-executive directors, who meet the independence requirements of the Dutch Code.

Dutch legal requirements concerning director independence differ in certain respects from the NYSE independence rules. While under most circumstances both legal regimes require a majority of board members to be independent, the definition of this term under Dutch law is not identical to that used by the NYSE.

In some cases the Dutch requirement is more stringent, such as by requiring a longer look back period for executive directors. In other cases, the NYSE rule is stricter. For example, directors of a Dutch company who are affiliated with a direct or indirect parent company are considered independent under Dutch law (unless the parent company is a Dutch company and is listed in a member state of the European Union), whereas the same directors are not considered independent pursuant to the NYSE rules. The current composition of the Board is in compliance with the best practice provisions of the Dutch Code regarding the independence of directors. The members that do not qualify as independent within the meaning of these provisions are Mr. Monferino, who was our President and Chief Executive Officer until February 28, 2005, and Mr. Boyanovsky, who is our current President and Chief Executive Officer.

The Board believes that it is appropriate for the role of the Chief Executive Officer and the Chairman to be separate, and that the Chairman of the Board should be a non-executive director. Should an executive director be appointed as Chairman, the Board will also designate a non-executive director as the lead director, who will chair executive sessions of the Board.

We currently have an Audit Committee and a Corporate Governance and Compensation Committee which are described in more detail below. During 2006, there were 12 meetings of our Board of Directors. Attendance at these meetings exceeded 95%. The Audit Committee met seven times during 2006 with 100% attendance at those meetings. The Corporate Governance and Compensation Committee met four times during 2006 with 100% attendance at those meetings. The Board of Directors and the Corporate Governance and Compensation Committee have each discussed the performance of the Board and its committees. The Audit Committee discusses our risk assessment and management processes. The work plan of the Audit Committee provides that this assessment will take place annually. The Board also has scheduled one annual meeting that is devoted to discussing our strategy.

*Audit Committee.* The Audit Committee is appointed by the Board to assist in monitoring (1) the integrity of the financial statements of CNH, (2) qualifications and independence of our independent registered public accounting firm, (3) the performance of CNH's internal audit function and our independent registered public accounting firm, (4) the compliance by CNH with legal and regulatory requirements and (5) approve any related party transaction and transactions under which any director would have a material conflict of interest. The directors shall immediately report any actual or potential conflict of interest that is of material significance to CNH or to themselves.

The Audit Committee currently consists of Messrs. Theurillat, Kalantzis, and Lanaway. Mr Lipper resigned from the Audit Committee on January 16, 2007. The Audit Committee is currently chaired by Mr. Theurillat. At its meetings, the Audit Committee customarily meets with the Chief Financial Officer, the General Counsel and Corporate Secretary, the Chief Accounting Officer, Internal Auditor and representatives from the Company's independent



registered public accounting firm. After such meetings, the Audit Committee routinely meets separately, in executive session, with the Chief Financial Officer, the Internal Auditor and representatives of the Company's independent registered public accounting firm. In addition, at least once per year (and more often as

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necessary) the Audit Committee meets with representatives from our independent registered public accounting firm without any management being present.

*Corporate Governance and Compensation Committee.* The purpose of the Corporate Governance and Compensation Committee is to design, develop, implement and review the compensation and terms of employment of the executive officers and the fees of the members of the Board. The Corporate Governance and Compensation Committee is responsible to make sure that the compensation of the executive personnel is related to the short-term and long-term objectives of CNH and its shareholders and the operating performance of CNH. The compensation of the independent directors is set forth in the Outside Directors Compensation Plan and any amendments are approved by the shareholders. The Corporate Governance and Compensation Committee makes its recommendations to the Board. The Corporate Governance and Compensation Committee also advises the Board on candidates for the Board for a first appointment to fill a vacancy and on members for the Board for possible reappointment after each term. The Corporate Governance and Compensation Committee currently consists of Messrs. Houle, Marchionne, Hiler, and Jeker. The Corporate Governance and Compensation Committee is currently chaired by Mr. Houle.

For a discussion of certain provisions of our Articles of Association applicable to our Board, see Item 10. Additional Information Memorandum and Articles of Association.

**D. *Employees.***

At December 31, 2006, 2005, and 2004, we had approximately 25,300, 25,400, and 25,700 employees, respectively. As of December 31, 2006, there were approximately 16,000 employees in the agricultural equipment business, 4,400 in the construction equipment business, and 970 in the financial services business, with the remaining 3,930 in parts and service and other roles shared by all business units. As of December 31, 2006, as broken down by geographic location, there were 9,000 employees in North America, 12,000 employees in Europe, 2,100 employees in Latin America, and 2,200 employees in the Rest of World.

Unions represent many of our worldwide production and maintenance employees. Our collective bargaining agreement with the UAW, which represents approximately 3,200 of our active and retiree hourly production and maintenance employees in the United States continues through 2011. The International Association of Machinists, which represents approximately 500 of our employees in Fargo, North Dakota, ratified a new 5 1/2 year contract in October, 2006, which expires in April, 2012.

Our employees in Europe are also protected by various worker co-determination and similar laws that afford employees, through local and central works councils, certain rights of consultation with respect to matters involving the business and operations of their employers, including the downsizing or closure of facilities and the termination of employment. Over the years, we have experienced various work slow-downs, stoppages and other labor disruptions.

**E. *Share Ownership.***

All of CNH's directors and executive officers beneficially own, or were granted options with respect to, less than one percent of CNH's common shares. Directors' automatic option awards vest after the third anniversary of the grant date. Directors' elective option awards vest immediately upon grant. Directors' options terminate six months after a Director leaves the Board of Directors if not exercised. In any event, Directors' options terminate if not exercised by the tenth anniversary of the grant date.

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Options issued to outside directors are issued from the CNH Directors Plan. Options issued to employees who are also board members are issued from the CNH EIP. The following table summarizes outstanding stock options for Directors as of December 31, 2006, excluding directors who are employees of Fiat and are not compensated by CNH:

Grant Date	Price	Katherine M. Hudson	Kenneth Lipper	James L.C. Provan	Dr. Edward A. Hiler	Michael E. Murphy	Harold Boyanovsky	Léo W. Houle	Dr. Rolf Jekel	Dr. Peter Kalant	John L. Zina	Jacob Whyte
11/12/1999	\$ 77.05	750	750	750								
12/20/1999	68.85						60,000					
2/29/2000	56.09	624	713	624								
6/6/2000	60.63	577	660	577								
6/7/2000	60.00	1,500	1,500	1,500								
9/4/2000	49.55	706	807	706								
12/3/2000	49.08	713	815	713								
3/2/2001	38.63	906	1,036	906								
5/2/2001	26.90	1,301	1,487	1,301								
5/3/2001	27.88	1,500	1,500	1,500								
7/23/2001	31.70						17,000					
7/31/2001	36.35	963	1,101	963								
10/29/2001	26.25	1,333	1,524	1,333								
1/27/2002	29.48	1,188	1,357	1,188								
5/6/2002	26.60	1,436	1,368	1,316								
5/7/2002	26.45	1,500	1,500	1,500	1,500							
7/22/2002	16.18						24,600					
8/2/2002	15.23	2,627	2,299		2,299							
9/3/2002	18.53					1,011						
11/2/2002	15.18	2,636	2,307		2,307							
1/31/2003	15.70	2,547	2,229		2,229							
5/7/2003	9.15	4,374	3,827									
5/8/2003	9.23	6,212	6,380	6,194	4,000	4,000						
8/4/2003	9.90	1,136										
11/3/2003	13.49	834										
2/1/2004	16.54	2,721										
3/22/2004	9.90	3,409										
3/22/2004	13.49	2,502										
4/25/2004	20.66	2,178										
4/26/2004	21.22	4,000	4,000	4,000	4,000	4,000						
7/24/2004	20.44		1,957									
10/22/2004	17.41		2,298									
1/20/2005	18.44		2,169									
5/2/2005	17.81		2,246									
5/3/2005	17.28	4,000	4,000	4,000	4,000	4,000						
7/31/2005	21.08		3,084									
10/28/2005	18.37		3,538									

exercised

54,173	56,452	29,071	20,335	13,011	101,600
39,961	42,072	14,877	8,335	1,011	101,600
14,212	14,380	14,194	12,000	12,000	

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Grant Date	Price	Katherine M. Hudson	Kenneth Lipper	James L.C. Provan	Dr. Edward A. Hiler	Michael E. Murphy	Harold Boyanovsky	Léo W. Houle	Dr. Rolf M. Jeker	Dr. Peter Kalantzis	John L...
1/27/2006	19.13		3,399								
4/6/2006	27.58		2,357								
4/7/2006	27.70		4,000		4,000			4,000	4,000	4,000	4,000
7/5/2006	23.87		3,770								
9/25/2006	21.20						66,038				
10/3/2006	22.32		4,033					4,480	1,008		
12/29/2006	27.45							3,643	820		
			17,559		4,000		66,038	12,123	5,828	4,000	4,000
1/12/1999	77.05	750		750							
2/29/2000	56.09	624		624							
6/6/2000	60.63	577		577							
6/7/2000	60.00	1,500		1,500							
9/4/2000	49.55	706		706							
12/3/2000	49.08	713		713							
3/2/2001	38.63	906		906							
5/2/2001	26.90	1,301		1,301							
5/3/2001	27.88	1,500		1,500							
7/31/2001	36.35	963		963							
10/29/2001	26.25	1,333		1,333							
11/27/2002	29.48	1,188		1,188							
5/6/2002	26.60	1,436		1,316							
5/7/2002	26.45	1,500		1,500							
4/26/2004	21.22	4,000									
5/3/2005	17.28	4,000									
9/25/2006	21.20						54,495				
		22,997		14,877			54,495				
4/7/2006	9.23			4,094							
4/10/2006	9.23			2,100							
4/10/2006	21.22			4,000							
4/10/2006	17.28			4,000							
5/5/2006	15.23				2,299						
5/5/2006	15.18				2,307						
5/8/2006	18.53					1,011					
5/8/2006	9.23					4,000					
5/8/2006	17.28					4,000					
5/9/2006	21.22					4,000					
9/7/2006	9.15	4,374									

9/7/2006	9.23	6,212								
9/7/2006	9.90	4,545								
9/26/2006	13.49	3,336								
9/26/2006	16.54	2,721								
9/26/2006	20.66	2,178								
9/26/2006	15.23	2,627								
9/26/2006	15.18	2,636								
9/26/2006	15.70	2,547								

	31,176		14,194	4,606	13,011					
		74,011		19,729		113,143	12,123	5,828	4,000	4
		62,011		7,729		105,448	8,123	1,828		
		12,000		12,000		7,695	4,000	4,000	4,000	4

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The following table summarizes outstanding restricted common shares held by directors for which the restriction has not yet expired.

	<b>Grant Date</b>	<b>Price</b>	<b>Harold Boyanovsky</b>	<b>Paolo Monferino</b>	<b>Total</b>
<b>Beginning Balance as of 1/1/06</b>					
	4/18/2000	\$ 68.85		2,568	2,568
	3/1/2004	18.77	4,423		4,423
	1/3/2005	19.19	4,535		4,535
<b>Total Beginning Balance</b>			8,958	2,568	11,526
Vested					
Not Vested			8,958	2,568	11,526
<b>Restricted Shares Granted</b>					
	9/15/2006	21.22	100,000		100,000
	12/15/2006	26.99 <sup>(A)</sup>	100,000		100,000
<b>Total Restricted Shares Granted</b>			200,000		200,000
<b>Restricted Shares Forfeited</b>					
	9/15/2006	21.22	(100,000)		(100,000)
	3/1/2004	18.77	(1,165)		(1,165)
<b>Total Restricted Shares Forfeited</b>			(101,165)		(101,165)
<b>Restricted Shares Vested</b>	3/1/2004	18.77	(2,212)		(2,212)
<b>Total Restricted Shares Vested</b>			(2,212)		(2,212)
<b>Ending Balance as of 12/31/06</b>					
Vested			105,581	2,568	108,149
Not Vested			105,581	2,568	108,149

(A) Fair value based on current estimate of achieving targets in 2009.

CNH currently provides matching contributions to its U.S. Defined Contribution Plan in the form of CNH common shares. For the years ended December 31, 2006, and 2005, approximately 690,000 and 904,000 shares, respectively, were contributed to this plan. During these years employees were allowed to transfer these contributions out of the CNH stock fund on the first business day of the calendar quarter following the date we contributed the stock to the plan. Effective January 1, 2007, all such restrictions have been eliminated and employees may transfer shares at any time in accordance with other applicable plan provisions.

**Item 7. Major Shareholders and Related Party Transactions****A. Major Shareholders.**

As of December 31, 2006, our outstanding capital stock consisted of common shares, par value 2.25(U.S. \$2.96) per share. As of December 31, 2006, there were 236,164,978 common shares outstanding. At December 31, 2006, we had 646 registered holders of record of our common shares in the United States. Registered holders and indirect beneficial owners hold approximately 10% of our outstanding common shares.

We are controlled by our largest single shareholder, Fiat Netherlands, a wholly owned subsidiary of Fiat. Consequently, Fiat controls all matters submitted to a vote of our shareholders, including approval of annual dividends, election and removal of its directors and approval of extraordinary business combinations. Fiat Netherlands has the same voting rights as our other shareholders.



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The following table sets forth the outstanding common shares of CNH as of December 31, 2006:

<b>Shareholders</b>	<b>Number of Outstanding Common Shares</b>	<b>Percentage Ownership Interest</b>
Fiat Netherlands	211,866,037	90%
Other shareholders	24,298,941	10
Total	236,164,978	100%

Each of our directors and executive officers, individually and collectively owned less than 1% of our common shares at December 31, 2006.

***B. Related Party Transactions.***

Pursuant to their terms, the 8 million outstanding shares of Series A Preferred Stock automatically converted into 100 million newly issued CNH common shares on March 23, 2006. As of December 31, 2006, Fiat's ownership of CNH was approximately 90%.

Various Fiat affiliates, including CNH, are parties to a \$1 billion (\$1.3 billion) syndicated credit facility with a group of banks, maturing in July, 2008. The borrowers have allocated \$300 million (\$395 million) of this borrowing capacity to CNH with additional amounts potentially available depending on the usage by other borrowers. See Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Sources of Funding Committed Lines of Credit.

Fiat, through certain of its subsidiaries, has also made available to us and certain of our subsidiaries, pursuant to an Amended Facility Agreement entered into in January 2007, a multi-currency revolving credit facility for a period ending on February 28, 2008. Pursuant to this facility CNH and the designated subsidiaries may, from time to time, borrow as short-term loans or as overdraft advances up to an aggregate principal amount of \$1.0 billion, subject to specified sub-limits for each borrower. The Amended Facility Agreement replaces in its entirety a prior facility agreement, which expired in January 2007, as well as a letter agreement between Fiat and us, providing for treasury and debt financing arrangements to be made available to us by Fiat, which has been terminated. The interest rates on advances under the Amended Facility Agreement, and the prior facility agreement that it replaces, have ranged from LIBOR + 0.15% to LIBOR + 2.00% during 2006. We have agreed to pay a commitment fee of 0.20% per annum on the unused amount of the facility. As of December 31, 2006, \$352 million in short-term advances were outstanding under the Amended Facility Agreement.

At December 31, 2006, outstanding debt with Fiat and its affiliates was approximately 8% of CNH total debt, compared with 18% at December 31, 2005. Fiat guarantees \$947 million of CNH debt with third parties or approximately 16% of CNH's outstanding debt with third parties. CNH pays Fiat a guarantee fee based on the average amount outstanding under facilities guaranteed by Fiat. For 2006, CNH paid a guarantee fee of 0.0625% per annum. For 2005 and 2004, CNH paid a guarantee fee of between 0.03125% per annum and 0.0625% per annum.

Like other companies that are part of multinational groups, we participate in a group-wide cash management system with the Fiat Group. Under this system, which is operated by Fiat in a number of jurisdictions, the cash balances of Fiat Group members, including us, are aggregated at the end of each business day in central pooling accounts, the Fiat affiliates cash management pools. As well as being invested by Fiat in highly rated, highly liquid money market instruments or bank deposits, our positive cash deposits, if any, at the end of any given business day may be applied by Fiat to offset negative balances of other Fiat Group members and vice versa. Deposits with Fiat earn interest at rates that range from LIBOR plus 15 to 30 basis points. Interest earned on our deposits with Fiat included in Finance and interest income were approximately \$34 million, \$18 million, and \$11 million in the years ended December 31, 2006, 2005, and 2004, respectively.

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As a result of our participation in the Fiat affiliates cash management pools, we are exposed to Fiat Group credit risk to the extent that Fiat is unable to return our funds. In the event of a bankruptcy or insolvency of Fiat (or any other Fiat Group member in the jurisdictions with set off agreements) or in the event of a bankruptcy or insolvency of the Fiat entity in whose name the deposit is pooled, we may be unable to secure the return of such funds to the extent they belong to us, and we may be viewed as a creditor of such Fiat entity with respect to such deposits. Because of the affiliated nature of CNH's relationship with the Fiat Group, it is possible that CNH's claims as a creditor could be subordinate to the rights of third party creditors in certain situations.

For material related party transactions involving the purchase of goods and services, we generally solicit and evaluate bid proposals prior to entering into any such transactions, and in such instances, the Audit Committee generally conducts a review to determine that such transactions are what the committee believes to be on arm's-length terms.

CNH purchases some of its engines and other components from the Fiat Group, and companies of the Fiat Group provide CNH administrative services such as accounting and internal audit, cash management, maintenance of plant and equipment, research and development, information systems and training. CNH sells certain products to subsidiaries and affiliates of Fiat. In addition, CNH enters into hedging arrangements with counterparties that are members of the Fiat Group. The principal purchases of goods from Fiat and its affiliates include engines from Iveco Nederland B.V. (Iveco) and Fiat Powertrain Technologies S.p.A., dump trucks from Iveco, robotic equipment and paint systems from Comau Pico Holdings Corporation, and castings from Teksid S.p.A. CNH also purchases tractors from its Mexican joint venture for resale in the United States.

As of December 31, 2006, CNH and its subsidiaries were parties to derivative or other financial instruments having an aggregate contract value of \$2.8 billion and \$2.0 billion, respectively, as of December 31, 2006, and 2005, to which affiliates of Fiat were counterparties.

Fiat provides accounting services to CNH in Europe and Brazil through an affiliate that uses shared service centers to provide such services at competitive costs to various Fiat companies. Fiat provides internal audit services at the direction of CNH's internal audit department in certain locations where it is more cost effective to use existing Fiat resources. Through the end of 2005, routine maintenance of CNH plants and facilities in Europe was provided by a Fiat affiliate that also provides similar services to third parties. In 2005 and 2004, CNH purchased network and hardware support from and outsources a portion of its information services to a joint venture that Fiat had formed with IBM. Subsequently, Fiat announced that it had entered into a nine-year strategic agreement with IBM under which IBM assumed full ownership of this joint venture as well as the management of a significant part of the information technology needs of members of the Fiat Group, including us. Fiat also provides training services through an affiliate. CNH uses a broker that is an affiliate of Fiat to purchase a portion of its insurance coverage. CNH purchases research and development from an Italian joint venture set up by Fiat and owned by various Fiat subsidiaries. This joint venture benefits from Italian government incentives granted to promote work in the less developed areas of Italy.

In certain tax jurisdictions, CNH has entered into tax sharing agreements with Fiat and certain of its affiliates. CNH management believes the terms of these agreements are customary for agreements of this type and are at least as advantageous as filing tax returns on a stand-alone basis.

If the goods or services or financing arrangements described above were not available from Fiat, we would have to obtain them from other sources. We can offer no assurance that such alternative sources would provide goods and services on terms as favorable as those offered by Fiat.

Additionally, CNH participates in the stock option program of Fiat and the Individual Top Hat Scheme as described in Note 17: Option and Incentive Plans of our consolidated financial statements.



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The following table summarizes CNH's sales, purchase, and finance income with Fiat and affiliates of Fiat, CNH dealer development companies and joint ventures that are not already separately reflected in the consolidated statements of income for the years ended December 31, 2006, 2005, and 2004:

	2006	2005	2004
	(in millions)		
Sales to affiliated companies and joint ventures	\$ 143	\$ 121	\$ 124
Purchase of materials, production parts, merchandise and services	\$ 552	\$ 525	\$ 565
Finance and interest income	\$ 36	\$ 41	\$ 28

**C. Interests of Experts and Counsel.**

Not applicable.

**Item 8. Financial Information****A. Consolidated Statements and Other Financial Information.**

See Item 18. Financial Statements for a list of the financial statements filed with this document.

**B. Significant Changes.**

Our Board of Directors recommended a dividend of \$0.25 per common share on February 16, 2007. The dividend will be payable on April 30, 2007, to shareholders of record at the close of business on April 23, 2007. Declaration of the dividend is subject to approval of the shareholders at the AGM which will be held on April 2, 2007.

We believe that we will be able to declare at our upcoming AGM of shareholders and pay a dividend of \$0.25 per common share on all common shares outstanding, and we estimate, based on the relevant calculations contained in the terms of certain Senior Notes issued by Case New Holland, that such dividend will not constitute a restricted payment under the terms of the Senior Notes. See Item 10. Additional Information Memorandum and Articles of Association Dividends.

**Table of Contents****Item 9. The Offer and Listing****A. Offer and Listing Details.**

Our common shares are quoted on the New York Stock Exchange under the symbol CNH. The following table provides the high and low closing prices of our common shares as reported on the New York Stock Exchange for each of the periods indicated:

**Common Share Price**

	<b>High</b>	<b>Low</b>
<b>Most recent six months:</b>		
February 2007	\$ 39.34	\$ 34.13
January 2007	33.96	26.14
December 2006	29.47	26.60
November 2006	30.28	26.73
October 2006	27.52	22.80
September 2006	23.49	21.00
<b>Year ended December 31, 2006</b>		
First Quarter	\$ 26.31	18.14
Second Quarter	30.50	20.67
Third Quarter	24.11	18.87
Fourth Quarter	30.28	22.80
Full Year	30.50	18.14
<b>Year ended December 31, 2005</b>		
First Quarter	\$ 19.06	\$ 16.70
Second Quarter	19.03	16.90
Third Quarter	22.10	18.90
Fourth Quarter	20.37	16.07
Full Year	22.10	16.07
<b>2004</b>	\$ 21.38	\$ 16.22
<b>2003</b>	\$ 19.00	\$ 5.95
<b>2002</b>	\$ 32.15	\$ 14.00

On March 23, 2007, the last reported sales price of our common shares as reported on the New York Stock Exchange was \$38.99 per share. There were approximately 14,000 registered holders and indirect beneficial owners of our common shares in the United States as of that date.

**B. Plan of Distribution.**

Not applicable.

**C. Markets.**

The outstanding common shares of CNH are listed on the NYSE under the symbol CNH.

**D. *Selling Shareholders.***

Not applicable.

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**E. *Dilution.***

Not applicable.

**F. *Expenses of the Issue.***

Not applicable.

**Item 10. Additional Information**

**A. *Share Capital.***

Not applicable.

**B. *Memorandum and Articles of Association.***

Set forth below is a summary description of the material provisions of our Articles of Association, effective May 27, 2004 (the Articles of Association ), and particular provisions of Dutch law relevant to our statutory existence. This summary does not restate our Articles of Association or relevant Dutch law in their entirety.

**Registration and Objectives**

We are registered at the Commercial Register kept at the Chamber of Commerce in Amsterdam under file number 33283760.

As provided in Article 2 of our Articles of Association, our objectives are to:

engage in, and/or to participate in and operate one or more companies engaged in the design, engineering, manufacture, sale or distribution of agricultural and construction equipment;

engage in and/or to participate in and operate one or more companies engaged in any business, financial or otherwise, which we may deem suitable to be carried on in conjunction with the foregoing;

render management and advisory services;

issue guarantees, provide security, warrant performance or in any other way assume liability for or in respect of obligations of group companies; and

do anything which a company may lawfully do under the laws of The Netherlands which may be deemed conducive to the attainment of the objectives set out in the foregoing paragraphs.

**Authorized Capital**

Our authorized share capital is 1,350,000,000, consisting of 400,000,000 common shares and 200,000,000 Series A Preferred Stock with each having a par value of 2.25 per share. We will issue common shares only in registered form. We have an agent that maintains the share register relating to the common and preference shares and acts as transfer agent and registrar for the common shares and Series A Preferred Stock.



## **Dividends**

Our shareholders may establish reserves out of our annual profits at a general meeting of shareholders, subject to a proposal of our board of directors. The shareholders have discretion as to the use of that portion of our annual profits remaining for distribution of dividends on the common shares after the establishment of reserves and payment of dividends on the preference shares. No dividends were distributed on the preference shares in 2006.

Under the terms of the Senior Notes issued by Case New Holland, dividends declared or paid on our common shares, taken together with other distributions on our capital stock, repurchases of capital stock and specified other items, that are in excess of an amount calculated, from time to time, as provided in the Senior Notes are considered restricted payments under the terms of the Senior Notes. Dividends on our common shares are also considered

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restricted payments if we could not incur additional indebtedness pursuant to the terms of a financial covenant contained in the Senior Notes or if a default or event of default with respect to the Senior Notes has occurred and is continuing. Such restricted payments are generally prohibited under the terms of the Senior Notes unless certain limited exceptions apply. Specifically, the terms of the Senior Notes provide that dividends on the common shares that are considered restricted payments may nevertheless be paid in an amount not to exceed \$33.0 million in any calendar year, provided that no default or event of default has occurred and is continuing.

The Board of Directors may recommend to the shareholders that they resolve at the annual general meeting that we pay dividends out of our share premium account or out of any other reserve available for shareholder distributions under Dutch law, provided that payment from reserves may only be made to the shareholders who are entitled to the relevant reserve upon our dissolution. However, we may not pay dividends if the payment would reduce shareholders equity to an amount less than the aggregate share capital plus required statutory reserves. The Board of Directors may resolve that we pay interim dividends, but the payments are also subject to these statutory restrictions. If a shareholder does not collect any cash dividend or other distribution within six years after the date on which it became due and payable, the right to receive the payment reverts to us.

At any general meeting of shareholders, our shareholders may declare dividends in the form of cash (in U.S. dollars), common shares or a combination of both.

## **Shareholder Meetings and Voting Rights**

Each shareholder has a right to attend general meetings of shareholders, either in person or by proxy, and to exercise voting rights in accordance with the provisions of our Articles of Association. We must hold at least one general meeting of shareholders each year. This meeting must be convened at one of four specified locations in The Netherlands within six months after the end of our fiscal year. Our Board of Directors may convene additional general meetings as often as it deems necessary, or upon the call of holders representing at least 10% of our outstanding shares or other persons entitled to attend the general meetings. Dutch law does not restrict the rights of shareholders who do not reside in The Netherlands to hold or vote their shares.

We will give notice of each meeting of shareholders by notice published in at least one national daily newspaper distributed throughout The Netherlands and in any other manner that we may be required to follow in order to comply with applicable stock exchange requirements. In addition, we will notify registered holders of the shares by letter, cable, telex or telefax. We will give this notice no later than the fifteenth day prior to the day of the meeting. As deemed necessary by the Board of Directors, the notice will include or be accompanied by an agenda identifying the business to be considered at the meeting or will state that the agenda will be available for shareholders and other persons who are entitled to attend the general meeting, at our offices or places of business.

Each share of the common shares and the preference shares, including the Series A Preferred Stock, is entitled to one vote. Unless otherwise required by our Articles of Association or Dutch law, shareholders may validly adopt resolutions at the general meeting by a majority vote. Except in circumstances specified in the Articles of Association or provided under Dutch law, there is no quorum requirement for the valid adoption of resolutions. Pursuant to the Articles of Association, so long as the Series A Preferred Stock is issued and outstanding, any resolution to amend the terms and conditions of the Series A Preferred Stock requires approval of shareholders representing at least 95% of our issued and outstanding share capital. Consistent with Dutch law, the terms and conditions of the common shares may be amended by an amendment of the Articles of Association pursuant to a vote by a majority of the capital shares at a meeting of our shareholders.

We are exempt from the proxy rules under the U.S. Securities Exchange Act of 1934, as amended.

**Board of Directors; Adoption of Annual Accounts**

The Directors serve on the Board for a term of one year and may stand for re-election at any subsequent year. The shareholders elect the members of our Board of Directors at a general meeting. The shareholders may also dismiss or suspend any member of the Board of Directors at any time by the vote of a majority of the votes cast at a general meeting.

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Our Board of Directors must prepare our annual accounts and make them available to the shareholders for inspection at our offices within five months after the end of our fiscal year. Under some special circumstances, Dutch law permits an extension of this period for up to six additional months by approval of the shareholders at a general meeting. During this period, including any extension, the Board of Directors must submit the annual accounts to the shareholders for adoption at a general meeting.

Under Dutch law, the Board of Directors must consider in the performance of its duties our interests, the interests of our shareholders and our employees, in all cases with reasonableness and fairness. In addition, under our Articles of Association, a member of our Board of Directors must not take part in any vote on a subject or transaction in relation to which he has a conflict of interest.

When our shareholders adopt the annual accounts prepared by the Board of Directors, they may discharge the members of the Board of Directors from potential liability with respect to the exercise of their duties during the fiscal year covered by the accounts. This discharge may be given subject to such reservations as the shareholders deem appropriate and is subject to a reservation of liability required under Dutch law. Examples of reservations of liability required by Dutch law include: (1) liability of members of management boards and supervisory boards upon the bankruptcy of a company; and (2) general principles of reasonableness and fairness. Under Dutch law, a discharge of liability does not extend to matters not properly disclosed to shareholders. As of the financial year 2002, the discharge of the Board of Directors must be a separate item on the agenda of the general meeting and the members of the Board of Directors are no longer automatically discharged by adoption of the annual accounts.

See Item 6. Directors, Senior Management and Employees C. Board Practices for a discussion of our corporate governance practices and guidelines.

## **Liquidation Rights**

In the event of our dissolution and liquidation, the assets remaining after payment of all debts will first be applied to distribute to the holders of preference shares the nominal amount of the preference shares and then the amount of the share premium reserve relating to the preference shares. Any remaining assets will be distributed to the holders of common shares in proportion to the aggregate nominal amount of the common shares and, if only preference shares are issued and outstanding, to the holders of the preference shares in proportion to the aggregate nominal amount of preference shares. No liquidation payments will be made on shares that we hold in treasury.

## **Issue of Shares; Preference Rights**

Our Board of Directors has the power to issue common shares and/or preference shares if and to the extent that a general meeting of shareholders has designated the board to act as the authorized body for this purpose. A designation of authority to the Board of Directors to issue shares remains effective for the period specified by the general meeting and may be up to five years from the date of designation. A general meeting of shareholders may renew this designation for additional periods of up to five years. Without this designation, only the general meeting of shareholders has the power to authorize the issuance of shares. At a general meeting of shareholders in February 2002, the shareholders authorized our board of directors to issue shares and/or rights to purchase shares for five years. This authorization expired in February 2007. The shareholders are expected to vote on the renewal of the authorization at the AGM to be held on April 2, 2007.

In the event of an issue of shares of any class, every holder of shares of that class will have a ratable preference right to subscribe for shares of that class that we issue for cash unless a general meeting of shareholders, or its designee, limits or eliminates this right. In addition, the right of our shareholders in the United States to subscribe for shares

pursuant to this preference right may be limited under some circumstances to a right to receive approximately the market value of the right, if any, in cash. Our shareholders have no ratable preference subscription right with respect to shares issued for consideration other than cash. If a general meeting of shareholders delegates its authority to the Board of Directors for this purpose, then the Board of Directors will have the power to limit or eliminate the preference rights of shareholders. In the absence of this designation, the general meeting of shareholders will have the power to limit or eliminate these rights. Such a proposal requires the approval of at least two-thirds of the votes cast by shareholders at a general meeting if less than half of the issued

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share capital is represented at the meeting. Designations of authority to the Board of Directors may remain in effect for up to five years and may be renewed for additional periods of up to five years. At our extraordinary general meeting of shareholders on February 4, 2002, our shareholders authorized our Board of Directors to limit or eliminate the preference rights of shareholders for five years following the date of the meeting. This authorization expired in February 2007. The shareholders are expected to vote on the renewal of the authorization at the AGM to be held on April 2, 2007.

These provisions apply equally to any issue by us of rights to subscribe for shares.

Under Dutch law, shareholders are not liable for our further capital calls.

## **Repurchases of Shares**

We may acquire shares, subject to applicable provisions of Dutch law and of our Articles of Association, to the extent:

our shareholders' equity, less the amount to be paid for the shares to be acquired, exceeds the sum of (1) our share capital account plus (2) any reserves required to be maintained by Dutch law; and

after the acquisition of shares, we and our subsidiaries would not hold, or hold as pledges, shares having an aggregate par value that exceeds 10% of our issued share capital account, as these amounts would be calculated under generally accepted accounting principles in The Netherlands.

Our Board of Directors may repurchase shares only if our shareholders have authorized the repurchases. Under Dutch law, an authorization to repurchase shares will remain in effect for a maximum of 18 months.

## **Reduction of Share Capital**

At a general meeting of shareholders, our shareholders may vote to reduce the issued share capital by canceling shares held by us or by reducing the par value of our shares. In either case, this reduction would be subject to applicable statutory provisions. Holders of at least two-thirds of the votes cast must vote in favor of a resolution to reduce our issued share capital if less than half of the issued share capital is present at the general meeting in person or by proxy.

## **Amendment of the Articles of Association**

A majority of the votes cast by holders of our shares at a general meeting must approve any resolution proposed by our Board of Directors to amend the Articles of Association or to wind up CNH. Any such resolution proposed by one or more shareholders must likewise be approved by a majority of the votes cast at a general meeting of shareholders.

## **Significant Transactions**

As required under Dutch law, decisions of the Board of Directors involving a significant change in the identity or character of CNH are subject to the approval of the shareholders.

Such decisions include:

the transfer of all or substantially all of CNH's business to a third party;

the entry into or termination of a long-term joint venture of CNH or of any of CNH's subsidiaries with another legal entity or company, or of CNH's position as a fully liable partner in a limited partnership or a general

partnership, where such entry into or termination is of far-reaching importance to CNH; or

the acquisition or disposal, by CNH or any of CNH's subsidiaries, of an interest in the capital of a company valued at one-third or more of CNH's assets according to CNH's most recently adopted consolidated annual balance sheet.

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**Disclosure of Holdings**

Under Dutch law regarding the disclosure of holdings in listed companies, if our shares are admitted to official quotation or listing on Euronext or on any other stock exchange in the European Union, registered holders and some beneficial owners of our shares must promptly notify us and the Securities Board of The Netherlands if their shareholding reaches, exceeds or thereafter falls below 5%, 10%, 25%, 50% or 66<sup>2</sup>/<sub>3</sub>% of our outstanding shares. For this purpose, shareholding includes economic interests, voting rights or both. Failure to comply with this requirement would constitute a criminal offense and could result in civil sanctions, including the suspension of voting rights.

**Limitations on Right to Hold or Vote Shares**

Our Articles of Association and relevant provisions of Dutch law do not currently impose any limitations on the right of holders of shares to hold or vote their shares.

**C. *Material Contracts.***

For a discussion of our related party transactions, see Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions.

Each of the Indentures governing our Senior Notes contain covenants limiting, among other things, our ability and the ability of our restricted subsidiaries to:

- incur additional debt;
- pay dividends on our capital stock or repurchase our capital stock;
- make certain investments;
- enter into certain types of transactions with affiliates;
- limit dividends or other payments by our restricted subsidiaries to us;
- use assets as security in other transactions;
- enter into sale and leaseback transactions; and
- sell certain assets or merge with or into other companies.

Some of these covenants will cease to apply if the Senior Notes are given investment grade ratings by both S&P's Ratings Services and Moody's Investors Service, Inc.

**D. *Exchange Controls.***

Under existing laws of The Netherlands there are no exchange controls applicable to the transfer to persons outside of The Netherlands of dividends or other distributions with respect to, or of the proceeds from the sale of, shares of a Dutch company.

**E. *Taxation.***



**United States Federal Income Taxation**

The following is a discussion of the material U.S. federal income tax consequences of the ownership and disposition of our common shares by a U.S. Holder (as defined below). The discussion is based on the Internal Revenue Code of 1986, as amended (the Code), its legislative history, existing and proposed regulations, published rulings of the Internal Revenue Service (IRS) and court decisions as well as the U.S./Netherlands Income Tax Treaty (as described below) all as currently in effect. Such authorities are subject to change or repeal, possibly on a retroactive basis.

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This discussion does not contain a full description of all tax considerations that might be relevant to ownership of our common shares or a decision to purchase such shares. In particular, the discussion is directed only to U.S. Holders that will hold our common shares as capital assets and whose functional currency is the U.S. dollar. Furthermore, the discussion does not address the U.S. federal income tax treatment of holders that are subject to special tax rules such as banks and other financial institutions, security dealers, dealers in currencies, securities traders who elect to account for their investment in shares on a mark-to-market basis, persons that hold shares as a position in a straddle, hedging or conversion transaction, insurance companies, tax-exempt entities, holders liable for alternative minimum tax and holders of ten percent or more (actually or constructively) of our voting shares. The discussion also does not consider any state, local or non-U.S. tax considerations and does not cover any aspect of U.S. federal tax law other than income taxation.

Prospective purchasers and holders of our common shares are advised to consult their own tax advisors about the U.S., federal, state, local or other tax consequences to them of the purchase, beneficial ownership and disposition of our common shares.

For purposes of this discussion, you are a U.S. Holder if you are a beneficial owner of our common shares who is:

- an individual citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation created or organized under the laws of the United States or a state thereof;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust subject to primary supervision of a U.S. court and the control of one or more U.S. persons or with a valid election in place to be treated as a domestic trust.

*Taxation of Dividends*

Subject to the PFIC rules discussed below, the gross amount of cash dividends paid by us in respect of our common shares (including amounts withheld in respect of Dutch taxes) will be included in the gross income of a U.S. Holder as ordinary income on the day on which the dividends are actually or constructively received by the U.S. Holder, and will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations. Dividends received from us by a non-corporate U.S. Holder during taxable years beginning before January 1, 2011, generally will be taxed at a maximum rate of 15% provided that such U.S. Holder has held the shares for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date and that certain other conditions are met. For these purposes, a dividend will include any distribution paid by us with respect to our common shares but only to the extent such distribution is not in excess of our current and accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the shares and thereafter as capital gain.

The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the euro payments made, determined at the spot euro/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes.

Subject to applicable limitations under the Code and the Treasury regulations and subject to the discussion below, any Dutch withholding tax imposed on dividends in respect of our common shares will be treated as a foreign income tax eligible for credit against a U.S. Holder's U.S. federal income tax liability (or, at a U.S. Holder's election, may be deducted in computing taxable income). Under the Code, foreign tax credits will not be allowed for

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withholding taxes imposed in respect of certain short-term or hedged positions in securities. The rules regarding U.S. foreign tax credits are very complex, and include limitations that apply to individuals receiving dividends eligible for the 15% maximum tax rate on dividends described above. U.S. Holders should consult their own tax advisors concerning the implications of U.S. foreign tax credit rules in light of their particular circumstances.

We generally will fund dividend distributions on our common shares with dividends received from our non-Dutch subsidiaries. Assuming that the necessary conditions and requirements are met under Dutch law, we may be entitled to a reduction in the amount in respect of Dutch withholding taxes payable to the Dutch tax authorities. Such a reduction will likely constitute a subsidy in respect of the Dutch withholding tax payable on our dividends and, thus, a U.S. Holder would not be entitled to a foreign tax credit with respect to the amount of the reduction so allowed to us.

### *Taxation of Capital Gains*

Subject to the PFIC rules discussed below, upon a sale or other taxable disposition of our common shares, a U.S. Holder will recognize gain or loss equal to the difference between the U.S. dollar value of the amount realized in the sale or other taxable disposition and the tax basis (determined in U.S. dollars) of the common shares. Such gain or loss will be capital gain or loss and will be a long-term capital gain or loss if the shares were held for more than one year. Non-corporate U.S. Holders (including individuals) can qualify for preferential rates of U.S. federal income taxation in respect of long-term capital gains. The deduction of capital losses is subject to limitations under the Code. Gain realized by a U.S. Holder on a sale or other disposition of our common shares generally will be treated as U.S.-source income for U.S. foreign tax credit limitation purposes.

### *PFIC Rules*

We believe that our common shares should not be treated as stock of a Personal Foreign Investment Company, or PFIC, for United States federal income tax purposes, but this conclusion is a legal and factual determination that is made annually and thus may be subject to change. If we were to be treated as a PFIC, unless a U.S. holder elects to be taxed annually on a mark-to-market basis with respect to the shares, gain realized on the sale or other disposition of your common shares would in general not be treated as capital gain. Instead, if you are a U.S. Holder, you would be treated as if you had realized such gain and certain excess distributions ratably over your holding period for the common shares and would not be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, your common shares will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your common shares. Dividends that you receive from us will not be eligible for the special tax rates applicable to qualified dividend income if we are treated as a PFIC with respect to you either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

### *Backup Withholding Tax*

Information reporting requirements will apply to U.S. Holders other than certain exempt recipients (such as corporations) with respect to distributions made on our common shares and paid in the U.S. and proceeds received on disposition of such shares that is effected at a U.S. office of a broker or under certain conditions effected at an office outside the U.S. Furthermore, a 28% backup withholding tax may apply to such amounts if the U.S. Holder fails to provide an accurate taxpayer identification number or is notified by the IRS of failure to report interest and dividends required to be shown on its U.S. federal income tax returns or otherwise fails to comply with applicable certification requirements. The amount of backup withholding imposed on a payment to a U.S. Holder may be refunded by the IRS or allowed as a credit against the U.S. federal income tax of the U.S. Holder provided that the required information is properly furnished to the IRS.

**Netherlands Taxation**

This taxation summary solely addresses the material Dutch tax consequences of the acquisition and the ownership and disposition of our shares. It is a general summary that only applies to a Non-Resident holder of shares

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(as defined below) and it does not discuss every aspect of taxation that may be relevant to a particular holder of shares under special circumstances or who is subject to special treatment under applicable law. This summary also assumes that we are organized, and its business will be conducted, in the manner outlined in this report. Changes in the organizational structure or the manner in which we conduct our business may invalidate this summary.

Unless stated otherwise, this summary is based on the tax laws of The Netherlands as they are in force and in effect on the date of this report. These laws could change and a change could be effective retroactively. This summary will not be updated to reflect changes in laws, and if such changes occur, the information in this summary could become invalid.

Any potential investor should consult his own tax advisor for more information about the tax consequences of acquiring, owning and disposing of shares in particular circumstances.

We have not addressed every potential tax consequence of an investment in shares under the laws of The Netherlands.

### **Netherlands Taxation of Non-Resident Holders of Shares**

#### *General*

The summary of Netherlands taxes set out in this section Netherlands Taxation of Non-Resident Holders of Shares only applies to a holder of shares who is a Non-Resident holder of shares.

A holder of shares is a Non-Resident holder of shares if:

he is neither resident, nor deemed to be resident, in the Netherlands for purposes of Dutch income tax and corporation tax, as the case may be, and, in the case of an individual, has not elected to be treated as a resident of the Netherlands for Dutch income tax purposes;

in the case of an individual, his shares and income or capital gains derived therefrom have no connection with his past, present or future employment, if any; and

his shares do not form part, and are not deemed to form part, of a substantial interest (*aanmerkelijk belang*) in us within the meaning of Chapter 4 of the Dutch Income Tax Act 2001, unless such interest forms part of the assets of an enterprise.

If a person holds an interest in us, such interest forms part or is deemed to form part of a substantial interest in us if any one or more of the following circumstances is present:

such person alone or, in case such person is an individual, together with his partner, if any, has, directly or indirectly, the ownership of, our shares representing 5% or more of our total issued and outstanding capital (or the issued and outstanding capital of any class of our shares), or rights to acquire, directly or indirectly, shares, whether or not already issued, that represent at any time 5% or more of our total issued and outstanding capital (or the issued and outstanding capital of any class of our shares) or the ownership of profit participating certificates that relate to 5% or more of our annual profit or to 5% or more of liquidation proceeds;

such person's partner or any of the relatives by blood or by marriage in the direct line (including foster children) of this person or of his partner has a substantial interest in us;

such person's shares, profit participating certificates or rights to acquire our shares or profit participating certificates have been acquired by such person or are deemed to have been acquired by such person under a non-recognition provision.

For purposes of the above, a person who is entitled to the benefits from shares or profit participating certificates (for instance a holder of a right of usufruct) is deemed to be a holder of shares or profit participating certificates, as the case may be, and his entitlement to benefits is considered a share or a profit participating certificate, as the case may be.

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*Taxes on Income and Capital Gains*

A Non-Resident holder of shares will not be subject to any Dutch taxes on income or capital gains in respect of our dividends distributed (other than the dividend withholding tax described below) or in respect of any gain realized on the disposal of shares, unless:

he derives profit from an enterprise, whether as an entrepreneur or pursuant to a co-entitlement to the net value of an enterprise, other than as an entrepreneur or a shareholder, in the case of an individual, or other than as a holder of securities, in other cases, which enterprise is either managed in The Netherlands or, in whole or in part, carried on through a permanent establishment of a permanent representative in The Netherlands and his shares are attributable to that enterprise; or

he (in the case of an individual) derives benefits from shares that are taxable as benefits from miscellaneous activities in The Netherlands.

The concept dividends distributed by CNH as used in this section includes, but is not limited to, the following:

distributions in cash or in kind, deemed and constructive distributions (including, as a rule, consideration for the repurchase of our shares (other than a repurchase as a temporary investment) in excess of the average capital recognized as paid-in for Dutch dividend withholding tax purposes), and repayments of capital not recognized as paid-in for Dutch dividend withholding tax purposes;

liquidation proceeds and proceeds of redemption of our shares in excess of the average capital recognized as paid-in for Dutch dividend withholding tax purposes;

the par value of shares we issued to a holder of shares or an increase of the par value of shares, as the case may be, to the extent that it does not appear that a contribution, recognized for Dutch dividend withholding tax purposes, has been made or will be made; and

partial repayment of capital, recognized as paid-in for Dutch dividend withholding tax purposes, if and to the extent that there are net profits, unless (a) the general meeting of our shareholders has resolved in advance to make such repayment and (b) the par value of the shares concerned has been reduced by an equal amount by way of an amendment to our articles of association.

A Non-Resident holder of shares may derive benefits from our shares that are taxable as benefits from miscellaneous activities in The Netherlands in the following circumstances if:

his investment activities go beyond the activities of an active portfolio investor, for instance in case of the use of insider knowledge or comparable forms of special knowledge; or

he makes our shares available or is deemed to make our shares available, legally or in fact, directly or indirectly, to a connected party as described in articles 3.91 and 3.92 of the Dutch Income Tax Act 2001 under circumstances described there.

*Dividend Withholding Tax*

Dividends we distributed to a Non-Resident holder of shares are subject to a withholding tax imposed by The Netherlands at a statutory rate of 25%. As of January 1, 2007, the statutory rate has been reduced to 15%. See Taxes



on Income and Capital Gains for a description of the concept dividends distributed by CNH.

If a double tax treaty is in effect between The Netherlands and the country of residence of a Non-Resident holder of shares, such holder may be eligible for a full or partial relief from the Dutch dividend withholding tax provided that such relief is timely and duly claimed. In addition, a qualifying parent company within the meaning of the EU Parent Subsidiary Directive (Directive 90/435/ECC, as amended) is, subject to certain conditions, entitled to an exemption from dividend withholding tax. A relief from Dutch dividend withholding tax will, for Dutch domestic tax purposes, only be available to the beneficial owner of dividends we distributed. Certain specific anti-dividend-stripping rules apply. The Dutch tax authorities have taken the position that the beneficial ownership test

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can also be applied to deny relief from Dutch dividend withholding tax under double tax treaties, the Tax Arrangement for The Netherlands and the EU Parent Subsidiary Directive.

Under the convention of December 18, 1992, between the Kingdom of The Netherlands and the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the U.S./NL Income Tax Treaty ), as amended by the agreement dated March 8, 2004, the Dutch dividend withholding tax rate on dividends we paid on shares held by a Non-Resident holder of shares who is resident in the United States and who is entitled to the benefits of the U.S./NL Income Tax Treaty will generally be reduced to 15%, and further to 5% if such Non-Resident holder of shares is a company which holds directly at least 10% of the voting power in us. The U.S./NL Income Tax Treaty provides for a complete exemption for dividends received by exempt pension trusts and exempt organizations, as defined therein. Except in the case of exempt organizations, the reduced dividend withholding tax rate under the U.S./NL Income Tax Treaty may be available at source, upon payment of a dividend in respect of such shares, provided that the holder thereof or, if applicable, the paying agent, has supplied us with the appropriate Dutch tax forms in accordance with the Dutch implementation regulations under the U.S./NL Income Tax Treaty. If such forms are not duly and timely supplied, we will be required to withhold the dividend withholding tax at the Dutch statutory rate of 15%. In such case, a Non-Resident holder of shares who is resident in the United States and who is entitled to the reduced rate of 15% of the U.S./NL Income Tax Treaty may obtain a refund of the difference between the amount withheld and the amount that The Netherlands was entitled to levy in accordance with the U.S./NL Income Tax Treaty by filing the appropriate forms with the Dutch tax authorities within the term set therefore.

*Reduction*

If we have received a profit distribution from a foreign entity, or a repatriation of foreign branch profit, that is exempt from Dutch corporate income tax and that has been subject to a foreign withholding tax of at least 5%, we may be entitled to a reduction of the amount of Dutch dividend withholding tax withheld that must be paid over to the Dutch tax authorities in respect of dividends we distributed.

Non-Resident holders of shares are urged to consult their tax advisors regarding the general creditability or deductibility of Dutch dividend withholding tax and, in particular, the impact on such investors of our potential ability to receive a reduction as meant in the previous paragraph.

*Gift and Inheritance Taxes*

A person who acquires shares as a gift (in form or in substance), or who acquires or is deemed to acquire shares on the death of an individual, will not be subject to Dutch gift tax or to Dutch inheritance tax, as the case may be, unless:

the donor or the deceased was resident or deemed to be resident in The Netherlands for purposes of gift or inheritance tax (as the case may be); or

the shares are or were attributable to an enterprise or part of an enterprise that the donor or the deceased carried on through a permanent establishment or a permanent representative in The Netherlands at the time of the gift or of the death of the deceased; or

the donor made a gift of shares, then becomes a resident or deemed resident of The Netherlands, and dies as a resident or deemed resident of The Netherlands within 180 days after the date of the gift.

If the donor or the deceased is an individual who holds Dutch nationality, he will be deemed to be resident in The Netherlands for purposes of Dutch gift and inheritance taxes if he has been resident in The Netherlands at any time

during the ten years preceding the date of the gift or his death. If the donor is an individual who does not hold Dutch nationality, or an entity, he or it will be deemed to be resident in The Netherlands for purposes of Dutch gift tax if he or it has been resident in The Netherlands at any time during the twelve months preceding the date of the gift.

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Furthermore, in exceptional circumstances, the donor or the deceased will be deemed to be resident in The Netherlands for purposes of Dutch gift and inheritance taxes if the beneficiary of the gift or all beneficiaries under the estate jointly, as the case may be, make an election to the effect.

*Capital Tax*

We were subject to Netherlands capital tax at a rate of 0.55% on any contribution received in respect of shares prior to January 1, 2006. As of January 1, 2006 the capital tax has been abolished.

*Other Taxes and Duties*

No Dutch registration tax, transfer tax, stamp duty or any other similar documentary tax or duty will be payable in The Netherlands in respect of or in connection with the subscription, issue, placement, allotment or delivery of our shares.

**F. Dividends and Paying Agents.**

Not applicable.

**G. Statement of Experts.**

Not applicable.

**H. Documents on Display.**

We file reports, including annual reports on Form 20-F, furnish periodic reports on Form 6-K and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. These may be read without charge and copied, upon payment of prescribed rates, at the public reference facility maintained by the SEC at Room 1580, 100F Street, N.E., Washington, D.C. 20459. To obtain information on the operation of the public reference facility, the telephone number is 1-800-SEC-0330. Any SEC filings may also be accessed by visiting the SEC's website at [www.sec.gov](http://www.sec.gov).

**I. Subsidiary Information.**

Not applicable.

**Item 11. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risk from changes in both foreign currency exchange rates and interest rates. We monitor our exposure to these risks, and manage the underlying economic exposures using financial instruments such as forward contracts, currency options, interest rate swaps, interest rate caps and forward starting swaps. We do not hold or issue derivative or other financial instruments for speculative or trading purposes.

*Transaction Risk and Foreign Currency Risk Management*

We have significant international manufacturing operations. We manufacture products and purchase raw materials from many locations around the world. Our cost base is diversified over a number of European, Asia-Pacific, and Latin American currencies, as well as the U.S. dollar. Foreign exchange risk exists to the extent that we have payment obligations or receipts denominated in or based on currencies other than the functional currency of the various

manufacturing operations.

The diversified cost base counterbalances some of the cash flow and earnings impact of non-U.S. dollar revenues and minimizes the effect of foreign exchange rate movements on consolidated income. Due to periodic mismatches in cash inflows and outflows, currencies such as the euro, British pound, Canadian dollar, Australian dollar, Brazilian real and Japanese yen may have a possible impact on income. The primary currencies for cash outflows were the British pound, Japanese yen and euro. The primary currencies for cash inflows were the Canadian

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dollar and Australian dollar. To manage these exposures, we identify naturally offsetting positions and purchase hedging instruments to protect the remaining net anticipated exposures. In addition, we hedge the anticipated repayment of inter-company loans to foreign subsidiaries denominated in foreign currencies. See Note 15: Financial Instruments of our consolidated financial statements for a description of our foreign exchange rate risk management.

We regularly monitor our currency exchange rate exposure, execute policy-defined hedging strategies and review the ongoing effectiveness of such strategies. Our strategy is to use a mixture of foreign exchange forward contracts and options contracts depending on our view of market conditions and nature of the underlying cash flow exposure.

For the purposes of assessing specific risks, we perform a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of (a) all foreign exchange forward and option contracts designated as cash flow hedges; (b) all foreign exposures for the U.S. dollar denominated financial assets and liabilities for our Latin American subsidiaries; and (c) other long-term foreign currency denominated receivables and payables. The sensitivity analysis excludes (a) all other foreign exchange forward contracts designated as fair value hedges and their related foreign currency denominated receivables, payables, and debt; (b) other foreign currency denominated receivables and payables of short-term maturities; (c) anticipated foreign currency cash flows related to the underlying business operations; and (d) related to certain supplier agreements, payment obligations or receipts based on currencies other than the functional currency of our manufacturing operations. The sensitivity analysis computes the impact on the fair value on the above exposures due to a hypothetical 10% change in the foreign currency exchange rates, assuming no change in interest rates. The net potential loss would be approximately \$64 million and \$49 million at December 31, 2006, and 2005, respectively. Our management believes that the above movements in foreign exchange rates would have an offsetting impact on the underlying business transactions that the financial instruments are used to hedge.

*Effects of Currency Translation*

Due to our significant international operations, we recognize that we may be subject to foreign exchange translation risk. This risk may arise when translating net income of our foreign operations into U.S. dollars. Depending on movements in foreign exchange rates, this may have an adverse impact on our consolidated financial statements. Exposures to the major currencies include the euro, British pound, Canadian dollar and Australian dollar. Exposures to other currencies include the Brazilian real, Argentine peso, Mexican peso, Danish krone, Norwegian krone, Swedish krona, Polish zloty, Indian rupee, and Chinese renminbi. In reviewing historical trends in currency exchange rates, adverse changes of 20% have been experienced in the past and could be experienced in the future. Certain currencies, such as the Mexican peso, Brazilian real and Argentine peso have historically experienced short-term movements ranging from 30% to 90% due to the devaluation of their respective currency.

As the expected future net income from our operations are dependent on multiple factors and foreign currency rates in these countries would not be expected to move in an equal and simultaneous fashion, we have not performed a sensitivity analysis related to this potential exposure. This potential exposure has resulted in a gain of \$10 million in 2006 and a loss of \$8 million in 2005. We do not hedge the potential impact of foreign currency translation risk on net income from our foreign operations in our normal course of business operations as net income of our operations are not typically remitted to the United States on an ongoing basis.

We also have investments in Europe, Canada, Latin America and Asia, which are subject to foreign currency risk. These currency fluctuations for those countries not under inflation accounting result in non-cash gains and losses that do not impact net income, but instead are recorded as Accumulated other comprehensive income (loss) in our consolidated balance sheet. At December 31, 2006, we performed a sensitivity analysis on our investment in significant foreign operations that have foreign currency exchange risk. We calculated that the fair value impact would be \$280 million and \$260 million at December 31, 2006, and 2005, respectively, as a result of a hypothetical 10%

change in foreign currency exchange rates, assuming no change in interest rates. We do not hedge our net investment in non-U.S. entities because those investments are viewed as long-term in nature. We have limited

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investments in subsidiaries in highly inflationary economies. The change in fair value of these investments can have an impact on our consolidated statements of income.

*Interest Rate Risk Management*

We are exposed to market risk from changes in interest rates. We monitor our exposure to this risk and manage the underlying exposure both through the matching of financial assets and liabilities and through the use of financial instruments, including swaps, caps, forward starting swaps, and forward rate agreements for the net exposure. These instruments aim to stabilize funding costs by managing the exposure created by the differing maturities and interest rate structures of our financial assets and liabilities. We do not hold or issue derivative or other financial instruments for speculative or trading purposes.

We use a model to monitor interest rate risk and to achieve a predetermined level of matching between the interest rate structure of our financial assets and liabilities. Fixed-rate financial instruments, including receivables, debt, ABS certificates and other investments, are segregated from floating-rate instruments in evaluating the potential impact of changes in applicable interest rates. The potential change in fair market value of financial instruments including derivative instruments held at December 31, 2006, and 2005, resulting from a hypothetical, instantaneous 10% change in the interest rate applicable to such financial instruments would be approximately \$43 million and \$9 million, respectively, based on the discounted values of their related cash flows.

The sensitivity analysis computes the impact on fair value on the above exposures due to a hypothetical 10% change in the interest rates used to discount each homogeneous category of financial assets and liabilities. A homogeneous category is defined according to the currency in which financial assets and liabilities are denominated and the applicable interest rate index. As a result, our inherent rate risk sensitivity model may overstate the impact of interest rate fluctuations for such financial instruments, as consistently unfavorable movements of all interest rates are unlikely.

See Note 15: Financial Instruments of our consolidated financial statements for a description of the methods and assumptions used to determine the fair values of financial instruments.

*Commodity Price Risk Management*

Commodity prices affect our Equipment Operations sales and Financial Services originations. Commodity risk is managed through geographic and enterprise diversification. It is not possible to determine the impact of commodity prices on income, cash flows or fair values of the Financial Services portfolio.

*Changes in Market Risk Exposure as Compared to 2005*

Our exposures and strategy for managing our exposures to interest rate, foreign currency and commodity price risk have not changed significantly from 2005.

**Item 12. Description of Securities Other than Equity Securities**

Not applicable.

**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**



None.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

In March, 2006, Wells Fargo Bank N.A. became successor trustee under our Senior Notes Indenture Agreements. The address for Wells Fargo Bank N.A. is Corporate Trust Services, Sixth & Marquette; N9303-120, Minneapolis, MN 55479.

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**Item 15. Controls and Procedures**

***(a) Disclosure Controls and Procedures***

Our management, including the Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2006 pursuant to Exchange Act Rule 13a-15. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports we file or furnish under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

***(b) Management's Report on Internal Control Over Financial Reporting***

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Exchange Act Rule 13a-15(e). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

The management of CNH Global N.V. is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on this assessment, management believes that, as of December 31, 2006, the Company's internal control over financial reporting was effective.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only

management's report in this annual report.

***(c) Change in Internal Control over Financial Reporting***

There have been no changes in internal controls or in other factors that could significantly affect internal controls during the year ended December 31, 2006, including any corrective actions with regard to significant deficiencies and material weaknesses.

**Table of Contents****Item 16A. Audit Committee Financial Expert**

The Board of Directors of CNH has determined that John Lanaway, Dr. Peter Kalantzis, and Jacques Theurillat are audit committee financial experts. Each are independent directors.

**Item 16B. Code of Ethics**

We have adopted a code of ethics which is applicable to CNH's principal executive officer, principal financial officer and the principal accounting officer and controller. This code of ethics is posted on our website, [www.CNH.com](http://www.CNH.com), and may be found as follows: from our main page, first click on "Corporate Governance" and then on "Code of Conduct".

**Item 16C. Principal Accountant Fees and Services**

Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu and their respective affiliates (collectively, the "Deloitte Entities") were appointed to serve as our independent registered public accounting firm for the year ended December 31, 2006. We incurred the following fees from the Deloitte Entities for professional services for the years ended December 31, 2006, and 2005:

	<b>2006</b>	<b>2005</b>
Audit Fees	\$ 4,404,500	\$ 4,304,000
Audit-Related Fees	1,050,000	886,600
Tax Fees	461,300	1,386,800
Total	\$ 5,915,800	\$ 6,577,400

Audit Fees are the aggregate fees billed by the Deloitte Entities for the audit of our consolidated annual financial statements, reviews of interim financial statements and attestation services that are provided in connection with statutory and regulatory filings or engagements. Audit-Related Fees are fees charged by the Deloitte Entities for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under Audit Fees. This category comprises fees for the audit of employee benefit plans and pension plans, agreed-upon procedure engagements and other attestation services subject to regulatory requirements and certifications of accounting-related internal controls. Tax Fees are fees for professional services rendered by the Deloitte Entities for expatriate employee tax services, tax compliance, tax advice on actual or contemplated transactions and tax consulting associated with international transfer prices.

**Audit Committee's pre-approval policies and procedures**

Our Audit Committee nominates and engages our independent registered public accounting firm to audit our consolidated financial statements. Our Audit Committee has a policy requiring management to obtain the Committee's approval before engaging our independent registered public accounting firm to provide any other audit or permitted non-audit services to us or our subsidiaries. Pursuant to this policy, which is designed to assure that such engagements do not impair the independence of our independent registered public accounting firm, the Audit Committee pre-approves annually a catalog of specific audit and non-audit services in the categories Audit Services, Audit-Related Services, Tax Services, and any other services that may be performed by our independent registered

public accounting firm.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not Applicable.

**Item 16E. Purchase of Equity Securities by the Issuer and Affiliated Purchasers**

We currently have no announced share buyback plans.

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**PART III**

**Item 17. Financial Statements**

We have responded to Item 18 in lieu of responding to this item.

**Item 18. Financial Statements**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**CNH GLOBAL N.V. AND SUBSIDIARIES**

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**Item 19. Exhibits**

A list of exhibits included as part of this annual report on Form 20-F is set forth in the Index to Exhibits that immediately precedes such exhibits.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of CNH Global N.V.:

We have audited the accompanying consolidated balance sheets of CNH Global N.V. (a Netherlands corporation) and its subsidiaries (collectively, the Company) as of December 31, 2006, and 2005, and the related consolidated statements of income, cash flows, and changes in shareholders' equity for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of CNH Global N.V. and its subsidiaries as of December 31, 2006, and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the consolidated financial statements, effective December 31, 2006 the Company changed its method of accounting for the funded status of their defined benefit pension and other postretirement plans to adopt Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R).

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position, results of operations, and cash flows of Equipment Operations and Financial Services and are not a required part of the basic consolidated financial statements. The supplemental information is the responsibility of the Company's management. Such information has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

/S/ Deloitte & Touche LLP

Milwaukee, Wisconsin  
March 29, 2007



**Table of Contents****CNH GLOBAL N.V.**

**CONSOLIDATED STATEMENTS OF INCOME**  
**For the Years Ended December 31, 2006, 2005 and 2004**  
**(and Supplemental Information)**

	<b>Supplemental Information</b>								
	<b>2006</b>	<b>Consolidated 2005</b>	<b>2004</b>	<b>Equipment Operations</b>			<b>Financial Services</b>		
				<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(in millions, except per share data)</b>								
<b>Revenues:</b>									
Net sales	\$ 12,115	\$ 11,806	\$ 11,545	\$ 12,115	\$ 11,806	\$ 11,545	\$	\$	\$
Finance and interest income	883	769	634	177	129	82	952	801	672
	12,998	12,575	12,179	12,292	11,935	11,627	952	801	672
<b>Costs and Expenses:</b>									
Cost of goods sold	9,933	9,934	9,782	9,933	9,934	9,782			
Selling, general and administrative	1,248	1,177	1,100	1,015	964	919	233	213	181
Research, development and engineering	367	303	277	367	303	277			
Restructuring	96	73	104	94	71	102	2	2	2
Interest expense - Fiat affiliates	66	99	88	49	72	63	17	27	25
Interest expense - other	512	452	404	272	269	255	323	240	183
Interest compensation to Financial Services				235	159	113			
Other, net	359	280	265	233	188	186	54	36	52
	12,581	12,318	12,020	12,198	11,960	11,697	629	518	443
Income (loss) before taxes, minority interest and equity in income									
(loss) of unconsolidated subsidiaries and affiliates	417	257	159	94	(25)	(70)	323	283	229
Income tax provision (benefit)	165	116	39	56	24	(39)	109	92	78
Minority interest	16	26	23	16	27	23			
Equity in income (loss) of unconsolidated subsidiaries and affiliates:									

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Financial Services	8	9	8	222	200	159	8	9	8
Equipment Operations	48	39	20	48	39	20			
Net income	\$ 292	\$ 163	\$ 125	\$ 292	\$ 163	\$ 125	\$ 222	\$ 200	\$ 159

**Per Share Data:**

Basic earnings per share	\$ 1.37	\$ 0.77	\$ 0.94
Diluted earnings per share	\$ 1.23	\$ 0.70	\$ 0.54

The Consolidated data in these statements include CNH Global N.V. and its consolidated subsidiaries and conform to the requirements of SFAS No. 94. The supplemental Equipment Operations (with Financial Services on the equity basis) data in these statements include primarily CNH Global N.V.'s agricultural and construction equipment operations. The supplemental Financial Services data in these statements include primarily CNH Global N.V.'s financial services business. Transactions between Equipment Operations and Financial Services have been eliminated to arrive at the Consolidated data.

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

**Table of Contents****CNH GLOBAL N.V.****CONSOLIDATED BALANCE SHEETS**

**As of December 31, 2006 and 2005**  
**(and Supplemental Information)**

	<b>Consolidated</b>		<b>Equipment Operations</b>		<b>Supplemental Information Financial Services</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>(in millions, except share data)</b>					
<b>ASSETS</b>						
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 1,174	\$ 1,245	\$ 703	\$ 858	\$ 471	\$ 387
Deposits in Fiat affiliates cash management pools	497	580	496	578	1	2
Accounts and notes receivable, net	3,677	3,192	1,311	1,146	2,475	2,118
Intersegment notes receivable			1,348	1,067		
Inventories, net	2,735	2,466	2,735	2,466		
Deferred income taxes	587	534	424	436	163	98
Prepayments and other	114	99	110	95	4	4
<b>Total current assets</b>	<b>8,784</b>	<b>8,116</b>	<b>7,127</b>	<b>6,646</b>	<b>3,114</b>	<b>2,609</b>
Long-term receivables	2,872	2,649	3	97	2,869	2,552
Intersegment long-term notes receivable			97			
Property, plant and equipment, net	1,378	1,311	1,366	1,303	12	8
<b>Other Assets:</b>						
Investments in unconsolidated subsidiaries and affiliates	457	449	354	353	103	96
Investment in Financial Services			1,788	1,587		
Equipment on operating leases, net	254	180			254	180
Goodwill	2,365	2,388	2,220	2,243	145	145
Intangible assets, net	708	775	707	775	1	
Other assets	1,456	1,450	852	955	604	495
<b>Total other assets</b>	<b>5,240</b>	<b>5,242</b>	<b>5,921</b>	<b>5,913</b>	<b>1,107</b>	<b>916</b>
<b>Total</b>	<b>\$ 18,274</b>	<b>\$ 17,318</b>	<b>\$ 14,514</b>	<b>\$ 13,959</b>	<b>\$ 7,102</b>	<b>\$ 6,085</b>

**LIABILITIES AND  
SHAREHOLDERS EQUITY**

**Current Liabilities:**

Current maturities of long-term debt	Fiat					
affiliates	\$ 33	\$ 413	\$	\$ 279	\$ 33	\$ 134
	1,027	646	53	106	974	540

Current maturities of long-term debt							
other							
Short-term debt	Fiat affiliates	438	565	260	479	178	86
Short-term debt	other	832	957	228	347	604	610
Intersegment short-term debt and current maturities of intersegment long-term debt							
Accounts payable		1,881	1,609	1,939	1,641	42	32
Restructuring liability		85	47	82	45	3	2
Other accrued liabilities		2,144	1,795	1,879	1,600	274	203
<b>Total current liabilities</b>		<b>6,440</b>	<b>6,032</b>	<b>4,441</b>	<b>4,497</b>	<b>3,456</b>	<b>2,674</b>
Long-term debt	Fiat affiliates	19	133		95	19	38
Long-term debt	other	4,053	3,573	2,366	1,916	1,687	1,657
Intersegment long-term debt							
<b>Other Liabilities:</b>							
Pension, postretirement and postemployment benefits		2,288	2,132	2,279	2,116	9	16
Other liabilities		245	305	199	192	46	113
<b>Total other liabilities</b>		<b>2,533</b>	<b>2,437</b>	<b>2,478</b>	<b>2,308</b>	<b>55</b>	<b>129</b>
Commitments and contingencies							
Minority interest		109	91	109	91		
<b>Shareholders equity:</b>							
Preference shares, 2.25 par value; authorized 200,000,000 shares in 2006 and 2005; issued none and 8,000,000 shares in 2006 and 2005							
			19		19		
Preference shares, \$1.00 par value; authorized and issued 74,800,000 shares in 2006 and 2005							
						35	35
Common shares, 2.25 par value; authorized 400,000,000 shares in 2006 and 2005, issued 236,319,791 in 2006 and 135,020,437 shares in 2005							
		592	315	592	315	205	192
Paid-in capital		6,117	6,348	6,117	6,348	1,205	1,193
Treasury stock, 154,813 shares in 2006 and 2005, at cost							
		(8)	(8)	(8)	(8)		
Retained earnings (deficit)		(763)	(996)	(763)	(996)	211	83
Accumulated other comprehensive income (loss)							
		(818)	(626)	(818)	(626)	132	84
<b>Total shareholders equity</b>		<b>5,120</b>	<b>5,052</b>	<b>5,120</b>	<b>5,052</b>	<b>1,788</b>	<b>1,587</b>
<b>Total</b>		<b>\$ 18,274</b>	<b>\$ 17,318</b>	<b>\$ 14,514</b>	<b>\$ 13,959</b>	<b>\$ 7,102</b>	<b>\$ 6,085</b>

The Consolidated data in these statements include CNH Global N.V. and its consolidated subsidiaries and conform to the requirements of SFAS No. 94. The supplemental Equipment Operations (with Financial Services on the equity

basis) data in these statements include primarily CNH Global N.V.'s agricultural and construction equipment operations. The supplemental Financial Services data in these statements include primarily CNH Global N.V.'s financial services business. Transactions between Equipment Operations and Financial Services have been eliminated to arrive at the Consolidated data.

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

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**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2006, 2005 and 2004**  
**(and Supplemental Information)**

	<b>Supplemental Information</b>								
	<b>Consolidated</b>			<b>Equipment Operations</b>			<b>Financial Services</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(in millions)</b>								
<b>Operating activities:</b>									
Net income	\$ 292	\$ 163	\$ 125	\$ 292	\$ 163	\$ 125	\$ 222	\$ 200	\$ 159
Adjustments to reconcile net income to net cash provided (used) by operating activities:									
Depreciation and amortization	316	309	325	273	263	261	43	46	64
Deferred income tax expense (benefit)	(9)	132	4	24	169	64	(33)	(37)	(60)
(Gain) on disposal of fixed assets	(4)	(1)	(21)	(4)	(1)	(21)			
Undistributed (income) losses of unconsolidated subsidiaries	(2)	(7)	2	(147)	(138)	(43)	(8)	(9)	(5)
Changes in operating assets and liabilities:									
(Increase) decrease in intersegment activities				29	56	(97)	(29)	(56)	97
(Increase) decrease in accounts and notes receivable, net	(95)	(197)	911	14	271	712	(109)	(468)	199
(Increase) decrease in inventories, net	(104)	(102)	85	(104)	(102)	85			
(Increase) decrease in prepayments and other current assets	(6)	(10)	(10)	(7)	(8)	(12)	1	(2)	2
(Increase) decrease in other assets	53	(42)	(369)	40	(145)	(122)	13	103	(247)
Increase (decrease) in accounts payable	126	103	(59)	123	95	(58)	3	8	(1)
Increase (decrease) in other accrued liabilities	40	89	26	78	118	(10)	(38)	(29)	36
	32	71	(24)	130	63	(7)	(98)	8	(17)

Increase (decrease) in other liabilities									
Other, net	(32)	41	(25)	(26)	45	2	(6)	(4)	(27)
<b>Net cash (used) provided by operating activities</b>	<b>607</b>	<b>549</b>	<b>970</b>	<b>715</b>	<b>849</b>	<b>879</b>	<b>(39)</b>	<b>(240)</b>	<b>200</b>
<b>Investing activities:</b>									
Acquisitions and investments, net of cash acquired	(15)	(19)	(38)	(15)	(29)	(113)		(3)	(10)
Additions to retail receivables	(6,120)	(5,351)	(5,183)				(6,120)	(5,351)	(5,183)
Proceeds from retail securitizations	2,836	2,799	2,218				2,836	2,799	2,218
Collections of retail receivables	3,012	2,674	2,281				3,012	2,674	2,281
Collections of retained interests in securitized retail receivables	45	49	115				45	49	115
Proceeds from sale of businesses and assets	71	124	255	13	19	93	58	105	162
Expenditures for property, plant and equipment	(218)	(155)	(180)	(213)	(152)	(179)	(5)	(3)	(1)
Expenditures for equipment on operating leases	(173)	(111)	(81)				(173)	(111)	(81)
(Deposits in) withdrawals from Fiat affiliates cash management pools	128	506	217	127	493	221	1	13	(4)
<b>Net cash (used) provided by investing activities</b>	<b>(434)</b>	<b>516</b>	<b>(396)</b>	<b>(88)</b>	<b>331</b>	<b>22</b>	<b>(346)</b>	<b>172</b>	<b>(503)</b>
<b>Financing activities:</b>									
Intersegment activity				(378)	23	(72)	378	(23)	72
Proceeds from issuance of long-term debt Fiat affiliates		62	5		62	5			
Proceeds from issuance of long-term debt other	1,061	839	1,452	500	56	497	561	783	955
Payment of long-term debt Fiat affiliates	(494)	(627)	(634)	(374)	(580)	(490)	(120)	(47)	(144)
Payment of long-term debt other	(108)	(566)	(923)	(108)	(215)	(130)		(351)	(793)
	(667)	(447)	(143)	(364)	(264)	(530)	(303)	(183)	387

Net increase (decrease) in short-term revolving credit facilities									
Dividends paid	(59)	(34)	(33)	(59)	(34)	(33)	(69)	(60)	(109)
Other, net	(9)		(1)	(9)		(1)		13	85
<b>Net cash (used) provided by financing activities</b>	<b>(276)</b>	<b>(773)</b>	<b>(277)</b>	<b>(792)</b>	<b>(952)</b>	<b>(754)</b>	<b>447</b>	<b>132</b>	<b>453</b>
Effect of foreign exchange rate changes on cash and cash equivalents	32	22	15	10	(7)	4	22	29	11
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(71)</b>	<b>314</b>	<b>312</b>	<b>(155)</b>	<b>221</b>	<b>151</b>	<b>84</b>	<b>93</b>	<b>161</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>1,245</b>	<b>931</b>	<b>619</b>	<b>858</b>	<b>637</b>	<b>486</b>	<b>387</b>	<b>294</b>	<b>133</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,174</b>	<b>\$ 1,245</b>	<b>\$ 931</b>	<b>\$ 703</b>	<b>\$ 858</b>	<b>\$ 637</b>	<b>\$ 471</b>	<b>\$ 387</b>	<b>\$ 294</b>

The Consolidated data in these statements include CNH Global N.V. and its consolidated subsidiaries and conform to the requirements of SFAS No. 94. The supplemental Equipment Operations (with Financial Services on the equity basis) data in these statements include primarily CNH Global N.V.'s agricultural and construction equipment operations. The supplemental Financial Services data in these statements include primarily CNH Global N.V.'s financial services business. Transactions between Equipment Operations and Financial Services have been eliminated to arrive at the Consolidated data.

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



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## CNH GLOBAL N.V.

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

For the Years Ended December 31, 2006, 2005 and 2004

	Preferred Shares	Common Shares	Paid-in Capital	Treasury Stock	Retained Earnings (Deficit) (in millions)	Accumulated Other Comprehensive Income (Loss) Unearned Compensation	Comprehensive Income (Loss) Total	Comprehensive Income (Loss)
<b>Balance, January 1, 2004</b>	\$ 19	\$ 309	\$ 6,310	\$ (7)	\$ (1,217)	\$ (539)	\$ (1)	\$ 4,874
Comprehensive income:								
Net income					125		125	\$ 125
Translation adjustment						86	86	86
Pension liability adjustment (net of tax of \$58 million)						(64)	(64)	(64)
Unrealized loss on available for sale securities (net of tax of \$2 million)						(2)	(2)	(2)
Derivative financial instruments:								
Gains deferred (net of tax of \$16 million)						18	18	18
Gains reclassified to earnings, net of tax						5	5	5
Total								\$ 168
Purchase of treasury shares				(1)			(1)	
Issuance of common shares		3	18				21	
Dividends paid					(33)		(33)	
<b>Balance, December 31, 2004</b>	19	312	6,328	(8)	(1,125)	(496)	(1)	5,029
Comprehensive income:								
Net income					163		163	\$ 163
Translation adjustment						(68)	(68)	(68)
Pension liability adjustment (net of tax of \$27 million)						16	16	16

Unrealized loss on available for sale securities (net of tax of \$8 million)						(9)	(9)	(9)
Derivative financial instruments:								
Losses deferred (net of tax of \$25 million)						(87)	(87)	(87)
Gains reclassified to earnings, net of tax						18	18	18
Total								\$ 33
Issuance of common shares	3	17					20	
Common stock due under the Long-Term Incentive Plan		3					3	
Dividend paid						(34)	(34)	
Recognition of compensation on restricted stock and stock options							1	1
<b>Balance, December 31, 2005</b>	19	315	6,348	(8)	(996)	(626)	5,052	
Comprehensive income:								
Net income						292	292	\$ 292
Translation adjustment						115	115	115
Pension liability adjustment (net of tax of \$9 million), prior to adoption of SFAS No. 158						21	21	21
Unrealized gain on available for sale securities (net of tax of \$5 million)						1	1	1
Derivative financial instruments:								
Gains deferred (net of tax of \$24 million)						118	118	118
Losses reclassified to earnings, net of tax						(51)	(51)	(51)
Total								\$ 496
Issuance of common shares	4	24					28	
Common stock due under the Long-Term Incentive		(1)					(1)	

Plan								
Dividend paid					(59)			(59)
Preferred stock								
conversion	(19)	273	(254)					
Adjustment to initially								
apply SFAS No. 158 (net								
of tax of \$233)						(396)		(396)
<b>Balance, December 31,</b>								
<b>2006</b>	\$	\$ 592	\$ 6,117	\$ (8)	\$ (763)	\$ (818)	\$	\$ 5,120

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements of changes in shareholders' equity.

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**CNH GLOBAL N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1: Nature of Operations**

CNH Global N.V. ( CNH or the Company ), is incorporated in The Netherlands under Dutch law. CNH's Equipment Operations manufacture, market and distribute a full line of agricultural and construction equipment on a worldwide basis. CNH's Financial Services operations offer a broad array of financial services products, including retail financing for the purchase or lease of new and used CNH and other manufacturers' products and other retail financing programs. To facilitate the sale of its products, CNH offers wholesale financing to dealers.

CNH is controlled by Fiat Netherlands Holding N.V. ( Fiat Netherlands ), a wholly owned subsidiary of Fiat S.p.A. and its subsidiaries ( Fiat or the Fiat Group ), a company organized under the laws of the Republic of Italy, which owned approximately 90% of the outstanding common shares of CNH at December 31, 2006.

**Note 2: Summary of Significant Accounting Policies**

***Principles of Consolidation and Basis of Presentation***

CNH has prepared the accompanying consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ). The consolidated data in these statements include CNH Global N.V. and its consolidated subsidiaries and conform to the requirements of Statement of Financial Accounting ( SFAS ) No. 94, Consolidation of All Majority-Owned Subsidiaries ( SFAS No. 94 ). CNH has prepared its consolidated financial statements in U.S. dollars and, unless otherwise indicated, all financial data set forth in these financial statements is expressed in U.S. dollars. The financial statements include the accounts of CNH's majority-owned subsidiaries and reflect the interests of the minority owners of the subsidiaries that are not fully owned for the periods presented, as applicable. The operations and key financial measures and financial analysis differ significantly for manufacturing and distribution businesses and financial services businesses; therefore, management believes that certain supplemental disclosures are important in understanding the consolidated operations and financial results of CNH. In addition, CNH's principal competitors present supplemental data on a similar basis. Therefore, users of CNH's financial statements can use the supplemental data to make meaningful comparisons of CNH and its principal competitors. The financial statements reflect the consolidated results of CNH and also include, on a separate and supplemental basis, the consolidation of CNH's equipment operations and financial services operations as follows:

*Equipment Operations* The financial information captioned Equipment Operations reflects the consolidation of all majority-owned subsidiaries except for CNH's Financial Services business. CNH's Financial Services business has been included using the equity method of accounting whereby the net income and net assets of CNH's Financial Services business are reflected, respectively, in Equity in income (loss) of unconsolidated subsidiaries and affiliates Financial Services in the accompanying consolidated statements of income, and in Investment in Financial Services in the accompanying consolidated balance sheets.

*Financial Services* The financial information captioned Financial Services reflects the consolidation or combination of CNH's Financial Services business including allocation of assets and liabilities to the business.

All significant intercompany transactions, including activity within and between Equipment Operations and Financial Services, have been eliminated in deriving the consolidated financial statements and data. Intersegment notes receivable, intersegment long-term notes receivable, intersegment short-term debt and intersegment long-term debt represent intersegment financing between Equipment Operations and Financial Services.

Investments in unconsolidated subsidiaries and affiliates, where CNH exercises significant influence, are accounted for using the equity method. Under this method, the investment is initially recorded at cost and is increased or decreased by CNH's proportionate share of the entity's respective profits or losses. Dividends received from these entities reduce the carrying value of the investments.

The Company sells receivables, using consolidated special purpose entities, to limited purpose business trusts, and other privately structured facilities, which then issue asset-backed securities to private or public investors. Due to the nature of the assets held by the trusts and the limited nature of each trust's activities they are each classified as

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**CNH GLOBAL N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

a qualifying special purpose entity ( QSPE ) under SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities A Replacement of FASB Statement 125 ( SFAS No. 140 ). In accordance with SFAS No. 140, assets and liabilities of the QSPEs are not consolidated in the Company s consolidated balance sheets. For additional information on the Company s receivable securitization programs, see Note 3: Accounts and Notes Receivable.

***Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

***Revenue Recognition***

Equipment Operations record sales of equipment and replacement parts when title and all risks of ownership have transferred to the independent dealer or other customer. In the United States and the majority of international locations, title to equipment and replacement parts transfers to the dealer generally upon shipment. In various international locations, certain equipment and replacement parts are shipped to dealers on a consignment basis under which title and risk of ownership are not transferred to the dealer. Under these circumstances, sales are not recorded until a retail customer has purchased the goods. Dealers may not return equipment while the applicable dealer contract remains in place. Replacement parts may be returned on a limited basis. In the U.S. and Canada, if a dealer contract is terminated for any reason, CNH is obligated to repurchase new equipment from the dealer. CNH has credit limits and other safeguards in place to monitor the financial stability of its dealers. In cases where dealers are unable to pay for equipment or parts, CNH attempts to have these goods returned or negotiate a settlement of the outstanding receivables.

For all sales, no significant uncertainty exists surrounding the purchaser s obligation to pay for the equipment and replacement parts and CNH records appropriate allowance for credit losses as necessary. Receivables are due upon the earlier of payment terms discussed below or sale to the retail customer. Fixed payment schedules exist for all sales to dealers, but payment terms vary by geographic market and product line. In connection with these payment terms, CNH offers wholesale financing to many of its dealers including interest-free financing for specified periods of time which also vary by geographic market and product line. Interest is charged to dealers after the completion of the interest free period. In 2006 and 2005, interest-free periods averaged 3.7 months and 4.0 months, respectively, on approximately 64% and 66%, respectively, of sales for the agricultural equipment business. In both 2006 and 2005, interest-free periods averaged 3.5 months, on approximately 79% and 66%, respectively, of sales for the construction equipment business. Sales to dealers that do not qualify for an interest free period are subject to payment terms of 30 days or less.

Financial Services records finance and interest income on retail and other notes receivables and finance leases using the effective interest method. Income from operating leases is recognized over the term of the lease.

***Sales Allowances***

CNH grants certain sales incentives to stimulate sales of its products to retail customers. The expense for such incentive programs is reserved for and recorded as a deduction in arriving at the net sales amount at the time of the sale of the product to the dealer. The amounts of incentives to be paid are estimated based upon historical data, estimated future market demand for products, field inventory levels, announced incentive programs, competitive pricing and interest rates, among other things.

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**CNH GLOBAL N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Modification Programs and Warranty Costs***

The costs of major programs to modify products in the customer's possession are accrued when these costs can be identified and quantified. Normal warranty costs are recorded at the time of sale. For extended warranty programs, CNH defers revenue for amounts invoiced and recognizes the revenue ratably over the contractual period. Costs incurred for extended warranty programs are expensed as incurred.

***Advertising***

CNH expenses advertising costs as incurred. Advertising expense totaled \$44 million, \$47 million, and \$39 million for the years ended December 31, 2006, 2005, and 2004, respectively.

***Research and Development***

Research and development costs are expensed as incurred.

***Restructuring***

CNH recognizes costs associated with an exit or disposal activity at their fair value in the period in which the liability is incurred, except in certain situations where employees are required to render service until they are terminated in order to receive termination benefits. If an employee is required to render service until termination to receive benefits and they are to be retained for a period in excess of the lesser of the legal notification period or, in the absence of a legal notification period, 60 days, the costs are recognized ratably over the future service period.

***Foreign Currency Translation***

CNH's non-U.S. subsidiaries and affiliates maintain their books and accounting records using local currency as the functional currency, except for those operating in hyperinflationary economies. Assets and liabilities of non-U.S. subsidiaries are translated into U.S. dollars at period-end exchange rates, and net exchange gains or losses resulting from such translation are included in Accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets. Income and expense accounts of non-U.S. subsidiaries are translated at the average exchange rates for the period, and gains and losses from foreign currency transactions are included in net income in the period during which they arise. The U.S. dollar is used as the functional currency for subsidiaries and affiliates operating in highly inflationary economies for which both translation adjustments and gains and losses on foreign currency transactions are included in the determination of net income (loss) in the period during which they arise. Net foreign exchange gains and losses are reflected in Other, net in the accompanying consolidated statements of income.

***Cash and Cash Equivalents***

Cash equivalents are comprised of all highly liquid investments with an original maturity of three months or less. The carrying value of cash equivalents approximates fair value because of the short maturity of these investments.

***Deposits in Fiat Affiliates Cash Management Pools ( Deposits with Fiat )***



Deposits with Fiat are repayable to CNH upon one business day's notice. CNH accesses funds deposited in these accounts on a daily basis and has the contractual right to withdraw these funds on demand or terminate these cash management arrangements upon a seven-day prior notice. The carrying value of Deposits with Fiat approximates fair value based on the short maturity of these investments. For additional information on Deposits with Fiat, see Note 21: Related Party Information.

**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Receivables and Receivable Sales***

Receivables are recorded at face value, net of allowances for credit losses and deferred fees and costs.

CNH sells retail and wholesale receivables in securitizations and retains interest-only strips, subordinated tranches of notes, servicing rights, and cash reserve accounts, all of which are retained interests in the securitized receivables. Gain or loss on sale of the receivables depends in part on the carrying amount of the financial assets allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. The Company computes fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions—credit losses, prepayment speeds, and discount rates commensurate with the risks involved. Changes in these fair values are recorded after-tax in other comprehensive income in unrealized gain on available-for-sale securities. Other-than-temporary impairments are recorded in net income. For securitizations that qualify as collateral for secured borrowings no gains or losses are recognized at the time of securitization. These receivables remain on the balance sheet.

***Inventories***

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method. The cost of finished goods and work-in-progress includes the cost of raw materials, other direct costs and production overheads. Net realizable value is the estimate of the selling price in the ordinary course of business, less the cost of completion and selling. Provisions are made for obsolete and slow-moving inventories.

***Property, Plant and Equipment***

Property, plant and equipment are stated at cost, less accumulated depreciation. Expenditures for improvements that increase asset values and extend useful lives are capitalized. Expenditures for maintenance and repairs are expensed as incurred. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets as follows:

<b>Category</b>	<b>Lives</b>
Buildings and improvements	10 40 years
Plant and machinery	5 16 years
Other equipment	3 10 years

CNH capitalizes interest costs as part of the cost of constructing certain facilities and equipment. CNH capitalizes interest costs only during the period of time required to complete and prepare the facility or equipment for its intended use. The amount of interest capitalized in 2006, 2005, and 2004 is not significant in relation to the consolidated financial results.

CNH evaluates the recoverability of the carrying amount of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. CNH assesses the

recoverability of assets to be held and used by comparing the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets, based on a discounted cash flow analysis.

***Equipment on Operating Leases***

Financial Services purchases from dealers, equipment that is leased to retail customers under operating leases. Financial Services investment in operating leases is based on the purchase price paid for the equipment. The investment is depreciated on a straight-line basis over the term of the lease to the estimated residual value at lease termination, which is calculated at the inception of the lease. Realization of the residual values is dependent on

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**CNH GLOBAL N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Financial Services future ability to re-market the equipment under the then prevailing market conditions. CNH continually evaluates whether events and circumstances have occurred which affect the estimated residual values of equipment on operating leases and adjusts estimated residual value if necessary. Although realization is not assured, management believes that the estimated residual values are realizable. Expenditures for maintenance and repairs are the responsibility of the lessee.

***Goodwill and Intangibles***

Goodwill represents the excess of the purchase price paid plus the liabilities assumed over the fair value of the tangible and identifiable intangible assets purchased. Goodwill relating to acquisitions of unconsolidated subsidiaries and affiliates is included in Investments in unconsolidated subsidiaries and affiliates in the accompanying consolidated balance sheets. Goodwill and intangible assets deemed to have an indefinite useful life are reviewed for impairment at least annually. The Company performs its annual impairment review during the fourth quarter of each year. Impairment testing for goodwill is done at a reporting unit level.

In 2006, CNH began managing its operating results under a new global brand structure. Under this structure, its Equipment Operations are made up of four distinct global brands; Case IH and New Holland agricultural equipment brands, and Case and New Holland Construction construction equipment brands. Consequently, for 2006, CNH has identified five reporting units; Case IH, New Holland, Case, New Holland Construction, and Financial Services. Prior to 2006, CNH had identified three reporting units; Agricultural Equipment, Construction Equipment, and Financial Services. The fair values of the reporting units were determined based on the discounted cash flow model (primarily for the Equipment Operations reporting units) and/or the guideline company method which values companies by comparing them to similar companies whose equity securities are publicly traded or were involved in recent purchase and sale transactions (primarily for the Financial Services reporting unit). The valuation models utilize assumptions and projections that have a significant impact on the valuations. These assumptions involve significant judgment regarding projected future revenues, projected future margins, weighted average cost of capital or discount rate and control premium.

Intangibles consist primarily of acquired dealer networks, trademarks, product drawings and patents. Indefinite lived intangibles principally consist of acquired trademarks which have no legal, regulatory, contractual, competitive, economic, or other factor that limits their useful life. Intangible assets with an indefinite useful life are not amortized. Non-indefinite lived intangible assets are being amortized on a straight-line basis over 5 to 30 years.

Reference is made to Note 8: Goodwill and Intangibles for further information regarding goodwill and intangibles.

***Income Taxes***

CNH follows an asset and liability approach for financial accounting and reporting of income taxes. CNH recognizes a current tax liability or asset for the estimated taxes payable or refundable on tax returns for the current year. A deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and carryforwards. The measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. Deferred tax assets are reduced, if necessary, by the amount of any tax benefits for which, based on available evidence, it is more likely than not that they will not be realized.

***Retirement Programs***

CNH operates numerous defined benefit and defined contribution pension plans, the assets of which are held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and

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**CNH GLOBAL N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

CNH. The cost of providing defined benefit pension and other postretirement benefits is based upon actuarial valuations. The liability for termination indemnities is accrued in accordance with labor legislation in each country where such benefits are required. CNH contributions to defined contribution plans are charged to income during the period of the employee's service.

CNH uses a measurement date of December 31 for its qualified and non-qualified pension plans and postretirement benefit plans.

***Derivatives***

CNH records derivative financial instruments in the consolidated balance sheets as either an asset or a liability measured at fair value. The fair value of CNH's foreign exchange derivatives is based on quoted market exchange rates, adjusted for the respective interest rate differentials (premiums or discounts). The fair value of CNH's interest rate derivatives is based on discounting expected cash flows, using market interest rates, over the remaining term of the instrument. Changes in the fair value of derivative financial instruments are recognized currently in income unless specific hedge accounting criteria are met. For derivative financial instruments designated to hedge exposure to changes in the fair value of a recognized asset or liability, the gain or loss is recognized in income in the period of change together with the offsetting loss or gain on the related hedged item. For derivative financial instruments designated to hedge exposure to variable cash flows of a forecasted transaction, the effective portion of the derivative financial instrument's gain or loss is initially reported as a component of accumulated other comprehensive income (loss) and is subsequently reclassified into income when the forecasted transaction affects income. The ineffective portion of the gain or loss is reported in income immediately.

We formally document the hedging relationship to the hedged item and our risk management strategy for all derivatives designated as hedges. We assess the effectiveness of our hedging instrument both at inception and on an ongoing basis. If and when a derivative is determined not to be highly effective as a hedge, or the underlying hedged transaction is no longer probable of occurring, or the derivative is terminated, the hedge accounting described above is discontinued and any past or future changes in the derivative's fair value that will not be effective as an offset to the income effects of the item being hedged are recognized currently in the statement of income.

Reference is made to Note 15: Financial Instruments, for further information regarding CNH's use of derivative financial instruments.

***Stock-Based Compensation Plans***

Effective January 1, 2006, CNH adopted SFAS No. 123 Revised, Share Based Payment (SFAS No. 123 Revised) which requires the use of a fair value based method of accounting for stock-based employee compensation. Upon adoption, CNH applied the Modified Prospective Method, under which compensation cost is recognized beginning on the effective date and continuing until participants are fully vested. Prior to adopting SFAS No. 123 Revised, CNH followed SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (an amendment of FASB Statement No. 123 (SFAS No. 148)) and used the Prospective Method of accounting for stock options. The Prospective Method required the recognition of expense for options granted, modified or settled since January 1, 2003. CNH had retained the intrinsic value method of accounting for stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25 Accounting for Stock Issued to Employees for options issued prior to January 1, 2003. Adopting SFAS No. 123 Revised resulted in additional expense of approximately \$1 million

during 2006.

Additionally, compensation expense is reflected in net income for 2005 and 2004 for stock options granted prior to 2004 with an exercise price less than the quoted market price of CNH common shares on the date of grant.

New shares are issued under the Company's stock-based compensation plans when restricted share grants are issued or upon the exercise of stock options.

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**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions, to all stock-based employee compensation for the years ended December 31, 2005, and 2004.

	<b>2005</b>	<b>2004</b>
Net income, as reported	\$ 163	\$ 125
Add: Stock-based employee compensation expense included in reported net income, net of tax	1	
Deduct: Total stock-based employee compensation expense determined under fair value based methods, net of tax	(4)	(4)
Pro forma net income	\$ 160	\$ 121
Earnings per share:		
As reported:		
Basic	\$ 0.77	\$ 0.94
Diluted	\$ 0.70	\$ 0.54
Pro Forma:		
Basic	\$ 0.76	\$ 0.91
Diluted	\$ 0.68	\$ 0.52

***Earnings Per Share***

CNH reflects common share equivalents in its computation of diluted weighted average shares outstanding when applicable and when inclusion is not anti-dilutive.

CNH uses the two-class method of computing earnings per share when participating securities, such as CNH's 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.

***New Accounting Pronouncements***

In February, 2007, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 ( SFAS No. 159 ). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. The fair value option established by SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value



option has been elected in income at each subsequent reporting date. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. CNH is in the process of determining the impact SFAS No. 159 will have on its financial position and results of operations.

In September, 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of SFAS Nos. 87, 88, 106, and 132(R) ( *SFAS No. 158* ). SFAS No. 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans to recognize the funded status of their postretirement benefit plans in the consolidated balance sheet, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end consolidated balance sheet, and provide additional disclosures. On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158. The effect of adopting SFAS No. 158 on the Company's financial condition at December 31, 2006,

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**CNH GLOBAL N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

has been included in the accompanying consolidated financial statements. SFAS No. 158 did not have an effect on the Company's consolidated financial condition at December 31, 2005, or 2004. SFAS No. 158's provisions regarding the change in the measurement date of postretirement benefit plans are not applicable as the Company already uses a measurement date of December 31 for its pension, postretirement, and post-employment benefit plans. See Note 12 Employee Benefit Plans and Postretirement Benefits for further discussion of the effect of adopting SFAS No. 158 on the Company's consolidated financial statements.

In September, 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted. CNH has not yet determined the impact, if any; the implementation of SFAS No. 157 may have on its financial position or results of operations.

In July, 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The FASB standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. CNH is in the process of determining the impact FIN 48 will have on its financial position and results of operations.

In March, 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140 (SFAS No. 156). SFAS No. 156 amends SFAS No. 140 with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective for fiscal years beginning after September 15, 2006; however, early adoption is permitted as of the beginning of an entity's fiscal year. CNH has determined the impact of SFAS No. 156 will not be material to its financial position or results of operations upon adoption.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 (SFAS No. 155). SFAS No. 155 amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), and SFAS No. 140, and resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interest in Securitized Financial Assets. SFAS No. 155: (a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; (b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133; (c) establishes a requirement to evaluate beneficial interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; (d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and, (e) eliminates restrictions on a qualifying special-purpose entity's ability to hold passive derivative financial instruments that pertain to beneficial interests that are or contain a derivative financial instrument. SFAS No. 155 also requires presentation within the financial statements that identifies those hybrid financial instruments for which the fair value election has been applied and information on the income statement impact of the changes in fair value of those instruments. SFAS No. 155 is effective for fiscal years beginning after September 15, 2006, although early

adoption is permitted as of the beginning of an entity's fiscal year. CNH has determined the impact of SFAS No. 155 will not be material to its financial position or results of operations upon adoption.

**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 3: Accounts and Notes Receivable*****On-Book Receivables***

Wholesale accounts and notes receivable arise primarily from the sale of goods to dealers and distributors and to a lesser extent, the financing of dealer operations. Under the standard terms of the wholesale receivable agreements, these receivables typically have interest-free periods of up to twelve months and stated original maturities of up to twenty-four months, with repayment accelerated upon the sale of the underlying equipment by the dealer. After the expiration of any interest-free period, interest is charged to dealers on outstanding balances until CNH receives payment. The interest-free periods are determined based on the type of equipment sold and the time of year of the sale. Interest rates are set based on market factors and based on the prime rate or LIBOR. CNH evaluates and assesses dealers on an ongoing basis as to their credit worthiness.

CNH provides and administers financing for retail purchases of new and used equipment sold through its dealer network. CNH purchases retail installment sales and loan and finance lease contracts from its dealers. The terms of retail and other notes and finance leases generally range from two to six years, and interest rates on retail and other notes and finance leases vary depending on prevailing market interest rates and certain incentive programs offered by CNH.

A summary of on-book accounts and notes receivables, net as of December 31, 2006, and 2005 is as follows:

	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>	
Wholesale notes and accounts	\$ 1,936	\$ 1,667
Retail and other notes and finance leases	2,809	2,527
Other restricted receivables	1,256	1,069
Other notes	806	825
Gross receivables	6,807	6,088
Less:		
Allowance for credit losses	(258)	(247)
Current portion	(3,677)	(3,192)
Total long-term receivables, net	\$ 2,872	\$ 2,649

Maturities of long-term receivables as of December 31, 2006, are as follows:

**Amount**  
**(in millions)**

2008	\$	970
2009		786
2010		550
2011		424
2012 and thereafter		142
Total long-term receivables, net	\$	2,872

It has been CNH's experience that substantial portions of retail receivables are repaid or sold before their contractual maturity dates. As a result, the above table should not be regarded as a forecast of future cash collections. Wholesale, retail and finance lease receivables have significant concentrations of credit risk in the

**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

agricultural and construction business sectors, the majority of which are in North America. CNH typically retains, as collateral, a security interest in the equipment associated with wholesale and retail notes receivable.

Allowance for credit losses activity for the years ended December 31 2006, 2005, and 2004 are as follows:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(in millions)</b>		
Balance, beginning of year	\$ 247	\$ 211	\$ 190
Provision for credit losses	78	104	76
Receivables written off	(69)	(63)	(69)
Other, net	2	(5)	14
Balance, end of year	\$ 258	\$ 247	\$ 211

A portion of the Company's retail note securitizations are accounted for as secured borrowings. Retail notes related to these programs were transferred, without recourse, to bankruptcy remote special purpose entities ( SPEs ) which in turn issued debt to investors. The SPEs supporting the secured borrowings to which the retail notes are transferred are included in the Company's consolidated balance sheet as the transactions do not meet the criteria for derecognition under SFAS No. 140. The total restricted assets related to these securitizations are indicated in the above receivables summary table as Other restricted receivables.

The following table summarizes CNH's other restricted receivables at December 31, 2006, and 2005:

	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>	
Asset-backed commercial paper ( ABCP ) conduit facilities	\$ 441	\$ 434
Australia retail receivables	456	246
U.S. retained undivided interests	185	194
U.S. credit card receivables	174	160
Receivables sold without recourse		35
Total other restricted receivables	\$ 1,256	\$ 1,069

The secured borrowings related to these restricted securitized retail notes are obligations that are payable as the retail notes are liquidated. Repayment of the secured borrowings depend primarily on cash flows generated by the restricted assets.

**Off-Book Securitizations**

*Wholesale Receivables Securitizations*

CNH sells eligible receivables on a revolving basis to privately and publicly structured securitization facilities. The receivables are initially sold to wholly owned bankruptcy-remote SPE s, where required by bankruptcy laws. These SPE s, which are consolidated by CNH, legally isolate the receivables from the creditors of CNH. In turn, these subsidiaries establish separate trusts to which the receivables are transferred in exchange for proceeds from debt issued by the trusts. Each trust qualifies as a QSPE under SFAS No. 140, and accordingly are not consolidated by CNH. These transactions are utilized as an alternative to the issuance of debt and allow CNH to realize a lower cost of funds due to the asset-backed nature of the receivables and the credit enhancements offered to investors.

The facilities consist of a master trust facility in the U.S., Canada and Australia. The U.S. master trust facility consists of the following: \$750 million term senior and subordinated asset-backed notes with a three year maturity issued in June, 2005, \$750 million term senior and subordinated asset-backed notes issued with a three year maturity in July, 2006, and a 364-day, \$800 million conduit facility that is renewable annually (June, 2007) at the

**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

sole discretion of the purchasers. The Canadian master trust facility consists of the following: C\$189 million (\$163 million) term senior and subordinated asset-backed notes with a three year maturity issued in July, 2004, C\$189 million (\$163 million) term senior and subordinated asset-backed notes with a three year maturity issued in July, 2006, and a 364-day C\$250 million (\$215 million) conduit facility that is renewable annually (August, 2007) at the sole discretion of the purchaser. The Australian facility consists of a 364-day, A\$180 million (\$142 million) conduit facility that is renewable annually (May, 2007) at the sole discretion of the purchaser.

In addition, certain of CNH's Equipment Operations subsidiaries in Europe sell euro and British pound denominated wholesales receivables, directly or indirectly, to a trust. This trust consists of two bank-sponsored conduits under a 500 million (\$659 million) plus £40 million (\$78 million) 364-day facility maturing in July 2007. As part of the extension of our wholesale receivable management practices in North America to other regions, we will continue to have certain of our European Financial Services subsidiaries purchase wholesale receivables from Equipment Operations subsidiaries and become sellers into this trust.

Each of the facilities contain minimum portfolio performance thresholds which, if breached, would trigger an early amortization of the asset-backed notes issued by each respective trust and preclude us from selling additional receivables originated on a prospective basis. The occurrence of an early amortization event would increase the amount of receivables and associated debt on our consolidated balance sheet.

As of December 31, 2006, CNH had the following balances related to the wholesale receivable securitization facilities described above:

	Receivables Sold		Outstanding		Retained Undivided Interest	
	Local Currency	US\$	Local Currency	US\$	Local Currency	US\$
			(in millions)			
United States	\$ 2,770	\$ 2,770	\$ 2,297	\$ 2,297	\$ 473	\$ 473
Canada	C\$ 703	606	C\$ 540	466	C\$ 163	140
Europe	866	1,141	628	827	238	314
Australia	A\$ 103	82	A\$ 76	60	A\$ 27	22

As of December 31, 2005, CNH had the following balances related to the wholesale receivable securitization facilities described above:

	Receivables Sold		Outstanding		Retained Undivided Interest	
	Local Currency	US\$	Local Currency	US\$	Local Currency	US\$
			(in millions)			



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United States	\$	2,406	\$	2,406	\$	1,954	\$	1,954	\$	452	\$	452
Canada	C\$	569		489	C\$	445		382	C\$	124		106
Europe		814		960		601		709		213		251
Australia	A\$	149		109	A\$	108		79	A\$	41		30

The retained undivided interests provide recourse to investors in the event of default and are recorded at cost, which approximates fair value due to the short-term nature of the receivables.

In addition, CNH retains other interests in the sold receivables including interest-only strips and spread accounts.

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**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The cash flows between CNH and the facilities for the years ended December 31, 2006, and 2005 included:

	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>	
Proceeds from securitizations	\$ 652	\$ 630
Repurchase of receivables	237	183
Proceeds from collections reinvested in the facilities	7,539	6,824

*Retail Receivables Securitizations*

CNH funds a significant portion of its retail receivable originations by means of retail receivable securitizations. Within CNH's asset securitization program, qualifying retail finance receivables are sold to limited purpose, bankruptcy-remote consolidated subsidiaries of CNH where required by bankruptcy laws. In turn, these subsidiaries establish separate trusts to which the receivables are transferred in exchange for proceeds from asset-backed securities issued by the trusts. Due to the nature of the assets held by the trusts and the limited nature of each trust's activities, they are each classified as a QSPE under SFAS No. 140. The QSPEs have a limited life and generally terminate upon final distribution of amounts owed to investors or upon exercise of a cleanup-call option by CNH. No recourse provisions exist that allow holders of the QSPEs' asset-backed securities to put those securities back to CNH. CNH does not guarantee any securities issued by the QSPEs.

CNH securitized retail notes with a net principal value of \$3.0 billion, \$2.9 billion, and \$2.3 billion in 2006, 2005, and 2004, respectively. CNH recognized gains on the sales of these receivables of \$80 million, \$83 million, and \$70 million in 2006, 2005, and 2004, respectively.

In conjunction with these sales, CNH retains certain interests in the sold receivables including Asset Backed Securitization (ABS) certificates, interest-only strips, spread accounts and the rights to service the sold receivables. The investors and the securitization trusts have no recourse beyond CNH's retained interest assets for failure of debtors to pay when due. CNH's retained interests are subordinate to investor's interests, and are subject to credit, prepayment and interest rate risks on the transferred financial assets.

Spread accounts are created through the reduction of proceeds received by CNH from sales to provide security to investors in the event that cash collections from the receivables are not sufficient to remit principal and interest payments on the securities. In 2006 and 2005, the creation of new spread accounts reduced proceeds from the sales of retail receivables by \$44 million and \$58 million, respectively. Total spread account balances were \$236 million and \$258 million at December 31, 2006, and 2005, respectively.

**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Retained Interests*

The components of CNH's retained interests as of December 31, 2006, and 2005 are as follows:

	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>	
Receivables:		
Collateralized wholesale receivables	\$ 617	\$ 588
Interest only strips	93	83
Spread and other	377	353
Total amount included in Accounts and notes receivable, net	1,087	1,024
Other assets:		
ABS certificates	146	180
Other investments in ABS trusts	323	251
Total amount included in Other assets	469	431
Total retained interests	\$ 1,556	\$ 1,455

CNH is required to remit the cash collected on the serviced portfolio to the trusts within two business days. At December 31, 2006, and 2005, \$26 million and \$24 million, respectively, of unremitted cash payable was included in Accounts payable in the accompanying consolidated balance sheets.

Key assumptions utilized in measuring the initial fair value of retained interests for securitizations completed during 2006 and 2005 were as follows:

	<b>Range</b>		<b>Weighted Average</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Constant prepayment rate	15.00 - 20.00%	17.00 - 20.00%	16.49%	17.28%
Expected credit loss rate	0.45 - 0.59%	0.57 - 0.68%	0.60%	0.67%
Discount rate	9.00 - 13.00%	8.50 - 13.00%	11.90%	10.62%
Remaining maturity in months	20 - 23	20 - 24	22	22

CNH monitors the fair value of its retained interests outstanding each period by discounting expected future cash flows based on similar assumptions. The fair value is compared to the carrying value of the retained interests and any

excess of carrying value over fair value results in an impairment of the retained interests with a corresponding offset to income. Based on this analysis, CNH reduced the value of its interest-only strips by \$5 million, \$9 million, and \$7 million in 2006, 2005, and 2004, respectively.

**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Impact on Fair Value*

The weighted average of significant assumptions used in estimating the fair values of retained interests from sold receivables, which remain outstanding, and the sensitivity of the current fair value to a 10% and 20% adverse change at December 31, 2006, and 2005 are as follows (in millions unless stated otherwise):

	<b>December 31, Assumption</b>	<b>2006 10% Change</b>	<b>20% Change</b>	<b>December 31, Assumption</b>	<b>2005 10% Change</b>	<b>20% Change</b>
		<b>(in millions, except percentages)</b>				
Constant prepayment rate	17.87%	\$ 0.2	\$ 0.5	15.82%	\$ 1.0	\$ 1.2
Expected credit loss rate	0.71%	\$ 3.1	\$ 6.3	0.70%	\$ 2.6	\$ 5.1
Discount rate	10.65%	\$ 4.2	\$ 8.3	10.68%	\$ 6.9	\$ 13.0
Remaining maturity in months	17			17		

The changes shown above are hypothetical. They are computed based on variations of individual assumptions without considering the interrelationship between these assumptions. As a change in one assumption may affect the other assumptions, the magnitude of the impact on fair value of actual changes may be greater or less than those illustrated above. Weighted-average remaining maturity represents the weighted-average number of months that the current collateral balance is expected to remain outstanding.

Actual and expected credit losses are summarized as follows:

	<b>Receivables Securitized in</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
As of December 31, 2006	0.68%	0.77%	0.53%
As of December 31, 2005		0.56%	0.54%
As of December 31, 2004			0.57%

Credit losses are calculated by summing the actual and projected future credit losses and dividing them by the original balance of each pool of assets securitized.

CNH's cash flows related to securitization activities for the years ended December 31, 2006, 2005, and 2004 are as follows:

<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>(in millions)</b>		

Proceeds from retail securitizations	\$ 2,836	\$ 2,799	\$ 2,218
Servicing fees received	43	40	37
Cash received on retained interests	94	93	85
Cash paid upon cleanup call	211	104	77

***Other Receivables Securitizations***

At December 31, 2006, and 2005, certain subsidiaries of CNH sold, with recourse, wholesale receivables totaling \$111 million and \$220 million, respectively. The receivables sold are reflected in Wholesale notes and accounts above and the proceeds received are recorded in Short-term debt other in the accompanying consolidated balance sheets as the transactions do not meet the criteria for derecognition in a transfer of financial assets.

**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Managed Portfolio***

Historical loss and delinquency amounts for Financial Services Managed Portfolio for 2006 and 2005 are as follows:

	<b>Principal Amount of Receivables At December 31,</b>	<b>Principal More Than 30 Days Delinquent At December 31, (in millions)</b>	<b>Net Credit Losses for the Year Ending</b>
<b><u>2006</u></b>			
Type of receivable:			
Wholesale notes and accounts	\$ 4,659	\$ 99	\$ 10
Retail and other notes and finance leases	10,831	323	55
Total managed	\$ 15,490	\$ 422	\$ 65
Comprised of:			
Receivables held in portfolio	\$ 5,066		
Receivables serviced for Equipment Operations	256		
Receivables serviced for Joint Venture	1,645		
Securitized Receivables:			
Wholesale	3,650		
Retail	4,873		
Total managed	\$ 15,490		
<b><u>2005</u></b>			
Type of receivable:			
Wholesale notes and accounts	\$ 4,036	\$ 87	\$ 2
Retail and other notes and finance leases	9,734	239	35
Total managed	\$ 13,770	\$ 326	\$ 37
Comprised of:			
Receivables held in portfolio	\$ 4,405		
Receivables serviced for Equipment Operations	224		
Receivables serviced for Joint Venture	1,448		
Securitized Receivables:			
Wholesale	3,113		

Retail	4,580
Total managed	\$ 13,770

***Non-Cash Retail Receivables Operating and Investing Activities***

Non-cash operating and investing activities include retail receivables of \$125 million, \$138 million, and \$133 million that were exchanged for retained interests in securitized retail receivables in 2006, 2005, and 2004, respectively.

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**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 4: Inventories**

Inventories as of December 31, 2006, and 2005 consist of the following:

	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>	
Raw materials	\$ 591	\$ 494
Work-in-process	267	195
Finished goods	1,877	1,777
Total inventories	\$ 2,735	\$ 2,466

**Note 5: Property, Plant and Equipment**

A summary of property, plant and equipment as of December 31, 2006, and 2005 is as follows:

	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>	
Land, buildings and improvements	\$ 897	\$ 825
Plant and machinery	2,143	1,938
Other equipment	512	448
Construction in progress	115	72
	3,667	3,283
Accumulated depreciation	(2,289)	(1,972)
Net property, plant and equipment	\$ 1,378	\$ 1,311

Depreciation expense totaled \$226 million, \$221 million, and \$222 million for the years ended December 31, 2006, 2005, and 2004, respectively.

**Note 6: Investments in Unconsolidated Subsidiaries and Affiliates**

A summary of investments in unconsolidated subsidiaries and affiliates as of December 31, 2006, and 2005 is as follows:

<b>Method of Accounting</b>	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>	
Equity method	\$ 450	\$ 441
Cost method	7	8
Total	\$ 457	\$ 449

At December 31, 2006, and 2005, investments accounted for using the equity method primarily include interests CNH has in various ventures in the United States, Europe, Turkey, Mexico, Japan, India and Pakistan.

Combined financial information of equity method unconsolidated subsidiaries and affiliates is as follows:

<b>Operations</b>	<b>For the Years Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(in millions)</b>		
Sales	\$ 3,770	\$ 3,325	\$ 3,341
Net Income	\$ 182	\$ 188	\$ 110

**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

<b>Financial Position</b>	<b>As of December 31,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(In millions)</b>	
Total assets	\$ 4,497	\$ 4,220
Total liabilities	\$ 3,014	\$ 2,756

CNH and BNP Paribas Lease Group ( BPLG ) are partners in the CNH Capital Europe SAS joint venture. Either CNH or BPLG may terminate the CNH Capital Europe SAS joint venture at any time, but the effective termination of the agreement cannot be prior to June 2008. The Company does not believe BPLG will terminate the joint venture. However, CNH believes the required six month advance notice would provide sufficient time to secure alternative financing for retail financing in the European countries where the joint venture operates.

**Note 7: Equipment on Operating Leases**

A summary of Financial Services equipment on operating leases as of December 31, 2006, and 2005 is as follows:

	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>	
Equipment on operating leases	\$ 323	\$ 249
Accumulated depreciation	(69)	(69)
Net equipment on operating leases	\$ 254	\$ 180

Depreciation expense totaled \$41 million, \$42 million, and \$60 million for the years ended December 31, 2006, 2005, and 2004, respectively.

Lease payments owed to CNH for equipment under non-cancelable operating leases as of December 31, 2006, are as follows:

	<b>Amount</b>
	<b>(in millions)</b>
2007	\$ 50
2008	37
2009	21
2010	11

2011			4
2012 and thereafter			
Total		\$	123

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 8: Goodwill and Intangibles**

Changes in the carrying amount of goodwill, for the years ended December 31, 2006, and 2005 are as follows:

	<b>Agricultural Equipment Segment</b>	<b>Construction Equipment Segment</b>	<b>Financial Services Segment</b>	<b>Total</b>
	(in millions)			
Balance at January 1, 2005	\$ 1,677	\$ 581	\$ 144	\$ 2,402
Purchase accounting adjustment	(8)	(6)		(14)
Impact of foreign exchange	(1)		1	
Balance at December 31, 2005	1,668	575	145	2,388
Purchase accounting adjustment	(13)	(9)		(22)
Impact of foreign exchange	(1)			(1)
Balance at December 31, 2006	\$ 1,654	\$ 566	\$ 145	\$ 2,365

During 2006 and 2005, various tax valuation allowances and adjustments established in purchase accounting related to the acquisition of Case Corporation, ( Case ; now a part of CNH America LLC ( CNH America )) were reversed resulting in a reduction of goodwill.

As of December 31, 2006, and 2005, the Company's intangible assets and related accumulated amortization consisted of the following:

	<b>Weighted Avg. Life</b>	<b>2006 Accumulated</b>			<b>2005 Accumulated</b>		
		<b>Gross</b>	<b>Amortization</b>	<b>Net</b>	<b>Gross</b>	<b>Amortization</b>	<b>Net</b>
		(in millions)					
Intangible assets subject to Amortization:							
Engineering Drawings	20	\$ 380	\$ 153	\$ 227	\$ 376	\$ 120	\$ 256
Dealer Networks	25	216	61	155	216	52	164
Software	5	64	44	20	49	29	20
Other	10 30	55	21	34	77	40	37
		715	279	436	718	241	477

Intangible assets not subject to amortization:

Trademarks	272		272	272		272
Pension				26		26
	\$ 987	\$ 279	\$ 708	\$ 1,016	\$ 241	\$ 775

CNH recorded amortization expense of \$49 million, \$46 million, and \$43 million during 2006, 2005, and 2004, respectively. Based on the current amount of intangible assets subject to amortization, the estimated annual amortization expense for each of the succeeding 5 years is approximately \$50 million.

**Note 9: Credit Facilities and Debt**

Credit facilities and debt primarily consist of committed and uncommitted credit facilities, public notes, and term notes with Fiat affiliates and third parties. Certain of the third party credit facilities are guaranteed by Fiat. For 2006, CNH paid an annual guarantee fee of 0.0625% while the annual guarantee fee paid for 2005 and 2004 was between 0.03125% and 0.0625%. The guarantee fee paid is based on the average amount outstanding under the facilities guaranteed by Fiat.

**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes our credit facilities at December 31, 2006:

	Borrower(A)	Currency	Maturity	Facility		Total	Available	Guar
				Total	Drawn			
			(in millions)	Equipment Operations	Financial Services			
<b>Committed lines:</b>								
revolving credit facility	Both	Multiple	February 2008	\$ 1,000	\$ 209	\$ 143	\$ 352	\$ 648
revolving credit facility	EO	Multiple	July 2008	395				395
revolving credit facility	FS	US\$	October 2009	150		150	150	
Subsidized revolving credit facility	FS	Brazil Real	Various from January 2007 to October 2013	1,571		1,571	1,571	
revolving credit lines other	EO	Brazil Real	Various from January 2007 to December 2010	128	128		128	
revolving credit lines other	FS	Australia \$	Various from January 2008 to July 2008	95		47	47	48
				3,339	337	1,911	2,248	1,091
<b>Uncommitted Lines:</b>								
revolving shared credit facilities other	EO	Multiple	July 2008	922				922
revolving securitizations	FS	US\$	January 2007	1,200		283	283	917
revolving securitizations	FS	US\$	June 2007	250		155	155	95
revolving securitizations	FS	Canada \$	July 2007	258		20	20	238
revolving securitizations	FS	Australia \$	March 2008	316		106	106	210
revolving interest								
revolving securitizations	FS	US\$	December 2008	300		174	174	126
revolving lines	EO	Multiple	January 2007	111	111		111	
	EO	Multiple Danish	January 2007	11	5		5	6
	FS	Krone	January 2007	88		82	82	6

	3,456	116	820	936	2,520
<b>credit facilities</b>	\$ 6,795	453	2,731	3,184	\$ 3,611
<b>ort-term portion</b>		(389)	(681)	(1,070)	
<b>term credit</b>					
<b>s</b>		\$ 64	\$ 2,050	\$ 2,114	
<b>t above with or</b>					
<b>teed by Fiat</b>					
<b>s</b>	\$ 3,270	\$ 211	\$ 1,088	\$ 1,299	\$ 1,971

- (A) - Borrower is either an Equipment Operations ( EO ) entity, a Financial Services ( FS ) entity or Both.
- (B) - Up to \$795 million (1.7 billion Brazilian real) of subsidized financing provided by Banco Nacional de Desenvolvimento Economico e Social ( BNDES ) is guaranteed by Fiat.
- (C) - Includes an \$8 million uncommitted line guaranteed by Fiat. At December 31, 2006, \$2 million of this line was drawn and the remainder was available.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Borrowings under third-party revolving credit facilities bear interest at: (1) EURIBOR, plus an applicable margin; (2) LIBOR, plus an applicable margin; (3) banker's bills of acceptance rates, plus an applicable margin; or (4) other relevant domestic benchmark rates plus an applicable margin.

The applicable margin on third party debt depends upon:

the initial maturity of the facility/credit line;

the rating of short-term or long-term unsecured debt at the time the facility/credit line was negotiated; in cases where Fiat provides a guarantee, the margin reflects Fiat's credit standing at the time the facility or credit line was arranged;

the extent of over-collateralization, in the case of receivables warehouse facilities; and

the level of availability of credit lines for CNH in different jurisdictions.

The applicable margin for intersegment debt and debt with Fiat affiliates is based on Fiat intercompany borrowing and lending rates applied to all of its affiliates. These rates are determined by Fiat based on its cost of funding for debt of different maturities. CNH believes that rates applied by Fiat to CNH's related party debt are at least as favorable as alternative sources of funds CNH may obtain from third parties. The range of margins applied by Fiat to CNH's related party debt outstanding as of December 31, 2006, was between 0.15% and 2.00%.

Borrowings against ABCP liquidity facilities bear interest at prevailing asset-backed commercial paper rates. Borrowings are obtained in U.S. dollars and certain other foreign currencies.

The \$1.0 billion revolving credit facility with Fiat was renewed on January 22, 2007, and matures on February 28, 2008. It serves as the umbrella under which CNH borrows from Fiat and its affiliates for day-to-day liquidity needs under the cash pooling arrangements operated by Fiat affiliates.

The 300 million (\$395 million) revolving syndicated credit facility represents the amount allocated to us by Fiat under a 1.0 billion (\$1.3 billion) Fiat syndicated facility which matures in July, 2008, and remained undrawn at December 31, 2006. Loans under this facility bear interest at fluctuating rates based on EURIBOR (or other index rates, such as LIBOR depending on the currency borrowed), plus a margin.

Financial Services has certain dedicated committed revolving credit facilities available. In particular, approximately \$1.6 billion was drawn by CNH's Brazilian Financial Services subsidiary under long-term financing arrangements provided by BNDES, supported by the Brazilian government under agricultural development programs.

CNH's uncommitted lines of credit, as of December 31, 2006, primarily reflect the 700 million (\$922 million) portion of the 1.0 billion (\$1.3 billion) syndicated credit facility shared with other Fiat entities.

CNH also has access to ABCP facilities through which it may sell retail receivables generated by Financial Services in the United States, Australia, and Canada. CNH utilizes these facilities to fund the origination of receivables prior to selling such receivables in the term ABS markets. Under these facilities, the maximum amount of proceeds that can be

accessed at one time is \$2.3 billion.

Additionally, CNH has facilities available in Europe and certain other jurisdictions, under which we discount or factor certain wholesale receivables, primarily for our Equipment Operations business, on a with recourse basis.

Certain of CNH's revolving credit facilities contain contingent requirements regarding the maintenance of financial conditions and impose certain restrictions related to new liens on assets and changes in ownership of certain subsidiaries. At December 31, 2006, CNH was in compliance with all of these debt covenants. The non-

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affiliated third party committed credit facilities generally provide for facility fees on the total commitment, whether used or unused.

**Short-term debt**

A summary of short-term debt, as of December 31, 2006, and 2005 is as follows:

	2006		2005			
	Equipment Operations	Financial Services	Consolidated	Equipment Operations	Financial Services	Consolidated
	(in millions)					
Amounts drawn under ABCP facilities	\$	\$ 409	\$ 409	\$	\$ 390	\$ 390
Amounts drawn under credit facilities other	180	129	309	290	112	402
Amounts drawn under credit facilities Fiat affiliates	209	143	352	205	77	282
Drawn under credit facilities	389	681	1,070	495	579	1,074
Short-term debt other	48	66	114	57	108	165
Short-term debt Fiat affiliates	51	35	86	274	9	283
Intersegment short-term debt		1,348			1,067	
Total short-term debt	\$ 488	\$ 2,130	\$ 1,270	\$ 826	\$ 1,763	\$ 1,522

The weighted-average interest rates on consolidated short-term debt at December 31, 2006, and 2005 were 6.11% and 8.13%, respectively. The average rate is calculated using the actual rates at December 31, 2006, and 2005 weighted by the amount of the outstanding borrowings of each debt instrument.

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A summary of long-term debt as of December 31, 2006, and 2005, including long-term drawings under credit lines, is as follows:

	<b>2006</b>		<b>2005</b>			
	<b>Equipment Operations</b>	<b>Financial Services</b>	<b>Equipment Operations</b>	<b>Financial Services</b>	<b>Consolidated</b>	
			<b>(in millions)</b>			
Public Notes:						
Payable in 2007, interest rate of 6.75%	\$	\$ 126	\$ 126	\$ 125	\$	125
Payable in 2009, interest rate of 6.00%	487		487	482		482
Payable in 2011, average interest rate of 9.25%	1,051		1,051	1,051		1,051
Payable in 2014, interest rate of 7.125%	500		500			
Payable in 2016, interest rate of 7.25%	248		248	247		247
Third Party Loans:						
Payable in 2006 and 2007; interest rate of 5.82% in 2006 and 4.60% in 2005 (floating rate)	51		51	153		153
Notes with Fiat affiliates:						
Payable in 2006, interest rate of 6.60% (floating rate)				150		150
Payable in 2006, interest rate of 3.36% (floating rate)				94		94
Other affiliate notes, weighted-average interest rate of 4.80% in both years		52	52	173		173
Long-term drawn amounts under credit facilities	64	2,050	2,114	189	1,805	1,994
Other debt	18	485	503	30	266	296
Intersegment debt with Equipment Operations		97				
Total long-term debt	2,419	2,810	5,132	2,396	2,369	4,765
Less-current maturities	(53)	(1,007)	(1,060)	(385)	(674)	(1,059)
Total long-term debt excluding current maturities	\$ 2,366	\$ 1,803	\$ 4,072	\$ 2,011	\$ 1,695	\$ 3,706

In August and September, 2003, a total of \$1.05 billion of Case New Holland, Inc. ( Case New Holland ) 91/4% Senior Notes due 2011 (the 91/4% Senior Notes ) were issued at a nominal net premium. In May, 2004, \$500 million of Case

New Holland 6% Senior Notes due 2009 (the 6% Senior Notes ) were issued. In March, 2006, Case New Holland completed a private offering of \$500 million of debt securities at an annual fixed rate of 7.125% (the 7.125% Senior Notes ), due 2014 (collectively the Senior Notes ). The Senior Notes are fully and unconditionally guaranteed by CNH and certain of its direct and indirect subsidiaries and contain certain covenants that limit CNH's ability to, among other things, incur additional debt; pay dividends on CNH's capital stock or repurchase CNH's capital stock; make certain investments; enter into certain types of transactions with affiliates; limit dividend or other payments by CNH's restricted subsidiaries; use assets as security in other transactions; enter into sale and leaseback transactions; and sell assets or merge with, or into, other companies. In addition, certain of the related agreements governing CNH subsidiaries' indebtedness contain covenants limiting their incurrence of secured debt or structurally senior debt.

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During the third quarter of 2006, Case New Holland completed an exchange of its registered 7.125% Senior Notes for its outstanding unregistered 7.125% Senior Notes. During the second quarter of 2005, Case New Holland completed an exchange of its registered 9 1/4% Senior Notes and its registered 6% Senior Notes for its outstanding unregistered 9 1/4% Senior Notes and its unregistered 6% Senior Notes.

The 6% Senior Notes are redeemable at Case New Holland's option at any time at a price equal to 100% of the principal amount of the notes plus a make-whole premium defined in the indenture governing the 6% Senior Notes. The 9 1/4% Senior Notes are redeemable at Case New Holland's option at specified premiums after August 1, 2007, and after August 1, 2009, without a premium. The 7.125% Senior Notes are redeemable at Case New Holland's option at a price equal to 100% of the principal amount of the notes plus a premium declining ratably to par on or after March 1, 2010, and at a price equal to 100% of the principal amount of the notes plus a make-whole premium, as defined in the indenture governing the 7.125% Senior Notes, before March 1, 2010.

In October, 1997, \$127 million 6.75% public notes due 2007 were issued at a nominal discount. In January, 1996, \$254 million 7 1/4% notes due 2016 were issued at a nominal discount.

Other long-term debt in 2006 and 2005 for Financial Services includes amounts funded under a retail ABS term transaction for which assets have been retained on-book. See Note 3: Accounts and Notes Receivable for further details.

Interest expense approximates interest paid for all periods presented.

Certain of CNH's short-term and long-term debt agreements impose covenants and certain other restrictions, the most restrictive of which are discussed above. At December 31, 2006, CNH was in compliance with all of these debt covenants.

A summary of the minimum annual repayments of long-term debt, less current maturities of long-term debt, as of December 31, 2006, is as follows:

	<b>Equipment Operations</b>	<b>Financial Services (in millions)</b>	<b>Consolidated</b>
2008	\$ 65	\$ 792	\$ 840
2009	482	612	1,059
2010	1	267	235
2011	1,051	115	1,154
2012 and thereafter	767	17	784
Total	\$ 2,366	\$ 1,803	\$ 4,072

**Note 10: Income Taxes**

The sources of income before taxes, minority interest and equity in income (loss) of unconsolidated subsidiaries and affiliates for the years ended December 31, 2006, 2005, and 2004 are as follows:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(in millions)</b>		
The Netherlands source	\$ (91)	\$ 4	\$ (25)
Foreign sources	508	253	184
 Income before taxes, minority interest and equity in income (loss) of unconsolidated subsidiaries and affiliates	 \$ 417	 \$ 257	 \$ 159

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The provision for income taxes for the years ended December 31, 2006, 2005, and 2004 consisted of the following:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(in millions)</b>		
Current income taxes	\$ 174	\$ (16)	\$ 35
Deferred income taxes	(9)	132	4
Total tax provision	\$ 165	\$ 116	\$ 39

A reconciliation of CNH's statutory and effective income tax provision for the years ended December 31, 2006, 2005, and 2004 is as follows:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Tax provision at the Netherlands statutory rate	30%	32%	35%
Foreign income taxed at different rates	7	6	(2)
Change in tax status of certain entities			6
Current year losses not benefited	14	43	45
Change in valuation allowance	(10)	(10)	(16)
Dividend withholding taxes and credits	(1)	1	1
Tax contingency reserves	2	(21)	(11)
Stock deduction from legal entity rationalization			(37)
Other	(2)	(6)	4
Total tax provision	40%	45%	25%

In 2006, CNH reversed valuation reserves on deferred tax assets in certain jurisdictions where it is now deemed more likely than not that the assets will be realized. In 2005, CNH reached an agreement with a government agency regarding tax positions taken during 2000, which resulted in a reduction of tax expense and previously provided tax liabilities. Also during 2005, additional tax expense was recognized in certain entities as valuation allowances were established against previously recognized tax assets based on an evaluation of recent results of operations and anticipated future operations at these entities. In 2004 the impact of tax losses in certain jurisdictions where no immediate tax benefit was recognized was offset by the positive impact of a stock deduction resulting from a legal entity rationalization transaction.



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The components of net deferred tax assets as of December 31, 2006, and 2005 are as follows:

	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>	
Deferred tax assets:		
Marketing and sales incentive programs	\$ 180	\$ 173
Allowance for credit losses	87	80
Pension, postretirement and post employment benefits	812	575
Inventories, net	59	56
Warranty and modification programs	78	75
Restructuring	20	29
Other reserves	306	319
Tax loss carry forwards	1,233	1,249
Less: Valuation allowance	(1,121)	(1,035)
<b>Total deferred tax assets</b>	<b>1,654</b>	<b>1,521</b>
Deferred tax liabilities:		
Property, plant and equipment, net	110	118
Intangible assets, net	253	266
Inventories, net	61	75
Other	74	125
<b>Total deferred tax liabilities</b>	<b>498</b>	<b>584</b>
<b>Net deferred tax assets</b>	<b>\$ 1,156</b>	<b>\$ 937</b>

Net deferred tax assets are reflected in the accompanying consolidated balance sheets as of December 31, 2006, and 2005 as follows:

	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>	
Current deferred tax asset	\$ 587	\$ 534
Long-term deferred tax asset (included in Other assets )	786	518
Current deferred tax liability (included in Other accrued liabilities )	(170)	(61)
Long-term deferred tax liability (included in Other liabilities )	(47)	(54)
<b>Net deferred tax asset</b>	<b>\$ 1,156</b>	<b>\$ 937</b>

CNH has operating tax loss carry forwards in a number of foreign tax jurisdictions. The years in which they expire are as follows: \$3 million in 2010; \$4 million in 2011; \$3 million in 2012; \$10 million in 2015; and \$376 million with expiration dates from 2021 through 2026. CNH also has operating tax loss carry forwards of \$3.7 billion with indefinite lives.

A determination that it is more likely than not that some or all of the deferred tax assets currently recorded will not be realized will adversely impact CNH's results of operations and financial position as the required additional valuation allowance would be an additional charge recorded to tax expense in the period that such determination was made.

Any reduction in valuation allowances recorded against deferred tax assets of Case and its subsidiaries as of the acquisition date, have in the past (see Note 8: Goodwill and Intangibles ) and will, in the future, be treated as a

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

reduction of the goodwill recorded in conjunction with the acquisition and will not impact future periods' tax expense. As of December 31, 2006, the valuation allowance that is potentially subject to being allocated to goodwill as part of the Case acquisition totaled \$429 million.

At December 31, 2006, the undistributed earnings of foreign subsidiaries totaled approximately \$1.9 billion. In most cases, such earnings will continue to be reinvested. Provision has generally not been made for additional taxes on the undistributed earnings of foreign subsidiaries. These earnings could become subject to additional tax if they are remitted as dividends or if CNH were to dispose of its investment in the subsidiaries. It has not been practical to estimate the amount of additional taxes that might be payable on the foreign earnings, and CNH believes that additional tax credits and tax planning strategies would largely eliminate any tax on such earnings.

CNH paid cash taxes of \$97 million, \$45 million and \$59 million in 2006, 2005, and 2004, respectively.

**Note 11: Restructuring**

During 2006, 2005, and 2004, \$96 million, \$73 million, and \$104 million, respectively, was recorded in restructuring. These costs primarily relate to severance and other employee-related costs, writedown of assets, loss on the sale of assets and businesses, costs related to closing, selling, and downsizing existing facilities and our announced closing in the United States of two manufacturing facilities.

Reductions in headcount were achieved by eliminating administrative and back office functions and related personnel and eliminating manufacturing personnel in facilities that were either closed or downsized. These costs include severance and contractual benefits in accordance with collective bargaining agreements, other agreements and CNH policy, outplacement services, medical and supplemental vacation and retirement payments.

Costs related to closing, selling, and downsizing existing facilities were due to excess capacity and duplicate facilities and primarily relate to the following actions:

rationalization of the agricultural equipment manufacturing facilities in Belleville, Pennsylvania and Goodfield, Illinois;

rationalization of parts depots in Kansas City, Kansas and St. Paul, Minnesota;

rationalization of the construction equipment manufacturing facility in Berlin, Germany;

rationalization of the combine manufacturing plant in East Moline, United States; and

other actions which take into consideration duplicate capacity and other synergies including purchasing and supply chain management, research and development and selling, general and administrative functions related to CNH's operations.

As management approves and commits to a restructuring action, CNH determines the assets that will be disposed of in the restructuring actions and records an impairment loss equal to the lower of their carrying amount or fair market value less the cost to sell. The fair market value of the assets is determined as the amount at which the asset could be

bought or sold in a current transaction between willing parties. There were impairment charges of \$1 million in 2005 and \$12 million in 2004. There were no impairment charges in 2006.

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The following table sets forth restructuring activity for the years ended December 31, 2006, 2005, and 2004:

	<b>Severance and Other Employee Costs</b>	<b>Facility Related Costs</b>	<b>Asset Impairments (in millions)</b>	<b>Other Restructuring</b>	<b>Total</b>
Balance at January 1, 2004	\$ 42	\$ 2	\$ 17	\$ 11	\$ 72
Additions	55	30	12	7	104
Reserves utilized: cash	(60)	(31)		(9)	(100)
Reserves utilized: non-cash			(29)		(29)
Balance at December 31, 2004	37	1		9	47
Additions	61	5	1	6	73
Reserves utilized: cash	(51)	(6)		(15)	(72)
Reserves utilized: non-cash			(1)		(1)
Balance at December 31, 2005	47				47
Additions	72	21		3	96
Reserves utilized: cash	(46)	(6)		(3)	(55)
Reserves utilized: non-cash	(3)				(3)
Balance at December 31, 2006	\$ 70	\$ 15	\$	\$	\$ 85

Restructuring costs recognized in 2006 primarily relate to severance and other employee-related costs incurred due to headcount reductions, and in the United States, the announced closure of two manufacturing facilities. In 2006, we recorded \$34 million of restructuring expense relating to the headcount reduction plan and \$18 million relating to the industrial manufacturing and logistic reorganization in North America. Additionally, we recorded \$14 million related to the closure of our Berlin facility and \$11 million related to an agricultural equipment manufacturing line rationalization.

CNH will incur additional charges for the salaried headcount reduction and the Berlin plant closure which are expected to be completed in 2007. CNH will incur additional charges for the agricultural equipment manufacturing rationalization which is expected to be completed in 2008.

The specific restructuring measures and associated estimated costs were based on management's best business judgment under prevailing circumstances. Management believes that the restructuring reserve balance at December 31, 2006, is adequate to carry out the restructuring activities already charged to expense, primarily the severance of employees and payments to already severed employees. CNH anticipates that the majority of all actions

currently accrued for will be completed by December 31, 2007. With the exception of the Berlin, Germany facility closure, the agricultural equipment manufacturing rationalization and the salaried headcount reduction plan, costs relating to the majority of restructuring activities have already been expensed. If future events warrant changes to the reserve, such adjustments will be reflected in the applicable consolidated statements of income as Restructuring.

**Note 12: Employee Benefit Plans and Postretirement Benefits**

On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158, which required the Company to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension, postretirement, and post-employment plans in the December 31, 2006 consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax. The adjustment to accumulated other comprehensive income (loss) at adoption represents the net unrecognized actuarial losses, unrecognized prior service costs, and unrecognized transition obligation

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remaining from the initial adoption of SFAS No. 87, Employers' Accounting for Pensions (SFAS No. 87), all of which were previously netted against the plan's funded status in the Company's consolidated balance sheet pursuant to the provisions of SFAS No. 87. These amounts will be subsequently recognized as net periodic pension cost pursuant to the Company's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic benefit cost on the same basis as the amounts recognized in accumulated other comprehensive income (loss) at adoption of SFAS No. 158.

The incremental effects of adopting the provisions of SFAS No. 158 on the Company's consolidated balance sheet at December 31, 2006 are presented in the following table. The adoption of SFAS No. 158 had no effect on the Company's consolidated statement of income for the year ended December 31, 2006, or for any prior period presented, and it will not effect the Company's operating results in future periods. Had the Company not been required to adopt SFAS No. 158 at December 31, 2006, it would have recognized an additional minimum liability pursuant to the provisions of SFAS No. 87. The effect of recognizing the additional minimum liability as of December 31, 2006, is reflected in table below in the column labeled Prior to Application of SFAS No. 158.

	<b>Prior to Adopting SFAS No. 158</b>	<b>Effect of Adopting SFAS No. 158 (In millions)</b>	<b>As Reported at December 31, 2006</b>
Intangible assets, net	\$ 728	\$ (20)	\$ 708
Other assets	1,671	(215)	1,456
Other accrued liabilities	2,072	72	2,144
Pension, postretirement, and post-employment benefits	1,731	557	2,288
Accumulated other comprehensive income, net of tax	422	396	818

CNH has various defined benefit plans that cover certain employees. Benefits are generally based on years of service and, for most salaried employees, on final average compensation. Benefits for salaried employees in the U.S. were frozen for pay and service as of December 31, 2000. Salaried employees in the U.S. receive a 3% increase for every year of employment after December 31, 2000, for a maximum of three years.

CNH's funding policy is to contribute assets to the plans equal to the amounts necessary to, at a minimum, satisfy the funding requirements as prescribed by the laws and regulations of each country. Plan assets consist principally of listed equity and fixed income securities.

CNH has postretirement health and life insurance plans that cover the majority of its U.S. and Canadian employees. For New Holland U.S. salaried and hourly employees, and for Case U.S. non-represented hourly and Case U.S. and Canadian salaried employees, the plans cover employees retiring on or after attaining age 55 who have had at least 10 years of service with the Company. For Case U.S. and Canadian hourly employees represented by a labor union, the plans generally cover employees who retire pursuant to their respective hourly plans and collective bargaining

agreements. These benefits may be subject to deductibles, co-payment provisions and other limitations, and CNH has reserved the right to change these benefits, subject to the provisions of any collective bargaining agreement. CNH U.S. and Canadian employees hired after January 1, 2001, and January 1, 2002, respectively, are not eligible for postretirement health and life insurance benefits under the CNH plans. Beginning in 2005, the defined dollar benefit cap for salaried employees was replaced with the retirees paying 60% of each years total plan cost increase. The same provision will apply to hourly nonrepresented employees beginning in 2008.



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Prescription drug benefits were eliminated effective January 1, 2007, for salaried retirees and nonrepresented hourly retirees eligible for Medicare Part D.

In May, 2004, the FASB issued FASB Staff Position ( FSP ) No. FAS 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ( Medicare Act ) ( FSP No. 106-2 ). In accordance with the provisions of FSP No. 106-2 and the Medicare Act, the Company re-measured its related plans in 2004. This resulted in a reduction in the accumulated postretirement benefit obligation of approximately \$70 million for the subsidy related to benefits attributed to past service. The Company elected to reflect the impact of the Medicare Act prospectively from the date of the change. The subsidy resulted in a reduction in net periodic postretirement benefit costs of approximately \$10 million for prospective service periods. In 2006, the Company received subsidy payments of approximately \$3 million.

Former parent companies of New Holland and Case retained certain accumulated pension benefit obligations and related assets and certain accumulated postretirement health and life insurance benefit obligations. Accordingly, as these remain the obligations of the former parent companies, the financial statements of CNH do not reflect any related assets or liabilities. See Note 14: Commitments and Contingencies, Other Litigation for a discussion of litigation related to these obligations retained by former parent companies.

The following assumptions were utilized in determining the funded status of CNH's defined benefit pension plans as of and for the years ended December 31, 2006, 2005, and 2004:

	2006		2005		2004	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Weighted-average discount rates for obligations	5.80%	4.72%	5.50%	4.49%	5.75%	5.07%
Weighted-average discount rates for expense	5.50%	4.49%	5.75%	5.07%	6.25%	5.31%
Rate of increase in future compensation	N/A	3.55%	N/A	2.73%	N/A	3.45%
Weighted-average, long-term rates of return on plan assets	8.25%	7.01%	8.25%	7.16%	8.75%	7.16%

The following assumptions were utilized in determining the accumulated postretirement benefit obligation of CNH's postretirement health and life insurance plans as of and for the years ended December 31, 2006, 2005, and 2004:

	2006		2005		2004	
	U.S. Plans	Canadian Plan	U.S. Plans	Canadian Plan	U.S. Plans	Canadian Plan
Weighted-average discount rates for obligations	5.80%	4.75%	5.50%	5.00%	5.75%	5.75%
	5.50%	5.00%	5.75%	5.75%	6.25%	6.00%

Weighted-average discount rates for expense(A)						
Rate of increase in future compensation	3.00%	N/A	4.00%	3.50%	4.00%	3.50%
Weighted-average, assumed initial healthcare cost trend rate	10.00%	9.00%	10.00%	9.00%	10.00%	9.00%
Weighted-average, assumed ultimate healthcare cost trend rate	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Year anticipated attaining ultimate healthcare cost trend rate	2012	2015	2011	2014	2010	2013

(A) For postretirement benefit plans impacted by amendments during the first half of 2005, a 5% discount rate was utilized for the plan re-measurement.

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The assumed discount rate is used to discount future benefit obligations back to today's dollars. The discount rate assumptions used to determine the U.S. obligations at December 31, 2006, and 2005, respectively were based on the Towers Perrin Cash Flow Matching System ( TPCFMS ), which was designed by Towers Perrin to provide a means for plan sponsors to value the liabilities of their plans. TPCFMS develops and provides support for a customized discount rate based on each plan's expected annual size and timing of benefit payments in future years or estimated duration. TPCFMS incorporates a hypothetical yield curve based on a portfolio with yields within the 10th to 90th percentiles from about 500 Aa-graded, non-callable bonds. Prior to using the TPCFMS rates, the discount rate assumptions for benefit expenses in 2005 and 2004 and the obligations at December 31, 2004, were based on the Moody's Aa bond yield. For non-U.S. plans, benchmark yield data of high-quality fixed income investments for which the timing and amounts of payments match the timing and amounts of projected benefit payments is used to derive discount rate assumptions.

The expected long-term rate of return on plan assets reflects management's expectations on long-term average rates of return on funds invested to provide for benefits included in the projected benefit obligations. Beginning with the year-end December 31, 2005 valuations, the expected return is based on the outlook for inflation, fixed income returns and equity returns, while also considering asset allocation and investment strategy, premiums for active management to the extent asset classes are actively managed and plan expenses. Historical return patterns and correlations, consensus return forecasts and other relevant financial factors are analyzed to check for reasonability and appropriateness. Prior to this time, assumptions were based on surveys of large asset portfolio managers and peer group companies based on a combination of past experience in the markets as well as future return expectations over the next ten years.

The assumed health care trend rate represents the rate at which health care costs are assumed to increase. Rates are determined based on Company-specific experience, consultation with actuaries and outside consultants, and various trend factors including general and health care sector-specific inflation projections from the United States Department of Health and Human Services Health Care Financing Administration. The initial trend is a short-term assumption based on recent experience and prevailing market conditions. The ultimate trend is a long-term assumption of health care cost inflation based on general inflation, incremental medical inflation, technology, new medicine, government cost shifting, utilization changes, aging population and a changing mix of medical services.

CNH will maintain the 2006 initial annual estimated rate of increase in the per capita cost of healthcare at 10% despite earlier expectations that this rate would decrease. The new Medicare Advantage Insured Healthcare coverage effective January 1, 2007 for Medicare eligible participants assumed a 14.5% rate of increase for 2007. The initial annual estimated rate of increase in per capita cost of healthcare will decrease by 1% in each subsequent year until reaching 5% in 2012 (and 2017 for the new Medical Advantage Insurance Healthcare). Increasing the assumed healthcare cost trend rate by one percentage point would increase the total accumulated postretirement benefit obligation at December 31, 2006, by approximately \$159 million, and would increase the aggregate of the service cost and interest cost components of the net 2006 postretirement benefit cost by approximately \$12 million. Decreasing the assumed healthcare cost trend rate by one percentage point would decrease the total accumulated postretirement benefit obligation at December 31, 2006, by approximately \$133 million, and would decrease the aggregate of the service cost and interest cost components of the net 2006 postretirement benefit cost by approximately \$10 million.



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## CNH GLOBAL N.V.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The asset allocation for the U.S. and the U.K. and the weighted average asset allocation for other qualified pension plans and the related target allocations for 2007 are as follows:

Asset category:	U.S. Plans			U.K. Plans			Other Plans		
	Percentage of Plan Assets			Percentage of Plan Assets			Percentage of Plan Assets		
	Target Allocation 2007	as of December 31, 2006	as of December 31, 2005	Target Allocation 2007	as of December 31, 2006	as of December 31, 2005	Target Allocation 2007	as of December 31, 2006	as of December 31, 2005
Equity securities	53%	53%	53%	60%	62%	61%	54%	56%	56%
Debt securities	47%	47%	47%	40%	38%	39%	35%	18%	18%
Cash/Other	%	%	%	%	%	%	11%	26%	26%

The investment strategy followed by CNH varies by country depending on the circumstances of the underlying plan. Typically less mature plan benefit obligations are funded by using more equity securities as they are expected to achieve long-term growth while exceeding inflation. More mature plan benefit obligations are funded using more fixed income securities as they are expected to produce current income with limited volatility. Risk management practices include the use of multiple asset classes and investment managers within each asset class for diversification purposes. Specific guidelines for each asset class and investment manager are implemented and monitored. CNH expects to undertake asset allocation studies in 2007 and target allocation for 2007 could change as a result.

CNH currently estimates that discretionary contributions to its U.S. defined benefit pension plan trust will be up to \$120 in 2007. Estimated contributions to the U.S. postretirement benefit plans will be approximately \$90 million in 2007 prior to consideration of CNH making any discretionary contributions to begin funding this obligation which is currently under evaluation.

The following summarizes cash flows related to total benefits expected to be paid from the plans or from Company assets, as well as expected Medicare Part D subsidy receipts:

	Pension Benefits		Other Postretirement Benefits		Medicare Part D Reimbursement
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans
	(in millions)				
<b>Employer Contributions:</b>					
2007 (expected)	\$ 120	\$ 62	\$ 90	\$ 3	N/A

**Expected benefit payments and reimbursements:**

2007	\$ 73	\$ 118	\$ 89	\$ 3	\$ 2
2008	74	94	95	3	2
2009	74	99	99	4	2
2010	74	104	102	4	2
2011	74	103	106	3	3
2012 - 2016	371	574	530	17	16
<b>Total</b>	\$ 740	\$ 1,092	\$ 1,021	\$ 34	\$ 27

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**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following summarizes data from CNH's defined benefit pension plans and postretirement health and life insurance plans for the years ended December 31, 2006, and 2005:

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	(in millions)			
<b>Change in benefit obligations:</b>				
Actuarial present value of benefit obligation at beginning of measurement period	\$ 2,866	\$ 2,816	\$ 1,670	\$ 1,616
Service cost	34	37	15	15
Interest cost	143	146	85	75
Plan participants' contributions	5	1	8	8
Actuarial loss (gain)	20	233	(173)	220
Currency translation adjustments	218	(209)		2
Gross benefits paid	(175)	(175)	(86)	(80)
Plan amendments	21	17	(38)	(186)
Actuarial present value of benefit obligation at end of measurement period	3,132	2,866	1,481	1,670
<b>Change in plan assets:</b>				
Plan assets at fair value at beginning of measurement period	1,872	1,685		
Actual return on plan assets	176	230		
Currency translation adjustments	128	(51)		
Employer contributions	179	182	78	72
Plan participants' contributions	5	1	8	8
Gross benefits paid	(175)	(175)	(86)	(80)
Plan assets at fair value at end of measurement period	2,185	1,872		
<b>Funded status:</b>	(947)	(994)	(1,481)	(1,670)
Unrecognized prior service cost	N/A	3	N/A	(198)
Unrecognized net loss resulting from plan experience and changes in actuarial assumptions	N/A	849	N/A	925
Remaining unrecognized net asset at initial application	N/A		N/A	14
Net amount recognized at end of year	\$ (947)	\$ (142)	\$ (1,481)	\$ (929)

**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Net amounts recognized in the consolidated balance sheets as of December 31, 2006 and 2005 consist of:

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>			
Non-current assets	\$ 8	\$ 398	\$	\$
Current liabilities	(44)	(23)	(104)	(57)
Non-current liabilities	(911)	(963)	(1,377)	(872)
Accumulated other comprehensive income	N/A	446	N/A	
Net asset (liability) recognized at end of year	\$ (947)	\$ (142)	\$ (1,481)	\$ (929)

Pre-tax amounts recognized in accumulated other comprehensive income (loss) as of December 31, 2006 consist of:

	<b>Pension Benefits</b>	<b>Other Postretirement Benefits</b>
	<b>(In millions)</b>	
Unrecognized actuarial losses	\$ 839	\$ 639
Unrecognized prior service cost	(5)	(180)
Unrecognized transition obligation		7
Total	\$ 834	\$ 466

Pre-tax amounts expected to be amortized in 2007 from accumulated other comprehensive income (loss) consist of:

	<b>Pension Benefits</b>	<b>Other Postretirement Benefits</b>
	<b>(in millions)</b>	
Actuarial losses	\$ 13	\$ 23
Prior service credit	(3)	(12)
Total	\$ 10	\$ 11



The following table summarizes our pension plans with accumulated benefit obligations in excess of plan assets:

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>	
Projected benefit obligation	\$ 2,841	\$ 2,740
Accumulated benefit obligation	3,006	2,603
Fair value of plan assets	2,051	1,854

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**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following summarizes the consolidated statements of income impact of CNH's defined benefit pension plans and postretirement health and life insurance plans for the years ended December 31, 2006, 2005, and 2004:

	<b>Pension Benefits</b>			<b>Other Postretirement Benefits</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
	(in millions)					
<b>Components of net periodic benefit cost:</b>						
Service cost	\$ 34	\$ 37	\$ 26	\$ 15	\$ 15	\$ 15
Interest cost	143	146	142	85	75	83
Expected return on assets	(150)	(128)	(121)			
Amortization of:						
Transition asset				7	7	9
Prior service cost	3	2	3	(40)	(36)	(23)
Actuarial loss	51	78	47	87	77	50
Net periodic benefit cost	81	135	97	154	138	134
Curtailment loss (gain)	24			(23)		
Net periodic benefit cost	\$ 105	\$ 135	\$ 97	\$ 131	\$ 138	\$ 134

**Other Programs**

As required by Italian labor legislation, an accrual for an employee severance indemnity has been provided for CNH's eligible Italian employees. The obligation for this liability is computed based on the actuarial present value of the benefits to which the employee is entitled after considering the expected date of separation or retirement. During 2005, CNH began reflecting this liability, along with its other defined benefit plans in the tables above.

**Defined Contribution Plans**

CNH provides defined contribution plans for their U.S. salaried employees, their U.S. non-represented hourly employees and for their represented hourly employees covered by collective bargaining agreements. During each of the years ended December 31, 2006, 2005, and 2004, CNH recorded expense of approximately \$31 million, \$29 million, and \$29 million, respectively, for its defined contribution plans.

**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 13: Other Accrued Liabilities**

A summary of other accrued liabilities as of December 31, 2006, and 2005 is as follows:

	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>	
Marketing and sales incentive programs	\$ 552	\$ 533
Warranty and modification programs,	277	247
Value-added taxes and other taxes payable	204	171
Current deferred tax liability	170	61
Current portion of defined benefit plan obligations	162	95
Accrued payroll	120	137
Accrued interest	87	74
Deferred income	42	41
Customer advances	25	27
Other	505	409
	<b>\$ 2,144</b>	<b>\$ 1,795</b>

**Note 14: Commitments and Contingencies**

CNH and its subsidiaries are party to various legal proceedings in the ordinary course of its business, including, product warranty, environmental, asbestos, dealer disputes, disputes with suppliers and service providers, workers compensation, patent infringement, and customer and employment matters. The ultimate outcome of all these other legal matters pending against CNH or its subsidiaries cannot be predicted, and although such lawsuits are not expected individually to have a material adverse effect on CNH, such lawsuits could have, in the aggregate, a material adverse effect on CNH's consolidated financial condition, cash flows, and results of operations.

***Environmental***

CNH operations and products are subject to extensive environmental laws and regulations in the countries in which they operate. CNH has an ongoing Pollution Prevention Program to reduce industrial waste, air emissions and water usage. In addition regional programs are designed to implement environmental management practices and compliance, to promote continuing environmental improvements and to identify and evaluate environmental risks at manufacturing and other facilities worldwide.

Engines and equipment are subject to extensive statutory and regulatory requirements that impose standards with respect to air emissions. Further emissions reductions in the future from non-road engines and equipment have been promulgated or are contemplated in the United States as well as by non-U.S. regulatory authorities in many jurisdictions throughout the world. The Company expects that it may make significant capital and research

expenditures to comply with these standards now and in the future. These costs are likely to increase as emissions limits become more stringent. At this time, the Company is not able to quantify the dollar amount of such expenditures as the levels and timing are not agreed by the regulatory bodies. The failure to comply with these current and anticipated emission limits could result in adverse effects on future financial results.

Capital expenditures for environmental control and compliance in 2006 were approximately \$5.7 million. The Clean Air Act Amendments of 1990 and European Commission directives directly affect the operations of all manufacturing facilities in the United States and Europe, respectively, currently and in the future. The manufacturing processes affected include painting and coating operations. Although capital expenditures for environmental control equipment and compliance costs in future years will depend on legislative, regulatory and technological

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**CNH GLOBAL N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

developments that cannot accurately be predicted at this time, it is anticipated that these costs are likely to increase as environmental requirements become more stringent. The Company believes that these capital costs, exclusive of product-related costs, will not have a material adverse effect on its business, financial position or results of operations.

Pursuant to the Comprehensive Environmental Response, Compensation and Liability Act ( CERCLA ), which imposes strict and, under certain circumstances, joint and several liability for remediation and liability for natural resource damages, and other federal and state laws that impose similar liabilities, the Company has received inquiries for information or notices of its potential liability regarding 47 non-owned sites at which hazardous substances allegedly generated by the Company were released or disposed ( Waste Sites ). Of the Waste Sites, 21 are on the National Priority List promulgated pursuant to CERCLA. For 40 of the Waste Sites, the monetary amount or extent of our liability has either been resolved; the Company has not been named as a potentially responsible party ( PRP ); or a liability is likely de minimis. In September, 2004, the United States Environmental Protection Agency ( U.S. EPA ) proposed the Parkview Well Site in Grand Island, Nebraska for listing on the National Priorities List ( NPL ) and which was finalized in April, 2006. Within its proposed listing U.S. EPA discussed two alleged alternatives, one of which identified historical on-site activities that occurred during prior ownership at CNH America's Grand Island manufacturing plant property as a possible contributing source of area groundwater contamination. CNH America filed comments on the proposed listing which reflected its opinion that the data does not support U.S. EPA's alleged scenario. After subsequent remedial investigations were completed by U.S. EPA and CNH in 2006, U.S. EPA announced that it will proceed with a remediation funded by a Federal Superfund without further participation by CNH. In December, 2004, a toxic tort suit was filed by area residents against CNH, certain of CNH's subsidiaries including CNH America, and prior owners of the property. While the Company is unable to predict the outcome of this proceeding, it believes that it has strong legal and factual defenses, and will vigorously defend this lawsuit. Because estimates of remediation costs are subject to revision as more information becomes available about the extent and cost of remediation and because settlement agreements can be reopened under certain circumstances, potential liability for remediation costs associated with the 47 Waste Sites could change. Moreover, because liability under CERCLA and similar laws can be joint and several, the Company could be required to pay amounts in excess of its pro rata share of remediation costs. However, when appropriate, the Company's understanding of the financial strength of other PRPs has been considered in the determination of its potential liability. The Company believes that the costs associated with the Waste Sites will not have a material adverse effect on its business, financial position or results of operations.

Environmental investigatory or remedial activities are being conducted at certain properties that are currently or were formerly owned and/or operated or which are being decommissioned. The Company believes that the outcome of these activities will not have a material adverse effect on its business, financial position or results of operations.

The actual costs for environmental matters could differ materially from those costs currently anticipated due to the nature of historical handling and disposal of hazardous substances typical of manufacturing and related operations, the discovery of currently unknown conditions, and as a result of more aggressive enforcement by regulatory authorities and changes in existing laws and regulations. The Company plans to continue funding these costs of environmental compliance from operating cash flows.

Based upon information currently available, management estimates potential environmental liabilities including remediation, decommissioning, restoration, monitoring, and other closure costs associated with current or formerly owned or operated facilities, the Waste Sites, and other claims to be in the range of \$33 million to \$79 million. As of December 31, 2006, environmental reserves of approximately \$50 million had been established to address these

specific estimated potential liabilities. Such reserves are undiscounted. After considering these reserves, management is of the opinion that the outcome of these matters will not have a material adverse effect on CNH's financial position or results of operations.

**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Product Liability***

Product liability claims against CNH arise from time to time in the ordinary course of business. There is an inherent uncertainty as to the eventual resolution of unsettled claims. However, in the opinion of management, any losses with respect to these existing claims will not have a material adverse effect on CNH's financial position or results of operations.

***Other Litigation***

In December, 2002, six individuals acting on behalf of a purported class filed a lawsuit, Gladys Yolton, et al. v. El Paso Tennessee Pipeline Co., and Case Corporation, styled as a class action, in the Federal District Court for the Eastern District of Michigan against El Paso Tennessee Pipeline Co. (formerly Tenneco Inc.) ( El Paso ) and Case, LLC (now known as CNH America LLC). The lawsuit alleged breach of contract and violations of various provisions of the Employee Retirement Income Security Act and Labor Management Relations Act arising due to alleged changes in health insurance benefits provided to employees of the Tenneco Inc. agriculture and construction equipment business who retired before selected assets from that business were transferred to Case in June, 1994. El Paso administers the health insurance programs for these employees. An agreement had been reached with the UAW capping the premium amounts that El Paso would be required to pay. Any amount above the cap limit would be the responsibility of the retirees. The lawsuit arose after El Paso notified the retired employees that the employees had reached the cap limits and would be required to pay the premiums above the cap amounts. The plaintiffs also filed a motion for preliminary injunction in March, 2003, asking the court to order El Paso and/or Case to pay the above-cap amounts. On December 31, 2003, the court granted plaintiffs' motion for preliminary injunction, ordering El Paso to resume paying the full costs of health insurance benefits for retirees (and surviving spouses) who retired prior to October 3, 1993. The court also stated that Case might be secondarily liable for these costs. On March 9, 2004, in response to El Paso's motion for reconsideration, the court reversed itself and held that Case was primarily liable and ordered that Case pay the above-cap health insurance benefits. Case filed a motion for reconsideration and a motion for stay, both of which the court denied on June 3, 2004. Case and El Paso appealed to the 6th Circuit Court of Appeals, but the 6th Circuit affirmed the trial court. El Paso filed a petition for a writ of certiorari seeking review by the U.S. Supreme Court of the vesting issue, and Case sought review of the alter ego ruling, as well as the vesting issue. On November 6, 2006 the U.S. Supreme Court denied El Paso's and Case's petitions. The matter now returns to the trial court. Trial is set for September/October, 2007.

In conjunction with the above litigation, Case filed a summary judgment motion with the district court asking the court to enforce the terms of a Reorganization Agreement, which Case believed obligated El Paso to defend Case and indemnify it for all expenses and losses arising from this lawsuit. On September 3, 2004, the district court granted Case's summary judgment motion and ordered El Paso to make the monthly payments of approximately \$1.8 million to cover the above-cap amounts. El Paso moved for reconsideration of that decision. On November 3, 2004, the court denied the motion, but did order that El Paso could request that Case make the initial monthly payment of approximately \$1.8 million, but then El Paso must reimburse Case within ten days. El Paso appealed the part of the order requiring indemnification. On January 17, 2006, the 6th Circuit affirmed the district court's grant of summary judgment in favor of Case. El Paso requested en banc review of the indemnification issue, which was denied. With Case's right to indemnification now final, Case requested that El Paso repay the above-cap amounts paid by Case between April and September, 2004, but El Paso refused to do so. Case filed a motion for summary judgment asking the court to order El Paso to repay those amounts, plus attorneys' fees and costs. In 2007, Case and El Paso have

reached a settlement concerning full repayment of the above-cap amounts. In addition, El Paso will pay Case's costs in litigating the alter ego issue on a going forward basis.

Three of the Company's subsidiaries, New Holland Limited, New Holland Holding Limited and CNH (U.K.) Limited (together CNH U.K.), are claimants in group litigation against the Inland Revenue of the United Kingdom (Revenue) arising out of unfairness in the advance corporation tax (ACT) regime operated by the



**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Revenue between 1974 and 1999. In December 2002 the issues relevant to CNH U.K. came before Mr. Justice Park in the High Court of Justice in England in a test case brought by Pirelli. He found against the Revenue and decided that Pirelli was entitled to compensation for wrongly paying ACT. The Revenue appealed, and the Court of Appeal (three Judges) agreed unanimously with the decision of Justice Park in the High Court and ruled again in favor of Pirelli. Again the Revenue appealed, and the final hearing on the issues took place in the House of Lords before five Judges during the fourth quarter of 2005. In February, 2006, the House of Lords ruled that it had been wrong for Pirelli (and other claimants such as CNH U.K.) to pay ACT, but in calculating the compensation payable to the U.K. claimants, treaty credits that had been paid to the claimant's parent companies on receipt of the dividends in question must be netted against any claim for an ACT refund. In the lower courts the Judges had ruled against netting off. During the pendency of the appeal to the House of Lords, the Revenue had been persuaded to pay compensation to claimants (including CNH U.K.) on a conditional basis. CNH U.K. had received approximately £10.2 million (\$20.0 million) for compensation for interest and other costs. This was in addition to surplus ACT of approximately £9.1 million (\$17.9 million) that had previously been repaid to CNH U.K., again on a conditional basis. The condition of receipt by CNH U.K. was that, if the final liability of the Revenue, if any, is determined by the House of Lords to be less than the sums already paid to CNH U.K., then a sum equivalent to the overpayment should be repaid (plus interest at 1% over base rate from the date of payment/receipt). The House of Lords did not make a determination of the amounts, if any, that must be repaid to the Revenue by each individual claimant but have referred the case back to the High Court. A hearing in the High Court took place in February, 2007 and a judgment was delivered on March 23, 2007. The hearing and judgment only partially dealt with the issues relevant to determine retention of the amounts paid to CNH U.K. The judgment also rejected the new argument put forward by the claimants for additional compensation. The judgment is subject to an appeal process. The remaining issues are subject to a separate hearing. Depending upon the final resolution of the Pirelli test case, CNH U.K. may be required to return to Revenue all or some portion of the approximately £10.2 million (\$20.0 million) and the £9.1 million (\$17.9 million) that had been previously received. Neither repayment would impact the results of operations of CNH; however, the £9.1 million (\$17.9 million) of surplus ACT would be re-established as a tax asset on the consolidated balance sheet. This asset would be available to use against taxation liability on future profits of the U.K. companies. In the event that the Company determined that future U.K. profits would not be generated in order to use the asset, then a valuation reserve would be recorded against the asset and would impact results of operations of the Company accordingly. CNH U.K. intends to continue to vigorously pursue its remedies with regard to this litigation.

In February, 2006, Fiat S.p.A. received a subpoena from the Securities and Exchange Commission ( SEC ) Division of Enforcement with respect to a formal investigation entitled *In the Matter of Certain Participants in the Oil for Food Program*. This subpoena requests documents relating to certain Fiat-related entities, including certain CNH subsidiaries with respect to matters relating to the United Nations Oil-for-Food Program with Iraq. A substantial number of companies, including certain CNH entities, were mentioned in the Report of the Independent Inquiry Committee into the United Nations Oil-for-Food Programme issued in October, 2005. This report alleged that these companies engaged in transactions under this program that involved inappropriate payments. The CNH entities named in the Report, CNH Italia S.p.A. and Case France S.A. (now known as CNH France S.A.), have provided documents and other information to the SEC which has, to some extent, been shared by the SEC with the United States Department of Justice ( DOJ ). It is CNH's understanding that the SEC and the DOJ are reviewing the participation of several companies in the Program. We cannot predict what actions, if any, will result from the SEC and DOJ review or the impact thereof, if any, on the Company.



**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Commitments***

Minimum rental commitments at December 31, 2006, under non-cancelable operating leases with lease terms in excess of one year are as follows:

	<b>Amount (in millions)</b>
2007	\$ 40
2008	30
2009	23
2010	20
2011	17
2012 and beyond	77
Total minimum rental commitments	\$ 207

Total rental expense for all operating leases was \$29 million, \$40 million, and \$49 million for the years ended December 31, 2006, 2005, and 2004, respectively.

At December 31, 2006, Financial Services has various agreements to extend credit for the following financing arrangements:

<b>Facility</b>	<b>Total Credit Limit</b>	<b>Utilized (in millions)</b>	<b>Unfunded Amount</b>
Private label credit card	\$ 3,518	\$ 203	\$ 3,315
Wholesale and dealer financing	5,546	3,414	2,132

***Guarantees***

In the normal course of business, CNH and its subsidiaries provide indemnification for guarantees it arranges in the form of bonds guaranteeing the payment of value added taxes, performance bonds, custom bonds, bid bonds and bonds related to litigation. As of December 31, 2006, total commitments of this type total approximately \$145 million.

CNH participates in a joint venture which has a Note Agreement with an outstanding balance of approximately \$45 million at December 31, 2006. CNH is required to fund \$23 million of the principal with payments of approximately \$10 million in 2007 and \$13 million in 2008.

***Warranty and Modification Programs***

As described in Note 2: Summary of Significant Accounting Policies, CNH pays for normal and extended warranty costs and the costs of major programs to modify products in the customers' possession within certain pre-established time periods. A summary of recorded activity for the years ended December 31, 2006, and 2005 for these commitments is as follows:

	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>	
Balance, beginning of year	\$ 247	\$ 239
Current year accruals	317	303
Claims paid and other adjustments	(287)	(295)
Balance, end of year	\$ 277	\$ 247

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**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 15: Financial Instruments***Fair Market Value of Financial Instruments*

The fair market value of a financial instrument is the price at which one party would assume the rights and/or duties of another party. The estimated fair market values of financial instruments in the consolidated balance sheet as of December 31, 2006, and 2005 are as follows:

	<b>2006</b>		<b>2005</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
	<b>(in millions)</b>			
Accounts and notes receivable, net and long term receivables	\$ 6,549	\$ 6,547	\$ 5,841	\$ 5,858
Long-term debt	\$ 4,072	\$ 4,164	\$ 4,765	\$ 4,883
Derivative contracts, net asset (liability)	\$ 23	\$ 23	\$ (70)	\$ (70)

*Accounts and notes receivable, net and long term receivables*

The fair value of accounts and notes receivable was based on discounting the estimated future payments at prevailing market rates. The fair value, which approximates carrying value, of the retained interests included in accounts and notes receivables was based on the present value of future expected cash flows using assumptions for credit losses, prepayment spreads and discount rates commensurate with the risk involved. The carrying amount of floating-rate accounts and notes receivable was assumed to approximate their fair value.

*Long-term debt*

The fair value of fixed-rate, public long-term debt was based on both quoted prices and the market value of debt with similar maturities and interest rates; the fair value of other fixed-rate borrowings was based on discounting using the treasury yield curve; the carrying amount of floating-rate long-term debt was assumed to approximate their fair value.

*Derivative contracts, net*

As derivatives are recorded at fair market value on the consolidated balance sheets, the carrying amounts and fair market values are equivalent for CNH's foreign exchange forward contracts, currency options, interest rate swaps and interest rate caps.

*Derivatives*

CNH utilizes derivative instruments to mitigate its exposure to interest rate and foreign currency exposures. Derivatives used as hedges are effective at reducing the risk associated with the exposure being hedged and are designated as a hedge at the inception of the derivative contract. CNH does not hold or issue such instruments for trading purposes. The credit and market risk for interest rate hedges are reduced through diversification among

counterparties with high credit ratings. These counterparties include certain Fiat subsidiaries. The total notional amount of foreign exchange hedges and interest rate derivative hedges with certain Fiat subsidiaries as counterparties was approximately \$2.8 billion as of December 31, 2006.

*Foreign Exchange Contracts*

CNH has entered into foreign exchange forward contracts, swaps, and options in order to manage and preserve the economic value of cash flows in non-functional currencies. CNH conducts its business on a multinational basis in a wide variety of foreign currencies and hedges foreign currency exposures arising from various receivables,

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liabilities and expected inventory purchases. Derivative instruments that are utilized to hedge the foreign currency risk associated with anticipated inventory purchases in foreign currencies are designated as cash flow hedges. Gains and losses on these instruments, to the extent that they have been effective, are deferred in other comprehensive income (loss) and recognized in earnings when the related inventory is sold. Ineffectiveness related to these hedge relationships is recognized currently in the consolidated statements of income in the line Other, net and was not significant. The maturity of these instruments does not exceed 17 months and the net of tax gains deferred in other accumulated comprehensive income (loss) to be recognized in income over the next year beginning January 1, 2007, are \$14 million. The effective portion of changes in the fair value of the derivatives are recorded in other accumulated comprehensive income (loss) and are recognized in net sales and cost of goods sold in the consolidated statements of income when the hedge item affects earnings.

CNH has also designated certain forwards and swaps as fair value hedges of certain short-term receivables and liabilities denominated in foreign currencies. The effective portion of the fair value gains or losses on these instruments are reflected in income and are offset by fair value adjustments in the underlying foreign currency exposures. Ineffectiveness related to these hedge relationships was not material.

Options and forwards not designated as hedging instruments are also used to hedge the impact of variability in exchange rates on foreign operational cash flow exposures. The changes in the fair values of these instruments are recognized directly in income, and are expected to generally offset the foreign exchange gains or losses on the exposures being managed, although the gain or loss on the exposure being hedged may be recorded in a different period than the gains or losses on the derivative instruments.

*Interest Rate Derivatives*

CNH has entered into interest rate swap agreements in order to manage interest rate exposures arising in the normal course of business for Financial Services. Interest rate swaps that have been designated in cash flow hedging relationships are being used by CNH to mitigate the risk of rising interest rates related to the anticipated issuance of short-term LIBOR based debt in future periods. Gains and losses on these instruments, to the extent that the hedge relationship has been effective, are deferred in other accumulated comprehensive income (loss) and recognized in interest expense over the period in which CNH recognizes interest expense on the related debt. Ineffectiveness recognized related to these hedge relationships was not significant and is recorded in the line Other, net in the consolidated statements of income. The maximum length of time over which CNH is hedging its interest rate exposure through the use of derivative instruments designated in cash flow hedge relationships is 50 months, and CNH expects approximately \$2 million, net of tax, deferred in other accumulated comprehensive income (loss) to be recognized in income over the 12 months ending December 31, 2007.

Interest rate swaps that have been designated in fair value hedge relationships have been used by CNH to mitigate the risk of reductions in the fair value of existing fixed rate long-term bonds and medium-term notes due to increases in LIBOR based interest rates. This strategy is used mainly for the interest rate exposures for Equipment Operations. Gains and losses on these instruments are reflected in interest expense in the period in which they occur and an offsetting gain or loss is also reflected in interest expense based on changes in the fair value of the debt instrument being hedged due to changes in LIBOR based interest rates. There was no ineffectiveness as a result of fair value hedge relationships in 2006, 2005, or 2004.

CNH enters into forward starting interest rate swaps and forward rate agreements to hedge of the proceeds received upon the sale of receivables in ABS transactions as described in Note 3: Accounts and Notes Receivable. These instruments protect the Company from rising interest rates, which impact the rates paid on the securities issued to investors in connection with these transactions. The changes in the fair value of these instruments are highly correlated to changes in the anticipated cash flows from the proceeds to be received. Gains and losses are deferred in accumulated other comprehensive income (loss) and recognized in Finance and interest income in the



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

consolidated statements of income at the time of the ABS issuance. Ineffectiveness of these hedge relationships was not significant in 2006, 2005, or 2004.

CNH also utilizes both back-to-back interest rate swaps and back-to-back interest rate caps that are not designated in hedge relationships. Unrealized and realized gains and losses resulting from fair value changes in these instruments are recognized directly in income. These instruments are used to mitigate interest rate risk related to the Company's ABCP facilities and various limited purpose business trusts associated with the Company's retail note ABS securitization programs in North America. These facilities and trusts require CNH to enter into interest rate swaps and caps. To ensure that these transactions do not result in the Company being exposed to this risk, CNH enters into an offsetting interest rate swap or cap with substantially similar terms. Net gains and losses on these instruments were insignificant for 2006, 2005, and 2004.

**Note 16: Shareholders' Equity**

The Articles of Association of CNH provide for authorized share capital to 1.35 billion, divided into 400 million common shares and 200 million Series A preference shares each with a per share par value of 2.25. The shareholders authorized the board of directors to resolve on any future issuance of authorized shares for a period ending February, 2007. A new designation granting the board of directors as the authority to resolve on any future issuance of shares for an additional period of five years will be submitted to the shareholders at the upcoming Annual General Meeting ( AGM ) on April 2, 2007.

On April 7, and 8, 2003, CNH Global issued a total of 8 million shares of Series A Preferred Stock in exchange for the retirement of \$2 billion in Equipment Operations indebtedness owed to Fiat Group companies. Each outstanding share of Series A Preferred Stock, which was held by Fiat Netherlands, was entitled to one vote on all matters submitted to CNH's shareholders.

The Series A Preferred Stock automatically converted into 100 million CNH common shares at a conversion price of \$20 per share if the market price of the common shares, defined as the average of the closing price per share for 30 consecutive trading days, was greater than \$24 at any time through and including December 31, 2006 or \$21 at any time on or after January 1, 2007, subject to anti-dilution adjustment.

For the period of 30 consecutive trading days ending on March 22, 2006, such average was \$24.01. Accordingly, pursuant to their terms, the 8 million outstanding shares of Series A Preferred Stock automatically converted into 100 million newly issued CNH common shares on March 23, 2006. Upon completion of the conversion, Fiat's ownership of CNH rose to approximately 90%.

The Company currently provides matching contributions to its defined contribution plans in the form of CNH common shares..

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During the years ended December 31, 2006, 2005, and 2004, changes in CNH common shares, and CNH Series A Preference Shares issued were as follows:

	Common Shares		Series A Preference Shares	
	2006	2005	2006	2005
		(in thousands)		
Issued as of beginning of year	135,020	133,937	8,000	8,000
Issuances of CNH Common Shares:				
Contributions to CNH benefit plans	690	904		
Shares issued to Directors	35			
Stock-based compensation	575	179		
Conversion of CNH Series A Preferred Stock	100,000		(8,000)	
Issued as of end of year	236,320	135,020		8,000

Dividends of \$0.25 per common share, totaling \$59 million, \$34 million, and \$33 million were declared and paid during 2006, 2005, and 2004, respectively.

**Note 17: Option and Incentive Plans**

For the years ended December 31, 2006, 2005, and 2004, CNH recognized total share-based compensation expense of approximately \$4 million, \$1 million, and \$1 million, respectively. As of December 31, 2006, CNH has unrecognized share-based compensation expense related to nonvested awards of approximately \$40 million based on current assumptions related to achievement of specified performance objectives when applicable. Unrecognized share-based compensation costs will be recognized over a weighted-average period of 3.0 years.

**CNH Outside Directors Compensation Plan**

The CNH Global N.V. Outside Directors Compensation Plan ( CNH Directors Plan ), as amended on April 28, 2006, provides for the payment of: (1) an annual retainer fee of \$65,000; (2) a committee membership fee of \$25,000; and (3) a committee chair fee of \$10,000 (collectively, the Fees ) to independent outside members of the Board in the form of cash, and/or common shares of CNH, and/or options to purchase common shares of CNH. In addition, on April 7, 2006, outside directors received a one-time grant of 4,000 options to purchase common shares of CNH that vest on the third anniversary of the grant date. Each quarter the outside directors elect the form of payment of 1/4 of their Fees. If the elected form is options, the outside director will receive as many options as the amount of Fees that the director elects to forego, multiplied by four and divided by the fair market value of a common share, such fair market value being equal to the average of the highest and lowest sale price of a common share on the last trading day of the New York Stock Exchange preceding the start of each quarter. Stock options granted as a result of such an election vest immediately upon grant, but shares purchased under options cannot be sold for six months following the date of grant.

At December 31, 2006, and 2005, there were 772,296 and 1 million common shares, respectively reserved for issuance under the CNH Directors Plan. Outside directors do not receive benefits upon termination of their service as directors.

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table reflects option activity under the CNH Directors' Plan for the year ended December 31, 2006:

	<b>2006</b>	<b>Weighted Average Exercise Price</b>
	<b>Shares</b>	
Outstanding at beginning of year	169,042	\$ 21.71
Granted	54,589	25.75
Forfeited	(33,874)	38.60
Exercised	(62,987)	14.10
Outstanding at end of year	126,770	23.16
Exercisable at end of year	82,770	22.43
Vested or expected to vest at end of year	82,770	22.43

Options under the Directors' Plan that are vested or expected to vest have a weighted average remaining contract term of 7.3 years.

The following table summarizes outstanding stock options under the CNH Directors' Plan at December 31, 2006:

Range of Exercise Price	Options Outstanding			Options Exercisable		
	Shares Outstanding	Weighted Average Contractual Life	Weighted Average Exercise Price	Shares Exercisable	Weighted Average Contractual Life	Weighted Average Exercise Price
\$ 9.15 - \$15.70	23,271	6.2	\$ 11.64	23,271	6.2	\$ 11.64
\$15.71 - \$26.20	50,150	8.6	20.25	34,150	9.0	20.72
\$26.21 - \$40.00	48,104	8.2	27.98	20,104	6.7	28.36
\$40.01 - \$56.00	1,622	3.8	49.31	1,622	3.8	49.31
\$56.01 - \$77.05	3,623	3.3	62.87	3,623	3.3	62.87
			\$ 717,982			\$ 589,131

- (A) The difference between the exercise price of stock-based compensation and the year-end market price of CNH common shares of \$27.30. No amount is shown for awards with a exercise price that is greater than the year-end market price.

**Share Ownership.**

All of CNH's directors and executive officers beneficially own, or were granted options with respect to, less than one percent of CNH's common shares. Director's elective option awards vest immediately upon grant but shares purchased upon exercise of a stock option grant may not be sold until at least six months after the grant date. Directors' options terminate six months after a Director leaves the Board of Directors if not exercised. In any event, Directors' options terminate if not exercised by the tenth anniversary of the grant date.

***CNH Equity Incentive Plan***

The CNH Equity Incentive Plan, as amended (the "CNH EIP") provides for grants of various types of awards to officers and employees of CNH and its subsidiaries. In 2006, the CNH EIP was amended to reserve an additional 10,300,000 shares, raising total reserved shares to 15,900,000. The amended CNH EIP now requires that Shareholders, at the AGM or any Extraordinary General Meeting, ratify and approve the maximum number of shares available under the CNH EIP. In connection with this new requirement, CNH received written confirmation

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from Fiat, which at the time owned approximately 90% of CNH's issued and outstanding common stock, that Fiat would vote at the next Annual General meeting to approve the increase in available shares under the CNH EIP.

**Stock Option Grants**

Prior to 2006, certain stock option grants were issued which vest ratably over four years from the grant date and expire after ten years. Certain performance-based options, which had an opportunity for accelerated vesting tied to the attainment of specified performance criteria were issued; however, the performance criteria was not achieved. In any event, vesting of these options occurs seven years from the grant date. All options granted prior to 2006 have a contract life of ten years.

Except as noted below, the exercise prices of all options granted under the CNH EIP are equal to or greater than the fair market value of CNH common shares on the respective grant dates. During 2001, CNH granted stock options with an exercise price less than the quoted market price of our common shares at the date of grant. The exercise price of this grant was based upon the average closing price of CNH common shares on the New York Stock Exchange for the thirty-day period preceding the date of grant.

In 2006, the CNH Long-Term Incentive ( LTI ) awards discussed below were replaced by plans providing performance-based stock options, performance based restricted stock and cash. As a part of this change, CNH, in September, 2006, granted approximately 2.0 million performance-based stock options under the CNH EIP. Target performance levels for 2006 were not achieved resulting in only 387,510 options vesting. All of the other performance-based stock options were forfeited. One-third of the options vested with the approval of 2006 results by the Board of Directors in February, 2007. The remaining options will vest equally on the first and second anniversary of the initial vesting date. Options granted under the CNH EIP in 2006 have a five year contractual life.

The following table reflects option activity under the CNH EIP for the years ended December 31, 2006:

	Shares	2006 Weighted-Average Exercise Price
Outstanding at beginning of year	2,041,070	\$ 34.62
Granted	2,010,046	21.20
Forfeited	(1,814,131)	22.84
Exercised	(476,519)	16.20
Outstanding at end of year	1,760,466	36.42
Exercisable at end of year	1,361,650	40.48
Vested or expected to vest at end of year	1,089,600	40.49

Options under the CNH EIP that are vested or expected to vest have a weighted average remaining contract term of 4.3 years.

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The following table summarizes outstanding stock options under the CNH EIP at December 31, 2006:

Range of Exercise Price	Options Outstanding			Aggregate Intrinsic Value (A)	Options Exercisable			Aggregate Intrinsic Value (A)
	Shares Outstanding	Weighted-Average Contractual Life	Weighted-Average Exercise Price		Shares Exercisable	Weighted-Average Contractual Life	Weighted-Average Exercise Price	
\$10.00 - \$19.99	364,316	5.6	\$ 16.20	\$ 4,043,908	364,316	5.6	\$ 16.20	\$ 4,043,908
\$20.00 - \$29.99	387,510	5.2	21.20	2,363,811				
\$30.00 - \$39.99	523,600	4.6	31.70		523,600	4.6	31.70	
\$40.00 - \$69.99	485,040	3.1	68.85		474,084	3.1	68.85	
				\$ 6,407,719				\$ 4,043,908

(A) The difference between the exercise price of stock-based compensation and the year-end market price of CNH common shares of \$27.30. No amount is shown for awards with a exercise price that is greater than the year-end market price.

***Performance Share Grants***

Under the CNH EIP, performance-based restricted shares may also be granted. CNH establishes the period and conditions of performance for each award and holds the shares during the performance period. Performance-based restricted shares vest upon the attainment of specified performance objectives. Certain performance-based restricted shares vest no later than seven years from the award date.

In 2004, a LTI award for which payout is tied to achievement of specified performance objectives was approved under the CNH EIP for selected key employees and executive officers. The LTI awards are subject to the achievement of certain performance criteria over a 3-year performance cycle. At the end of the 3-year performance cycle, any earned awards will be satisfied equally with cash and CNH common shares as determined at the beginning of the performance cycle, for minimum, target, and maximum award levels.

As a transition to the LTI, the first award for the 2004-2006 performance cycle provided an opportunity to receive an accelerated payment of 50% of the targeted award after the first two years of the performance cycle. Objectives for the first two years of the performance cycle were met and an accelerated payment of cash and 66,252 shares were issued in 2006. Ultimately, the cumulative results for the 2004-2006 performance cycle were achieved and the remaining award was issued in early 2007.

A second 3 year LTI award for the 2005-2007 performance cycle was granted in 2005. Vesting will occur if performance objectives are achieved after 2007 results are approved by the Board of Directors.



In connection with changes to the LTI, CNH granted approximately 2.2 million performance based, non-vested share awards under the CNH EIP to approximately 200 of the Company's top executives. These shares, which had a grant date fair value of \$21.22, were to cliff vest when 2008 results are approved by the Board of Directors (estimated to be February 2009) if specified fiscal year 2008 targets were achieved. In December 2006, CNH extended this grant by providing participants an additional opportunity for potential partial payouts should these targets not be achieved until 2009 or 2010. All other terms remained unchanged. The grant date fair value on the date of the modification ranges from \$26.27 per share to \$27.35 depending on the service period over which the grant ultimately vests. Depending on the period during which targets are achieved, the estimated expense over the service period can range from approximately \$28 million to \$52 million (current estimate is \$38 million). If specified targets are not achieved by 2010, the shares granted will not vest.

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As of December 31, 2006, outstanding performance shares under the 2006, 2005, and 2004 awards under the CNH EIP were as follows:

	<b>2006 Award</b>	<b>2005 Award</b>	<b>2004 Award</b>
Grant	4,475,000	195,946	235,134
Cancelled	(2,237,500)		
Exercised			(66,252)
Forfeited		(45,834)	(119,442)
Outstanding	2,237,500	150,112	49,440

As of December 31, 2006, there were 10,642,793 common shares available for issuance under the CNH EIP.

***Stock-Based Compensation Fair Value Assumptions***

The Black-Scholes pricing model was used to calculate the fair value of stock options. The weighted-average assumptions used under the Black-Scholes pricing model were as follows:

	<b>2006</b>		<b>2005</b>		<b>2004</b>	
	<b>Directors Plan</b>	<b>CNH EIP</b>	<b>Directors Plan</b>	<b>CNH EIP</b>	<b>Directors Plan</b>	<b>CNH EIP</b>
Risk-free interest rate	4.8%	4.5%	3.9%	3.7%	3.4%	3.5%
Dividend yield	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
Stock price volatility	71.0%	34.7%	72.0%	71.5%	75.0%	75.3%
Option life (years)	5.00	3.25	5.00	5.00	5.00	5.00

Based on this model, the weighted-average grant date fair values of stock options awarded for the years ended December 31, 2006, 2005, and 2004 were as follows:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
CNH Directors Plan	\$ 14.61	\$ 10.13	\$ 9.94
CNH EIP	\$ 5.78	\$ 10.18	\$ 10.61

The fair value of the 2006 CNH EIP grant was determined using the simplified method available under Staff Accounting Bulletin 107 Share Based Payment. The risk-free interest rate is based on the current U.S. Treasury rate

for a bond of approximately the expected life of the options. The expected volatility is based on the historical activity of CNH's common shares looking back over a period at least equal to the expected life of the options. The 2006 CNH EIP grant expected life was based on the average of the vesting term of 30 months and the original contract term of five years. The expected dividend yield was based on the annual dividend of \$.25 per share which has been paid on CNH's common shares over the last three years. Expected life for other grants was based on management estimates.

The fair value of performance-based restricted shares is based on the market value of CNH's common shares on the date of the grant or its modification and is adjusted for the estimated value of dividends which are not available to participants during the vesting period.

Table of Contents**CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Additional Stock-Based Compensation Information***

The table below provides additional stock-based compensation information for the years ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
	(in millions)		
Total intrinsic value of options exercised	\$ 5.0	\$ 0.8	\$
Total intrinsic value of share-based liabilities paid	\$ 1.8	\$	\$ 4.5
Fair value of shares vested	\$ 2.6	\$ 4.8	\$ 10.0
Cash received from stock award exercises	\$ 8.6	\$ 3.0	\$ 1.2

During 2006, no stock-based compensation awards under the CNH Directors' Plan or the CNH EIP expired.

Pro Forma net income and earnings per share assuming the fair value of accounting for stock-based compensation prior to adopting SFAS No. 123 Revised is provided in Note 2: Summary of Significant Accounting Policies.

***Fiat Stock Option Program***

Certain employees of CNH participate in stock option plans of Fiat ( Fiat Plans ) whereby participants are granted options to purchase ordinary shares of Fiat ( Fiat Shares ). A summary of options under the Fiat Plans as of December 31, 2006 follows:

Date of Grant	Date of Grant Price	Exercise Price		Options					
		Original	Current	Granted	Transfers	Forfeitures	Exercises	Outstanding	Exercisable
3/30/1999	29.38	28.45	26.12	53,300	17,900	(40,500)		30,700	30,700
2/18/2000	33.00	30.63	28.12	102,500	51,000	(74,500)		79,000	79,000
2/27/2001	26.77	27.07	24.85	50,000	(20,000)	(30,000)			
10/31/2001	18.06	18.00	16.52	249,000	53,000	(173,000)		129,000	129,000
9/12/2002	11.88	11.16	10.39	513,000	27,000	(292,000)	(51,000)	197,000	197,000

The original exercise prices were determined by an average of the price of Fiat Shares on the Italian Stock Exchange prior to grant. Following Fiat capital increases in January 2002 and July 2003, the exercise prices were adjusted by applying the factors calculated by the Italian Stock Exchange. The Fiat capital increase in September 2005 did not give rise to exercise price adjustments. The options vested ratably over a four year period. No options to purchase Fiat Shares were issued to employees of CNH subsequent to 2002. All options under the Fiat Plans expire eight years after the grant date. The fair value of these options did not result in a material amount of compensation expense.

***Other programs***

Certain executives participate in a special plan approved by the Board of Directors of Fiat and CNH (the Individual Top Hat Scheme ), which provides a lump sum to be paid in installments if an executive, in certain circumstances, leaves Fiat and/or its subsidiaries before the age of 65. Contributions to the Individual Top Hat Scheme totaled \$256,000, \$659,000, and \$972,000 in 2006, 2005, and 2004, respectively. Of these amounts, \$256,000, \$234,000, and \$525,000, respectively related to executive officers of CNH.

**Note 18: Earnings per Share**

CNH calculates basic earnings per share based on the two-class method of computing earnings per share when participating securities, such as CNH's Series A Preferred Stock, are outstanding. The two-class method did not impact 2006 as a result of the conversion of the Series A Preferred Stock to Common Shares in 2004 as the

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Series A Preferred Stock was not considered participating in 2004. The two-class method did have an impact on the calculation of basic earnings per share in 2005.

For purposes of the basic earnings per share calculation, CNH uses the average closing price of the Company's common shares over the last thirty trading days of the period (Average Stock Price) to allocate earnings to participating securities. 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 is 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.

The following table reconciles the numerator and denominator of the basic and diluted earnings per share computations for the years ended December 31, 2006, 2005, and 2004:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(in millions, except per share data)</b>		
<b>Basic:</b>			
Net income	\$ 292	\$ 163	\$ 125
Dividend to common shares (\$0.25 per share)		(34)	
Undistributed earnings	292	129	125
Earnings allocated to Series A Preferred Stock		(59)	
Earnings available to common shareholders	292	70	125
Dividend to common shares		34	
Net income available to common shareholders	\$ 292	\$ 104	\$ 125
Weighted average common shares outstanding basic	213	134	133
Basic earnings per share	\$ 1.37	\$ 0.77	\$ 0.94
<b>Diluted:</b>			
Net income	\$ 292	\$ 163	\$ 125
Weighted average common shares outstanding basic	213	134	133
Effect of dilutive securities (when dilutive):			
Series A Preferred Stock	23	100	100
Stock Compensation Plans(A)	1		
Weighted average common shares outstanding diluted	237	234	233

Diluted earnings per share	\$ 1.23	\$ 0.70	\$ 0.54
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- (A) Stock options to purchase approximately 1.1 million, 1.2 million, and 2.9 million shares during 2006, 2005, and 2004, respectively, were outstanding but not included in the calculation of diluted earnings per share as the impact of these options would have been anti-dilutive.

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**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 19: Accumulated Other Comprehensive Income (Loss)**

The components of accumulated other comprehensive income (loss) as of December 31, 2006, and 2005 are as follows:

	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>	
Cumulative translation adjustment	\$ (23)	\$ (138)
Minimum pension liability adjustment, net of taxes \$(253)		(446)
Adjustment to recognize the underfunded status of defined benefit plans, net of taxes \$(477)	(821)	
Deferred gains (losses) on derivative financial instruments, net of taxes \$(8) and \$16, respectively)	16	(51)
Unrealized gain on available for sale securities, net of taxes \$(8) and \$(3), respectively)	10	9
Total	\$ (818)	\$ (626)

**Note 20: Segment and Geographical Information*****Segment Information***

During late 2005, CNH reorganized its Equipment Operations into four distinct global brand structures, CaseIH and New Holland agricultural equipment brands and Case and New Holland Construction construction equipment brands. Consequently, for 2006, CNH has identified five reporting units; CaseIH, New Holland, Case, New Holland Construction, and Financial Services. While CNH has five reporting units its Agricultural Equipment brands as well as its Construction Equipment brands continue to have similar operating characteristics such as the nature of the products and production processes, type of customer and methods of distribution. As such, CNH continues to aggregate its Agricultural Equipment and Construction Equipment brands for segment reporting purposes. As a result, CNH continues to have three reportable segments: Agricultural Equipment, Construction Equipment and Financial Services.

***Agricultural Equipment***

The agricultural equipment segment manufactures and distributes a full line of farm machinery and implements, including two-wheel and four-wheel drive tractors, combines, cotton pickers, grape and sugar cane harvesters, hay and forage equipment, planting and seeding equipment, soil preparation and cultivation implements and material handling equipment.

***Construction Equipment***



The construction equipment segment manufactures and distributes a full line of construction equipment including excavators, crawler dozers, graders, wheel loaders, loader/backhoes, skid steer loaders and trenchers.

***Financial Services***

The financial services segment is engaged in broad-based financial services for the global marketplace through various wholly owned subsidiaries and joint ventures in North America, Latin America, Europe, Australia and Asia Pacific. CNH provides and administers retail financing to end-use customers for the purchase or lease of new and used CNH and other agricultural and construction equipment sold by CNH dealers and distributors. CNH also facilitates the sale of insurance products and other financing programs to retail customers. In addition, CNH provides wholesale financing to CNH dealers and rental equipment operators, as well as financing options to dealers

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to finance working capital, real estate and other fixed assets and maintenance equipment in connection with their operations.

As of December 31, 2006, Fiat owned approximately 90% of CNH's outstanding common shares. As a result, CNH evaluates segment performance and reports to Fiat based on criteria established by Fiat.

CNH evaluates segment performance and reports to Fiat based on trading profit in accordance with International Accounting Standards and International Financial Reporting Standards (collectively IFRS). Fiat defines trading profit as income before restructuring, net financial expenses, income taxes, minority interests and equity in income (loss) of unconsolidated subsidiaries and affiliates. Transactions between segments are accounted for at market value.

A reconciliation from consolidated trading profit reported to Fiat under IFRS to income before taxes, minority interest and equity in income of unconsolidated subsidiaries and affiliates under U.S. GAAP for the years ended December 31, 2006, 2005, and 2004 is provided below.

	<b>Years Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(in millions)</b>		
Trading profit reported to Fiat under IFRS	\$ 925	\$ 869	\$ 581
Adjustments to convert from trading profit to U.S. GAAP income before taxes, minority interest and equity in income (loss) of unconsolidated subsidiaries:			
Accounting for benefit plans	(135)	(258)	(128)
Accounting for intangible assets, primarily development costs	(48)	11	20
Restructuring	(96)	(73)	(104)
Net financial expense	(240)	(283)	(360)
Purchase accounting adjustment			165
Accounting for receivable securitizations and other	11	(9)	(15)
Income (loss) before taxes, minority interest and equity in income (loss) of unconsolidated subsidiaries and affiliates under U.S. GAAP	\$ 417	\$ 257	\$ 159

**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following summarizes trading profit by segment under IFRS:

	<b>Years Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(in millions)</b>		
Agricultural equipment	\$ 307	\$ 260	\$ 352
Construction equipment	272	209	164
Financial services	313	293	235
Other	33(A)	107(B)	(170) (C)
Trading profit under IFRS	\$ 925	\$ 869	\$ 581

- (A) During the year ended December 31, 2006, CNH recognized benefit plan amendment gains in trading profit under IFRS. For comparative purposes, the impact of these amendments are reflected on the line *Other* in the table above.
- (B) During the year ended December 31, 2005, CNH recognized net benefit plan amendment gains in trading profit under IFRS. For comparative purposes, the impact of these amendments are reflected on the line *Other* in the table above.
- (C) Principally a purchase accounting adjustment to reverse various tax valuation allowances established in Case Corporation purchase accounting.

**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A summary of additional reportable segment information, compiled under IFRS, as of and for the years ended December 31, 2006, 2005, and 2004 is as follows:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(in millions)</b>		
<b>Revenues:</b>			
Agricultural equipment	\$ 7,817	\$ 7,843	\$ 8,000
Construction equipment	4,301	3,963	3,545
Financial services	1,332	1,094	905
Eliminations	(232)	(194)	(31)
Net revenues under IFRS	13,218	12,706	12,419
Difference, principally finance and interest income on receivables held by QSPEs (on-book under IFRS)	(220)	(131)	(240)
Revenues under U.S. GAAP	\$ 12,998	\$ 12,575	\$ 12,179
<b>Depreciation and amortization:</b>			
Agricultural equipment	\$ 238	\$ 234	\$ 233
Construction equipment	86	82	78
Financial services	44	46	64
Depreciation and amortization under IFRS	368	362	375
Difference, principally amortization of development costs capitalized under IFRS	(52)	(53)	(50)
Depreciation and amortization under U.S. GAAP	\$ 316	\$ 309	\$ 325
<b>Segment assets:</b>			
Agricultural equipment*	\$ 7,062	\$ 6,041	\$ 6,112
Construction equipment*	3,914	2,553	2,561
Financial services	15,348	13,522	12,246
Assets not allocated to segments, principally goodwill, intangibles and taxes	7,504	7,986	8,185
Eliminations	(7,703)	(6,190)	(5,396)
Segment assets under IFRS	26,125	23,912	23,708
Difference, principally receivables held by QSPEs (on-book under IFRS)	(7,851)	(6,594)	(5,628)
Total assets under U.S. GAAP	\$ 18,274	\$ 17,318	\$ 18,080

\* Includes receivables legally transferred to Financial Services

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**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(in millions)</b>		
<b>Expenditures for additions to long-lived assets*:</b>			
Agricultural equipment	\$ 223	\$ 144	\$ 129
Construction equipment	87	38	35
Financial services	180	114	82
Unallocated	5	21	26
Expenditures for additions to long-lived assets under IFRS	495	317	272
Difference, principally development costs capitalized under IFRS	(104)	(51)	(11)
Total expenditures for additions to long-lived assets under U.S. GAAP	\$ 391	\$ 266	\$ 261

\* Includes equipment on operating leases and property, plant and equipment

	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>	
<b>Investments in unconsolidated subsidiaries and affiliates:</b>		
Agricultural equipment	\$ 160	\$ 155
Construction equipment	194	201
Financial services	103	96
Investments in unconsolidated subsidiaries and affiliates under IFRS	457	452
Difference, principally historical goodwill and pension		(3)
Investments in unconsolidated subsidiaries and affiliates under U.S. GAAP	\$ 457	\$ 449

*Geographical Information*

The following highlights CNH's long-lived assets by geographic area and total revenues by destination:

<b>United States</b>	<b>Canada</b>	<b>United Kingdom</b>	<b>Italy</b>	<b>Belgium</b>	<b>Other</b>	<b>Total</b>
<b>(in millions)</b>						

At December 31, 2006, and for  
the

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year then ended:								
Total revenues	\$ 5,168	\$ 952	\$ 400	\$ 587	\$ 122	\$ 5,769	\$ 12,998	
Long-lived assets	\$ 737	\$ 53	\$ 119	\$ 257	\$ 124	\$ 342	\$ 1,632	
At December 31, 2005, and for the year then ended:								
Total revenues	\$ 4,768	\$ 850	\$ 398	\$ 569	\$ 104	\$ 5,886	\$ 12,575	
Long-lived assets	\$ 667	\$ 79	\$ 121	\$ 173	\$ 116	\$ 335	\$ 1,491	
At December 31, 2004, and for the year then ended:								
Total revenues	\$ 4,934	\$ 748	\$ 561	\$ 617	\$ 117	\$ 5,202	\$ 12,179	
Long-lived assets	\$ 679	\$ 88	\$ 146	\$ 276	\$ 143	\$ 361	\$ 1,693	

The amounts reported as long-lived assets include equipment on operating leases and property, plant and equipment.

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**CNH GLOBAL N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

CNH is organized under the laws of the Kingdom of The Netherlands. Geographical information for CNH pertaining to The Netherlands is not significant or not applicable.

**Note 21: Related Party Information**

As of December 31, 2005, CNH had a total of 8 million shares of Series A Preferred Stock issued and outstanding which were held by Fiat Netherlands. The Series A Preferred Stock automatically converted into 100 million CNH common shares at a conversion price of \$20 per share when the market price of the common shares, defined as the average of the closing price per share for 30 consecutive trading days, was greater than \$24 at any time through and including December 31, 2006, or \$21 at any time on or after January 1, 2007. For the period of 30 consecutive trading days ending on March 22, 2006, such average was \$24.01. Accordingly, pursuant to their terms, the 8 million outstanding shares of Series A Preferred Stock automatically converted into 100 million newly issued CNH common shares on March 23, 2006.

In July, 2005, CNH's \$2 billion syndicated facility with Fiat was terminated when various Fiat affiliates, including CNH, entered into a \$1 billion (U.S. \$1.3 billion) syndicated credit facility with a group of banks maturing in July 2008. The borrowers have allocated \$300 million (U.S. \$395 million) of this borrowing capacity to CNH with additional amounts potentially available depending on the usage by other borrowers.

Fiat, through certain of its subsidiaries, has also made available to CNH and certain of its subsidiaries, pursuant to an Amended Facility Agreement entered into in January 2007, a multi-currency revolving credit facility for a period ending on February 28, 2008. Pursuant to this facility CNH and the designated subsidiaries may, from time to time, borrow as short-term loans or as overdraft advances up to an aggregate principal amount of \$1.0 billion, subject to specified sub-limits for each borrower. The Amended Facility Agreement replaces in its entirety a prior facility agreement, which expired in January 2007, as well as a letter agreement between Fiat and CNH, providing for treasury and debt financing arrangements to be made available to CNH by Fiat, which has been terminated. The interest rates on advances under the Amended Facility Agreement, and the prior facility agreement that it replaces, have ranged from LIBOR +0.15% to LIBOR +2.00% during 2006. CNH has agreed to pay a commitment fee of 0.20% per annum on the unused amount of the facility. As of December 31, 2006, \$352 million in short-term advances were outstanding under the Amended Facility Agreement.

At December 31, 2006, outstanding debt with Fiat and its affiliates was approximately 8% of CNH total debt, compared with 18% at December 31, 2005. Fiat guarantees \$947 million of CNH debt with third parties or approximately 16% of CNH's outstanding debt with third parties. CNH pays Fiat a guarantee fee based on the average amount outstanding under facilities guaranteed by Fiat. For 2006, CNH paid a guarantee fee of 0.0625% per annum. For 2005 and 2004, CNH paid a guarantee fee of between 0.03125% per annum and 0.0625% per annum.

Like other companies that are part of multinational groups, CNH participates in a group-wide cash management system with the Fiat Group. Under this system, which is operated by Fiat in a number of jurisdictions, the cash balances of Fiat Group members, including CNH, are aggregated at the end of each business day in central pooling accounts, the Fiat affiliates cash management pools. As well as being invested by Fiat in highly rated, highly liquid money market instruments or bank deposits, our positive cash deposits, if any, at the end of any given business day may be applied by Fiat to offset negative balances of other Fiat Group members and vice versa. Deposits with Fiat



earn interest at rates that range from LIBOR plus 15 to 30 basis points. Interest earned on CNH deposits with Fiat included in finance and interest income were approximately \$34 million, \$18 million, and \$11 million in the years ended December 31, 2006, 2005, and 2004, respectively.

As a result of CNH's participation in the Fiat affiliates cash management pools, CNH is exposed to Fiat Group credit risk to the extent that Fiat is unable to return the funds. In the event of a bankruptcy or insolvency of Fiat (or any other Fiat Group member in the jurisdictions with set off agreements) or in the event of a bankruptcy or insolvency of the Fiat entity in whose name the deposit is pooled, CNH may be unable to secure the return of such

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**CNH GLOBAL N.V.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

funds to the extent they belong to CNH, and CNH may be viewed as a creditor of such Fiat entity with respect to such deposits. Because of the affiliated nature of CNH's relationship with the Fiat Group, it is possible that CNH's claims as a creditor could be subordinate to the rights of third party creditors in certain situations.

For material related party transactions involving the purchase of goods and services, CNH generally solicits and evaluates bid proposals prior to entering into any such transactions, and in such instances, the Audit Committee generally conducts a review to determine that such transactions are what the committee believes to be on arm's-length terms.

CNH purchases some of its engines and other components from the Fiat Group, and companies of the Fiat Group provide CNH administrative services such as accounting and internal audit, cash management, maintenance of plant and equipment, research and development, information systems and training. CNH sells certain products to subsidiaries and affiliates of Fiat. In addition, CNH enters into hedging arrangements with counterparties that are members of the Fiat Group. The principal purchases of goods from Fiat and its affiliates include engines from Iveco Nederland B.V. (Iveco) and Fiat Powertrain Technologies S.p.A., dump trucks from Iveco, robotic equipment and paint systems from Comau Pico Holdings Corporation, and castings from Teksid S.p.A. CNH also purchases tractors from its Mexican joint venture for resale in the United States.

As of December 31, 2006, CNH and its subsidiaries were parties to derivative or other financial instruments having an aggregate contract value of \$2.8 billion and \$2 billion as of December 31, 2006, and 2005, respectively, to which affiliates of Fiat were counterparties.

Fiat provides accounting services to CNH in Europe and Brazil through an affiliate that uses shared service centers to provide such services at competitive costs to various Fiat companies. Fiat provides internal audit services at the direction of CNH's internal audit department in certain locations where it is more cost effective to use existing Fiat resources. Through the end of 2005, routine maintenance of CNH plants and facilities in Europe was provided by a Fiat affiliate that also provides similar services to third parties. In 2005 and 2004, CNH purchased network and hardware support from and outsources a portion of its information services to a joint venture that Fiat had formed with IBM. Subsequently, Fiat announced that it had entered into a nine year strategic agreement with IBM under which IBM assumed full ownership of this joint venture as well as the management of a significant part of the information technology needs of members of the Fiat Group, including CNH. Fiat also provides training services through an affiliate. CNH uses a broker that is an affiliate of Fiat to purchase a portion of its insurance coverage. CNH purchases research and development from an Italian joint venture set up by Fiat and owned by various Fiat subsidiaries. This joint venture benefits from Italian government incentives granted to promote work in the less developed areas of Italy.

In certain tax jurisdictions, CNH has entered into tax sharing agreements with Fiat and certain of its affiliates. CNH management believes the terms of these agreements are customary for agreements of this type and are at least as advantageous as filing tax returns on a stand-alone basis.

If the goods or services or financing arrangements described above were not available from Fiat, we would have to obtain them from other sources. CNH can offer no assurance that such alternative sources would provide goods and services on terms as favorable as those offered by Fiat.

Certain executives participate in the Individual Top Hat Scheme, which provides a lump sum to be paid in installments if an executive, in certain circumstances, leaves Fiat and/or its subsidiaries before the age of 65.

Contributions to the Individual Top Hat Scheme totaled \$256,000, \$659,000, and \$972,000 in 2006, 2005, and 2004, respectively.

CNH participates in the stock option program of Fiat as described in Note 17: Option and Incentive Plans.

**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes CNH's sales, purchase, and finance income with Fiat and affiliates of Fiat, CNH dealer development companies and joint ventures that are not already separately reflected in the consolidated statements of income for the years ended December 31, 2006, 2005, and 2004:

	2006	2005	2004
	(in millions)		
Sales to affiliated companies and joint ventures	\$ 143	\$ 121	\$ 124
Purchase of materials, production parts, merchandise and services	\$ 552	\$ 525	\$ 565
Finance and interest income	\$ 36	\$ 41	\$ 28

**Note 22: Supplemental Condensed Consolidating Financial Information**

CNH and certain wholly-owned subsidiaries of CNH (the Guarantor Entities) guarantee the Senior Notes. The guarantees are unconditional, irrevocable, joint and several guarantees of the Senior Notes issued by Case New Holland. As the guarantees are unconditional, irrevocable and joint and several and as the Guarantor Entities are all wholly-owned by CNH, the Company has included the following condensed consolidating financial information as of December 31, 2006, and 2005 and for the three years ended December 31, 2006. The condensed consolidating financial information reflects investments in consolidated subsidiaries on the equity method of accounting. The goodwill and intangible assets are allocated to reporting units under SFAS No. 142 and are primarily reported by the Guarantor Entities, except for the portion related to Financial Services which is reported by All Other Subsidiaries. It is not practicable to allocate goodwill and intangibles to the individual Guarantor Entities and All Other Subsidiaries.

In an effort to reduce the complexity of the Company's legal structure and as a part of the Company's tax planning strategies, CNH has actively eliminated and transferred legal entities. These transactions between entities under common control are accounted for at historical cost in accordance with existing accounting guidance. As a consequence, material future transactions related to CNH's legal entity rationalization activities and tax planning strategies may result in a retroactive restatement of the information contained in this note as these transactions are completed.

The following condensed financial statements present CNH, Case New Holland, the Guarantor Entities, and all other subsidiaries as of December 31, 2006, and 2005, and for the three years ended December 31, 2006.

**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Statements of Income  
For the Year Ended December 31, 2006**

	<b>CNH Global N.V.</b>	<b>Case New Holland Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>All Other Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(in millions)</b>					
Revenues:						
Net sales	\$	\$	\$ 8,760	\$ 6,220	\$ (2,865)	\$ 12,115
Finance and interest income	43	168	155	968	(451)	883
	43	168	8,915	7,188	(3,316)	12,998
Cost and Expenses:						
Cost of goods sold			7,418	5,380	(2,865)	9,933
Selling, general and administrative	4		608	636		1,248
Research, development and engineering			263	104		367
Restructuring			61	35		96
Interest expense	86	176	176	445	(305)	578
Interest compensation to Financial Services			201	18	(219)	
Other, net	12	2	165	107	73	359
	102	178	8,892	6,725	(3,316)	12,581
Income (loss) before taxes, minority interest and equity in income (loss) of unconsolidated affiliates and consolidated subsidiaries accounted for under						
the equity method	(59)	(10)	23	463		417
Income tax provision (benefit)	6	(9)	40	128		165
Minority interest			1	15		16
Equity in income (loss) of unconsolidated affiliates and consolidated subsidiaries accounted for under the equity method	357	262	219	(7)	(775)	56
Net income	\$ 292	\$ 261	\$ 201	\$ 313	\$ (775)	\$ 292



**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>Condensed Balance Sheets</b>						<b>Consolidated</b>
	<b>As of December 31, 2006</b>						
	<b>CNH Global N.V.</b>	<b>Case New Holland Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>All Other Subsidiaries</b>	<b>Eliminations</b>	<b>(in millions)</b>	
<b>Assets:</b>							
Cash and cash equivalents	\$	\$ 555	\$ 56	\$ 563	\$	\$	1,174
Deposits in Fiat affiliates cash management pools	8		139	350			497
Accounts, notes receivable and other, net	70	32	781	6,531	(865)		6,549
Intercompany notes receivable	758	2,322	1,581	294	(4,955)		
Inventories			1,449	1,286			2,735
Property, plant and equipment, net			823	555			1,378
Equipment on operating leases, net				254			254
Investments in unconsolidated affiliates	349		6	102			457
Investments in consolidated subsidiaries accounted for under the equity method	5,670	2,712	2,061	(174)	(10,269)		
Goodwill and intangible assets, net	3		2,826	244			3,073
Other assets	1	29	1,219	1,018	(110)		2,157
<b>Total Assets</b>	<b>\$ 6,859</b>	<b>\$ 5,650</b>	<b>\$ 10,941</b>	<b>\$ 11,023</b>	<b>\$ (16,199)</b>	<b>\$</b>	<b>18,274</b>
<b>Liabilities and Equity:</b>							
Short-term debt	\$ 254	\$	\$ 645	\$ 371	\$	\$	1,270
Intercompany short-term debt	1,339		1,395	1,401	(4,135)		
Accounts payable	135	5	1,088	1,482	(829)		1,881
Long-term debt		2,034	321	2,777			5,132
Intercompany long-term debt			502	318	(820)		
Accrued and other liabilities	11	17	3,579	1,410	(146)		4,871
	1,739	2,056	7,530	7,759	(5,930)		13,154

Equity

Total Liabilities and Equity	5,120	3,594	3,411	3,264	(10,269)	5,120
	\$ 6,859	\$ 5,650	\$ 10,941	\$ 11,023	\$ (16,199)	\$ 18,274

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**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Statements of Cash Flow  
For the Year Ended December 31, 2006**

	<b>CNH Global N.V.</b>	<b>Case New Holland Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>All Other Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(in millions)</b>					
<b>Operating Activities:</b>						
Net income	\$ 292	\$ 261	\$ 201	\$ 313	\$ (775)	\$ 292
Adjustments to reconcile net income to net cash provided (used) by operating activities:						
Depreciation and amortization			191	125		316
Intercompany activity	23	(14)	7	(16)		
Changes in operating assets and liabilities	53	24	139	(170)		46
Other, net	(305)	(270)	(132)	(40)	700	(47)
Net cash provided (used) by operating activities	63	1	406	212	(75)	607
<b>Investing activities:</b>						
Expenditures for property, plant and equipment			(116)	(102)		(218)
Expenditures for equipment on operating leases				(173)		(173)
Net (additions) collections from retail receivables and related securitizations				(227)		(227)
Other, net	(125)		18	163		56
(Deposits in) withdrawals from Fiat affiliates cash management pools	58		15	55		128
Net cash provided (used) by investing activities	(67)		(83)	(284)		(434)
<b>Financing Activities:</b>						
Intercompany activity	204	(590)	(19)	405		
Net increase (decrease) in indebtedness	(141)	500	(279)	(288)		(208)
Dividends paid	(59)					(59)
Other, net		(9)	(41)	(34)	75	(9)

Net cash provided (used) by financing activities	4	(99)	(339)	83	75	(276)
Other, net			(18)	50		32
Increase (decrease) in cash and cash equivalents		(98)	(34)	61		(71)
Cash and cash equivalents, beginning of year		653	90	502		1,245
Cash and cash equivalents, end of year	\$	\$ 555	\$ 56	\$ 563	\$	\$ 1,174

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**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Statements of Income  
For the Year Ended December 31, 2005**

	<b>CNH Global N.V.</b>	<b>Case New Holland Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>All Other Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(in millions)</b>					
Revenues:						
Net sales	\$	\$	\$ 9,085	\$ 5,766	\$ (3,045)	\$ 11,806
Finance and interest income	35	110	87	823	(286)	769
	35	110	9,172	6,589	(3,331)	12,575
Cost and Expenses:						
Cost of goods sold			7,893	5,086	(3,045)	9,934
Selling, general and administrative	2		584	591		1,177
Research, development and engineering			216	87		303
Restructuring			18	55		73
Interest expense	55	139	122	418	(183)	551
Interest compensation to Financial Services			159		(159)	
Other, net	15		118	91	56	280
	72	139	9,110	6,328	(3,331)	12,318
Income (loss) before taxes, minority interest and equity in income (loss) of unconsolidated affiliates and consolidated subsidiaries accounted for under the equity method	(37)	(29)	62	261		257
Income tax provision (benefit)	(1)	(12)	92	37		116
Minority interest				26		26
Equity in income (loss) of unconsolidated affiliates and consolidated subsidiaries accounted for under the equity method	199	127	177	(112)	(343)	48
Net income	\$ 163	\$ 110	\$ 147	\$ 86	\$ (343)	\$ 163



**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>Condensed Balance Sheets</b>					
	<b>As of December 31, 2005</b>					
<b>CNH Global N.V.</b>	<b>Case New Holland Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>All Other Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>	
					<b>(in millions)</b>	
<b>Assets:</b>						
Cash and cash equivalents	\$	\$ 653	\$ 90	\$ 502	\$	\$ 1,245
Deposits in Fiat affiliates cash management pools	66		145	369		580
Accounts, notes receivable and other, net	82	19	735	5,741	(736)	5,841
Intercompany notes receivable	594	1,732	1,084	328	(3,738)	
Inventories			1,336	1,130		2,466
Property, plant and equipment, net			826	485		1,311
Equipment on operating leases, net				180		180
Investments in unconsolidated affiliates	314		12	123		449
Investments in consolidated subsidiaries accounted for under the equity method	5,471	2,828	1,512	(57)	(9,754)	
Goodwill and intangible assets, net	1		2,926	236		3,163
Other assets	15	17	1,341	800	(90)	2,083
<b>Total Assets</b>	<b>\$ 6,543</b>	<b>\$ 5,249</b>	<b>\$ 10,007</b>	<b>\$ 9,837</b>	<b>\$ (14,318)</b>	<b>\$ 17,318</b>
<b>Liabilities and Equity:</b>						
Short-term debt	\$ 245	\$	\$ 686	\$ 591	\$	\$ 1,522
Intercompany short-term debt	971		894	1,119	(2,984)	
Accounts payable	116	6	986	1,205	(704)	1,609
Long-term debt	150	1,534	557	2,524		4,765
Intercompany long-term debt			525	229	(754)	
Accrued and other liabilities	9		3,127	1,357	(123)	4,370
	1,491	1,540	6,775	7,025	(4,565)	12,266
<b>Equity</b>	<b>5,052</b>	<b>3,709</b>	<b>3,232</b>	<b>2,812</b>	<b>(9,753)</b>	<b>5,052</b>

Total Liabilities and Equity	\$ 6,543	\$ 5,249	\$ 10,007	\$ 9,837	\$ (14,318)	\$ 17,318
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**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Statements of Cash Flow  
For the Year Ended December 31, 2005**

	<b>CNH</b>						
	<b>Global</b>	<b>Case</b>	<b>Guarantor</b>	<b>All Other</b>	<b>Eliminations</b>	<b>Consolidated</b>	
	<b>N.V.</b>	<b>New</b>	<b>Subsidiaries</b>	<b>Subsidiaries</b>	<b>Consolidated</b>	<b>Consolidated</b>	
		<b>Holland</b>					
		<b>Inc.</b>					
			<b>Subsidiaries</b>	<b>Subsidiaries</b>			
			<b>(in millions)</b>				
<b>Operating Activities:</b>							
Net income	\$ 163	\$ 110	\$ 147	\$ 86	\$ (343)	\$ 163	
Adjustments to reconcile net income to net cash provided (used) by operating activities:							
Depreciation and amortization			170	139		309	
Intercompany activity		4	23	(27)			
Changes in operating assets and liabilities	3	(13)	(73)	(5)		(88)	
Other, net	(136)	(133)	205	131	98	165	
Net cash provided (used) by operating activities	30	(32)	472	324	(245)	549	
<b>Investing activities:</b>							
Expenditures for property, plant and equipment			(87)	(68)		(155)	
Expenditures for equipment on operating leases				(111)		(111)	
Net (additions) collections from retail receivables and related securitizations				171		171	
Other, net	(104)		90	119		105	
(Deposits in) withdrawals from Fiat affiliates cash management pools	(6)		597	(85)		506	
Net cash provided (used) by investing activities	(110)		600	26		516	
<b>Financing Activities:</b>							
Intercompany activity	671	228	(827)	(72)			
Net increase (decrease) in indebtedness	(557)	6	421	(609)		(739)	
Dividends paid	(34)					(34)	

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Other, net			(630)	385	245	
Net cash provided (used) by financing activities	80	234	(1,036)	(296)	245	(773)
Other, net			(7)	29		22
Increase (decrease) in cash and cash equivalents		202	29	83		314
Cash and cash equivalents, beginning of year		451	61	419		931
Cash and cash equivalents, end of year	\$	\$ 653	\$ 90	\$ 502	\$	\$ 1,245

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**Table of Contents****CNH GLOBAL N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Statements of Income  
For the Year Ended December 31, 2004**

	<b>CNH Global N.V.</b>	<b>Case New Holland Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>All Other Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(in millions)</b>					
Revenues:						
Net sales	\$	\$	\$ 8,430	\$ 5,779	\$ (2,664)	\$ 11,545
Finance and interest income	37	72	60	694	(229)	634
	37	72	8,490	6,473	(2,893)	12,179
Cost and Expenses:						
Cost of goods sold			7,373	5,079	(2,670)	9,782
Selling, general and administrative	5		524	571		1,100
Research, development and engineering			196	81		277
Restructuring			53	51		104
Interest expense	43	122	116	346	(135)	492
Interest compensation to Financial Services			113		(113)	
Other, net	21		199	17	28	265
	69	122	8,574	6,145	(2,890)	12,020
Income (loss) before taxes, minority interest and equity in income (loss) of unconsolidated affiliates and consolidated subsidiaries accounted for under the equity method	(32)	(50)	(84)	328	(3)	159
Income tax provision (benefit)	1	(19)	(88)	145		39
Minority interest				23		23
Equity in income (loss) of unconsolidated affiliates and consolidated subsidiaries accounted for under the equity method	158	167	128	(77)	(348)	28

Net income	\$	125	\$	136	\$	132	\$	83	\$	(351)	\$	125
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