

DEERE & CO
Form 10-Q
February 28, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended January 31, 2013

Commission file no: 1-4121

DEERE & COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

36-2382580
(IRS employer identification no.)

One John Deere Place

Moline, Illinois 61265

(Address of principal executive offices)

Telephone Number: **(309) 765-8000**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Edgar Filing: DEERE & CO - Form 10-Q

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large Accelerated Filer
Non-Accelerated Filer
(Do not check if a smaller reporting company)

Accelerated Filer
Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

At January 31, 2013, 389,556,186 shares of common stock, \$1 par value, of the registrant were outstanding.

Index to Exhibits: Page 45

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DEERE & COMPANY

STATEMENT OF CONSOLIDATED INCOME

For the Three Months Ended January 31, 2013 and 2012

(In millions of dollars and shares except per share amounts) Unaudited

	2013		2012
Net Sales and Revenues			
Net sales	\$ 6,792.8	\$	6,119.0
Finance and interest income	501.0		475.1
Other income	127.6		172.4
Total	7,421.4		6,766.5
Costs and Expenses			
Cost of sales	5,014.8		4,576.0
Research and development expenses	356.5		312.5
Selling, administrative and general expenses	781.5		709.0
Interest expense	180.1		192.1
Other operating expenses	142.4		176.6
Total	6,475.3		5,966.2
Income of Consolidated Group before Income Taxes			
	946.1		800.3
Provision for income taxes	289.0		266.2
Income of Consolidated Group			
	657.1		534.1
Equity in income (loss) of unconsolidated affiliates	(7.5)		.3
Net Income			
	649.6		534.4
Less: Net income (loss) attributable to noncontrolling interests	(.1)		1.5
Net Income Attributable to Deere & Company			
	\$ 649.7	\$	532.9
Per Share Data			
Basic	\$ 1.67	\$	1.32
Diluted	\$ 1.65	\$	1.30
Average Shares Outstanding			
Basic	388.4		404.0
Diluted	393.0		408.4

See Condensed Notes to Interim Consolidated Financial Statements.

DEERE & COMPANY
 STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME
 For the Three Months Ended January 31, 2013 and 2012
 (In millions of dollars) Unaudited

	2013		2012	
Net Income	\$	649.6	\$	534.4
Other Comprehensive Income (Loss), Net of Income Taxes				
Retirement benefits adjustment		70.1		70.4
Cumulative translation adjustment		20.3		(136.1)
Unrealized gain (loss) on derivatives		3.8		(3.6)
Unrealized gain (loss) on investments		(2.1)		3.2
Other Comprehensive Income (Loss), Net of Income Taxes		92.1		(66.1)
Comprehensive Income of Consolidated Group		741.7		468.3
Less: Comprehensive income attributable to noncontrolling interests				1.3
Comprehensive Income Attributable to Deere & Company	\$	741.7	\$	467.0

See Condensed Notes to Interim Consolidated Financial Statements.

Edgar Filing: DEERE & CO - Form 10-Q

DEERE & COMPANY
CONDENSED CONSOLIDATED BALANCE SHEET
(In millions of dollars) Unaudited

	January 31 2013		October 31 2012		January 31 2012
Assets					
Cash and cash equivalents	\$ 3,672.1	\$	4,652.2	\$	3,388.3
Marketable securities	1,375.6		1,470.4		1,126.4
Receivables from unconsolidated affiliates	44.6		59.7		48.6
Trade accounts and notes receivable - net	3,926.4		3,799.1		3,333.4
Financing receivables - net	22,070.7		22,159.1		19,098.3
Financing receivables securitized - net	3,032.9		3,617.6		2,680.9
Other receivables	1,280.2		1,790.9		1,245.6
Equipment on operating leases - net	2,452.3		2,527.8		2,052.4
Inventories	6,242.7		5,170.0		5,677.7
Property and equipment - net	5,042.6		5,011.9		4,303.8
Investments in unconsolidated affiliates	201.5		215.0		226.0
Goodwill	934.0		921.2		964.9
Other intangible assets - net	98.5		105.0		119.4
Retirement benefits	22.8		20.2		29.1
Deferred income taxes	3,311.6		3,280.4		2,879.5
Other assets	1,461.1		1,465.3		1,402.6
Total Assets	\$ 55,169.6	\$	56,265.8	\$	48,576.9
Liabilities and Stockholders Equity					
Short-term borrowings	\$ 7,331.7	\$	6,392.5	\$	8,506.4
Short-term securitization borrowings	3,043.9		3,574.8		2,613.8
Payables to unconsolidated affiliates	70.5		135.2		113.5
Accounts payable and accrued expenses	7,200.3		8,988.9		6,816.7
Deferred income taxes	169.4		164.4		152.8
Long-term borrowings	22,170.2		22,453.1		16,924.0
Retirement benefits and other liabilities	7,698.1		7,694.9		6,670.5
Total liabilities	47,684.1		49,403.8		41,797.7
Commitments and contingencies (Note 14)					
Common stock, \$1 par value (issued shares at January 31, 2013 536,431,204)	3,434.3		3,352.2		3,276.8
Common stock in treasury	(8,817.2)		(8,813.8)		(7,656.6)
Retained earnings	17,346.1		16,875.2		14,887.1
Accumulated other comprehensive income (loss)	(4,479.5)		(4,571.5)		(3,743.9)
Total Deere & Company stockholders equity	7,483.7		6,842.1		6,763.4
Noncontrolling interests	1.8		19.9		15.8
Total stockholders equity	7,485.5		6,862.0		6,779.2
Total Liabilities and Stockholders Equity	\$ 55,169.6	\$	56,265.8	\$	48,576.9

See Condensed Notes to Interim Consolidated Financial Statements.

DEERE & COMPANY

STATEMENT OF CONSOLIDATED CASH FLOWS

For the Three Months Ended January 31, 2013 and 2012

(In millions of dollars) Unaudited

	2013		2012
Cash Flows from Operating Activities			
Net income	\$ 649.6	\$	534.4
Adjustments to reconcile net income to net cash used for operating activities:			
Credit for credit losses	(.5)		(.8)
Provision for depreciation and amortization	277.1		243.3
Share-based compensation expense	22.3		19.5
Undistributed earnings of unconsolidated affiliates	15.6		.7
Credit for deferred income taxes	(20.6)		(28.2)
Changes in assets and liabilities:			
Trade, notes and financing receivables related to sales	94.9		221.6
Insurance receivables	338.0		(5.8)
Inventories	(1,169.0)		(1,449.1)
Accounts payable and accrued expenses	(1,539.1)		(854.8)
Accrued income taxes payable/receivable	146.6		160.4
Retirement benefits	96.2		101.5
Other	(160.5)		(169.5)
Net cash used for operating activities	(1,249.4)		(1,226.8)
Cash Flows from Investing Activities			
Collections of receivables (excluding receivables related to sales)	4,341.9		4,019.9
Proceeds from maturities and sales of marketable securities	215.4		8.2
Proceeds from sales of equipment on operating leases	249.4		222.3
Proceeds from sales of businesses, net of cash sold			6.9
Cost of receivables acquired (excluding receivables related to sales)	(3,933.6)		(3,485.4)
Purchases of marketable securities	(125.1)		(342.8)
Purchases of property and equipment	(294.0)		(269.1)
Cost of equipment on operating leases acquired	(197.6)		(118.3)
Other	(39.5)		(78.1)
Net cash provided by (used for) investing activities	216.9		(36.4)
Cash Flows from Financing Activities			
Increase in total short-term borrowings	691.9		481.8
Proceeds from long-term borrowings	877.8		1,410.2
Payments of long-term borrowings	(1,379.5)		(315.0)
Proceeds from issuance of common stock	117.6		18.9
Repurchases of common stock	(96.4)		(387.9)
Dividends paid	(178.7)		(167.8)
Excess tax benefits from share-based compensation	35.4		10.6
Other	(20.4)		(10.7)
Net cash provided by financing activities	47.7		1,040.1
Effect of Exchange Rate Changes on Cash and Cash Equivalents	4.7		(35.8)
Net Decrease in Cash and Cash Equivalents	(980.1)		(258.9)
Cash and Cash Equivalents at Beginning of Period	4,652.2		3,647.2
Cash and Cash Equivalents at End of Period	\$ 3,672.1	\$	3,388.3

See Condensed Notes to Interim Consolidated Financial Statements.

DEERE & COMPANY

STATEMENT OF CHANGES IN CONSOLIDATED STOCKHOLDERS EQUITY

For the Three Months Ended January 31, 2012 and 2013

(In millions of dollars) Unaudited

	Deere & Company Stockholders					
	Total Stockholders <u>Equity</u>	Common <u>Stock</u>	Treasury <u>Stock</u>	Retained <u>Earnings</u>	Accumulated Other Comprehensive <u>Income (Loss)</u>	Non- controlling <u>Interests</u>
Balance October 31, 2011	\$ 6,814.9	\$ 3,251.7	\$ (7,292.8)	\$ 14,519.4	\$ (3,678.0)	\$ 14.6
Net income	534.4			532.9		1.5
Other comprehensive income (loss)	(66.1)				(65.9)	(.2)
Repurchases of common stock	(387.9)		(387.9)			
Treasury shares reissued	24.1		24.1			
Dividends declared	(165.3)			(165.3)		
Stock options and other	25.1	25.1		.1		(.1)
Balance January 31, 2012	\$ 6,779.2	\$ 3,276.8	\$ (7,656.6)	\$ 14,887.1	\$ (3,743.9)	\$ 15.8
Balance October 31, 2012	\$ 6,862.0	\$ 3,352.2	\$ (8,813.8)	\$ 16,875.2	\$ (4,571.5)	\$ 19.9
Net income (loss)	649.6			649.7		(.1)
Other comprehensive income	92.1				92.0	.1
Repurchases of common stock	(96.4)		(96.4)			
Treasury shares reissued	93.0		93.0			
Dividends declared	(186.4)			(178.9)		(7.5)
Deconsolidation of variable interest entity	(10.6)					(10.6)
Stock options and other	82.2	82.1		.1		
Balance January 31, 2013	\$ 7,485.5	\$ 3,434.3	\$ (8,817.2)	\$ 17,346.1	\$ (4,479.5)	\$ 1.8

See Condensed Notes to Interim Consolidated Financial Statements.

Condensed Notes to Interim Consolidated Financial Statements (Unaudited)

(1) The information in the notes and related commentary are presented in a format which includes data grouped as follows:

Equipment Operations - Includes the Company's agriculture and turf operations and construction and forestry operations with financial services reflected on the equity basis.

Financial Services - Includes primarily the Company's financing operations.

Consolidated - Represents the consolidation of the equipment operations and financial services. References to Deere & Company or the Company refer to the entire enterprise.

Variable Interest Entities

The Company was the primary beneficiary of and consolidated a supplier that was a variable interest entity (VIE). The Company had both the power to direct the activities of the VIE that most significantly impacted the VIE's economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. In the first quarter of 2013, the entity was deconsolidated since the previous conditions for consolidation no longer existed. The Company no longer has a variable interest in the supplier and no related parties were involved in the deconsolidation. The effect on the financial statements for the deconsolidation was a decrease in assets, liabilities and noncontrolling interests of approximately \$26 million, \$15 million and \$11 million, respectively, with no gain or loss. No additional support beyond what was previously contractually required was provided during any periods presented in the financial statements. The VIE produced blended fertilizer and other lawn care products for the agriculture and turf segment.

The assets and liabilities of this supplier VIE in previous periods consisted of the following in millions of dollars:

	October 31 2012	January 31 2012
Cash and cash equivalents	\$ 26	
Intercompany receivables	7	\$ 10
Inventories	25	46
Property and equipment - net	2	3
Other assets	5	2
Total assets	\$ 65	\$ 61
Short-term borrowings	\$ 5	\$ 5
Accounts payable and accrued expenses	48	49
Total liabilities	\$ 53	\$ 54

Edgar Filing: DEERE & CO - Form 10-Q

The VIE was financed through its own accounts payable and short-term borrowings. The assets of the VIE could only be used to settle the obligations of the VIE. The creditors of the VIE did not have recourse to the general credit of the Company.

See Note 11 for VIEs related to securitization of financing receivables.

(2) The consolidated financial statements of Deere & Company and consolidated subsidiaries have been prepared by the Company, without audit, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the U.S. have been condensed or omitted as permitted by such rules and regulations. All adjustments, consisting of normal recurring adjustments, have been included. Management believes that the disclosures are adequate to present fairly the financial position, results of operations and cash flows at the dates and for the periods presented. It is suggested that these interim financial statements be read in conjunction with the consolidated financial statements and the notes thereto appearing in the Company's latest annual report on Form 10-K. Results for interim periods are not necessarily indicative of those to be expected for the fiscal year.

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts and related disclosures. Actual results could differ from those estimates.

Cash Flow Information

All cash flows from the changes in trade accounts and notes receivable are classified as operating activities in the Statement of Consolidated Cash Flows as these receivables arise from sales to the Company's customers. Cash flows from financing receivables that are related to sales to the Company's customers are also included in operating activities. The remaining financing receivables are related to the financing of equipment sold by independent dealers and are included in investing activities.

The Company had the following non-cash operating and investing activities that were not included in the Statement of Consolidated Cash Flows. The Company transferred inventory to equipment on operating leases of approximately \$87 million and \$78 million in the first three months of 2013 and 2012, respectively. The Company also had accounts payable related to purchases of property and equipment of approximately \$57 million and \$44 million at January 31, 2013 and 2012, respectively.

(3) New accounting standards adopted in the first three months of 2013 were as follows:

In the first quarter of 2013, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2011-05, Presentation of Comprehensive Income, which amends Accounting Standards Codification (ASC) 220, Comprehensive Income. This ASU requires the presentation of total comprehensive income, total net income and the components of net income and comprehensive income either in a single continuous statement or in two separate but consecutive statements. The Company has presented two separate but consecutive statements with the tax effects for other comprehensive income items disclosed in the notes. The requirements do not change how earnings per share is calculated or presented. The adoption did not have a material effect on the Company's consolidated financial statements.

In the first quarter of 2013, the Company adopted FASB ASU No. 2011-08, Testing Goodwill for Impairment, which amends ASC 350, Intangibles—Goodwill and Other. This ASU gives an entity the option to first assess qualitative factors to determine if goodwill is impaired. The entity may first determine based on qualitative factors if it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If that assessment indicates no impairment, the first and second steps of the quantitative goodwill impairment test are not required. The adoption did not have a material effect on the Company's consolidated financial statements.

Edgar Filing: DEERE & CO - Form 10-Q

In the first quarter of 2013, the Company adopted FASB ASU No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment, which amends ASC 350, Intangibles – Goodwill and Other. This ASU gives an entity the option to first assess qualitative factors to determine if indefinite-lived intangible assets are impaired. The entity may first determine based on qualitative factors if it is more likely than not that the fair value of indefinite-lived intangible assets are less than their carrying amount. If that assessment indicates no impairment, the quantitative impairment test is not required. The adoption did not have a material effect on the Company's consolidated financial statements.

New accounting standards to be adopted are as follows:

In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities, which amends ASC 210, Balance Sheet. This ASU requires entities to disclose gross and net information about both instruments and transactions eligible for offset in the statement of financial position and those subject to an agreement similar to a master netting arrangement. This would include derivatives and other financial securities arrangements. The effective date will be the first quarter of fiscal year 2014 and must be applied retrospectively. The adoption will not have a material effect on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which amends ASC 220, Comprehensive Income. This ASU requires the disclosure of amounts reclassified out of accumulated other comprehensive income by component and by net income line item. The disclosure may be provided either parenthetically on the face of the financial statements or in the notes. The effective date will be the first quarter of fiscal year 2014 and must be applied prospectively. The adoption will not have a material effect on the Company's consolidated financial statements.

(4) Other comprehensive income items are transactions recorded in stockholders' equity during the year, excluding net income and transactions with stockholders. The items included in other comprehensive income (loss) and the related tax effects in millions of dollars follow:

	Before Tax Amount	Tax (Expense) Credit	After Tax Amount
<u>Three Months Ended January 31, 2013</u>			
Net unrealized gain on retirement benefits adjustment	\$ 112.2	\$ (42.1)	\$ 70.1
Cumulative translation adjustment	13.2	7.1	20.3
Net unrealized gain on derivatives	5.8	(2.0)	3.8
Net unrealized loss on investments	(3.4)	1.3	(2.1)
Total other comprehensive income (loss)	\$ 127.8	\$ (35.7)	\$ 92.1
<u>Three Months Ended January 31, 2012</u>			
Net unrealized gain on retirement benefits adjustment	\$ 114.3	\$ (43.9)	\$ 70.4
Cumulative translation adjustment	(141.3)	5.2	(136.1)
Net unrealized loss on derivatives	(5.5)	1.9	(3.6)
Net unrealized gain on investments	4.9	(1.7)	3.2
Total other comprehensive income (loss)	\$ (27.6)	\$ (38.5)	\$ (66.1)

In the first quarter of 2013 and 2012, the noncontrolling interests' comprehensive income was none and \$1.3 million, respectively, which consisted of a net loss of \$(.1) million in 2013 and net income of \$1.5 million in 2012 and cumulative translation adjustments of \$.1 million in 2013 and \$(.2) million in 2012.

Edgar Filing: DEERE & CO - Form 10-Q

(5) Dividends declared and paid on a per share basis were as follows:

	Three Months Ended	
	January 31	
	2013	2012
Dividends declared	\$.46	\$.41
Dividends paid	\$.46	\$.41

(6) A reconciliation of basic and diluted net income per share attributable to Deere & Company follows in millions, except per share amounts:

	Three Months Ended	
	January 31	
	2013	2012
Net income attributable to Deere & Company	\$ 649.7	\$ 532.9
Less income allocable to participating securities	.1	.2
Income allocable to common stock	\$ 649.6	\$ 532.7
Average shares outstanding	388.4	404.0
Basic per share	\$ 1.67	\$ 1.32
Average shares outstanding	388.4	404.0
Effect of dilutive share-based compensation	4.6	4.4
Total potential shares outstanding	393.0	408.4
Diluted per share	\$ 1.65	\$ 1.30

During the first quarter of 2013 and 2012, 2.5 million shares and 4.4 million shares, respectively, related to share-based compensation were excluded from the above diluted per share computation because the incremental shares under the treasury stock method would have been antidilutive.

(7) The Company has several defined benefit pension plans and defined postretirement health care and life insurance plans covering its U.S. employees and employees in certain foreign countries.

The worldwide components of net periodic pension cost consisted of the following in millions of dollars:

	Three Months Ended	
	January 31	
	2013	2012
Service cost	\$ 67	\$ 53
Interest cost	110	116
Expected return on plan assets	(194)	(196)
Amortization of actuarial loss	65	52
Amortization of prior service cost	8	10
Settlements/curtailments		1

Edgar Filing: DEERE & CO - Form 10-Q

The worldwide components of net periodic postretirement benefits cost (health care and life insurance) consisted of the following in millions of dollars:

	Three Months Ended January 31	
	2013	2012
Net cost	\$ 92	\$ 115

During the first quarter of 2013, the Company contributed approximately \$24 million to its pension plans and \$16 million to its other postretirement benefit plans. The Company presently anticipates contributing an additional \$506 million to its pension plans and \$11 million to its other postretirement benefit plans during the remainder of fiscal year 2013. These contributions include payments from Company funds to either increase plan assets or make direct payments to plan participants.

(8) The Company's unrecognized tax benefits at January 31, 2013 were \$271 million, compared to \$265 million at October 31, 2012. The January 31, 2013 liability consisted of approximately \$65 million that would affect the effective tax rate if it was recognized. The remaining liability was related to tax positions for which there are offsetting tax receivables, or the uncertainty was only related to timing. The changes to the unrecognized tax benefits for the first three months of 2013 were not significant. The Company expects that any reasonably possible change in the amounts of unrecognized tax benefits in the next 12 months would not be significant.

Edgar Filing: DEERE & CO - Form 10-Q

(9) Worldwide net sales and revenues, operating profit and identifiable assets by segment in millions of dollars follow:

	Three Months Ended January 31			% Change
	2013	2012		
Net sales and revenues:				
Agriculture and turf	\$ 5,491	\$ 4,724		+16
Construction and forestry	1,302	1,395		-7
Total net sales	6,793	6,119		+11
Financial services	527	548		-4
Other revenues	101	100		+1
Total net sales and revenues	\$ 7,421	\$ 6,767		+10
Operating profit *				
Agriculture and turf	\$ 766	\$ 574		+33
Construction and forestry	71	124		-43
Financial services	197	175		+13
Total operating profit	1,034	873		+18
Reconciling items **	(95)	(74)		+28
Income taxes	(289)	(266)		+9
Net income attributable to Deere & Company	\$ 650	\$ 533		+22
Intersegment sales and revenues:				
Agriculture and turf net sales	\$ 19	\$ 23		-17
Financial services	45	52		-13
Equipment operations outside the U.S. and Canada:				
Net sales	\$ 2,570	\$ 2,528		+2
Operating profit	140	170		-18
	January 31	October 31		
	2013	2012		
Identifiable assets:				
Agriculture and turf	\$ 11,236	\$ 10,429		+8
Construction and forestry	3,444	3,365		+2
Financial services	33,646	34,495		-2
Corporate	6,844	7,977		-14
Total assets	\$ 55,170	\$ 56,266		-2

* Operating profit is income from continuing operations before corporate expenses, certain external interest expense, certain foreign exchange gains and losses and income taxes. Operating profit of the financial services segment includes the effect of interest expense and foreign exchange gains and losses.

** Reconciling items are primarily corporate expenses, certain external interest expense, certain foreign exchange gains and losses and net income attributable to noncontrolling interests.

(10) Past due balances of financing receivables represent the total balance held (principal plus accrued interest) with any payment amounts 30 days or more past the contractual payment due date. Non-performing financing receivables represent loans for which the Company has ceased accruing finance income. These receivables are generally 120 days delinquent and the estimated uncollectible amount, after charging the dealer's withholding account, has been written off to the allowance for credit losses. Finance income for non-performing receivables is recognized on a cash basis. Accrual of finance income is resumed when the receivable becomes contractually current and collections are reasonably assured.

An age analysis of past due and non-performing financing receivables in millions of dollars follows:

	January 31, 2013			
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due *	Total Past Due
Retail Notes:				
Agriculture and turf	\$ 77	\$ 25	\$ 19	\$ 121
Construction and forestry	40	17	9	66
Other:				
Agriculture and turf	23	7	3	33
Construction and forestry	11	3	1	15
Total	\$ 151	\$ 52	\$ 32	\$ 235
	Total Past Due	Total Non-Performing	Current	Total Financing Receivables
Retail Notes:				
Agriculture and turf	\$ 121	\$ 112	\$ 16,546	\$ 16,779
Construction and forestry	66	14	1,591	1,671
Other:				
Agriculture and turf	33	10	5,675	5,718
Construction and forestry	15	2	1,094	1,111
Total	\$ 235	\$ 138	\$ 24,906	25,279
Less allowance for credit losses				175
Total financing receivables - net				\$ 25,104

* Financing receivables that are 90 days or greater past due and still accruing finance income.

Edgar Filing: DEERE & CO - Form 10-Q

October 31, 2012

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due *	Total Past Due
Retail Notes:				
Agriculture and turf	\$ 60	\$ 25	\$ 17	\$ 102
Construction and forestry	39	18	9	66
Other:				
Agriculture and turf	21	6	3	30
Construction and forestry	8	2	2	12
Total	\$ 128	\$ 51	\$ 31	\$ 210

	Total Past Due	Total Non- Performing	Current	Total Financing Receivables
Retail Notes:				
Agriculture and turf	\$ 102	\$ 117	\$ 16,432	\$ 16,651
Construction and forestry	66	13	1,521	1,600
Other:				
Agriculture and turf	30	11	6,464	6,505
Construction and forestry	12	3	1,183	1,198
Total	\$ 210	\$ 144	\$ 25,600	25,954
Less allowance for credit losses				177
Total financing receivables - net				\$ 25,777

* Financing receivables that are 90 days or greater past due and still accruing finance income.

Edgar Filing: DEERE & CO - Form 10-Q

	January 31, 2012			
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due *	Total Past Due
Retail Notes:				
Agriculture and turf	\$ 68	\$ 30	\$ 25	\$ 123
Construction and forestry	38	17	10	65
Other:				
Agriculture and turf	19	13	4	36
Construction and forestry	9	4	2	15
Total	\$ 134	\$ 64	\$ 41	\$ 239
	Total Past Due	Total Non-Performing	Current	Total Financing Receivables
Retail Notes:				
Agriculture and turf	\$ 123	\$ 145	\$ 14,617	\$ 14,885
Construction and forestry	65	15	1,327	1,407
Other:				
Agriculture and turf	36	15	4,667	4,718
Construction and forestry	15	3	946	964
Total	\$ 239	\$ 178	\$ 21,557	21,974
Less allowance for credit losses				195
Total financing receivables - net				\$ 21,779

* Financing receivables that are 90 days or greater past due and still accruing finance income.

Edgar Filing: DEERE & CO - Form 10-Q

An analysis of the allowance for credit losses and investment in financing receivables in millions of dollars during the periods follows:

	Retail Notes		Revolving Charge Accounts		Other		Total
<u>January 31, 2013</u>							
Allowance:							
Beginning of period balance	\$	110	\$	40	\$	27	\$ 177
Provision		1					1
Write-offs		(5)		(4)			(9)
Recoveries		2		4			6
End of period balance *	\$	108	\$	40	\$	27	\$ 175
Financing receivables:							
End of period balance	\$	18,450	\$	1,799	\$	5,030	\$ 25,279
Balance individually							
evaluated **	\$	11	\$	1	\$	1	\$ 13
<u>January 31, 2012</u>							
Allowance:							
Beginning of period balance	\$	130	\$	40	\$	27	\$ 197
Provision				1			1
Write-offs		(2)		(7)		(1)	(10)
Recoveries		2		6			8
Translation adjustments		(1)					(1)
End of period balance	\$	129	\$	40	\$	26	\$ 195
Balance individually							
evaluated **	\$	1					\$ 1
Financing receivables:							
End of period balance	\$	16,292	\$	1,813	\$	3,869	\$ 21,974
Balance individually							
evaluated **	\$	13			\$	5	\$ 18

* Allowance balance individually evaluated is not significant and remainder is collectively evaluated.

** Remainder is collectively evaluated.

Edgar Filing: DEERE & CO - Form 10-Q

Financing receivables are considered impaired when it is probable the Company will be unable to collect all amounts due according to the contractual terms.

An analysis of the impaired financing receivables in millions of dollars follows:

	Recorded Investment	Unpaid Principal Balance	Specific Allowance	Average Recorded Investment
<u>January 31, 2013</u>				
Receivables with specific allowance *	\$ 1	\$ 1		\$ 1
Receivables without a specific allowance **	9	9		9
Total	\$ 10	\$ 10		\$ 10
Agriculture and turf	\$ 6	\$ 6		\$ 6
Construction and forestry	\$ 4	\$ 4		\$ 4
<u>October 31, 2012</u>				
Receivables with specific allowance *	\$ 1	\$ 1	\$ 1	\$ 1
Receivables without a specific allowance **	9	9		10
Total	\$ 10	\$ 10	\$ 1	\$ 11
Agriculture and turf	\$ 6	\$ 6	\$ 1	\$ 6
Construction and forestry	\$ 4	\$ 4		\$ 5
<u>January 31, 2012</u>				
Receivables with specific allowance *	\$ 4	\$ 4	\$ 1	\$ 4
Receivables without a specific allowance **	10	10		9
Total	\$ 14	\$ 14	\$ 1	\$ 13
Agriculture and turf	\$ 9	\$ 9	\$ 1	\$ 8
Construction and forestry	\$ 5	\$ 5		\$ 5

* Finance income recognized was not material.

** Primarily retail notes.

A troubled debt restructuring is generally the modification of debt in which a creditor grants a concession it would not otherwise consider to a debtor that is experiencing financial difficulties. These modifications may include a reduction of the stated interest rate, an extension of the maturity dates, a reduction of the face amount or maturity amount of the debt, or a reduction of accrued interest. During the first quarter of 2013, the Company identified 26 financing receivable contracts, primarily retail notes, as troubled debt restructurings with aggregate balances of \$1.3 million pre-modification and \$1.1 million post-modification. During the first quarter of 2012, there were 52 contracts with \$1.1 million pre-modification and \$1.0 million post-modification balances. During these same periods, there were no significant troubled debt restructurings that subsequently defaulted and were written off. At January 31, 2013, the Company had no commitments to lend additional funds to borrowers whose accounts were modified in troubled debt restructurings.

(11) Securitization of financing receivables:

The Company, as a part of its overall funding strategy, periodically transfers certain financing receivables (retail notes) into variable interest entities (VIEs) that are special purpose entities (SPEs), or a non-VIE banking operation, as part of its asset-backed securities programs (securitizations). The structure of these transactions is such that the transfer of the retail notes does not meet the criteria of sales of receivables, and is, therefore, accounted for as a secured borrowing. SPEs utilized in securitizations of retail notes differ from other entities included in the Company's consolidated statements because the assets they hold are legally isolated. Use of the assets held by the SPEs or the non-VIE is restricted by terms of the documents governing the securitization transactions.

In securitizations of retail notes related to secured borrowings, the retail notes are transferred to certain SPEs or to a non-VIE banking operation, which in turn issue debt to investors. The resulting secured borrowings are recorded as "Short-term securitization borrowings" on the balance sheet. The securitized retail notes are recorded as "Financing receivables securitized, net" on the balance sheet. The total restricted assets on the balance sheet related to these securitizations include the financing receivables securitized less an allowance for credit losses, and other assets primarily representing restricted cash. For those securitizations in which retail notes are transferred into SPEs, the SPEs supporting the secured borrowings are consolidated unless the Company does not have both the power to direct the activities that most significantly impact the SPEs economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the SPEs. No additional support to these SPEs beyond what was previously contractually required has been provided during the reporting periods.

In certain securitizations, the Company consolidates the SPEs since it has both the power to direct the activities that most significantly impact the SPEs economic performance through its role as servicer of all the receivables held by the SPEs, and the obligation through variable interests in the SPEs to absorb losses or receive benefits that could potentially be significant to the SPEs. The restricted assets (retail notes securitized, allowance for credit losses and other assets) of the consolidated SPEs totaled \$1,970 million, \$2,330 million and \$1,278 million at January 31, 2013, October 31, 2012 and January 31, 2012, respectively. The liabilities (short-term securitization borrowings and accrued interest) of these SPEs totaled \$1,915 million, \$2,262 million and \$1,159 million at January 31, 2013, October 31, 2012 and January 31, 2012, respectively. The credit holders of these SPEs do not have legal recourse to the Company's general credit.

In certain securitizations, the Company transfers retail notes to a non-VIE banking operation, which is not consolidated since the Company does not have a controlling interest in the entity. The Company's carrying values and interests related to the securitizations with the unconsolidated non-VIE were restricted assets (retail notes securitized, allowance for credit losses and other assets) of \$248 million, \$324 million and \$354 million at January 31, 2013, October 31, 2012 and January 31, 2012, respectively. The liabilities (short-term securitization borrowings and accrued interest) were \$245 million, \$310 million and \$344 million at January 31, 2013, October 31, 2012 and January 31, 2012, respectively.

Edgar Filing: DEERE & CO - Form 10-Q

In certain securitizations, the Company transfers retail notes into bank-sponsored, multi-seller, commercial paper conduits, which are SPEs that are not consolidated. The Company does not service a significant portion of the conduits' receivables, and, therefore, does not have the power to direct the activities that most significantly impact the conduits' economic performance. These conduits provide a funding source to the Company (as well as other transferors into the conduit) as they fund the retail notes through the issuance of commercial paper. The Company's carrying values and variable interests related to these conduits were restricted assets (retail notes securitized, allowance for credit losses and other assets) of \$898 million, \$1,049 million and \$1,143 million at January 31, 2013, October 31, 2012 and January 31, 2012, respectively. The liabilities (short-term securitization borrowings and accrued interest) related to these conduits were \$885 million, \$1,004 million and \$1,112 million at January 31, 2013, October 31, 2012 and January 31, 2012, respectively.

The Company's carrying amount of the liabilities to the unconsolidated conduits, compared to the maximum exposure to loss related to these conduits, which would only be incurred in the event of a complete loss on the restricted assets, was as follows in millions of dollars:

	<u>January 31, 2013</u>	
Carrying value of liabilities	\$	885
Maximum exposure to loss		898

The total assets of unconsolidated VIEs related to securitizations were approximately \$41 billion at January 31, 2013.

The components of consolidated restricted assets related to secured borrowings in securitization transactions follow in millions of dollars:

	January 31 2013	October 31 2012	January 31 2012
Financing receivables securitized (retail notes)	\$ 3,047	\$ 3,635	\$ 2,695
Allowance for credit losses	(14)	(17)	(14)
Other assets	83	85	94
Total restricted securitized assets	\$ 3,116	\$ 3,703	\$ 2,775

The components of consolidated secured borrowings and other liabilities related to securitizations follow in millions of dollars:

	January 31 2013	October 31 2012	January 31 2012
Short-term securitization borrowings	\$ 3,044	\$ 3,575	\$ 2,614
Accrued interest on borrowings	1	1	1
Total liabilities related to restricted securitized assets	\$ 3,045	\$ 3,576	\$ 2,615

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 depends primarily on cash flows generated by the restricted assets. Due to the Company's short-term credit rating, cash collections from these restricted assets are not required to be placed into a restricted collection account until immediately prior to the time payment is required to the secured creditors. At January 31, 2013, the maximum remaining term of all restricted securitized retail notes was approximately six years.

Edgar Filing: DEERE & CO - Form 10-Q

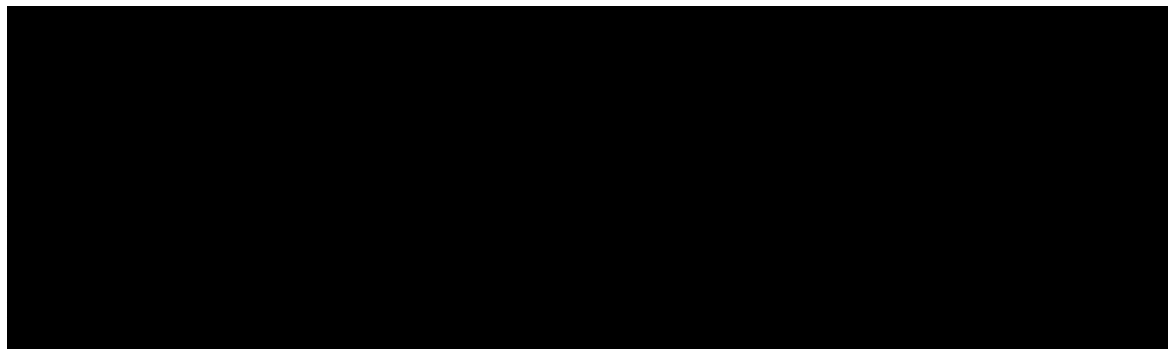
(12) Most inventories owned by Deere & Company and its U.S. equipment subsidiaries are valued at cost on the last-in, first-out (LIFO) method. If all of the Company's inventories had been valued on a first-in, first-out (FIFO) method, estimated inventories by major classification in millions of dollars would have been as follows:

	January 31 2013		October 31 2012		January 31 2012
Raw materials and supplies	\$ 2,045	\$	1,874	\$	1,850
Work-in-process	815		652		814
Finished goods and parts	4,775		4,065		4,503
Total FIFO value	7,635		6,591		7,167
Less adjustment to LIFO value	1,392		1,421		1,489
Inventories	\$ 6,243	\$	5,170	\$	5,678

(13) The changes in amounts of goodwill by operating segments were as follows in millions of dollars:

	Agriculture and Turf		Construction and Forestry		Total
Balance October 31, 2011:					
Goodwill	\$ 701	\$	615	\$	1,316
Less accumulated impairment losses	316				316
Goodwill - net	385		615		1,000
Translation adjustments	(6)		(29)		(35)
Balance January 31, 2012:					
Goodwill	695		586		1,281
Less accumulated impairment losses	316				316
Goodwill - net	\$ 379	\$	586	\$	965
Balance October 31, 2012:					
Goodwill	\$ 686	\$	584	\$	1,270
Less accumulated impairment losses	349				349
Goodwill - net	337		584		921
Translation adjustments	1		12		13
Balance January 31, 2013:					
Goodwill	687		596		1,283
Less accumulated impairment losses	349				349
Goodwill - net	\$ 338	\$	596	\$	934

The components of other intangible assets were as follows in millions of dollars:



* Weighted-averages

** Accumulated amortization at January 31, 2013 and 2012 for customer lists and relationships totaled \$64 million and \$54 million and technology, patents, trademarks and other totaled \$50 million and \$39 million, respectively.

The amortization of other intangible assets in the first quarter of 2013 and 2012 was \$7 million and \$5 million, respectively. The estimated amortization expense for the next five years is as follows in millions of dollars: remainder of 2013 - \$16, 2014 - \$11, 2015 - \$10, 2016 - \$9 and 2017 - \$8.

(14) Commitments and contingencies:

The Company generally determines its 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. The historical claims rate is primarily determined by a review of five-year claims costs and current quality developments.

The premiums for extended warranties are primarily recognized in income in proportion to the costs expected to be incurred over the contract period. These unamortized extended warranty premiums (deferred revenue) included in the following table totaled \$309 million and \$238 million at January 31, 2013 and 2012, respectively.

A reconciliation of the changes in the warranty liability and unearned premiums in millions of dollars follows:

Three Months Ended January 31	
2013	2012

Edgar Filing: DEERE & CO - Form 10-Q

Beginning of period balance	\$	1,025	\$	892
Payments		(166)		(136)
Amortization of premiums received		(28)		(25)
Accruals for warranties		212		139
Premiums received		44		35
Foreign exchange		4		(10)
End of period balance	\$	1,091	\$	895

Edgar Filing: DEERE & CO - Form 10-Q

At January 31, 2013, the Company had approximately \$250 million of guarantees issued primarily to banks outside the U.S. and Canada related to third-party receivables for the retail financing of John Deere equipment. The Company may recover a portion of any required payments incurred under these agreements from repossession of the equipment collateralizing the receivables. At January 31, 2013, the Company had an accrued liability of approximately \$8 million under these agreements. The maximum remaining term of the receivables guaranteed at January 31, 2013 was approximately five years.

At January 31, 2013, the Company had commitments of approximately \$401 million for the construction and acquisition of property and equipment. Also, at January 31, 2013, the Company had restricted assets of \$96 million, primarily as collateral for borrowings and restricted other assets. See Note 11 for additional restricted assets associated with borrowings related to securitizations.

The Company also had other miscellaneous contingent liabilities totaling approximately \$50 million at January 31, 2013, for which it believes the probability for payment is substantially remote. The accrued liability for these contingencies was not material at January 31, 2013.

The Company is subject to various unresolved legal actions which arise in the normal course of its business, the most prevalent of which relate to product liability (including asbestos related liability), retail credit, software licensing, patent, trademark and environmental matters. The Company believes the reasonably possible range of losses for these unresolved legal actions in addition to the amounts accrued would not have a material effect on its consolidated financial statements.

(15) The fair values of financial instruments that do not approximate the carrying values in millions of dollars follow:

	January 31, 2013		October 31, 2012		January 31, 2012	
	Carrying Value	Fair Value *	Carrying Value	Fair Value *	Carrying Value	Fair Value
Financing receivables - net	\$ 22,071	\$ 22,144	\$ 22,159	\$ 22,244	\$ 19,098	\$ 19,096
Financing receivables securitized - net	3,033	3,032	3,618	3,615	2,681	2,679
Short-term securitization borrowings	3,044	3,050	3,575	3,584	2,614	2,624
Long-term borrowings due within one year:						
Equipment operations	\$ 197	\$ 197	\$ 195	\$ 194	\$ 242	\$ 233
Financial services	4,505	4,592	4,790	4,871	6,300	6,357
Total	\$ 4,702	\$ 4,789	\$ 4,985	\$ 5,065	\$ 6,542	\$ 6,590
Long-term borrowings:						
Equipment operations	\$ 5,465	\$ 6,097	\$ 5,445	\$ 6,237	\$ 3,134	\$ 3,788
Financial services	16,705	16,860	17,008	17,438	13,790	14,123
Total	\$ 22,170	\$ 22,957	\$ 22,453	\$ 23,675	\$ 16,924	\$ 17,911

* Fair value measurements above were Level 3 for all financing receivables and Level 2 for all borrowings.

Edgar Filing: DEERE & CO - Form 10-Q

Fair values of the financing receivables that were issued long-term were based on the discounted values of their related cash flows at interest rates currently being offered by the Company for similar financing receivables. The fair values of the remaining financing receivables approximated the carrying amounts.

Fair values of long-term borrowings and short-term securitization borrowings were based on current market quotes for identical or similar borrowings and credit risk, or on the discounted values of their related cash flows at current market interest rates. Certain long-term borrowings have been swapped to current variable interest rates. The carrying values of these long-term borrowings included adjustments related to fair value hedges.

Assets and liabilities measured at fair value on a recurring basis in millions of dollars follow:

	January 31 2013 *	October 31 2012 *	January 31 2012 *
Marketable securities			
U.S. government debt securities	\$ 1,096	\$ 1,200	\$ 885
Municipal debt securities	38	38	37
Corporate debt securities	120	110	99
Mortgage-backed securities **	122	122	105
Total marketable securities	1,376	1,470	1,126
Other assets			
Derivatives:			
Interest rate contracts	557	609	569
Foreign exchange contracts	35	17	8
Cross-currency interest rate contracts	8	11	7
Total assets ***	\$ 1,976	\$ 2,107	\$ 1,710
Accounts payable and accrued expenses			
Derivatives:			
Interest rate contracts	\$ 75	\$ 72	\$ 58
Foreign exchange contracts	35	18	86
Cross-currency interest rate contracts	33	59	45
Total liabilities	\$ 143	\$ 149	\$ 189

* All measurements above were Level 2 measurements except for Level 1 measurements of U.S. government debt securities of \$1,038 million, \$1,139 million and \$843 million at January 31, 2013, October 31, 2012 and January 31, 2012, respectively. There were no transfers between Level 1 and Level 2 during the first three months of 2013 and 2012.

** Primarily issued by U.S. government sponsored enterprises.

*** Excluded from this table are the Company's cash equivalents, which were carried at cost that approximates fair value. The cash equivalents consist primarily of money market funds that were Level 1 measurements.

Edgar Filing: DEERE & CO - Form 10-Q

The contractual maturities of debt securities at January 31, 2013 in millions of dollars are shown below. Actual maturities may differ from those scheduled as a result of prepayments by the issuers. Because of the potential for prepayment on mortgage-backed securities, they are not categorized by contractual maturity.

		Amortized Cost		Fair Value
Due in one year or less	\$	912	\$	912
Due after one through five years		168		172
Due after five through 10 years		92		99
Due after 10 years		64		71
Mortgage-backed securities		118		122
Debt securities	\$	1,354	\$	1,376

Fair value, nonrecurring Level 3 measurements were not significant in any periods presented. See financing receivables with specific allowances in Note 10.

Level 1 measurements consist of quoted prices in active markets for identical assets or liabilities. Level 2 measurements include significant other observable inputs such as quoted prices for similar assets or liabilities in active markets; identical assets or liabilities in inactive markets; observable inputs such as interest rates and yield curves; and other market-corroborated inputs. Level 3 measurements include significant unobservable inputs.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market and income approaches. The Company utilizes valuation models and techniques that maximize the use of observable inputs. The models are industry-standard models that consider various assumptions including time values and yield curves as well as other economic measures. These valuation techniques are consistently applied.

The following is a description of the valuation methodologies the Company uses to measure certain financial instruments on the balance sheet at fair value:

Marketable Securities The portfolio of investments is primarily valued on a market approach (matrix pricing model) in which all significant inputs are observable or can be derived from or corroborated by observable market data such as interest rates, yield curves, volatilities, credit risk and prepayment speeds.

Derivatives The Company's derivative financial instruments consist of interest rate swaps and caps, foreign currency forwards and swaps and cross-currency interest rate swaps. The portfolio is valued based on an income approach (discounted cash flow) using market observable inputs, including swap curves and both forward and spot exchange rates for currencies.

Financing Receivables Specific reserve impairments are based on the fair value of collateral, which is measured using a market approach (appraisal values or realizable values). Inputs include a selection of realizable values.

(16) It is the Company's policy that derivative transactions are executed only to manage exposures arising in the normal course of business and not for the purpose of creating speculative positions or trading. The Company's financial services operations manage the relationship of the types and amounts of their funding sources to their receivable and lease portfolio in an effort to diminish risk due to interest rate and foreign currency fluctuations, while responding to favorable financing opportunities. The Company also has foreign currency exposures at some of its foreign and domestic operations related to buying, selling and financing in currencies other than the functional currencies.

All derivatives are recorded at fair value on the balance sheet. Each derivative is designated as a cash flow hedge, a fair value hedge, or remains undesignated. All designated hedges are formally documented as to the relationship with the hedged item as well as the risk-management strategy. Both at inception and on an ongoing basis the hedging instrument is assessed as to its effectiveness. If and when a derivative is determined not to be highly effective as a hedge, or the underlying hedged transaction is no longer likely to occur, or the hedge designation is removed, or the derivative is terminated, hedge accounting is discontinued. Any past or future changes in the derivative's fair value, which will not be effective as an offset to the income effects of the item being hedged, are recognized currently in the income statement.

Certain of the Company's derivative agreements contain credit support provisions that may require the Company to post collateral based on reductions in credit ratings. The aggregate fair value of all derivatives with credit-risk-related contingent features that were in a net liability position at January 31, 2013, October 31, 2012 and January 31, 2012, was \$36 million, \$32 million and \$13 million, respectively. The Company, due to its credit rating and amounts of net liability position, has not posted any collateral. If the credit-risk-related contingent features were triggered, the Company would be required to post full collateral for this liability position, prior to considering applicable netting provisions.

Derivative instruments are subject to significant concentrations of credit risk to the banking sector. The Company manages individual counterparty exposure by setting limits that consider the credit rating of the counterparty and the size of other financial commitments and exposures between the Company and the counterparty banks. All interest rate derivatives are transacted under International Swaps and Derivatives Association (ISDA) documentation. Some of these agreements include credit support provisions. Each master agreement permits the net settlement of amounts owed in the event of default. The maximum amount of loss that the Company would incur if counterparties to derivative instruments fail to meet their obligations, not considering collateral received or netting arrangements, was \$600 million, \$637 million and \$584 million as of January 31, 2013, October 31, 2012 and January 31, 2012, respectively. The amount of collateral received at January 31, 2013, October 31, 2012 and January 31, 2012 to offset this potential maximum loss was \$95 million, \$102 million and \$38 million, respectively. The netting provisions of the agreements would reduce the maximum amount of loss the Company would incur if the counterparties to derivative instruments fail to meet their obligations by an additional \$91 million, \$92 million and \$81 million as of January 31, 2013, October 31, 2012 and January 31, 2012, respectively. None of the concentrations of risk with any individual counterparty was considered significant in any periods presented.

Cash flow hedges

Certain interest rate and cross-currency interest rate contracts (swaps) were designated as hedges of future cash flows from borrowings. The total notional amounts of the receive-variable/pay-fixed interest rate contracts at January 31, 2013, October 31, 2012 and January 31, 2012 were \$3,100 million, \$2,850 million and \$1,600 million, respectively. The notional amounts of cross-currency interest rate contracts at January 31, 2013, October 31, 2012 and January 31, 2012 were \$923 million, \$923 million and \$853 million, respectively. The effective portions of the fair value gains or losses on these cash flow hedges were recorded in other comprehensive income (OCI) and subsequently reclassified into interest expense or other operating expenses (foreign exchange) in the same periods during which the hedged transactions affect earnings. These amounts offset the effects of interest rate or foreign currency changes on the related borrowings. Any ineffective portions of the gains or losses on all cash flow interest rate contracts designated as hedges were recognized currently in interest expense or other operating expenses (foreign exchange) and were not material during any periods presented. The cash flows from these contracts were recorded in operating activities in the consolidated statement of cash flows.

The amount of loss recorded in OCI at January 31, 2013 that is expected to be reclassified to interest expense or other operating expenses in the next twelve months if interest rates or exchange rates remain unchanged is approximately \$9 million after-tax. These contracts mature in up to 68 months. There were no gains or losses reclassified from OCI to earnings based on the probability that the original forecasted transaction would not occur.

Fair value hedges

Certain interest rate contracts (swaps) were designated as fair value hedges of borrowings. The total notional amounts of these receive-fixed/pay-variable interest rate contracts at January 31, 2013, October 31, 2012 and January 31, 2012 were \$9,025 million, \$9,266 million and \$7,892 million, respectively. The effective portions of the fair value gains or losses on these contracts were offset by fair value gains or losses on the hedged items (fixed-rate borrowings). Any ineffective portions of the gains or losses were recognized currently in interest expense. During the first three months of 2013 and 2012, the ineffective portions were a gain of \$2 million and a loss of \$3 million, respectively. The cash flows from these contracts were recorded in operating activities in the consolidated statement of cash flows.

The gains (losses) on these contracts and the underlying borrowings recorded in interest expense follow in millions of dollars:

	Three Months Ended		
	January 31		
	2013		2012
Interest rate contracts *	\$	(73)	\$ 107
Borrowings **		75	(110)

* Includes changes in fair values of interest rate contracts excluding net accrued interest income of \$38 million and \$41 million during the first three months of 2013 and 2012, respectively.

** Includes adjustment for fair values of hedged borrowings excluding accrued interest expense of \$67 million and \$71 million during the first three months of 2013 and 2012, respectively.

Derivatives not designated as hedging instruments

The Company has certain interest rate contracts (swaps and caps), foreign exchange contracts (forwards and swaps) and cross-currency interest rate contracts (swaps), which were not formally designated as hedges. These derivatives were held as economic hedges for underlying interest rate or foreign currency exposures primarily for certain borrowings and purchases or sales of inventory. The total notional amounts of these interest rate swaps at January 31, 2013, October 31, 2012 and January 31, 2012 were \$4,624 million, \$4,400 million and \$2,693 million, the foreign exchange contracts were \$4,698 million, \$3,999 million and \$3,253 million and the cross-currency interest rate contracts were \$82 million, \$78 million and \$61 million, respectively. At January 31, 2013, October 31, 2012 and January 31, 2012, there were also \$1,263 million, \$1,445 million and \$1,505 million, respectively, of interest rate caps purchased and the same amounts sold at the same capped interest rate to facilitate borrowings through securitization of retail notes. The fair value gains or losses from the interest rate contracts were recognized currently in interest expense and the gains or losses from foreign exchange contracts in cost of sales or other operating expenses, generally

Edgar Filing: DEERE & CO - Form 10-Q

offsetting over time the expenses on the exposures being hedged. The cash flows from these non-designated contracts were recorded in operating activities in the statement of consolidated cash flows.

Edgar Filing: DEERE & CO - Form 10-Q

Fair values of derivative instruments in the condensed consolidated balance sheet in millions of dollars follow:

	January 31 2013	October 31 2012	January 31 2012
<u>Other Assets</u>			
Designated as hedging instruments:			
Interest rate contracts	\$ 493	\$ 536	\$ 494
Cross-currency interest rate contracts	7	10	5
Total designated	500	546	499
Not designated as hedging instruments:			
Interest rate contracts	64	73	75
Foreign exchange contracts	35	17	8
Cross-currency interest rate contracts	1	1	2
Total not designated	100	91	85
Total derivatives	\$ 600	\$ 637	\$ 584
<u>Accounts Payable and Accrued Expenses</u>			
Designated as hedging instruments:			
Interest rate contracts	\$ 18	\$ 12	\$ 3
Cross-currency interest rate contracts	31	58	44
Total designated	49	70	47
Not designated as hedging instruments:			
Interest rate contracts	57	60	55
Foreign exchange contracts	35	18	86
Cross-currency interest rate contracts	2	1	1
Total not designated	94	79	142
Total derivatives	\$ 143	\$ 149	\$ 189

Edgar Filing: DEERE & CO - Form 10-Q

The classification and gains (losses) including accrued interest expense related to derivative instruments on the statement of consolidated income consisted of the following in millions of dollars:

	Expense or OCI Classification	Three Months Ended January 31	
		2013	2012
<u>Fair Value Hedges:</u>			
Interest rate contracts	Interest	\$ (35)	\$ 148
<u>Cash Flow Hedges:</u>			
Recognized in OCI (Effective Portion):			
Interest rate contracts	OCI (pretax) *	(2)	(6)
Foreign exchange contracts	OCI (pretax) *	22	(35)
Reclassified from OCI (Effective Portion):			
Interest rate contracts	Interest *	(5)	(3)
Foreign exchange contracts	Other *	19	(33)
Recognized Directly in Income (Ineffective Portion)		**	**
<u>Not Designated as Hedges:</u>			
Interest rate contracts	Interest *	\$ 1	\$ (2)
Foreign exchange contracts	Cost of sales		2
Foreign exchange contracts	Other *	(51)	10
Total not designated		\$ (50)	\$ 10

* Includes interest and foreign exchange gains (losses) from cross-currency interest rate contracts.

** The amount is not significant.

(17) In December 2012, the Company granted stock options to employees for the purchase of 2.5 million shares of common stock at an exercise price of \$86.36 per share and a binomial lattice model fair value of \$23.73 per share at the grant date. At January 31, 2013, options for 17.1 million shares were outstanding with a weighted-average exercise price of \$63.55 per share. The Company also granted 235 thousand restricted stock units to employees in December 2012, of which 91 thousand are subject to service based only conditions, 72 thousand are subject to performance/service based conditions and 72 thousand are subject to market/service based conditions. The fair value of the service based only units at the grant date was \$86.36 per unit based on the market price of a share of underlying common stock. The fair value of the performance/service based units at the grant date was \$80.73 per unit based on the market price of a share of underlying common stock excluding dividends. The fair value of the market/service based units at the grant date was \$106.75 per unit based on a lattice valuation model excluding dividends. At January 31, 2013, the Company was authorized to grant an additional 10.2 million shares related to stock option and restricted stock awards.

(18) SUPPLEMENTAL CONSOLIDATING DATA

STATEMENT OF INCOME

For the Three Months Ended January 31, 2013 and 2012

(In millions of dollars) Unaudited

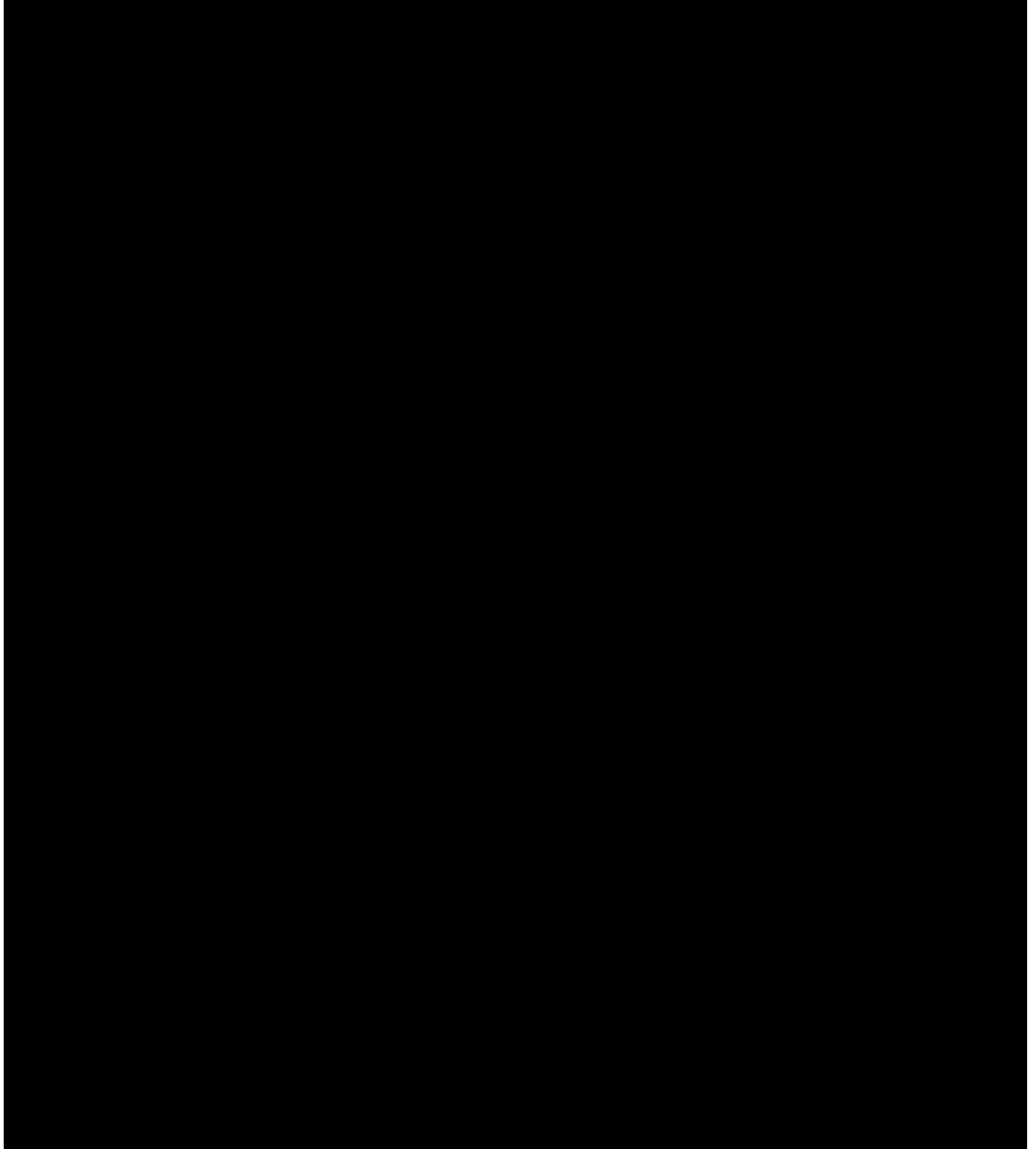
	EQUIPMENT OPERATIONS*		FINANCIAL SERVICES	
	2013	2012	2013	2012
Net Sales and Revenues				
Net sales	\$ 6,792.8	\$ 6,119.0		
Finance and interest income	17.5	15.7	\$ 533.8	\$ 511.7
Other income	130.2	118.5	38.1	88.6
Total	6,940.5	6,253.2	571.9	600.3
Costs and Expenses				
Cost of sales	5,015.2	4,576.3		
Research and development expenses	356.5	312.5		
Selling, administrative and general expenses	672.6	609.9	111.7	101.5
Interest expense	69.6	49.4	119.3	154.2
Interest compensation to Financial Services	41.6	40.9		
Other operating expenses	35.1	38.2	144.6	170.3
Total	6,190.6	5,627.2	375.6	426.0
Income of Consolidated Group				
before Income Taxes	749.9	626.0	196.3	174.3
Provision for income taxes	225.4	210.5	63.7	55.7
Income of Consolidated Group	524.5	415.5	132.6	118.6
Equity in Income (Loss) of Unconsolidated Subsidiaries and Affiliates				
Financial Services	132.9	119.1	.3	.5
Other	(7.8)	(.2)		
Total	125.1	118.9	.3	.5
Net Income	649.6	534.4	132.9	119.1
Less: Net income (loss) attributable to noncontrolling interests	(.1)	1.5		
Net Income Attributable to Deere & Company	\$ 649.7	\$ 532.9	\$ 132.9	\$ 119.1

* Deere & Company with Financial Services on the equity basis.

The supplemental consolidating data is presented for informational purposes. Transactions between the Equipment Operations and Financial Services have been eliminated to arrive at the consolidated financial statements.

SUPPLEMENTAL CONSOLIDATING DATA (Continued)

CONDENSED BALANCE SHEET





* Deere & Company with Financial Services on the equity basis.

The supplemental consolidating data is presented for informational purposes. Transactions between the Equipment Operations and Financial Services have been eliminated to arrive at the consolidated financial statements.

SUPPLEMENTAL CONSOLIDATING DATA (Continued)

STATEMENT OF CASH FLOWS

For the Three Months Ended January 31, 2013 and 2012

(In millions of dollars) Unaudited	EQUIPMENT OPERATIONS*		FINANCIAL SERVICES	
	2013	2012	2013	2012
Cash Flows from Operating Activities				
Net income	\$ 649.6	\$ 534.4	\$ 132.9	\$ 119.1
Adjustments to reconcile net income to net cash provided by (used for) operating activities:				
Provision (credit) for credit losses	(1.2)	(2.0)	.7	1.2
Provision for depreciation and amortization	185.3	158.9	117.3	104.9
Undistributed earnings of unconsolidated subsidiaries and affiliates	(87.0)	(92.8)	(.3)	(.5)
Provision (credit) for deferred income taxes	(23.7)	(32.2)	3.0	3.9
Changes in assets and liabilities:				
Trade receivables	253.8	227.5		
Insurance receivables			338.0	(5.8)
Inventories	(1,081.8)	(1,371.1)		
Accounts payable and accrued expenses	(1,028.1)	(691.8)	(370.4)	(68.5)
Accrued income taxes payable/receivable	161.7	143.0	(15.2)	17.5
Retirement benefits	91.4	97.4	4.8	4.1
Other	(129.2)	(126.9)	(3.4)	(16.3)
Net cash provided by (used for) operating activities	(1,009.2)	(1,155.6)	207.4	159.6
Cash Flows from Investing Activities				
Collections of receivables (excluding trade and wholesale)			4,668.8	4,335.1
Proceeds from maturities and sales of marketable securities	200.0		15.4	8.2
Proceeds from sales of equipment on operating leases			249.4	222.3
Proceeds from sales of businesses, net of cash sold		6.9		
Cost of receivables acquired (excluding trade and wholesale)			(4,235.5)	(3,753.1)
Purchases of marketable securities	(99.8)	(301.5)	(25.4)	(41.3)
Purchases of property and equipment	(293.3)	(268.5)	(.7)	(.7)
Cost of equipment on operating leases acquired			(315.5)	(223.7)
Increase in trade and wholesale receivables			(324.5)	(147.9)
Other	(40.1)	4.4	(36.0)	(102.9)
Net cash provided by (used for) investing activities	(233.2)	(558.7)	(4.0)	296.0
Cash Flows from Financing Activities				
Increase (decrease) in total short-term borrowings	708.0	940.2	(16.1)	(458.4)
Change in intercompany receivables/payables	(96.3)	513.6	96.3	(513.6)
Proceeds from long-term borrowings	44.0		833.8	1,410.2
Payments of long-term borrowings	(17.6)	(4.6)	(1,361.9)	(310.4)
Proceeds from issuance of common stock	117.6	18.9		
Repurchases of common stock	(96.4)	(387.9)		
Dividends paid	(178.7)	(167.8)	(30.0)	(25.0)
Excess tax benefits from share-based compensation	35.4	10.6		
Other	(16.5)	(4.5)	32.7	14.3
Net cash provided by (used for) financing activities	499.5	918.5	(445.2)	117.1
Effect of Exchange Rate Changes on Cash and Cash Equivalents	11.5	(35.1)	(6.9)	(.7)

Edgar Filing: DEERE & CO - Form 10-Q

Net Increase (Decrease) in Cash and Cash Equivalents		(731.4)		(830.9)		(248.7)		572.0
Cash and Cash Equivalents at Beginning of Period		3,907.9		3,187.5		744.3		459.7
Cash and Cash Equivalents at End of Period	\$	3,176.5	\$	2,356.6	\$	495.6	\$	1,031.7

* Deere & Company with Financial Services on the equity basis.

The supplemental consolidating data is presented for informational purposes. Transactions between the Equipment Operations and Financial Services have been eliminated to arrive at the consolidated financial statements.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Overview

Organization

The Company's equipment operations generate revenues and cash primarily from the sale of equipment to John Deere dealers and distributors. The equipment operations manufacture and distribute a full line of agricultural equipment; a variety of commercial, consumer and landscapes equipment and products; and a broad range of equipment for construction and forestry. The Company's financial services primarily provide credit services, which mainly finance sales and leases of equipment by John Deere dealers and trade receivables purchased from the equipment operations. In addition, financial services offer certain crop risk mitigation products and extended equipment warranties. The information in the following discussion is presented in a format that includes information grouped as consolidated, equipment operations and financial services. The Company also views its operations as consisting of two geographic areas, the U.S. and Canada, and outside the U.S. and Canada. The Company's operating segments consist of agriculture and turf, construction and forestry, and financial services.

Trends and Economic Conditions

Industry sales of agricultural machinery in the U.S. and Canada are forecast to be about the same to 5 percent higher for 2013. Industry sales in the European Union (EU)27 nations of Western and Central Europe are expected to decrease about 5 percent. South American industry sales are projected to increase 10 to 15 percent. Industry sales in the Commonwealth of Independent States are expected to be down slightly in 2013, while Asian sales are projected to be slightly higher. Industry sales of turf and utility equipment in the U.S. and Canada are expected to be about the same in 2013. The Company's agriculture and turf segment sales increased 16 percent for the first quarter of 2013 and are forecast to increase by about 6 percent for fiscal year 2013. Construction equipment markets reflect a cautious outlook for U.S. economic growth and higher international sales, while forestry markets are expected to be about the same in 2013. The Company's construction and forestry sales decreased 7 percent in the first quarter of 2013 and are forecast to rise by about 3 percent for 2013. Net income attributable to Deere & Company for the Company's financial services operations is forecast to be approximately \$540 million in 2013.

Items of concern include the uncertainty of the effectiveness of governmental actions in respect to monetary and fiscal policies, the global economic recovery, the impact of sovereign and state debt, eurozone issues, capital market disruptions, trade agreements, the availability of credit for the Company's customers and suppliers, general economic conditions and financial regulatory reform. Extreme weather in the world's growing regions and significant volatility in the price of many commodities could also impact the Company's results. Designing and producing products with engines that continue to meet high performance standards and increasingly stringent emissions regulations is one of the Company's major priorities.

The Company's investment in new products and additional capacity will help it capitalize on the world's growing need for food, shelter and infrastructure in the years ahead. The near term outlook, however, is tempered by uncertainties over fiscal, economic and trade issues.

2013 Compared with 2012

Net income attributable to Deere & Company was \$649.7 million, or \$1.65 per share, for the first quarter of 2013, compared with \$532.9 million, or \$1.30 per share, for the same period last year. Worldwide net sales and revenues for the first quarter increased 10 percent to \$7,421 million, compared with \$6,767 million in 2012. Net sales of the equipment operations rose 11 percent to \$6,793 million for the first quarter of 2013, compared with \$6,119 million a year ago, which included price increases of 3 percent and an unfavorable currency translation effect of 1 percent. Equipment net sales in the U.S. and Canada increased 18 percent for the first quarter. Net sales outside the U.S. and Canada increased 2 percent for the first quarter, including an unfavorable currency translation effect of 3 percent.

The Company's equipment operations reported operating profit of \$837 million for the first quarter, compared with \$698 million for the same period last year. Results benefited from higher shipment volumes and price realization. These factors were partially offset by increases in production costs, selling, administrative and general expenses, warranty costs and research and development expenses. The increased production costs related primarily to manufacturing overhead expenses in support of growth, new products and engine emission requirements. Net income of the Company's equipment operations was \$525 million for the first quarter of 2013, compared with \$416 million last year. The same operating factors mentioned above, along with a lower effective tax rate and increased interest expense, affected the quarterly results.

The Company's financial services operations reported net income attributable to Deere & Company of \$132.9 million for the first quarter of 2013, compared with \$119.1 million last year. The improvement was primarily related to growth in the credit portfolio and higher crop insurance margins, partially offset by increased selling, administrative and general expenses. In addition, last year's results benefited from revenue related to wind energy credits.

Business Segment Results

- **Agriculture and Turf.** Segment sales increased 16 percent for the first quarter of 2013 largely due to higher shipment volumes and price realization, partially offset by the unfavorable effects of currency translation. Operating profit was \$766 million, compared with \$574 million for the same quarter last year. The improvement was primarily due to higher shipment volumes and price realization. These factors were partially offset by increases in selling, administrative and general expenses, warranty costs, production costs and research and development expenses.
- **Construction and Forestry.** Segment sales decreased 7 percent. Operating profit for the first quarter was \$71 million, compared with \$124 million a year ago. The reduced operating profit was primarily due to lower shipment volumes. In addition, higher production costs, an unfavorable product mix, as well as increases in research and development expenses and selling, administrative and general expenses were offset by price realization.
- **Financial Services.** The operating profit of the financial services segment was \$197 million for the first quarter of 2013, compared with \$175 million in the same period last year. The increase was primarily related to growth in the credit portfolio and higher crop insurance margins, partially offset by increased selling, administrative and general expenses. In addition, last year's results benefited from revenue related to wind energy credits. Total financial services revenues, including intercompany revenues, decreased 5 percent to \$572 million in the current quarter from \$600 million in the first quarter of 2012. The average balance of receivables and leases financed was 16 percent higher in the first quarter, compared with the same period last year. Interest expense decreased 23 percent in the first quarter, compared with last year, primarily as a result of lower average interest rates, partially offset by higher average borrowings. The financial services consolidated ratio

Edgar Filing: DEERE & CO - Form 10-Q

of earnings to fixed charges was 2.74 to 1 for the first quarter this year, compared with 2.18 to 1 in the same period last year.

The cost of sales to net sales ratios for the first quarter of 2013 and 2012 were 73.8 percent and 74.8 percent, respectively. The decrease was primarily due to improved price realization, partially offset by higher production and warranty costs.

Finance and interest income increased due to a larger average credit portfolio, partially offset by lower average finance rates. Other income decreased due to reduced crop insurance premiums this year and revenue from wind energy credits earned in the first quarter of last year. Research and development costs increased primarily due to increased spending in support of new products and more stringent engine emission requirements. Selling, administrative and general expenses increased primarily due to growth. Interest expense decreased due to lower average borrowing rates, partially offset by higher average borrowings. Other operating expenses decreased primarily due to lower crop insurance claims.

Market Conditions and Outlook

Company equipment sales are projected to increase about 6 percent for fiscal year 2013 and about 4 percent for the second quarter, compared with the same periods of 2012. For the fiscal year, net income attributable to Deere & Company is anticipated to be approximately \$3,300 million.

- **Agriculture and Turf.** Worldwide sales of the Company's agriculture and turf segment are forecast to increase by about 6 percent for fiscal year 2013. Relatively high commodity prices and strong farm incomes are expected to continue supporting a favorable level of demand for farm machinery during the year. The Company's sales are expected to see further benefit from global expansion and a number of advanced new products.

Industry farm machinery sales in the U.S. and Canada are forecast to be about the same to 5 percent higher in relation to the healthy levels in fiscal year 2012. Caution in the U.S. livestock sector is expected to partly offset continued strength in demand for large equipment such as high-horsepower tractors and combines.

Fiscal year industry sales in the EU27 are forecast to decrease about 5 percent due to weakness in the overall economy and a poor harvest in the U.K. In South America, industry sales for the year are projected to increase 10 to 15 percent as a result of strong market conditions in Brazil. Industry sales in the Commonwealth of Independent States are expected to be down slightly from 2012, while Asian sales are projected to be slightly higher due to some strengthening in the Chinese economy.

In the U.S. and Canada, industry sales of turf and utility equipment are expected to be approximately the same for 2013, reflecting a continuation of cautious consumer sentiment. The Company's sales are expected to increase more than the industry due to the impact of the new products.

- **Construction and Forestry.** The Company's worldwide sales of construction and forestry equipment are forecast to increase by about 3 percent for 2013. The increase reflects a cautious outlook for U.S. economic growth, higher international sales of construction equipment and sales in world forestry markets remaining approximately the same. In the forestry sector, further weakness in European markets is expected to offset higher U.S. demand.

- **Financial Services.** Fiscal year 2013 net income attributable to Deere & Company for the financial services segment is expected to be approximately \$540 million. The forecast improvement from 2012 is primarily due to an expected growth in the credit portfolio and lower crop insurance claims. These factors are projected to be partially offset by an increase in the provision for credit losses. Though higher than in 2012, the provision is anticipated to remain below its historical average.

Safe Harbor Statement

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: Statements under Overview, Market Conditions & Outlook, and other forward-looking statements herein that relate to future events, expectations, trends and operating periods involve certain factors that are subject to change, and important risks and uncertainties that could cause actual results to differ materially. Some of these risks and uncertainties could affect particular lines of business, while others could affect all of the Company's businesses.

The Company's agricultural equipment business is subject to a number of uncertainties including the many interrelated factors that affect farmers confidence. These factors include worldwide economic conditions, demand for agricultural products, world grain stocks, weather conditions (including its effects on timely planting and harvesting), soil conditions (including low subsoil moisture from recent drought conditions), harvest yields, prices for commodities and livestock, crop and livestock production expenses, availability of transport for crops, the growth of non-food uses for some crops (including ethanol and biodiesel production), real estate values, available acreage for farming, the land ownership policies of various governments, changes in government farm programs and policies (including those in Argentina, Brazil, China, the European Union, India, Russia and the U.S.), international reaction to such programs, changes in and effects of crop insurance programs, global trade agreements, animal diseases and their effects on poultry, beef and pork consumption and prices, crop pests and diseases, and the level of farm product exports (including concerns about genetically modified organisms).

Factors affecting the outlook for the Company's turf and utility equipment include general economic conditions, consumer confidence, weather conditions, customer profitability, consumer borrowing patterns, consumer purchasing preferences, housing starts, infrastructure investment, spending by municipalities and golf courses, and consumable input costs.

General economic conditions, consumer spending patterns, real estate and housing prices, the number of housing starts and interest rates are especially important to sales of the Company's construction and forestry equipment. The levels of public and non-residential construction also impact the results of the Company's construction and forestry segment. Prices for pulp, paper, lumber and structural panels are important to sales of forestry equipment.

All of the Company's businesses and its reported results are affected by general economic conditions in the global markets in which the Company operates, especially material changes in economic activity in these markets; customer confidence in general economic conditions; foreign currency exchange rates and their volatility, especially fluctuations in the value of the U.S. dollar; interest rates; and inflation and deflation rates. General economic conditions can affect demand for the Company's equipment as well. Uncertainty about and actual government spending and taxing could adversely affect the economy, employment, consumer and corporate spending, and Company results.

Customer and Company operations and results could be affected by changes in weather patterns (including the effects of drought conditions in parts of the U.S. and dryer than normal conditions in certain other markets); the political and social stability of the global markets in which the Company operates; the effects of, or response to, terrorism and security threats; wars and other conflicts and the threat thereof; and the spread of major epidemics.

Significant changes in market liquidity conditions and any failure to comply with financial covenants in credit agreements could impact access to funding and funding costs, which could reduce the Company's earnings and cash flows. Financial market conditions could also negatively impact customer access to capital for purchases of the Company's products and customer confidence and purchase decisions; borrowing and repayment practices; and the number and size of customer loan delinquencies and defaults. A debt crisis, in Europe or elsewhere, could negatively impact currencies, global financial markets, social and political stability, funding sources and costs, asset and obligation values, customers, suppliers, and Company operations and results. State debt crises also could negatively impact customers, suppliers, demand for equipment, and Company operations and results. The Company's investment management activities could be impaired by changes in the equity and bond markets, which would negatively affect earnings.

Additional factors that could materially affect the Company's operations, access to capital, expenses and results include changes in and the impact of governmental trade, banking, monetary and fiscal policies, including financial regulatory reform and its effects on the consumer finance industry, derivatives, funding costs and other areas, and governmental programs, policies and tariffs in particular jurisdictions or for the benefit of certain industries or sectors (including protectionist and expropriation policies and trade and licensing restrictions that could disrupt international commerce); actions by the U.S. Federal Reserve Board and other central banks; actions by the U.S. Securities and Exchange Commission (SEC), the U.S. Commodity Futures Trading Commission and other financial regulators; actions by environmental, health and safety regulatory agencies, including those related to engine emissions (in particular Interim Tier 4, Final Tier 4 and Stage IIIb non-road diesel emission requirements), carbon and other greenhouse gas emissions, noise and the risk of climate change; changes in labor regulations; changes to accounting standards; changes in tax rates, estimates, and regulations and Company actions related thereto; compliance with U.S. and foreign laws when expanding to new markets; and actions by other regulatory bodies including changes in laws and regulations affecting the sectors in which the Company operates. Customer and Company operations and results also could be affected by changes to GPS radio frequency bands or their permitted uses.

Other factors that could materially affect results include production, design and technological innovations and difficulties, including capacity and supply constraints and prices; the availability and prices of strategically sourced materials, components and whole goods; delays or disruptions in the Company's supply chain or the loss of liquidity by suppliers; the failure of suppliers to comply with laws, regulations and Company policy pertaining to employment, human rights, health, safety, the environment and other ethical business practices; start-up of new plants and new products; the success of new product initiatives and customer acceptance of new products; changes in customer product preferences and sales mix whether as a result of changes in equipment design to meet government regulations or for other reasons; gaps or limitations in rural broadband coverage, capacity and speed needed to support technology solutions; oil and energy prices and supplies; the availability and cost of freight; actions of competitors in the various industries in which the Company competes, particularly price discounting; dealer practices especially as to levels of new and used field inventories; labor relations; acquisitions and divestitures of businesses, the integration of new businesses; the implementation of organizational changes; difficulties related to the conversion and implementation of enterprise resource planning systems that disrupt business, negatively impact supply or distribution relationships or create higher than expected costs; security breaches and other disruptions to the Company's information technology infrastructure; changes in Company declared dividends and common stock issuances and repurchases.

Company results are also affected by changes in the level and funding of employee retirement benefits, changes in market values of investment assets, the level of interest and discount rates, and compensation, retirement and mortality rates which impact retirement benefit costs, and significant changes in health care costs including those which may result from governmental action.

The liquidity and ongoing profitability of John Deere Capital Corporation and other credit subsidiaries depend largely on timely access to capital to meet future cash flow requirements and fund operations and the costs associated with engaging in diversified funding activities and to fund purchases of the Company's products. If market uncertainty increases and general economic conditions worsen, funding could be unavailable or insufficient. Additionally, customer confidence levels may result in declines in credit applications and increases in delinquencies and default rates, which could materially impact write-offs and provisions for credit losses. The failure of reinsurers of the Company's insurance business also could materially affect results.

The Company's outlook is based upon assumptions relating to the factors described above, which are sometimes based upon estimates and data prepared by government agencies. Such estimates and data are often revised. The Company, except as required by law, undertakes no obligation to update or revise its outlook, whether as a result of new developments or otherwise. Further information concerning the Company and its businesses, including factors that potentially could materially affect the Company's financial results, is included in the Company's other filings with the SEC (including, but not limited to, the factors discussed in Item 1A. Risk Factors of the Company's most recent annual report on Form 10-K and quarterly reports on Form 10-Q).

Critical Accounting Policies

See the Company's critical accounting policies discussed in the Management's Discussion and Analysis of the most recent annual report filed on Form 10-K. There have been no material changes to these policies.

CAPITAL RESOURCES AND LIQUIDITY

The discussion of capital resources and liquidity has been organized to review separately, where appropriate, the Company's consolidated totals, equipment operations and financial services operations.

Consolidated

Negative cash flows from consolidated operating activities in the first three months of 2013 were \$1,249 million. This resulted primarily from a seasonal increase in inventories and a decrease in accounts payable and accrued expenses, which were partially offset by net income adjusted for non-cash provisions and a decrease in insurance receivables. Cash inflows from investing activities were \$217 million in the first three months of this year, primarily due to collections of receivables (excluding receivables related to sales) and proceeds from sales of equipment on operating leases exceeding the cost of receivables and equipment on operating leases acquired by \$460 million and proceeds from maturities and sales of marketable securities exceeding purchases by \$90 million, partially offset by purchases of property and equipment of \$294 million. Cash inflows from financing activities were \$48 million in the first three months of 2013, primarily due to an increase in borrowings of \$190 million and proceeds from issuance of common stock of \$118 million (resulting from the exercise of stock options), which were partially offset by dividends paid of \$179 million and repurchases of common stock of \$96 million. Cash and cash equivalents decreased \$980 million during the current quarter.

Negative cash flows from consolidated operating activities in the first three months of 2012 were \$1,227 million. This resulted primarily from a seasonal increase in inventories and a decrease in accounts payable and accrued expenses, which were partially offset by net income adjusted for

Edgar Filing: DEERE & CO - Form 10-Q

non-cash provisions. Cash outflows from investing activities were \$36 million in the first three months of last year, primarily due to purchases exceeding maturities and sales of marketable securities by \$335 million, purchases of property and equipment of \$269 million and other miscellaneous investing activities, which were partially offset by collections of receivables (excluding receivables related to sales) and proceeds from sales of equipment on operating leases exceeding the cost of receivables and equipment on operating leases acquired by \$639 million. Cash inflows from financing activities were \$1,040 million in the first three months of 2012, primarily due to an increase in borrowings of \$1,577 million and from proceeds from issuance of common stock of \$19 million (resulting from the exercise of stock options), which were partially offset by repurchases of common stock of \$388 million and dividends paid of \$168 million. Cash and cash equivalents decreased \$259 million during the first quarter last year.

Given the continued uncertainty in the global economy, there has been a reduction in liquidity in some global markets that continues to affect the funding activities of the Company. However, the Company has access to most global markets at a reasonable cost and expects to have sufficient sources of global funding and liquidity to meet its funding needs. The Company's exposures to receivables from customers in European countries experiencing economic strains are not significant. Sources of liquidity for the Company include cash and cash equivalents, marketable securities, funds from operations, the issuance of commercial paper and term debt, the securitization of retail notes (both public and private markets) and committed and uncommitted bank lines of credit. The Company's commercial paper outstanding at January 31, 2013, October 31, 2012 and January 31, 2012 was \$2,528 million, \$1,207 million and \$1,910 million, respectively, while the total cash and cash equivalents and marketable securities position was \$5,048 million, \$6,123 million and \$4,515 million, respectively. The total cash and cash equivalents and marketable securities held by foreign subsidiaries, in which earnings are considered indefinitely reinvested, was \$572 million, \$628 million and \$656 million at January 31, 2013, October 31, 2012 and January 31, 2012, respectively.

Lines of Credit. The Company also has access to bank lines of credit with various banks throughout the world. Worldwide lines of credit totaled \$5,112 million at January 31, 2013, \$2,472 million of which were unused. For the purpose of computing unused credit lines, commercial paper and short-term bank borrowings, excluding secured borrowings and the current portion of long-term borrowings, were primarily considered to constitute utilization. Included in the total credit lines at January 31, 2013 were a long-term credit facility agreement of \$2,750 million, expiring in April 2015, and a long-term credit facility agreement of \$1,500 million, expiring in April 2017. In February 2013, the Company revised its credit facility agreements, which increased its lines of credit by \$1,000 million. The credit agreements require John Deere Capital Corporation (Capital Corporation) to maintain its consolidated ratio of earnings to fixed charges at not less than 1.05 to 1 for each fiscal quarter and the ratio of senior debt, excluding securitization indebtedness, to capital base (total subordinated debt and stockholder's equity excluding accumulated other comprehensive income (loss)) at not more than 11 to 1 at the end of any fiscal quarter. The credit agreements also require the equipment operations to maintain a ratio of total debt to total capital (total debt and stockholders' equity excluding accumulated other comprehensive income (loss)) of 65 percent or less at the end of each fiscal quarter. Under this provision, the Company's excess equity capacity and retained earnings balance free of restriction at January 31, 2013 was \$8,416 million. Alternatively under this provision, the equipment operations had the capacity to incur additional debt of \$15,629 million at January 31, 2013. All of these requirements of the credit agreement have been met during the periods included in the consolidated financial statements.

Debt Ratings. To access public debt capital markets, the Company relies on credit rating agencies to assign short-term and long-term credit ratings to the Company's securities as an indicator of credit quality for fixed income investors. A security rating is not a recommendation by the rating agency to buy, sell or hold Company securities. A credit rating agency may change or withdraw Company ratings based on its assessment of the Company's current and future ability to meet interest and principal repayment obligations. Each agency's rating should be evaluated independently of any other rating. Lower credit ratings generally result in higher borrowing costs, including costs of derivative transactions, and reduced access to debt capital markets. The senior long-term and short-term debt ratings and outlook currently assigned to unsecured Company securities by the rating agencies engaged by the Company are as follows:

	Senior		
	<u>Long-Term</u>	<u>Short-Term</u>	<u>Outlook</u>
Moody's Investors Service, Inc.	A2	Prime-1	Stable
Standard & Poor's	A	A-1	Stable

Trade accounts and notes receivable primarily arise from sales of goods to independent dealers. Trade receivables increased \$127 million during the first three months of 2013 and \$593 million, compared to a year ago, primarily due to higher overall demand. The ratios of worldwide trade accounts and notes receivable to the last 12 months' net sales were 12 percent at January 31, 2013, compared to 11 percent at October 31, 2012 and 11 percent at January 31, 2012. Agriculture and turf trade receivables increased

\$615 million and construction and forestry receivables decreased \$22 million, compared to a year ago. The percentage of total worldwide trade receivables outstanding for periods exceeding 12 months was 2 percent at January 31, 2013, 2 percent at October 31, 2012 and 3 percent at January 31, 2012.

Deere & Company stockholders' equity was \$7,484 million at January 31, 2013, compared with \$6,842 million at October 31, 2012 and \$6,763 million at January 31, 2012. The increase of \$642 million during the first quarter of 2013 resulted primarily from net income attributable to Deere & Company of \$650 million, an increase in common stock of \$82 million, a change in the retirement benefits adjustment of \$70 million and a change in cumulative translation adjustment of \$20 million, which were partially offset by dividends declared of \$179 million.

Equipment Operations

The Company's equipment businesses are capital intensive and are subject to seasonal variations in financing requirements for inventories and certain receivables from dealers. The equipment operations sell a significant portion of their trade receivables to financial services. To the extent necessary, funds provided from operations are supplemented by external financing sources.

Cash used for operating activities of the equipment operations, including intercompany cash flows, in the first three months of 2013 was \$1,009 million. This resulted primarily from a seasonal increase in inventories and a decrease in accounts payable and accrued expenses. Partially offsetting these operating cash outflows were positive cash flows from net income adjusted for non-cash provisions.

Cash used for operating activities of the equipment operations, including intercompany cash flows, in the first three months of 2012 was \$1,156 million. This resulted primarily from a seasonal increase in inventories and a decrease in accounts payable and accrued expenses. Partially offsetting these operating cash outflows were positive cash flows from net income adjusted for non-cash provisions.

Trade receivables held by the equipment operations decreased \$250 million during the first three months and increased \$183 million from a year ago. The equipment operations sell a significant portion of their trade receivables to financial services. See the previous consolidated discussion of trade receivables.

Inventories increased by \$1,073 million during the first three months, primarily due to a seasonal increase and the higher overall level of production and sales. Inventories increased \$565 million, compared to a year ago, primarily due to the higher production and sales. Most of these inventories are valued on the last-in, first-out (LIFO) method. The ratios of inventories on a first-in, first-out (FIFO) basis (see Note 12), which approximates current cost, to the last 12 months' cost of sales were 30 percent at January 31, 2013, compared to 26 percent at October 31, 2012 and 32 percent at January 31, 2012.

Total interest-bearing debt of the equipment operations was \$6,952 million at January 31, 2013, compared with \$5,870 million at the end of fiscal year 2012 and \$4,588 million at January 31, 2012. The ratios of debt to total capital (total interest-bearing debt and stockholders' equity) were 47 percent, 46 percent and 40 percent at January 31, 2013, October 31, 2012 and January 31, 2012, respectively.

Edgar Filing: DEERE & CO - Form 10-Q

Property and equipment cash expenditures for the equipment operations in the first three months of 2013 were \$293 million, compared with \$269 million in the first quarter last year. Capital expenditures for the equipment operations in 2013 are estimated to be approximately \$1,300 million.

Financial Services

The financial services operations rely on their ability to raise substantial amounts of funds to finance their receivable and lease portfolios. Their primary sources of funds for this purpose are a combination of commercial paper, term debt, securitization of retail notes, equity capital and from time to time borrowings from Deere & Company.

During the first quarter of 2013, the cash provided by operating activities was used for investing and financing activities. Cash flows provided by operating activities, including intercompany cash flows, were \$207 million in the current quarter. Cash used for investing activities totaled \$4 million in the first three months of 2013 primarily due to an increase in trade and wholesale receivables of \$325 million, other miscellaneous investing activities of \$36 million and purchases exceeding maturities and sales of marketable securities by \$10 million, mostly offset by the collection of receivables (excluding trade and wholesale) and proceeds from sales of equipment on operating leases exceeding the cost of these receivables and cost of equipment on operating leases acquired by \$367 million. Cash used for financing activities totaled \$445 million, resulting primarily from a decrease in external borrowings of \$544 million and dividends paid to Deere & Company of \$30 million, partially offset by an increase in borrowings from Deere & Company of \$96 million. Cash and cash equivalents decreased \$249 million in the current quarter.

During the first quarter of 2012, the cash provided by operating, investing and financing activities was used primarily to increase cash and cash equivalents. Cash flows provided by operating activities, including intercompany cash flows, were \$160 million in the first quarter last year. Cash provided by investing activities totaled \$296 million in the first three months of 2012 primarily due to the collection of receivables (excluding trade and wholesale) exceeding the cost of these receivables by \$582 million, partially offset by an increase in trade and wholesale receivables of \$148 million, purchases exceeding maturities and sales of marketable securities by \$33 million and other miscellaneous investing activities. Cash provided by financing activities totaled \$117 million, resulting primarily from an increase in external borrowings of \$641 million, partially offset by a decrease in payables to the equipment operations of \$514 million and dividends paid to the equipment operations of \$25 million. Cash and cash equivalents increased \$572 million in the first quarter of 2012.

Receivables and leases held by the financial services operations consist of retail notes originated in connection with retail sales of new and used equipment by dealers of John Deere products, retail notes from non-Deere equipment customers, trade receivables, wholesale notes, revolving charge accounts, operating loans, insured international export financing generally involving John Deere products, and financing and operating leases. During the first quarter of 2013, total receivables and leases decreased \$225 million, primarily due to seasonal payments on revolving charge accounts. In the past 12 months, receivables and leases increased \$4,388 million. Acquisition volumes of receivables (excluding trade and wholesale) and leases were 14 percent higher in the first three months of 2013, compared with the same period last year, as volumes of operating leases, financing leases, retail notes and revolving charge accounts were higher, while volumes of operating loans were lower due to lower market coverage. The amount of total trade receivables and wholesale notes also increased, compared to October 31, 2012 and January 31, 2012. Total receivables and leases administered by the financial services operations, which include receivables administered but not owned, amounted to \$31,519 million at January 31, 2013, compared with \$31,746 million at October 31, 2012 and \$27,175 million at January 31, 2012. At January 31, 2013, the unpaid balance of all receivables administered but not owned was \$118 million, compared with \$120 million at October 31, 2012 and \$161 million at January 31, 2012.

Total external interest-bearing debt of the financial services operations was \$25,954 million at January 31, 2013, compared with \$26,551 million at the end of fiscal year 2012 and \$23,456 million at January 31, 2012. Total external borrowings have changed generally corresponding with the level of the receivable and lease portfolio, the level of cash and cash equivalents, the change in payables owed to Deere & Company and the change in investment from Deere & Company. The financial services operations ratio of interest-bearing debt to stockholder's equity was 6.8 to 1 at January 31, 2013, compared with 7.2 to 1 at October 31, 2012 and 7.3 to 1 at January 31, 2012.

The Capital Corporation has a revolving credit agreement to utilize bank conduit facilities to securitize retail notes (see Note 11). During November 2012, the agreement was renewed and the total capacity, or financing limit, was increased to \$3,000 million of secured financings at any time. After a three-year revolving period, unless the banks and Capital Corporation agree to renew, Capital Corporation would liquidate the secured borrowings over time as payments on the retail notes are collected. At January 31, 2013, \$1,129 million of secured short-term borrowings was outstanding under the agreement.

During the first three months of 2013, the financial services operations retired \$531 million of retail note securitization borrowings. During the first three months of 2013, the financial services operations also issued \$834 million and retired \$1,362 million of long-term borrowings. The long-term retirements included \$650 million of 5.10% Debentures due in January 2013. The remaining issuances and retirements were primarily medium-term notes.

Dividend and Other Events

The Company's Board of Directors at its meeting on February 27, 2013 declared a quarterly dividend of \$.51 per share payable May 1, 2013, to stockholders of record on March 28, 2013. The new quarterly rate represents an increase of 5 cents per share over the previous level, an increase of approximately 11 percent.

In February 2013, the Company's financial services operations entered into a retail note securitization transaction resulting in securitization borrowings of approximately \$500 million.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See the Company's most recent annual report filed on Form 10-K (Item 7A). There has been no material change in this information.

Item 4. CONTROLS AND PROCEDURES

The Company's principal executive officer and its principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (1934 Act)) were effective as of January 31, 2013, based on the evaluation of these controls and procedures required by Rule 13a-15(b) or 15d-15(b) of the 1934 Act. During the first quarter, there were no changes that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 14 to the Interim Financial Statements.

Item 1A. Risk Factors

See the Company's most recent annual report filed on Form 10-K (Part I, Item 1A). There has been no material change in this information. The risks described in the annual report on Form 10-K, and the Safe Harbor Statement in this report, are not the only risks faced by the Company. Additional risks and uncertainties may also materially affect the Company's business, financial condition or operating results. One should not consider the risk factors to be a complete discussion of risks, uncertainties and assumptions.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company's purchases of its common stock during the first quarter of 2013 were as follows:

Period	Total Number of Shares Purchased (2) (thousands)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) (thousands)	Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs (1) (millions)
Nov 1 to Nov 30	622	\$ 85.18	622	26.1
Dec 1 to Dec 31	233	85.37	230	25.8
Jan 1 to Jan 31	261	90.00	261	25.6
Total	1,116		1,113	

(1) During the first quarter of 2013, the Company had a share repurchase plan that was announced in May 2008 to purchase up to \$5,000 million of shares of the Company's common stock. The maximum number of shares above that may yet be purchased under this plan was based on the end of the first quarter closing share price of \$93.47 per share. At the end of the first quarter of 2013, \$2,392 million of common stock remain to be purchased under the plan.

(2) In November 2012, approximately .1 thousand shares were purchased from a plan participant to exercise certain stock option awards. All the shares were valued at the market price of \$83.96.

In December 2012, approximately 3 thousand shares were purchased from plan participants to pay payroll taxes on certain restricted stock awards. All the shares were valued at the weighted-average market price of \$85.08.

Item 3. Defaults Upon Senior Securities

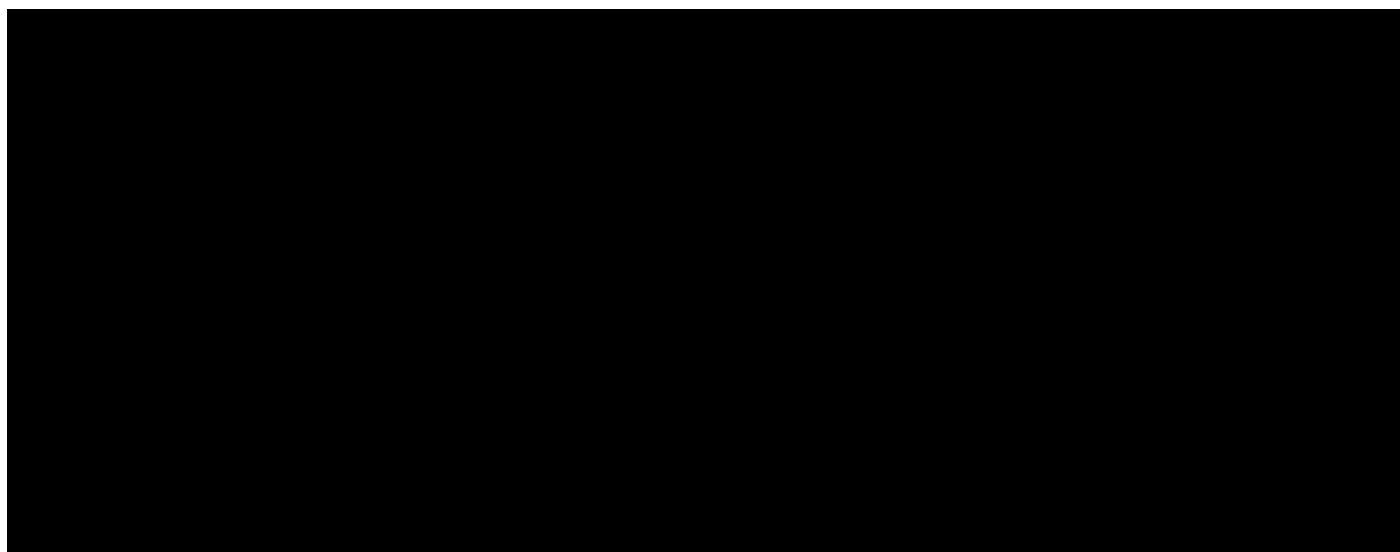
None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

In the first quarter of 2013, the Company adopted FASB ASU No. 2011-05, Presentation of Comprehensive Income, which amends ASC 220, Comprehensive Income. This ASU requires the presentation of total comprehensive income, total net income and the components of net income and comprehensive income either in a single continuous statement or in two separate statements but consecutive statements. Total comprehensive income for the years ended October 31 is presented below in millions of dollars:



Item 6. Exhibits

See the index to exhibits immediately preceding the exhibits filed with this report.

Certain instruments relating to long-term debt constituting less than 10% of the registrant's total assets are not filed as exhibits herewith pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K. The registrant will file copies of such instruments upon request of the Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DEERE & COMPANY

Date: February 28, 2013

By: */s/ R. Kalathur*
R. Kalathur
Senior Vice President,
Principal Financial Officer
and Principal Accounting Officer

INDEX TO EXHIBITS

Number

2	Not applicable
3.1	Certificate of Incorporation, as amended (Exhibit 3.1 to Form 8-K of registrant dated February 26, 2010*)
3.2	Bylaws as amended (Exhibit 3.2 to Form 8-K of registrant dated February 26, 2010*)
4	Not applicable
10.1	<u>First Amendment, dated February 25, 2013, to the Multi-Year Credit Agreement among registrant, John Deere Capital Corporation, John Deere Bank S.A., various financial institutions, JPMorgan Chase Bank, N.A., as administration agent, Citibank, N.A. and Deutsche Bank Securities, Inc., as documentation agents, and Bank of America, N.A., as syndication agent, et al., dated February 27, 2012</u>
10.2	<u>2018 Credit Agreement among the registrant, John Deere Capital Corporation, John Deere Bank S.A., various financial institutions, JPMorgan Chase Bank, N.A., as administration agent, Citibank, N.A. and Deutsche Bank Securities, Inc., as documentation agents, and Bank of America, N.A., as syndication agent, et al., dated February 25, 2013</u>
11	Not applicable
12	<u>Computation of ratio of earnings to fixed charges</u>
15	Not applicable
18	Not applicable
19	Not applicable
22	Not applicable
23	Not applicable
24	Not applicable
31.1	<u>Rule 13a-14(a)/15d-14(a) Certification</u>
31.2	<u>Rule 13a-14(a)/15d-14(a) Certification</u>
32	<u>Section 1350 Certifications</u>
101	Interactive Data File

* Incorporated by reference. Copies of these exhibits are available from the Company upon request.