DEERE & CO
Form 10-Q
August 28, 2009

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, 2009

Commission file no: 1-4121

DEERE & COMPANY

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, 2009, 422,947,967 shares of common stock, $1 par value, of the registrant were outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DEERE & COMPANY
STATEMENT OF CONSOLIDATED INCOME
For the Three Months Ended July 31, 2009 and 2008
(In millions of dollars and shares except per share amounts) Unaudited

	2009	2008
Net Sales and Revenues		
Net sales	$ 5,282.7	$ 7,070.2
Finance and interest income	459.7	511.6
Other income	142.2	156.9
Total	5,884.6	7,738.7
Costs and Expenses		
Cost of sales	4,057.6	5,421.9
Research and development expenses	243.3	238.1
Selling, administrative and general expenses	659.5	772.0
Interest expense	249.3	270.2
Other operating expenses	165.7	167.5
Total	5,375.4	6,869.7
Income of Consolidated Group before Income Taxes	509.2	869.0
Provision for income taxes	87.9	307.1
Income of Consolidated Group	421.3	561.9
Equity in income (loss) of unconsolidated affiliates	(1.3)	13.3
Net Income	$ 420.0	$ 575.2
Per Share Data		
Net income - basic	$ .99	$ 1.34
Net income - diluted	$ .99	$ 1.32
Average Shares Outstanding		
Basic	422.9	429.3
Diluted	424.8	434.4

See Condensed Notes to Interim Financial Statements.

DEERE & COMPANY
STATEMENT OF CONSOLIDATED INCOME
For the Nine Months Ended July 31, 2009 and 2008
(In millions of dollars and shares except per share amounts) Unaudited

	2009	2008
Net Sales and Revenues		
Net sales	$ 16,029.8	$ 19,069.7
Finance and interest income	1,368.4	1,548.8
Other income	380.1	418.0
Total	17,778.3	21,036.5
Costs and Expenses		
Cost of sales	12,356.5	14,292.3
Research and development expenses	718.4	672.5
Selling, administrative and general expenses	1,986.4	2,191.4
Interest expense	793.2	848.9
Other operating expenses	528.9	468.3
Total	16,383.4	18,473.4
Income of Consolidated Group before Income Taxes	1,394.9	2,563.1
Provision for income taxes	298.6	888.1
Income of Consolidated Group	1,096.3	1,675.0
Equity in income of unconsolidated affiliates		32.7
Net Income	$ 1,096.3	$ 1,707.7
Per Share Data		
Net income - basic	$ 2.59	$ 3.94
Net income - diluted	$ 2.59	$ 3.89
Average Shares Outstanding		
Basic	422.7	433.6
Diluted	424.1	439.4

See Condensed Notes to Interim Financial Statements.

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

	July 31 2009	October 31 2008	July 31 2008
Assets			
Cash and cash equivalents	$ 4,314.8	$ 2,211.4	$ 2,822.8
Marketable securities	181.0	977.4	944.0
Receivables from unconsolidated affiliates	37.6	44.7	45.1
Trade accounts and notes receivable - net	3,230.0	3,234.6	3,982.7
Financing receivables - net	14,122.2	16,017.0	16,023.0
Restricted financing receivables - net	3,803.0	1,644.8	1,933.8
Other receivables	695.8	664.9	678.6
Equipment on operating leases - net	1,663.5	1,638.6	1,661.0
Inventories	3,020.0	3,041.8	3,474.2
Property and equipment - net	4,411.0	4,127.7	3,938.5
Investments in unconsolidated affiliates	214.3	224.4	215.1
Goodwill	1,293.9	1,224.6	1,329.8
Other intangible assets - net	141.8	161.4	183.4
Retirement benefits	1,185.1	1,106.0	2,047.5
Deferred income taxes	1,555.5	1,440.6	1,564.2
Other assets	1,517.2	974.7	844.0
Total Assets	$ 41,386.7	$ 38,734.6	$ 41,687.7
Liabilities and Stockholders Equity			
Short-term borrowings	$ 8,048.4	$ 8,520.5	$ 10,114.2
Payables to unconsolidated affiliates	76.0	169.2	178.5
Accounts payable and accrued expenses	5,589.9	6,393.6	6,705.3
Deferred income taxes	161.0	171.8	207.8
Long-term borrowings	16,720.9	13,898.5	13,397.4
Retirement benefits and other liabilities	3,366.9	3,048.3	3,544.5
Total liabilities	33,963.1	32,201.9	34,147.7
Commitments and contingencies (Note 5)			
Common stock, $1 par value (issued shares at July 31, 2009 536,431,204)	2,988.1	2,934.0	2,931.0
Common stock in treasury	(5,573.8)	(5,594.6)	(5,277.4)
Retained earnings	11,321.7	10,580.6	10,353.8
Accumulated other comprehensive income (loss)	(1,312.4)	(1,387.3)	(467.4)
Stockholders equity	7,423.6	6,532.7	7,540.0
Total Liabilities and Stockholders Equity	$ 41,386.7	$ 38,734.6	$ 41,687.7

See Condensed Notes to Interim Financial Statements.

DEERE & COMPANY
STATEMENT OF CONSOLIDATED CASH FLOWS
For the Nine Months Ended July 31, 2009 and 2008
(In millions of dollars) Unaudited

	2009	2008
Cash Flows from Operating Activities		
Net income	$ 1,096.3	$ 1,707.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful receivables	138.7	65.1
Provision for depreciation and amortization	653.2	626.9
Share-based compensation expense	63.9	63.7
Undistributed earnings of unconsolidated affiliates	.8	(18.2)
Credit for deferred income taxes	(77.9)	(143.1)
Changes in assets and liabilities:		
Trade, notes and financing receivables related to sales	(261.9)	(656.7)
Inventories	(88.1)	(1,212.9)
Accounts payable and accrued expenses	(902.4)	509.8
Accrued income taxes payable/receivable	(86.2)	264.6
Retirement benefits	65.4	(115.0)
Other	(118.8)	(149.3)
Net cash provided by operating activities	483.0	942.6
Cash Flows from Investing Activities		
Collections of receivables	8,808.6	9,400.0
Proceeds from sales of financing receivables	10.3	38.7
Proceeds from maturities and sales of marketable securities	819.3	1,415.9
Proceeds from sales of equipment on operating leases	340.2	354.9
Proceeds from sales of businesses, net of cash sold		41.1
Cost of receivables acquired	(8,460.8)	(9,648.1)
Purchases of marketable securities	(15.9)	(769.2)
Purchases of property and equipment	(647.4)	(631.2)
Cost of equipment on operating leases acquired	(284.8)	(306.9)
Acquisitions of businesses, net of cash acquired	(47.4)	(241.4)
Other	(38.5)	(37.1)
Net cash provided by (used for) investing activities	483.6	(383.3)
Cash Flows from Financing Activities		
Increase (decrease) in short-term borrowings	(392.7)	60.3
Proceeds from long-term borrowings	4,732.8	4,400.3
Payments of long-term borrowings	(2,770.8)	(3,032.2)
Proceeds from issuance of common stock	9.5	107.0
Repurchases of common stock	(3.2)	(1,358.0)
Dividends paid	(354.9)	(327.9)
Excess tax benefits from share-based compensation	1.6	71.7
Other	(122.1)	(14.2)
Net cash provided by (used for) financing activities	1,100.2	(93.0)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	36.6	77.9
Net Increase in Cash and Cash Equivalents	2,103.4	544.2
Cash and Cash Equivalents at Beginning of Period	2,211.4	2,278.6
Cash and Cash Equivalents at End of Period	$ 4,314.8	$ 2,822.8

See Condensed Notes to Interim Financial Statements.

Condensed Notes to Interim Financial Statements (Unaudited)

(1) 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 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.

Subsequent events have been evaluated through August 28, 2009, which is the date these financial statements were issued on Form 10-Q with the SEC.

Certain items previously reported in specific financial statement captions in the third quarter of 2008 have been reclassified to conform to the year end 2008 and third quarter of 2009 financial statement presentation. In particular, Accrued taxes previously presented separately has been combined with Accounts payable and accrued expenses on the Condensed Consolidated Balance Sheet.

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 $201 million and $219 million in the first nine months of 2009 and 2008, respectively. The Company also had non-cash transactions for accounts payable related to purchases of property and equipment of approximately $87 million and $90 million at July 31, 2009 and 2008, respectively.

Variable Interest Entities

The Company is the primary beneficiary of and consolidates a supplier that is a variable interest entity (VIE). The Company would absorb more than a majority of the VIE s expected losses based on a cost sharing supply contract. No additional support beyond what was previously contractually required has been provided during the first nine months of 2009. The VIE produces blended fertilizer and other lawn care products for the agriculture and turf segment (see Note 19). The assets of the VIE that were consolidated at July 31, 2009, less the intercompany receivables of $40 million eliminated in consolidation, totaled $75 million and consisted of $63 million of inventory, $6 million of property and equipment and $6 million of other assets. The liabilities of the VIE totaled $122 million and consisted of $102 million of accounts payable and accrued expenses and $20 million of short-term borrowings. The VIE is financed through its own accounts payable and short-term

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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 is the primary beneficiary of and consolidates certain Wind Energy entities that are VIEs, which invest in wind farms that own and operate turbines to generate electrical energy. Although the Company owns less than a majority of the equity voting rights, it owns most of the financial rights that would absorb the VIEs expected losses or returns. No additional support to the VIEs beyond what was previously contractually required has been provided during the first nine months of 2009. The assets of the VIEs that were consolidated at July 31, 2009 totaled $180 million and consisted primarily of property and equipment. The liabilities of the VIEs, less the intercompany borrowings of $56 million eliminated in consolidation, totaled $11 million and consisted primarily of accounts payable and accrued expenses. The VIEs are financed primarily through intercompany borrowings and equity. The VIEs assets are pledged as security interests for the intercompany borrowings. The remaining creditors of the VIEs do not have recourse to the general credit of the Company.

See Note 6 for VIEs related to securitization of financing receivables.

(2) 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 through the first nine months of 2009. The agricultural equipment operations and the commercial and consumer equipment operations were combined into the agriculture and turf operations at the beginning of the third quarter of 2009 (see Note 19).

Financial Services Includes the Company s credit and certain miscellaneous service operations.

Consolidated Represents the consolidation of the Equipment Operations and Financial Services. References to Deere & Company or the Company refer to the entire enterprise.

See Notes 1 and 6 for VIE information.

(3) An analysis of the Company s retained earnings in millions of dollars follows:

	Three Months Ended July 31		Nine Months Ended July 31	
	2009	2008	2009	2008
Balance, beginning of period	$ 11,020.0	$ 9,898.7	$ 10,580.6	$ 9,031.7
Net income	420.0	575.2	1,096.3	1,707.7
Dividends declared	(118.4)	(120.2)	(355.1)	(337.6)
Adoption of FIN No. 48 *				(48.0)
Other	.1	.1	(.1)	
Balance, end of period	$ 11,321.7	$ 10,353.8	$ 11,321.7	$ 10,353.8

* Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes

(4) 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 2009	October 31 2008	July 31 2008
Raw materials and supplies	$ 1,025	$ 1,170	$ 1,157
Work-in-process	426	519	507
Finished goods and parts	2,949	2,677	3,138
Total FIFO value	4,400	4,366	4,802
Less adjustment to LIFO basis	1,380	1,324	1,328
Inventories	$ 3,020	$ 3,042	$ 3,474

(5) 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 $222 million and $242 million at July 31, 2009 and 2008, 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	
	2009	2008	2009	2008
Balance, beginning of period	$ 799	$ 811	$ 814	$ 774
Payments	(143)	(125)	(381)	(373)
Amortization of premiums received	(20)	(25)	(74)	(65)
Accruals for warranties	104	173	335	427
Premiums received	25	29	72	83
Foreign exchange	8	1	7	18
Balance, end of period	$ 773	$ 864	$ 773	$ 864

At July 31, 2009, the Company had approximately $160 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, 2009, the Company had an accrued liability of approximately $10 million under these agreements. The maximum remaining term of the receivables guaranteed at July 31, 2009 was approximately six years.

The credit operation s subsidiary, John Deere Risk Protection, Inc., offers crop insurance products through managing general agency agreements (Agreements) with insurance companies (Insurance Carriers) rated Excellent with A.M. Best Company. As a managing general agent, John Deere Risk Protection, Inc. will receive commissions from the Insurance Carriers for selling crop insurance to producers. The credit operations have guaranteed certain obligations under the Agreements, including the obligation to pay the Insurance Carriers for any uncollected premiums. At July 31, 2009, the

maximum exposure for uncollected premiums was approximately $179 million. Substantially all of the credit operations crop insurance risk under the Agreements has been mitigated by a syndicate of private reinsurance companies. These reinsurance companies are rated Excellent or higher by A.M. Best Company. In the event of a widespread catastrophic crop failure throughout the U.S. and the default of these highly rated private reinsurance companies on their reinsurance obligations, the credit operations would be required to reimburse the Insurance Carriers for exposure under the Agreements of approximately $915 million at July 31, 2009. The credit operations believe that the likelihood of the occurrence of events that give rise to the exposures under these Agreements is substantially remote and as a result at July 31, 2009, the credit operations accrued liability under the Agreements was not material.

At July 31, 2009, the Company had commitments of approximately $248 million for the construction and acquisition of property and equipment. Also at July 31, 2009, the Company had pledged assets of $141 million, primarily as collateral for borrowings. See Note 6 for additional restricted assets associated with borrowings related to securitizations.

The Company also had other miscellaneous contingent liabilities totaling approximately $45 million at July 31, 2009, for which it believes the probability for payment was substantially remote. The accrued liability for these contingencies was not material at July 31, 2009.

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.

(6) 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) as part of its asset-backed securities programs (securitizations). The structure of these transactions is such that the transfer of the retail notes did not meet the criteria of sales of receivables, and is, therefore, accounted for as secured borrowings. 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. For bankruptcy analysis purposes, the Company has sold the receivables to the SPEs in a true sale and the SPEs are separate legal entities. Use of the assets held by the SPEs is restricted by terms of the documents governing the securitization transaction.

In securitizations of retail notes related to secured borrowings, the retail notes are transferred to certain SPEs which in turn issue debt to investors. The resulting secured borrowings are included in short-term borrowings on the balance sheet as shown in the following table. The securitized retail notes are recorded as Restricted financing receivables net on the balance sheet. The total restricted assets on the balance sheet related to these securitizations include the restricted financing receivables less an allowance for credit losses, and other assets primarily representing restricted cash as shown in the following table. The SPEs supporting the secured borrowings to which the retail notes are transferred are consolidated unless the Company is not the primary beneficiary. No additional support to these SPEs beyond what was previously contractually required has been provided during the first nine months of 2009.

In certain securitizations, the Company is the primary beneficiary of the SPEs and, as such, consolidates the entities. The restricted assets (retail notes, allowance for credit losses and other assets) of the consolidated SPEs totaled $1,855 million, $1,303 million and $1,503 million at July 31, 2009, October 31, 2008 and July 31, 2008, respectively. The liabilities (short-term borrowings and accrued interest) of

these SPEs totaled $1,796 million, $1,287 million and $1,490 million at July 31, 2009, October 31, 2008 and July 31, 2008, respectively. The credit holders of these SPEs do not have legal recourse to the Company s general credit.

In other securitizations, the Company transfers retail notes into bank-sponsored, multi-seller, commercial paper conduits, which are SPEs that are not consolidated. The Company is not considered to be the primary beneficiary of these conduits, because the Company s variable interests in the conduits will not absorb a majority of the conduits expected losses, residual returns, or both. This is primarily due to these interests representing significantly less than a majority of the conduits total assets and liabilities. 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, allowance for credit losses and other assets) of $2,088 million, $398 million and $485 million at July 31, 2009, October 31, 2008 and July 31, 2008, respectively. The liabilities (short-term borrowings and accrued interest) related to these conduits were $1,923 million, $398 million and $479 million at July 31, 2009, October 31, 2008 and July 31, 2008, 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, 2009
Carrying value of liabilities	$ 1,923
Maximum exposure to loss	2,088

The assets of unconsolidated conduits related to securitizations in which the Company s variable interests were considered significant were approximately $40 billion at July 31, 2009.

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

	July 31 2009	October 31 2008	July 31 2008
Restricted financing receivables (retail notes)	$ 3,821	$ 1,656	$ 1,947
Allowance for credit losses	(18)	(11)	(13)
Other assets	140	56	54
Total restricted securitized assets	$ 3,943	$ 1,701	$ 1,988

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

	July 31 2009	October 31 2008	July 31 2008
Short-term borrowings	$ 3,712	$ 1,682	$ 1,966
Accrued interest on borrowings	7	3	3
Total liabilities related to restricted securitized assets	$ 3,719	$ 1,685	$ 1,969

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 do not need to be placed into a restricted collection account until immediately prior to the time payment is required to the secured creditors. At July 31, 2009, the maximum remaining term of all restricted receivables was approximately six years.

(7) 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		
	2009	2008	% Change	2009	2008	% Change
Net sales and revenues *:						
Agriculture and turf net sales ****	$ 4,651	$ 5,876	-21	$ 14,057	$ 15,500	-9
Construction and forestry net sales	632	1,194	-47	1,973	3,570	-45
Total net sales **	5,283	7,070	-25	16,030	19,070	-16
Credit revenues	501	550	-9	1,432	1,632	-12
Other revenues	101	119	-15	316	334	-5
Total net sales and revenues **	$ 5,885	$ 7,739	-24	$ 17,778	$ 21,036	-15
Operating profit (loss): ***						
Agriculture and turf ****	$ 480	$ 725	-34	$ 1,472	$ 2,001	-26
Construction and forestry	(28)	93		(85)	376	
Credit	95	111	-14	206	376	-45
Other	5	5		9	12	-25
Total operating profit **	552	934	-41	1,602	2,765	-42
Interest, corporate expenses net and income taxes	(132)	(359)	-63	(506)	(1,057)	-52
Net income	$ 420	$ 575	-27	$ 1,096	$ 1,708	-36
Identifiable assets:						
Agriculture and turf ****				$ 7,239	$ 7,627	-5
Construction and forestry				2,211	2,528	-13
Credit				26,967	25,203	+7
Other				267	215	+24
Corporate				4,703	6,115	-23
Total assets				$ 41,387	$ 41,688	-1

*	Additional intersegment sales and revenues						
	Agriculture and turf net sales ****	$ 11	$ 11		$ 22	$ 35	-37
	Construction and forestry net sales	2	2		3	7	-57
	Credit revenues	68	57	+19	207	191	+8
**	Includes equipment operations outside the U.S. and Canada as follows:						
	Net sales	$ 1,940	$ 3,072	-37	$ 5,912	$ 7,942	-26
	Operating profit	79	332	-76	245	925	-74

*** Operating profit (loss) is income from continuing operations before external interest expense, certain foreign exchange gains and losses, income taxes and certain corporate expenses. However, operating profit of the credit segment includes the effect of interest expense and foreign exchange gains or losses.

**** At the beginning of the third quarter of 2009, the Company combined the agricultural equipment and the commercial and consumer equipment organizations. As a result, these two segments have been combined into the agriculture and turf segment.

The net sales, intersegment net sales, operating profit and identifiable assets for the agriculture and turf segment for the third quarter and first nine months of 2009 and 2008 were as shown above. The information for the first two quarters of 2009 and 2008 and fiscal years 2008 and 2007 in millions of dollars were as follows:

	First Quarter		Second Quarter		Years	
Agriculture and Turf	2009	2008	2009	2008	2008	2007
Net sales	$ 3,819	$ 3,501	$ 5,587	$ 6,124	$ 20,985	$ 16,454
Intersegment net sales	8	11	3	13	40	75
Operating profit	289	340	703	936	2,461	1,747
Identifiable assets	7,748	6,827	7,730	7,751	7,041	5,916

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

	Three Months Ended July 31		Nine Months Ended July 31	
	2009	2008	2009	2008
Dividends declared	$ .28	$ .28	$ .84	$ .78
Dividends paid	*	$ .25	$ .84 *	$ .75

* Due to the dividend payment dates, a quarterly dividend was not included in the third quarter of 2009. Two quarterly dividends of $.28 per share were included in the second quarter of 2009 and one quarterly dividend of $.28 per share was included in the first quarter of 2009.

(9) A reconciliation of basic and diluted net income per share in millions, except per share amounts, follows:

	Three Months Ended July 31		Nine Months Ended July 31	
	2009	2008	2009	2008
Net income	$ 420.0	$ 575.2	$ 1,096.3	$ 1,707.7
Average shares outstanding	422.9	429.3	422.7	433.6
Basic net income per share	$ .99	$ 1.34	$ 2.59	$ 3.94
Average shares outstanding	422.9	429.3	422.7	433.6
Effect of dilutive stock options	1.9	5.1	1.4	5.8
Total potential shares outstanding	424.8	434.4	424.1	439.4
Diluted net income per share	$ .99	$ 1.32	$ 2.59	$ 3.89

Out of the total stock options outstanding during the third quarter and first nine months of 2009 and 2008, options to purchase 4.7 million shares in both periods of 2009 and 2.0 million shares in both periods of 2008 were excluded from the above diluted per share computation because the incremental shares related to the exercise of these options under the treasury stock method would have caused an antidilutive effect on net income per share.

(10) Comprehensive income, which includes all changes in the Company s 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	
	2009	2008	2009	2008
Net income	$ 420.0	$ 575.2	$ 1,096.3	$ 1,707.7
Other comprehensive income (loss), net of tax:				
Retirement benefits adjustment	14.7	19.7	(90.6)	70.3
Cumulative translation adjustment	210.8	25.5	173.4	107.5
Unrealized gain (loss) on investments	.5	(1.4)	6.4	(2.7)
Unrealized gain (loss) on derivatives	9.9	12.3	(14.3)	(5.0)
Comprehensive income	$ 655.9	$ 631.3	$ 1,171.2	$ 1,877.8

(11) 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 health care and life insurance plans for retired employees in the U.S. and Canada.

The components of net periodic pension cost (income) consisted of the following in millions of dollars:

	Three Months Ended July 31		Nine Months Ended July 31	
	2009	2008	2009	2008
Service cost	$ 29	$ 40	$ 89	$ 122
Interest cost	141	129	421	387
Expected return on plan assets	(185)	(186)	(553)	(559)
Amortization of actuarial loss	1	9	4	36
Amortization of prior service cost	7	7	19	20
Early-retirement benefits	1	1	3	2
Net cost (income)	$ (6)	$	$ (17)	$ 8

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

	Three Months Ended July 31		Nine Months Ended July 31	
	2009	2008	2009	2008
Service cost	$ 7	$ 13	$ 21	$ 37
Interest cost	86	81	258	242
Expected return on plan assets	(30)	(45)	(89)	(133)
Amortization of actuarial loss	17	21	50	62
Amortization of prior service credit	(3)	(5)	(9)	(13)
Early-retirement benefits			1	
Net cost	$ 77	$ 65	$ 232	$ 195

During the first nine months of 2009, the Company contributed approximately $50 million to its pension plans and $83 million to its other postretirement benefit plans. The Company presently anticipates contributing an additional $188 million to its pension plans and $19 million to its other postretirement benefit plans in the remainder of fiscal year 2009. These contributions include payments from Company funds to either increase plan assets or make direct payments to plan participants.

(12) Assets and liabilities measured at fair value in the financial statements on a recurring basis in millions of dollars follow:

	July 31, 2009		
	Total	Level 1	Level 2
Marketable securities			
U.S. government debt securities	$ 49	$ 32	$ 17
Municipal debt securities	24		24
Corporate debt securities	38		38
Residential mortgage-backed securities *	70		70
Total marketable securities	181	32	149
Other assets			
Derivatives:			
Interest rate contracts	630		630
Foreign exchange contracts	11		11
Cross-currency interest rate contracts	128		128
Total assets	$ 950	$ 32	$ 918
Accounts payable and accrued expenses			
Derivatives:			
Interest rate contracts	$ 169		$ 169
Foreign exchange contracts	50		50
Cross-currency interest rate contracts	1		1
Total liabilities	$ 220		$ 220

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

Financial assets measured at fair value on a nonrecurring basis and the losses during the periods in millions of dollars were as follows:

	July 31, 2009	Three Months Ended July 31, 2009	Nine Months Ended July 31, 2009
	Level 3	Losses	Losses
Financing receivables	$ 24	$ 5	$ 11
Trade receivables	1		2

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:

Investments Available for Sale The portfolio of investments is primarily valued on a matrix pricing model in which all significant inputs are observable or can be derived from or corroborated by observable market data.

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

Financing and Trade Receivables Receivables with specific reserves established due to payment defaults are valued based on a discounted cash flow approach or realizable values for the underlying collateral. The related credit allowances represent cumulative adjustments to measure those specific receivables at fair value.

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

	July 31, 2009		October 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financing receivables	$ 14,122	$ 14,184	$ 16,017	$ 15,588
Restricted financing receivables	3,803	3,812	1,645	1,640
Short-term secured borrowings	3,712	3,727	1,682	1,648
Long-term borrowings:				
Equipment Operations	$ 1,653	$ 1,754	$ 1,992	$ 1,895
Financial Services	15,068	15,448	11,907	11,112
Total	$ 16,721	$ 17,202	$ 13,899	$ 13,007

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 secured borrowings were based 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.

Fair values of derivative financial instruments are included in Note 12. The carrying values and the fair values are the same since they are recorded at fair value.

(14) 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 credit 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 local 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 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 are in a liability position at July 31, 2009 was $22 million. 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.

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 or mutual put options at fair value. 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 $769 million as of July 31, 2009. The amount of collateral received at July 31, 2009 to offset this potential maximum loss was $40 million. 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 $133 million as of July 31, 2009. None of the concentrations of risk with any individual counterparty was considered significant at July 31, 2009.

Cash flow hedges

Certain interest rate contracts (swaps) were designated as hedges of future cash flows from variable interest rate borrowings. The total notional amount of these receive-variable/pay-fixed interest rate contracts at July 31, 2009 was $3,411 million. 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 as payments were accrued and the contracts approached maturity. These amounts offset the effects of interest rate 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. 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, 2009 that is expected to be reclassified to interest expense in the next twelve months if interest rates remain unchanged is approximately $40 million after-tax. These contracts mature in up to 22 months. There were no significant 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 fixed-rate, long-term borrowings. The total notional amount of these receive-fixed/pay-variable interest rate contracts at July 31, 2009 was $7,423 million. 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 a $3 million loss in the third quarter of 2009 and a $.3 million loss in the first nine months of 2009. The cash flows from these contracts were recorded in operating activities in the consolidated statement of cash flows.

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

	Three Months Ended July 31, 2009	Nine Months Ended July 31, 2009
Interest rate contracts	$ (13)	$ 344
Borrowings	(27)	(476)

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 amount of the interest rate swaps was $1,357 million, the foreign exchange contracts was $2,266 million and the cross-currency interest rate contracts was $847 million at July 31, 2009. There were also $2,670 million of interest rate caps purchased and $2,670 million sold at the same capped interest rate to facilitate borrowings through securitization of retail notes at July 31, 2009. 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:

	July 31, 2009	
	Other Assets	Accounts Payable and Accrued Expenses
Designated as hedging instruments:		
Interest rate contracts	$ 569	$ 99
Not designated as hedging instruments:		
Interest rate contracts	61	70
Foreign exchange contracts	11	50
Cross-currency interest rate contracts	128	1
Total not designated	200	121
Total derivatives	$ 769	$ 220

The effects of derivative instruments on the statement of consolidated income consisted of the following in millions of dollars:

	Classification of Gains (Losses)		Three Months Ended July 31, 2009		Nine Months Ended July 31, 2009
Fair Value Hedges:					
Interest rate contracts	Interest expense	$	(13)	$	344
Cash Flow Hedges:					
Recognized in OCI (Effective Portion):					
Interest rate contracts	OCI (pretax)		(11)		(80)
Reclassified from OCI (Effective Portion):					
Interest rate contracts	Interest expense		(27)		(59)
Recognized Directly in Income (Ineffective Portion) *:					
Interest rate contracts	Interest expense		*		*
Not Designated as Hedges:					
Interest rate contracts **	Interest expense	$	7	$	1
Foreign exchange contracts	Cost of sales		(54)		(52)
Foreign exchange contracts **	Other operating expenses		(82)		(44)
Total		$	(129)	$	(95)

* The amount is less than $.1 million.

** Includes interest and foreign exchange expenses from cross-currency interest rate contracts.

(15) The Company s unrecognized tax benefits at October 31, 2008 were $236 million of which approximately $61 million would affect the effective tax rate if they were recognized. These amounts have not changed materially at July 31, 2009. Based on worldwide tax audits which are scheduled to close over the next twelve months, the Company expects to have decreases to these uncertain tax benefits primarily related to transfer pricing. An estimate of the decreases can not be made at this time. However, they are not expected to have a material impact on the effective tax rate due to compensating adjustments to related tax receivables.

(16) In September 2008, the Company announced it would close its manufacturing facility in Welland, Ontario, Canada, and transfer production to Company operations in Horicon, Wisconsin, U.S. and Monterrey and Saltillo, Mexico. The Welland factory manufactures utility vehicles and attachments for the agriculture and turf businesses. The move supports ongoing efforts aimed at improved efficiency and profitability. The factory is scheduled to close by the end of 2009.

The closure is expected to result in total expenses recognized in cost of sales in millions of dollars as follows:

	Fiscal Year 2008	Nine Months 2009	Remainder	Total
Pension and other postretirement benefits	$ 10	$ 3	$ 27	$ 40
Property and equipment impairments	21			21
Employee termination benefits	18	7		25
Other expenses		7	4	11
Total	$ 49	$ 17	$ 31	$ 97

All expenses are included in the agriculture and turf segment (see Note 19). The total pretax cash expenditures associated with this closure will be approximately $50 million. The annual pretax increase in earnings and cash flows in the future due to this restructuring is estimated to be approximately $40 million.

The remaining liability for employee termination benefits at July 31, 2009 was $21 million, which included accrued benefit expenses to date of $25 million and an increase due to foreign currency translation of $1 million, which were partially offset by $5 million of benefits paid during the first nine months of 2009.

(17) New accounting standards adopted in the first nine months of 2009 were as follows:

In the first quarter of 2009, the Company adopted FASB Statement No. 157, Fair Value Measurements, for financial assets and liabilities recognized or disclosed at fair value (see Note 12). This Statement defines fair value and expands disclosures about fair value measurements. These definitions apply to other accounting standards that use fair value measurements and may change the application of certain measurements used in current practice. For nonfinancial assets and liabilities, the effective date is the beginning of fiscal year 2010, except items that are recognized or disclosed at fair value on a recurring basis. The adoption did not have a material effect on the Company s consolidated financial statements.

In the first quarter of 2009, the Company adopted FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This Statement permits entities to measure most financial instruments at fair value if desired. It may be applied on a contract by contract basis and is irrevocable once applied to those contracts. The standard may be applied at the time of adoption for existing eligible items, or at initial recognition of eligible items. After election of this option, changes in fair value are reported in earnings. The items measured at fair value must be shown separately on the balance sheet. The cumulative effect of adoption would be reported as an adjustment to beginning retained earnings. The Company did not change the valuation of any financial instruments based on this Statement and, therefore, the adoption had no effect on the Company s consolidated financial statements.

In the first quarter of 2009, the Company adopted FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities. This Statement increases the disclosure requirements for derivative instruments (see Note 14). Most disclosures are required on an interim and annual basis. The adoption did not have a material effect on the Company s consolidated financial statements.

In the first quarter of 2009, the Company adopted FASB Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles. This Statement identifies the sources for generally accepted accounting principles (GAAP) in the U.S. and lists the categories in descending order. An entity should follow the highest category of GAAP applicable for each of its accounting transactions. The adoption did not have a material effect on the Company s consolidated financial statements.

In the first quarter of 2009, the Company adopted FASB Staff Position (FSP) Financial Accounting Statement (FAS) 140-4 and FIN 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities (see Notes 1 and 6). The new standard requires additional disclosure for transfers of financial assets in securitization transactions and an entity s involvement with variable interest entities. The adoption did not have a material effect on the Company s consolidated financial statements.

In the third quarter of 2009, the Company adopted FASB Statement No. 165, Subsequent Events. This Statement establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued, or available to be issued if not widely distributed. The financial statements should reflect all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet. The financial statements should not reflect subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet. An entity must disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued, or the date they were available to be issued (see Note 1). The adoption did not have a material effect on the Company s consolidated financial statements.

In the third quarter of 2009, the Company adopted FSP FAS 107-1 and Accounting Principles Bulletin (APB) 28-1, Interim Disclosures about Fair Value of Financial Instruments (see Note 13). The new standard requires the fair value disclosures as described in FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, on an interim basis. Previously, this was disclosed on an annual basis only. 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 2007, the FASB issued Statement No. 141 (revised 2007), Business Combinations, and Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements. Statement No. 141 (revised 2007) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. Statement No. 160 requires that a noncontrolling interest in a subsidiary be reported as equity in the consolidated financial statements. Consolidated net income should include the net income for both the parent and the noncontrolling interest with disclosure of both amounts on the consolidated statement of income. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. The effective date for both Statements is the beginning of fiscal year 2010. The adoptions are not expected to have material effects on the Company s consolidated financial statements.

In June 2009, the FASB issued Statement No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140. Statement No. 166 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 effective date is the beginning of fiscal year 2011. The adoption is not expected to have a material effect on the Company s consolidated financial statements.

In June 2009, the FASB issued Statement No. 167, Amendments to FASB Interpretation No. 46(R). This Statement requires a qualitative analysis to determine the primary beneficiary of a variable interest entity (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 Statement also requires additional disclosures about an enterprise s involvement in a VIE. The effective date is the beginning of fi