DEERE & CO
Form 10-Q
September 01, 2011

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 July 31, 2011

Commission file no: 1-4121

DEERE & COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**36-2382580**
(State of incorporation)	(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.

Yes _X_ 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 _X_ No ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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	X	Accelerated Filer
Non-Accelerated Filer (Do not check if a smaller reporting company)		Smaller Reporting Company

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

Yes ___ No _X_

At July 31, 2011, 413,924,013 shares of common stock, $1 par value, of the registrant were outstanding.

Index to Exhibits: Page 47

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DEERE & COMPANY
STATEMENT OF CONSOLIDATED INCOME
For the Three Months Ended July 31, 2011 and 2010
(In millions of dollars and shares except per share amounts) Unaudited

	2011	2010
Net Sales and Revenues		
Net sales	$ 7,721.6	$ 6,224.0
Finance and interest income	492.2	448.4
Other income	158.1	164.5
Total	8,371.9	6,836.9
Costs and Expenses		
Cost of sales	5,792.2	4,519.6
Research and development expenses	312.0	256.3
Selling, administrative and general expenses	815.8	751.2
Interest expense	184.3	193.1
Other operating expenses	188.5	195.0
Total	7,292.8	5,915.2
Income of Consolidated Group before Income Taxes	1,079.1	921.7
Provision for income taxes	369.5	308.1
Income of Consolidated Group	709.6	613.6
Equity in income of unconsolidated affiliates	5.2	5.9
Net Income	714.8	619.5
Less: Net income attributable to noncontrolling interests	2.5	2.5
Net Income Attributable to Deere & Company	$ 712.3	$ 617.0
Per Share Data		
Basic	$ 1.71	$ 1.45
Diluted	$ 1.69	$ 1.44
Average Shares Outstanding		
Basic	417.4	424.5
Diluted	422.0	429.0

See Condensed Notes to Interim Consolidated Financial Statements.

DEERE & COMPANY
STATEMENT OF CONSOLIDATED INCOME
For the Nine Months Ended July 31, 2011 and 2010
(In millions of dollars and shares except per share amounts) Unaudited

	2011	2010
Net Sales and Revenues		
Net sales	$ 21,563.0	$ 17,009.5
Finance and interest income	1,420.7	1,350.7
Other income	417.1	442.4
Total	23,400.8	18,802.6
Costs and Expenses		
Cost of sales	15,993.2	12,490.3
Research and development expenses	879.3	758.1
Selling, administrative and general expenses	2,309.0	2,126.5
Interest expense	579.1	618.9
Other operating expenses	474.3	533.9
Total	20,234.9	16,527.7
Income of Consolidated Group before Income Taxes	3,165.9	2,274.9
Provision for income taxes	1,040.7	866.4
Income of Consolidated Group	2,125.2	1,408.5
Equity in income of unconsolidated affiliates	10.6	6.4
Net Income	2,135.8	1,414.9
Less: Net income attributable to noncontrolling interests	5.5	7.2
Net Income Attributable to Deere & Company	$ 2,130.3	$ 1,407.7
Per Share Data		
Basic	$ 5.07	$ 3.32
Diluted	$ 5.01	$ 3.28
Average Shares Outstanding		
Basic	419.9	424.1
Diluted	425.2	428.4

See Condensed Notes to Interim Consolidated Financial Statements.

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

	July 31 2011	October 31 2010	July 31 2010
Assets			
Cash and cash equivalents	$ 3,618.3	$ 3,790.6	$ 3,753.7
Marketable securities	459.4	227.9	232.3
Receivables from unconsolidated affiliates	32.3	38.8	31.9
Trade accounts and notes receivable - net	3,844.5	3,464.2	3,527.2
Financing receivables - net	19,437.0	17,682.2	16,236.1
Financing receivables securitized - net	2,480.6	2,238.3	2,631.8
Other receivables	960.9	925.6	693.1
Equipment on operating leases - net	2,015.0	1,936.2	1,777.9
Inventories	4,687.7	3,063.0	3,175.4
Property and equipment - net	4,068.9	3,790.7	4,398.6
Investments in unconsolidated affiliates	224.7	244.5	232.7
Goodwill	1,023.2	998.6	992.9
Other intangible assets - net	133.4	117.0	126.1
Retirement benefits	230.9	146.7	197.8
Deferred income taxes	2,825.1	2,477.1	2,592.5
Other assets	1,093.2	1,194.0	1,210.3
Assets held for sale		931.4	
Total Assets	$ 47,135.1	$ 43,266.8	$ 41,810.3
Liabilities and Stockholders Equity			
Short-term borrowings	$ 7,927.9	$ 5,325.7	$ 4,908.4
Short-term securitization borrowings	2,380.9	2,208.8	2,577.3
Payables to unconsolidated affiliates	143.8	203.5	161.3
Accounts payable and accrued expenses	7,121.3	6,481.7	5,855.5
Deferred income taxes	160.0	144.3	133.2
Long-term borrowings	15,892.5	16,814.5	16,374.2
Retirement benefits and other liabilities	5,968.7	5,784.9	5,674.6
Total liabilities	39,595.1	36,963.4	35,684.5
Commitments and contingencies (Note 14)			
Common stock, $1 par value (issued shares at July 31, 2011 536,431,204)	3,231.1	3,106.3	3,075.0
Common stock in treasury	(6,723.9)	(5,789.5)	(5,598.0)
Retained earnings	14,017.7	12,353.1	12,023.1
Accumulated other comprehensive income (loss)	(2,997.3)	(3,379.6)	(3,384.9)
Total Deere & Company stockholders equity	7,527.6	6,290.3	6,115.2
Noncontrolling interests	12.4	13.1	10.6
Total stockholders equity	7,540.0	6,303.4	6,125.8
Total Liabilities and Stockholders Equity	$ 47,135.1	$ 43,266.8	$ 41,810.3

See Condensed Notes to Interim Consolidated Financial Statements.

DEERE & COMPANY
STATEMENT OF CONSOLIDATED CASH FLOWS
For the Nine Months Ended July 31, 2011 and 2010
(In millions of dollars) Unaudited

	2011	2010
Cash Flows from Operating Activities		
Net income	$ 2,135.8	$ 1,414.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful receivables	17.8	84.8
Provision for depreciation and amortization	677.9	692.9
Share-based compensation expense	50.8	61.5
Undistributed earnings of unconsolidated affiliates	1.1	(1.0)
Provision (credit) for deferred income taxes	(324.8)	106.6
Changes in assets and liabilities:		
Trade, notes and financing receivables related to sales	(978.8)	(1,169.2)
Inventories	(1,774.6)	(1,067.9)
Accounts payable and accrued expenses	571.9	619.9
Accrued income taxes payable/receivable	266.3	128.9
Retirement benefits	351.1	(67.3)
Other	(358.4)	284.0
Net cash provided by operating activities	636.1	1,088.1
Cash Flows from Investing Activities		
Collections of receivables (excluding receivables related to sales)	9,317.4	8,390.9
Proceeds from maturities and sales of marketable securities	24.5	23.5
Proceeds from sales of equipment on operating leases	522.8	463.5
Government grants related to property and equipment		92.3
Proceeds from sales of businesses, net of cash sold	894.4	25.0
Cost of receivables acquired (excluding receivables related to sales)	(10,286.7)	(9,032.5)
Purchases of marketable securities	(256.1)	(55.0)
Purchases of property and equipment	(681.5)	(457.5)
Cost of equipment on operating leases acquired	(397.4)	(381.8)
Acquisitions of businesses, net of cash acquired	(60.8)	(43.1)
Other	(143.5)	(41.3)
Net cash used for investing activities	(1,066.9)	(1,016.0)
Cash Flows from Financing Activities		
Increase in total short-term borrowings	844.3	239.9
Proceeds from long-term borrowings	3,515.1	1,836.9
Payments of long-term borrowings	(2,795.2)	(2,599.6)
Proceeds from issuance of common stock	165.9	68.0
Repurchases of common stock	(1,093.2)	(102.8)
Dividends paid	(422.2)	(356.2)
Excess tax benefits from share-based compensation	66.8	19.3
Other	(36.3)	(28.1)
Net cash provided by (used for) financing activities	245.2	(922.6)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	13.3	(47.5)
Net Decrease in Cash and Cash Equivalents	(172.3)	(898.0)
Cash and Cash Equivalents at Beginning of Period	3,790.6	4,651.7
Cash and Cash Equivalents at End of Period	$ 3,618.3	$ 3,753.7

See Condensed Notes to Interim Consolidated Financial Statements.

5

DEERE & COMPANY

STATEMENT OF CHANGES IN CONSOLIDATED STOCKHOLDERS EQUITY

For the Nine Months Ended July 31, 2010 and 2011

(In millions of dollars) Unaudited

			Deere & Company Stockholders				
	Total Stockholders Equity	Comprehensive Income (Loss)	Common Stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests
Balance October 31, 2009	$ 4,822.8		$ 2,996.2	$ (5,564.7)	$ 10,980.5	$ (3,593.3)	$ 4.1
Net income	1,414.9	$ 1,407.7			1,407.7		7.2
Other comprehensive income (loss)							
Retirement benefits adjustment	312.1	312.1				312.1	
Cumulative translation adjustment	(121.5)	(121.3)				(121.3)	(.2)
Unrealized gain on derivatives	14.0	14.0				14.0	
Unrealized gain on investments	3.6	3.6				3.6	
Comprehensive income	1,623.1	$ 1,616.1					7.0
Repurchases of common stock	(102.8)			(102.8)			
Treasury shares reissued	69.5			69.5			
Dividends declared	(365.3)				(365.1)		(.2)
Stock options and other	78.5		78.8				(.3)
Balance July 31, 2010	$ 6,125.8		$ 3,075.0	$ (5,598.0)	$ 12,023.1	$ (3,384.9)	$ 10.6
Balance October 31, 2010	$ 6,303.4		$ 3,106.3	$ (5,789.5)	$ 12,353.1	$ (3,379.6)	$ 13.1
Net income	2,135.8	$ 2,130.3			2,130.3		5.5
Other comprehensive income (loss)							
Retirement benefits adjustment	171.6	171.6				171.6	
Cumulative translation adjustment	197.9	197.9				197.9	
Unrealized gain on derivatives	13.2	13.2				13.2	
Unrealized loss on investments	(.4)	(.4)				(.4)	
Comprehensive income	2,518.1	$ 2,512.6					5.5
Repurchases of common stock	(1,093.2)			(1,093.2)			
Treasury shares reissued	158.8			158.8			
Dividends declared	(469.9)				(465.7)		(4.2)
Stock options and other	122.8		124.8				(2.0)
Balance July 31, 2011	$ 7,540.0		$ 3,231.1	$ (6,723.9)	$ 14,017.7	$ (2,997.3)	$ 12.4

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 the Company s financial services segment, which consists of the previous credit segment and the Other segment that was combined at the beginning of the first quarter of 2011. The Other segment consisted of an insurance business that did not meet the materiality threshold of reporting. It was previously included as a separate segment in Financial Services (see Note 9).

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

Reclassifications

Certain items previously reported in specific financial statement captions have been reclassified to conform to the 2011 financial statement presentation. Short-term securitization borrowings have been shown separately from other short-term borrowings on the Condensed Consolidated Balance Sheet as a result of the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2009-17 (see Note 3). In the Supplemental Consolidating Data in Note 21, the costs and collections of trade receivables and wholesale notes for the financial services statement of cash flows investing activities have been presented on a net basis. These receivables have short durations with a high turnover rate. The total cash flows for the financial services investing activities have not changed. The presentation of these receivables on the Statement of Consolidated Cash Flows has also not changed and continues to be shown as an adjustment to net income in the operating activities since they are related to sales.

Variable Interest Entities

The Company is the primary beneficiary of and consolidates a supplier that is a variable interest entity (VIE). The Company has both the power to direct the activities of the VIE that most significantly impact 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 based on a cost sharing supply contract. No additional support beyond what was previously contractually required has been provided during any periods presented. The VIE produces blended fertilizer and other lawn care products for the agriculture and turf segment.

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

	July 31 2011	October 31 2010	July 31 2010
Intercompany receivables	$ 14	$ 10	$ 13
Inventories	36	32	54
Property and equipment - net	4	4	5
Other assets	14	11	6
Total assets	$ 68	$ 57	$ 78
Short-term borrowings			$ 5
Accounts payable and accrued expenses	$ 64	$ 55	72
Total liabilities	$ 64	$ 55	$ 77

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

The Company previously consolidated certain wind energy entities that were VIEs, which invested in wind farms that own and operate turbines to generate electrical energy. In December 2010, the Company sold John Deere Renewables, LLC, which included these VIEs and other wind energy entities. No additional support to these VIEs beyond what was previously contractually required was provided during any periods presented.

The assets and liabilities of these wind energy VIEs consisted of the following in millions of dollars:

	October 31 2010	July 31 2010
Receivables - net		$ 2
Property and equipment - net		130
Other assets		1
Assets held for sale *	$ 133	
Total assets	$ 133	$ 133
Intercompany borrowings	$ 50	$ 46
Accounts payable and accrued expenses	5	5
Total liabilities	$ 55	$ 51

* See Note 19.

The VIEs were financed primarily through intercompany borrowings and equity. The VIEs assets were pledged as security interests for the intercompany borrowings. The remaining creditors of the VIEs 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 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 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 $291 million and $249 million in the first nine months of 2011 and 2010, respectively. The Company also had accounts payable related to purchases of property and equipment of approximately $41 million and $39 million at July 31, 2011 and 2010, respectively.

(3) New accounting standards adopted in the first nine months of 2011 were as follows:

In the first quarter of 2011, the Company adopted FASB ASU No. 2009-16, Accounting for Transfers of Financial Assets, which amends Accounting Standards Codification (ASC) 860, Transfers and Servicing (FASB Statement No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140). This ASU eliminates the qualifying special purpose entities from the consolidation guidance and clarifies the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. It requires additional disclosures about the risks from continuing involvement in transferred financial assets accounted for as sales. The adoption did not have a material effect on the Company s consolidated financial statements.

In the first quarter of 2011, the Company adopted FASB ASU No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, which amends ASC 810, Consolidation (FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R)). This ASU requires a qualitative analysis to determine the primary beneficiary of a VIE. The analysis identifies the primary beneficiary as the enterprise that has both the power to direct the activities of a VIE that most significantly impact the VIE s economic performance and the obligation to absorb losses or the right to receive benefits that could be significant to the VIE. The ASU also requires additional disclosures about an enterprise s involvement in a VIE. The adoption did not have a material effect on the Company s consolidated financial statements.

In the first quarter of 2011, the Company adopted FASB ASU No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which amends ASC 310, Receivables. This ASU requires disclosures related to financing receivables and the allowance for credit losses by portfolio segment. The ASU also requires disclosures of information regarding the credit quality, aging, nonaccrual status and impairments by class of receivable. A portfolio segment is the level at which a creditor develops a systematic methodology for determining its credit allowance. A receivable class is a subdivision of a portfolio segment with similar measurement attributes, risk characteristics and common methods to monitor and assess credit risk. Trade accounts receivable with maturities of one year or less are excluded from the disclosure requirements. 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 January 2010, the FASB issued ASU No. 2010-06, Improving Disclosures about Fair Value Measurements, which amends ASC 820, Fair Value Measurements and Disclosures. This ASU requires disclosures of transfers into and out of Levels 1 and 2, more detailed roll forward reconciliations of Level 3 recurring fair value measurements on a gross basis, fair value information by class of assets and liabilities, and descriptions of valuation techniques and inputs for Level 2 and Level 3 measurements. The effective date was the second quarter of fiscal year 2010 except for the roll forward reconciliations, which are required in the first quarter of fiscal year 2012. The adoption in 2010 did not have a material effect and the future adoption will not have a material effect on the Company s consolidated financial statements.

In April 2011, the FASB issued ASU No. 2011-02, A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring, which amends ASC 310, Receivables. This ASU states that a troubled debt restructuring occurs when a creditor grants a concession it would not otherwise consider to a debtor that is experiencing financial difficulties. The guidance clarifies what would be considered a concession by the creditor and financial difficulties of the debtor. Certain disclosures are required for transactions that qualify as troubled debt restructurings. The effective date will be the fourth quarter of fiscal year 2011. The adoption will not have a material effect on the Company s consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which amends ASC 820, Fair Value Measurement. This ASU also requires the categorization by level for items that are only required to be disclosed at fair value and information about transfers between Level 1 and Level 2. In addition, the ASU provides guidance on measuring the fair value of financial instruments managed within a portfolio and the application of premiums and discounts on fair value measurements. The ASU requires additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. The effective date will be the second quarter of fiscal year 2012. The adoption will not have a material effect on the Company s consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income, which amends ASC 220, Comprehensive Income. The 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. In either presentation, adjustments for items that are reclassified from other comprehensive income to net income must be shown on the face of the financial statements. The other comprehensive income items may be shown net of tax effects with the taxes disclosed in a note, or pretax with the total taxes presented in one amount. The requirements do not change how earnings per share is calculated or presented. The effective date will be the first quarter of fiscal year 2013 and must be applied retrospectively. The adoption will not have a material effect on the Company s consolidated financial statements.

(4) Comprehensive income, which includes all changes in total stockholders equity during the period except transactions with stockholders, was as follows in millions of dollars:

	Three Months Ended July 31		Nine Months Ended July 31	
	2011	2010	2011	2010
Net income	$ 714.8	$ 619.5	$ 2,135.8	$ 1,414.9
Other comprehensive income (loss), net of tax:				
Retirement benefits adjustment	69.3	85.1	171.6	312.1
Cumulative translation adjustment	(46.2)	(46.0)	197.9	(121.5)
Unrealized gain (loss) on derivatives	3.6	(7.9)	13.2	14.0
Unrealized gain (loss) on investments	3.0	3.0	(.4)	3.6
Comprehensive income	$ 744.5	$ 653.7	$ 2,518.1	$ 1,623.1

For the third quarter of 2011 and 2010, the table above includes noncontrolling interests comprehensive income of $2.3 million and $2.5 million, which consists of net income of $2.5 million and $2.5 million and cumulative translation adjustments of $(.2) million and none, respectively. For the first nine months of 2011 and 2010, the table includes noncontrolling interests comprehensive income of $5.5 million and $7.0 million, which consists of net income of $5.5 million and $7.2 million and cumulative translation adjustments of none and $(.2) million, respectively.

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

	Three Months Ended July 31		Nine Months Ended July 31	
	2011	2010	2011	2010
Dividends declared	$ .41	$ .30	$ 1.11	$ .86
Dividends paid	$ .35	$ .28	$ 1.00	$ .84

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

	Three Months Ended July 31		Nine Months Ended July 31	
	2011	2010	2011	2010
Net income attributable to Deere & Company	$ 712.3	$ 617.0	$ 2,130.3	$ 1,407.7
Less income allocable to participating securities	.3	.2	.8	.5
Income allocable to common stock	$ 712.0	$ 616.8	$ 2,129.5	$ 1,407.2
Average shares outstanding	417.4	424.5	419.9	424.1
Basic per share	$ 1.71	$ 1.45	$ 5.07	$ 3.32
Average shares outstanding	417.4	424.5	419.9	424.1
Effect of dilutive share-based compensation	4.6	4.5	5.3	4.3
Total potential shares outstanding	422.0	429.0	425.2	428.4
Diluted per share	$ 1.69	$ 1.44	$ 5.01	$ 3.28

During the third quarter of 2011, 3.9 million shares 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. During the first nine months of 2011, no shares were excluded. During both periods of 2010, 1.9 million shares were excluded.

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

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

	Three Months Ended July 31		Nine Months Ended July 31	
	2011	2010	2011	2010
Service cost	$ 50	$ 42	$ 149	$ 129
Interest cost	124	126	372	382
Expected return on plan assets	(199)	(189)	(597)	(570)
Amortization of actuarial loss	39	28	112	87
Amortization of prior service cost	10	10	31	31
Settlements/curtailments	1	14	1	17
Net cost	$ 25	$ 31	$ 68	$ 76

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 July 31		Nine Months Ended July 31	
	2011	2010	2011	2010
Service cost	$ 11	$ 11	$ 33	$ 33
Interest cost	81	84	244	252
Expected return on plan assets	(28)	(30)	(85)	(91)
Amortization of actuarial loss	68	78	203	233
Amortization of prior service credit	(4)	(5)	(11)	(12)
Net cost	$ 128	$ 138	$ 384	$ 415

During the first nine months of 2011, the Company contributed approximately $58 million to its pension plans and $34 million to its other postretirement benefit plans. The Company presently anticipates contributing an additional $24 million to its pension plans and $9 million to its other postretirement benefit plans in the remainder of fiscal year 2011. 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 July 31, 2011 were $207 million, compared to $218 million at October 31, 2010. The liability at July 31, 2011 consisted of approximately $54 million, which 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 2007 and 2008 U.S. Internal Revenue Service examinations were closed in the third quarter of 2011. All U.S. federal examinations of the Company s income tax returns prior to 2009 have now been completed. The changes in the unrecognized tax benefits in the first nine months of 2011 were not significant. The Company expects that any reasonably possible change in the amounts of unrecognized tax benefits in the next twelve months would not be significant.

The Patient Protection and Affordable Care Act as amended by the Healthcare and Education Reconciliation Act of 2010 was signed into law in the Company s second fiscal quarter of 2010. Under the legislation, to the extent the Company s future health care drug expenses are reimbursed under the Medicare Part D retiree drug subsidy (RDS) program, the expenses will no longer be tax deductible effective November 1, 2013. Since the tax effects for the retiree health care liabilities are reflected in the Company s financial statements, the entire impact of this tax change relating to the future retiree drug costs was recorded in tax expense in the period in which the legislation was enacted. As a result of the legislation, the Company s tax expenses were approximately $130 million higher in the first nine months of 2010.

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

	Three Months Ended July 31			Nine Months Ended July 31		
	2011	2010	% Change	2011	2010	% Change
Net sales and revenues:						
Agriculture and turf	$ 6,371	$ 5,217	+22	$ 17,740	$ 14,462	+23
Construction and forestry	1,351	1,007	+34	3,823	2,547	+50
Total net sales	7,722	6,224	+24	21,563	17,009	+27
Financial services *	550	528	+4	1,548	1,532	+1
Other revenues	100	85	+18	290	262	+11
Total net sales and revenues	$ 8,372	$ 6,837	+22	$ 23,401	$ 18,803	+24
Operating profit: **						
Agriculture and turf	$ 859	$ 824	+4	$ 2,579	$ 2,128	+21
Construction and forestry	110	66	+67	304	65	+368
Financial services *	194	148	+31	529	360	+47
Total operating profit	1,163	1,038	+12	3,412	2,553	+34
Other reconciling items ***	(451)	(421)	+7	(1,282)	(1,145)	+12
Net income attributable to Deere & Company	$ 712	$ 617	+15	$ 2,130	$ 1,408	+51
Identifiable assets:						
Agriculture and turf				$ 9,399	$ 7,255	+30
Construction and forestry				2,735	2,186	+25
Financial services *				29,236	26,707	+9
Corporate				5,765	5,662	+2
Total assets				$ 47,135	$ 41,810	+13
Intersegment sales and revenues:						
Agriculture and turf net sales	$ 26	$ 16	+63	$ 71	$ 42	+69
Construction and forestry net sales	4	3	+33	15	6	+150
Financial services *	57	62	-8	164	173	-5
Equipment operations outside the U.S. and Canada:						
Net sales	$ 3,364	$ 2,255	+49	$ 8,860	$ 6,307	+40
Operating profit	300	208	+44	848	533	+59

* At the beginning of the first quarter of 2011, the Company combined the reporting of the credit segment and the Other segment into the financial services segment. The Other segment consisted of an insurance business related to extended warranty policies that did not meet the materiality threshold of reporting. The revenues, intersegment revenues, operating profit and identifiable assets for previous periods were revised as shown above or as follows:

	Years	
	2010	2009
<u>Financial Services</u>		
Revenues	$ 2,073	$ 2,029
Intersegment revenues	224	255
Operating profit	499	242
Identifiable assets	27,507	25,964

** Operating profit (loss) 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.

*** Other reconciling items are primarily corporate expenses, certain external interest expense, certain foreign exchange gains and losses, income taxes 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:

	July 31, 2011			
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due *	Total Past Due
Retail Notes:				
Agriculture and turf	$ 94	$ 64	$ 25	$ 183
Construction and forestry	49	25	13	87
Other:				
Agriculture and turf	25	11	21	57
Construction and forestry	13	4	6	23
Total	$ 181	$ 104	$ 65	$ 350

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

	Total Past Due	Total Non-performing	Current	Total Financing Receivables
Retail Notes:				
Agriculture and turf	$ 183	$ 160	$ 13,772	$ 14,115
Construction and forestry	87	19	1,222	1,328
Recreational products			4	4
Other:				
Agriculture and turf	57	17	5,650	5,724
Construction and forestry	23	8	933	964
Total	$ 350	$ 204	$ 21,581	22,135
Less allowance for doubtful receivables				217
Total financing receivables - net				$ 21,918

An analysis of the allowance for doubtful financing receivables and investment in financing receivables in millions of dollars follows:

	Retail Notes	Revolving Charge Accounts	Other	Total
	Three Months Ended July 31, 2011			
Allowance:				
Balance, beginning of period	$ 143	$ 44	$ 34	$ 221
Provision (credit)	(3)	3	3	3
Write-offs	(4)	(11)	(2)	(17)
Recoveries	2	6	1	9
Other changes *	1			1
Balance, end of period	$ 139	$ 42	$ 36	$ 217
	Nine Months Ended July 31, 2011			
Allowance:				
Balance, beginning of period	$ 144	$ 44	$ 37	$ 225
Provision	5	8	2	15
Write-offs	(24)	(31)	(6)	(61)
Recoveries	9	21	1	31
Other changes *	5		2	7
Balance, end of period	$ 139	$ 42	$ 36	$ 217
Balance individually evaluated	$ 1		$ 2	$ 3
Balance collectively evaluated	$ 138	$ 42	$ 34	$ 214
Financing receivables:				
Balance, end of period	$ 15,447	$ 2,532	$ 4,156	$ 22,135
Balance individually evaluated	$ 17		$ 11	$ 28
Balance collectively evaluated	$ 15,430	$ 2,532	$ 4,145	$ 22,107

* Primarily translation adjustments.

Financing receivables are considered impaired when it is probable the Company will be unable to collect all amounts due according to the contractual terms. Receivables reviewed for impairment generally include those that are either past due, or have provided bankruptcy notification, or require significant collection efforts. Receivables, which are impaired, are classified as non-performing.

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

	July 31, 2011			
	Recorded Investment	Unpaid Principal Balance	Specific Allowance	Average Recorded Investment
Receivables with specific allowance: *				
Retail notes	$ 2	$ 2	$ 1	$ 2
Operating loans	2	2	2	4
Wholesale notes				1
Financing leases	1	1		1
Total	5	5	3	8
Receivables without a specific allowance:				
Retail notes	12	12		11
Financing leases	1	1		1
Total	$ 18	$ 18	$ 3	$ 20
Agriculture and turf	$ 10	$ 10	$ 3	$ 12
Construction and forestry	$ 8	$ 8		$ 8

* Finance income recognized was not material.

(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 included in 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 $1,746 million, $1,739 million and $1,850 million at July 31, 2011, October 31, 2010 and July 31, 2010, respectively. The liabilities (short-term securitization borrowings and accrued interest) of these SPEs totaled $1,622 million, $1,654 million and $1,765 million at July 31, 2011, October 31, 2010 and July 31, 2010 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 bank 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 $205 million and liabilities (short-term securitization borrowings and accrued interest) of $190 million at July 31, 2011.

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 $613 million, $589 million and $877 million at July 31, 2011, October 31, 2010 and July 31, 2010, respectively. The liabilities (short-term borrowings and accrued interest) related to these conduits were $570 million, $557 million and $815 million at July 31, 2011, October 31, 2010 and July 31, 2010, 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:

	July 31, 2011
Carrying value of liabilities	$ 570
Maximum exposure to loss	613

The total assets of unconsolidated VIEs related to securitizations were approximately $22 billion at July 31, 2011.

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

	July 31 2011	October 31 2010	July 31 2010
Financing receivables securitized (retail notes)	$ 2,505	$ 2,265	$ 2,663
Allowance for credit losses	(24)	(27)	(31)
Other assets	83	90	95
Total restricted securitized assets	$ 2,564	$ 2,328	$ 2,727

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

	July 31 2011	October 31 2010	July 31 2010
Short-term securitization borrowings	$ 2,381	$ 2,209	$ 2,577
Accrued interest on borrowings	1	2	3
Total liabilities related to restricted securitized assets	$ 2,382	$ 2,211	$ 2,580

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 July 31, 2011, the maximum remaining term of all restricted securitized retail notes was approximately six years.

(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:

	July 31 2011	October 31 2010	July 31 2010
Raw materials and supplies	$ 1,628	$ 1,201	$ 1,082
Work-in-process	567	483	454
Finished goods and parts	3,954	2,777	2,975
Total FIFO value	6,149	4,461	4,511
Less adjustment to LIFO basis	1,461	1,398	1,336
Inventories	$ 4,688	$ 3,063	$ 3,175

(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, 2009:			
Goodwill	$ 698	$ 628	$ 1,326
Less accumulated impairment losses	289		289
Goodwill-net	409	628	1,037
Translation adjustments	(4)	(36)	(40)
Other	1	(5)	(4)
Balance July 31, 2010:			
Goodwill	695	587	1,282
Less accumulated impairment losses	289		289
Goodwill-net	$ 406	$ 587	$ 993
Balance October 31, 2010:			
Goodwill	$ 705	$ 610	$ 1,315
Less accumulated impairment losses	316		316
Goodwill-net	389	610	999
Translation adjustments	6	20	26
Other	(2)		(2)
Balance July 31, 2011:			
Goodwill	709	630	1,339
Less accumulated impairment losses	316		316
Goodwill-net	$ 393	$ 630	$ 1,023

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

	Useful Lives * Years	July 31 2011	2010
Amortized intangible assets:			
Customer lists and relationships	14	$ 111	$ 97
Technology, patents, trademarks and other	15	104	92
Total at cost		215	189
Less accumulated amortization **		86	67
Total		129	122
Unamortized intangible assets:			
Licenses		4	4
Other intangible assets-net		$ 133	$ 126

* Weighted-averages

** Accumulated amortization at July 31, 2011 and 2010 for customer lists and relationships totaled $52 million and $42 million and technology, patents, trademarks and other totaled $34 million and $25 million, respectively.

19

The amortization of other intangible assets in the third quarter and the first nine months of 2011 was $6 million and $15 million and for 2010 was $4 million and $15 million, respectively. The estimated amortization expense for the next five years is as follows in millions of dollars: remainder of 2011 - $5, 2012 - $19, 2013 - $17, 2014 - $16 and 2015 - $15.

(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 warranty premiums (deferred revenue) included in the following table totaled $220 million and $203 million at July 31, 2011 and 2010, respectively.

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

	Three Months Ended July 31		Nine Months Ended July 31	
	2011	2010	2011	2010
Balance, beginning of period	$ 860	$ 710	$ 762	$ 727
Payments	(140)	(126)	(413)	(379)
Amortization of premiums received	(23)	(26)	(69)	(73)
Accruals for warranties	153	146	502	396
Premiums received	30	20	86	65
Foreign exchange	(7)	4	5	(8)
Balance, end of period	$ 873	$ 728	$ 873	$ 728

At July 31, 2011, the Company had approximately $230 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 July 31, 2011, the Company had an accrued liability of approximately $7 million under these agreements. The maximum remaining term of the receivables guaranteed at July 31, 2011 was approximately five years.

At July 31, 2011, the Company had commitments of approximately $423 million for the construction and acquisition of property and equipment. Also, at July 31, 2011, the Company had pledged assets of $104 million, primarily as collateral for borrowings. See Note 11 for additional restricted assets associated with borrowings related to securitizations.

The Company also had other miscellaneous contingent liabilities totaling approximately $60 million at July 31, 2011, for which it believes the probability for payment was substantially remote. The accrued liability for these contingencies was not material at July 31, 2011.

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 and trademark matters. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible loss, the Company believes these unresolved legal actions will 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:

	July 31, 2011		October 31, 2010		July 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financing receivables - net	$ 19,437	$ 19,439	$ 17,682	$ 17,759	$ 16,236	$ 16,322
Financing receivables securitized - net	2,481	2,486	2,238	2,257	2,632	2,650
Short-term securitization borrowings	2,381	2,394	2,209	2,229	2,577	2,600
Long-term borrowings due within one year:						
Equipment operations	$ 96	$ 97	$ 40	$ 42		
Financial services	4,941	5,027	3,214	3,267	$ 3,782	$ 3,816
Total	$ 5,037	$ 5,124	$ 3,254	$ 3,309	$ 3,782	$ 3,816
Long-term borrowings:						
Equipment operations	$ 3,372	$ 3,789	$ 3,329	$ 3,745	$ 3,182	$ 3,595
Financial services	12,521	12,903	13,486	14,048	13,192	13,737
Total	$ 15,893	$ 16,692	$ 16,815	$ 17,793	$ 16,374	$ 17,332

Fair values of the long-term financing receivables were based on the discounted values of their related cash flows at current market interest rates. 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.

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

	July 31 2011*	October 31 2010*	July 31 2010*
Marketable securities			
U.S. government debt securities	$ 270	$ 63	$ 69
Municipal debt securities	31	28	25
Corporate debt securities	79	63	60
Residential mortgage-backed securities **	79	72	76
Other debt securities		2	2
Total marketable securities	459	228	232
Other assets			
Derivatives:			
Interest rate contracts	388	493	533
Foreign exchange contracts	17	24	8
Cross-currency interest rate contracts	1	3	4
Total assets ***	$ 865	$ 748	$ 777
Accounts payable and accrued expenses			
Derivatives:			
Interest rate contracts	$ 12	$ 38	$ 51
Foreign exchange contracts	86	23	32
Cross-currency interest rate contracts	10	48	96
Total liabilities	$ 108	$ 109	$ 179

* All measurements above were Level 2 measurements except for Level 1 measurements of U.S. government debt securities of $238 million, $36 million and $42 million at July 31, 2011, October 31, 2010 and July 31, 2010, respectively.

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

*** Excluded from this table are the Company s cash and cash equivalents, which are carried at par value or amortized cost approximating fair value. The cash and cash equivalents consist primarily of money market funds.

The contractual maturities of marketable securities at July 31, 2011 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	$ 107	$ 107
Due after one through five years	152	155
Due after five through 10 years	68	74
Due after 10 years	42	44
Residential mortgage-backed securities	74	79
Marketable securities	$ 443	$ 459

Fair value, nonrecurring, Level 3 measurements in millions of dollars follow:

	Fair Value *			Losses Nine Months Ended July 31	
	July 31 2011	October 31 2010	July 31 2010	2011	2010
Retail notes	$ 1	$ 3	$ 3		$ 1
Operating loans	1		1		
Financing leases	1	1	3		4
Wholesale notes		17	19		3
Financing receivables	$ 3	$ 21	$ 26		$ 8
Goodwill		$ 34			
Property and equipment held for sale **		$ 918			

* Does not include cost to sell.
** See Note 19.

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 financial instruments at fair value:

Marketable Securities The portfolio of investments is primarily valued based 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 the collateral, which is measured using an income approach (discounted cash flow) or a market approach (appraisal values or realizable values). Inputs include interest rates and selection of realizable values.

Goodwill The impairment of goodwill is based on the implied fair value measured as the difference between the fair value of the reporting unit and the fair value of the unit s identifiable net assets. An estimate of the fair value of the reporting unit is determined through a combination of an income approach (discounted cash flows) and market values for similar businesses, which includes inputs such as interest rates and selections of similar businesses.

Property and Equipment Held for Sale The impairment of long-lived assets held for sale is measured at the lower of the carrying amount, or fair value less cost to sell. Fair value is based on the probable sale price. The inputs include estimates of final sale price adjustments.

(17) 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, when applicable. 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 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 liability position at July 31, 2011, October 31, 2010 and July 31, 2010, was $5 million, $16 million and $34 million, respectively. The Company, due to its credit rating, 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 collateral support arrangements. Each master agreement permits the net settlement of amounts owed in the event of early termination. 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 $406 million, $520 million and $545 million as of July 31, 2011, October 31, 2010 and July 31, 2010, respectively. The amount of collateral received at July 31, 2011, October 31, 2010 and July 31, 2010 to offset this potential maximum loss was $33 million, $85 million and $78 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 $13 million, $58 million and $93 million as of July 31, 2011, October 31, 2010 and July 31, 2010, 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 July 31, 2011, October 31, 2010 and July 31, 2010 were $350 million, $1,060 million and $1,430 million, respectively, and the notional amount of cross-currency interest rate contracts was $853 million, $849 million and $849 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 affected earnings. These amounts offset the effects of interest rate or foreign currency exchange rate changes on the related borrowings. Any ineffective portions of the gains or losses on all 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 July 31, 2011 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 $4 million after-tax. These contracts mature in up to 30 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 July 31, 2011, October 31, 2010 and July 31, 2010 were $7,283 million, $6,640 million and $7,113 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. The ineffective portions were gains of $3 million and $1 million during the third quarter of 2011 and 2010, respectively, and a loss of $2 million and a gain of $1 million during the first nine months of 2011 and 2010, 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 were as follows in millions of dollars:

	Three Months Ended July 31		Nine Months Ended July 31	
	2011	2010	2011	2010
Interest rate contracts *	$ 103	$ 134	$ (37)	$ 110
Borrowings **	(100)	(133)	35	(109)

* Includes changes in fair values of interest rate contracts excluding net accrued interest income of $42 million and $54 million during the third quarter of 2011 and 2010 and $129 million and $176 million during the first nine months of 2011 and 2010, respectively.

** Includes adjustment for fair values of hedged borrowings excluding accrued interest expense of $69 million and $84 million during the third quarter of 2011 and 2010 and $207 million and $261 million during the first nine months of 2011 and 2010, 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 July 31, 2011, October 31, 2010 and July 31, 2010 were $2,765 million, $2,702 million and $2,838 million, the foreign exchange contracts were $3,362 million, $2,777 million and $2,343 million and the cross-currency interest rate contracts were $49 million, $60 million and $58 million, respectively. At July 31, 2011, October 31, 2010 and July 31, 2010, there were also $1,052 million, $1,055 million and $1,135 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 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 consolidated statement of cash flows.

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

Other Assets	July 31 2011	October 31 2010	July 31 2010
Designated as hedging instruments:			
Interest rate contracts	$ 360	$ 457	$ 496
Not designated as hedging instruments:			
Interest rate contracts	28	36	37
Foreign exchange contracts	17	24	8
Cross-currency interest rate contracts	1	3	4
Total not designated	46	63	49
Total derivatives	$ 406	$ 520	$ 545
Accounts Payable and Accrued Expenses			
Designated as hedging instruments:			
Interest rate contracts	$ 1	$ 18	$ 27
Cross-currency interest rate contracts	7	47	95
Total designated	8	65	122
Not designated as hedging instruments:			
Interest rate contracts	11	20	24
Foreign exchange contracts	86	23	32
Cross-currency interest rate contracts	3	1	1
Total not designated	100	44	57
Total derivatives	$ 108	$ 109	$ 179

The classification and gains (losses), which include 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 July 31		Nine Months Ended July 31	
		2011	2010	2011	2010
Fair Value Hedges:					
Interest rate contracts	Interest	$ 145	$ 188	$ 92	$ 286
Cash Flow Hedges:					
Recognized in OCI (Effective Portion):					
Interest rate contracts	OCI (pretax) *	(2)	(6)	(5)	(12)
Foreign exchange contracts	OCI (pretax) *	(20)	(39)	34	(91)
Reclassified from OCI (Effective Portion):					
Interest rate contracts	Interest *	(3)	(19)	(18)	(58)
Foreign exchange contracts	Other *	(24)	(13)	27	(66)
Recognized Directly in Income (Ineffective Portion):					
Interest rate contracts	Interest	**	**	**	**
Foreign exchange contracts	Other	**	**	**	**
Not Designated as Hedges:					
Interest rate contracts	Interest *	$ 3	$ 5	$ 1	$ 6
Foreign exchange contracts	Cost of sales	(8)	13	(80)	(14)
Foreign exchange contracts	Other *	1	19	(177)	(21)
Total		$ (4)	$ 37	$ (256)	$ (29)

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

** The amount is not significant.

(18) In December 2010, the Company granted stock options to employees for the purchase of 2.2 million shares of common stock at an exercise price of $80.61 per share and a binomial lattice model fair value of $25.61 per share at the grant date. Options are awarded with the exercise price equal to the market price and generally vest in one to three years after the grant date.

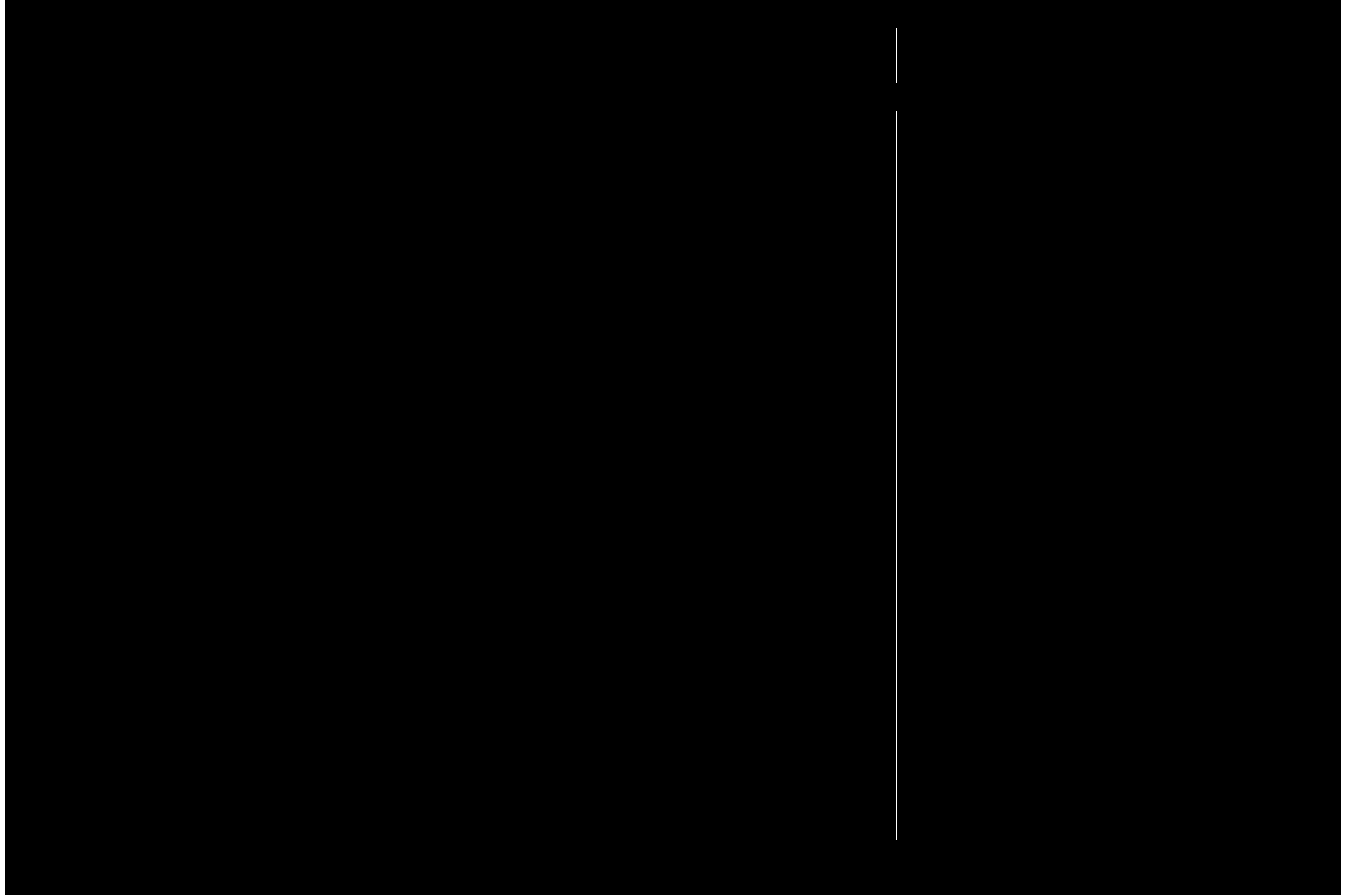
The Company also granted 210 thousand restricted stock units to employees in December 2010, of which 80 thousand are subject to service based only conditions, 65 thousand are subject to performance/service based conditions and 65 thousand are subject to market/service based conditions. All restricted stock units generally vest three years after the grant date. The service based only units award one share of common stock for each unit at the end of the vesting period and include dividend equivalent payments to the employees over the vesting period. The performance/service based units are subject to a performance metric that is based on the Company s compound annual revenue growth rate, compared to a benchmark group of companies over the three year vesting period. The market/service based units are subject to a market related metric that is based on total shareholder return, compared to the same benchmark group of companies over the three year vesting period. The performance/service based units and the market/service based units both award common stock in a range of zero to 200 percent for each unit granted based on the level of the metric achieved during the three year vesting period. These units do not include dividend equivalent payments over the vesting period. The fair value of the service based only units at the grant date was $80.61 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 $76.17 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 $107.31 per unit based on a lattice valuation model excluding dividends.

The compensation cost for stock options, service based restricted stock units and market/service based restricted stock units, which is based on the fair value at the grant date, is recognized on a straight-line basis over the requisite period the employee is required to render service. The compensation cost for performance/service based units, which is based on the fair value at the grant date, is also recognized over the employees requisite service period and periodically adjusted for the probable number of shares to be awarded. At July 31, 2011, the Company was authorized to grant an additional 16.8 million shares related to stock option and restricted stock awards.

(19) In December 2010, the Company sold John Deere Renewables, LLC, its wind energy business, for approximately $900 million. The Company had concluded that its resources were best invested in growing its core businesses. These assets were reclassified as held for sale and written down to fair value less cost to sell at October 31, 2010, which consisted of $908 million of wind energy investments previously included in property and equipment and $23 million of other miscellaneous assets. At October 31, 2010, the related liabilities to be sold, which were recorded in accounts payable and accrued expenses, totaled $35 million and the related noncontrolling interest was $2 million.

(20) In December 2010, the Company acquired the remaining 64 percent ownership interest in A&I Products, Inc., a manufacturer and wholesale distributor of replacement parts, for approximately $48 million. The preliminary fair values assigned to the total assets and liabilities related to the acquired entity were approximately $8 million of receivables, $52 million of inventories, $22 million of property and equipment, $18 million of identifiable intangible assets, $3 million of other assets, $8 million of accounts payable and accrued expenses, $4 million of short-term borrowings, $9 million of deferred tax liabilities and $11 million of long-term borrowings. The goodwill generated in the transaction was not significant. The identifiable intangibles were primarily related to customer lists and relationships, which have amortization periods with a weighted average of six years. The fair value at acquisition date of the original equity interest was $23 million. The gain recognized as a result of remeasuring the equity interest from the previous carrying value to fair value was not significant. The entity was consolidated and the results of these operations have been included in the Company s consolidated financial statements in the agriculture and turf segment since the date of the acquisition. The pro forma results of operations as if the acquisition had occurred at the beginning of the current or comparative fiscal year would not differ significantly from the reported results.

(21) SUPPLEMENTAL CONSOLIDATING DATA
STATEMENT OF INCOME
For the Three Months Ended July 31, 2011 and 2010



* 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 INCOME
For the Nine Months Ended July 31, 2011 and 2010

(In millions of dollars) Unaudited	EQUIPMENT OPERATIONS*		FINANCIAL SERVICES	
	2011	2010	2011	2010
Net Sales and Revenues				
Net sales	$ 21,563.0	$ 17,009.5		
Finance and interest income	55.5	47.9	$ 1,542.2	$ 1,462.6
Other income	335.8	281.3	169.5	242.9
Total	21,954.3	17,338.7	1,711.7	1,705.5
Costs and Expenses				
Cost of sales	15,994.2	12,491.4		
Research and development expenses	879.3	758.1		
Selling, administrative and general expenses	2,016.1	1,770.0	301.8	364.6
Interest expense	151.2	133.8	468.2	516.1
Interest compensation to Financial Services	136.6	142.6		
Other operating expenses	139.2	127.4	413.6	465.4
Total	19,316.6	15,423.3	1,183.6	1,346.1
Income of Consolidated Group before Income Taxes	2,637.7	1,915.4	528.1	359.4
Provision for income taxes	860.6	780.3	180.0	86.0
Income of Consolidated Group	1,777.1	1,135.1	348.1	273.4
Equity in Income of Unconsolidated Subsidiaries and Affiliates				
Financial Services	348.9	274.1	.8	.6
Other	9.8	5.8		
Total	358.7	279.9	.8	.6
Net Income	2,135.8	1,415.0	348.9	274.0
Less: Net income (loss) attributable to noncontrolling interests	5.5	7.3		(.1)
Net Income Attributable to Deere & Company	$ 2,130.3	$ 1,407.7	$ 348.9	$ 274.1

* 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

(In millions of dollars) Unaudited	EQUIPMENT OPERATIONS *			FINANCIAL SERVICES		
	July 31 2011	October 31 2010	July 31 2010	July 31 2011	October 31 2010	July 31 2010
Assets						
Cash and cash equivalents	$ 3,167.8	$ 3,348.3	$ 3,333.5	$ 450.5	$ 442.3	$ 420.2
Marketable securities	200.4			259.0	227.9	232.3
Receivables from unconsolidated subsidiaries and affiliates	2,054.4	1,712.6	1,373.4		1.6	2.0
Trade accounts and notes receivable - net	1,061.8	999.8	804.0	3,547.5	2,979.7	3,340.4
Financing receivables - net	8.2	9.4	10.4	19,428.7	17,672.8	16,225.7
Financing receivables securitized - net				2,480.6	2,238.3	2,631.8
Other receivables	744.3	889.5	642.7	224.4	49.4	68.1
Equipment on operating leases - net				2,015.0	1,936.2	1,777.9
Inventories	4,687.7	3,063.0	3,175.4			
Property and equipment - net	4,003.4	3,722.4	3,381.4	65.4	68.3	1,017.2
Investments in unconsolidated subsidiaries and affiliates	3,481.3	3,420.2	3,350.1	7.9	7.0	6.3
Goodwill	1,023.2	998.6	992.9			
Other intangible assets - net	129.4	113.0	122.1	4.0	4.0	4.0
Retirement benefits	230.1	145.8	196.8	29.0	31.4	5.1
Deferred income taxes	2,959.7	2,737.1	2,763.6	103.1	103.2	97.7
Other assets	472.5	381.2	331.2	621.2	812.9	879.0
Assets held for sale					931.4	
Total Assets	$ 24,224.2	$ 21,540.9	$ 20,477.5	$ 29,236.3	$ 27,506.4	$ 26,707.7
Liabilities and Stockholders Equity						
Short-term borrowings	$ 480.4	$ 85.0	$ 92.1	$ 7,447.5	$ 5,240.7	$ 4,816.2
Short-term securitization borrowings				2,380.9	2,208.8	2,577.3
Payables to unconsolidated subsidiaries and affiliates	143.8	205.2	163.3	2,022.1	1,673.7	1,341.5
Accounts payable and accrued expenses	6,645.3	5,757.1	5,198.5	1,248.9	1,253.3	1,292.0
Deferred income taxes	98.3	92.0	82.4	299.5	415.5	319.6
Long-term borrowings	3,371.5	3,328.6	3,181.9	12,521.0	13,485.9	13,192.3
Retirement benefits and other liabilities	5,944.9	5,771.6	5,635.1	51.9	43.8	43.6
Total liabilities	16,684.2	15,239.5	14,353.3	25,971.8	24,321.7	23,582.5
Commitments and contingencies (Note 14)						
Common stock, $1 par value (issued shares at July 31, 2011 536,431,204)	3,231.1	3,106.3	3,075.0	1,565.6	1,722.5	1,722.5
Common stock in treasury	(6,723.9)	(5,789.5)	(5,598.0)			
Retained earnings	14,017.7	12,353.1	12,023.1	1,495.4	1,335.2	1,312.0
Accumulated other comprehensive income (loss)	(2,997.3)	(3,379.6)	(3,384.9)	203.5	125.0	89.1
Total Deere & Company stockholders equity	7,527.6	6,290.3	6,115.2	3,264.5	3,182.7	3,123.6
Noncontrolling interests	12.4	11.1	9.0		2.0	1.6
Total stockholders equity	7,540.0	6,301.4	6,124.2	3,264.5	3,184.7	3,125.2
Total Liabilities and Stockholders Equity	$ 24,224.2	$ 21,540.9	$ 20,477.5	$ 29,236.3	$ 27,506.4	$ 26,707.7

* 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.

SUPPLEMENTAL CONSOLIDATING DATA (Continued)

STATEMENT OF CASH FLOWS

For the Nine Months Ended July 31, 2011 and 2010

(In millions of dollars) Unaudited	EQUIPMENT OPERATIONS*		FINANCIAL SERVICES	
	2011	2010	2011	2010
Cash Flows from Operating Activities				
Net income	$ 2,135.8	$ 1,415.0	$ 348.9	$ 274.0
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for doubtful receivables	2.5	1.8	15.3	83.0
Provision for depreciation and amortization	439.7	416.3	293.0	319.9
Undistributed earnings of unconsolidated subsidiaries and affiliates	(82.8)	(132.5)	(.8)	(.6)
Provision (credit) for deferred income taxes	(372.0)	95.7	47.2	11.0
Changes in assets and liabilities:				
Receivables	(24.9)	(168.1)		(8.4)
Inventories	(1,483.6)	(818.8)		
Accounts payable and accrued expenses	686.7	729.9	134.7	2.8
Accrued income taxes payable/receivable	274.7	108.4	(8.4)	20.5
Retirement benefits	340.9	(79.5)	10.2	12.2
Other	(182.4)	191.0	(77.9)	198.2
Net cash provided by operating activities	1,734.6	1,759.2	762.2	912.6
Cash Flows from Investing Activities				
Collections of receivables (excluding trade and wholesale)			10,169.3	9,318.5
Proceeds from maturities and sales of marketable securities			24.5	23.5
Proceeds from sales of equipment on operating leases			522.8	463.5
Government grants related to property and equipment				92.3
Proceeds from sales of businesses, net of cash sold	894.4	25.0		
Cost of receivables acquired (excluding trade and wholesale)			(11,187.4)	(9,800.5)
Purchases of marketable securities	(200.5)		(55.5)	(55.0)
Purchases of property and equipment	(680.2)	(432.0)	(1.3)	(25.4)
Cost of equipment on operating leases acquired			(790.6)	(718.4)
Acquisitions of businesses, net of cash acquired	(60.8)	(34.7)		(8.3)
Increase in trade and wholesale receivables			(1,153.5)	(1,287.5)
Other	(135.3)	(60.6)	(73.4)	(1.7)
Net cash used for investing activities	(182.4)	(502.3)	(2,545.1)	(1,999.0)
Cash Flows from Financing Activities				