

DEERE & CO
Form 10-Q
May 29, 2014

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 April 30, 2014

	Commission file no: 1-4121	
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DEERE & COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

36-2382580
(IRS employer identification no.)

One John Deere Place

Moline, Illinois 61265

(Address of principal executive offices)

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

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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 ☒ No ☐

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

Yes ☒ No ☐

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

Large Accelerated Filer ☒

Accelerated Filer ☐

Non-Accelerated Filer ☐

Smaller Reporting Company ☐

(Do not check if a smaller reporting company)

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

Yes ☐ No ☒

At April 30, 2014, 363,792,961 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 April 30, 2014 and 2013

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

	2014	2013
Net Sales and Revenues		
Net sales	\$ 9,246.2	\$ 10,265.0
Finance and interest income	544.1	512.2
Other income	157.6	136.3
Total	9,947.9	10,913.5
Costs and Expenses		
Cost of sales	6,871.8	7,482.2
Research and development expenses	354.1	376.8
Selling, administrative and general expenses	846.5	956.3
Interest expense	165.8	191.0
Other operating expenses	245.9	163.4
Total	8,484.1	9,169.7
Income of Consolidated Group before Income Taxes	1,463.8	1,743.8
Provision for income taxes	479.0	666.4
Income of Consolidated Group	984.8	1,077.4
Equity in income (loss) of unconsolidated affiliates	(3.6)	6.9
Net Income	981.2	1,084.3
Less: Net income attributable to noncontrolling interests	.5	.1
Net Income Attributable to Deere & Company	\$ 980.7	\$ 1,084.2
Per Share Data		
Basic	\$ 2.67	\$ 2.79
Diluted	\$ 2.65	\$ 2.76
Average Shares Outstanding		
Basic	366.6	389.2
Diluted	369.8	393.1

See Condensed Notes to Interim Consolidated Financial Statements.

DEERE & COMPANY

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

For the Three Months Ended April 30, 2014 and 2013

(In millions of dollars) Unaudited

	2014	2013
Net Income	\$ 981.2	\$ 1,084.3
Other Comprehensive Income (Loss), Net of Income Taxes		
Retirement benefits adjustment	37.6	81.0
Cumulative translation adjustment	106.5	(59.8)
Unrealized gain (loss) on derivatives	(.6)	2.0
Unrealized gain on investments	2.4	2.3
Other Comprehensive Income (Loss), Net of Income Taxes	145.9	25.5
Comprehensive Income of Consolidated Group	1,127.1	1,109.8
Less: Comprehensive income attributable to noncontrolling interests	.5	.1
Comprehensive Income Attributable to Deere & Company	\$ 1,126.6	\$ 1,109.7

See Condensed Notes to Interim Consolidated Financial Statements.

DEERE & COMPANY

STATEMENT OF CONSOLIDATED INCOME

For the Six Months Ended April 30, 2014 and 2013

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

	2014	2013
Net Sales and Revenues		
Net sales	\$ 16,194.8	\$ 17,057.9
Finance and interest income	1,075.6	1,013.2
Other income	331.6	263.9
Total	17,602.0	18,335.0
Costs and Expenses		
Cost of sales	12,067.3	12,497.0
Research and development expenses	677.8	733.3
Selling, administrative and general expenses	1,612.5	1,737.9
Interest expense	337.5	371.1
Other operating expenses	478.2	305.8
Total	15,173.3	15,645.1
Income of Consolidated Group before Income Taxes	2,428.7	2,689.9
Provision for income taxes	759.6	955.3
Income of Consolidated Group	1,669.1	1,734.6
Equity in loss of unconsolidated affiliates	(6.6)	(.6)
Net Income	1,662.5	1,734.0
Less: Net income attributable to noncontrolling interests	.7	.1
Net Income Attributable to Deere & Company	\$ 1,661.8	\$ 1,733.9
Per Share Data		
Basic	\$ 4.50	\$ 4.46
Diluted	\$ 4.46	\$ 4.41
Average Shares Outstanding		
Basic	369.2	388.7
Diluted	372.6	393.0

See Condensed Notes to Interim Consolidated Financial Statements.

DEERE & COMPANY

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

For the Six Months Ended April 30, 2014 and 2013

(In millions of dollars) Unaudited

	2014	2013
Net Income	\$ 1,662.5	\$ 1,734.0
Other Comprehensive Income (Loss), Net of Income Taxes		
Retirement benefits adjustment	87.7	151.1
Cumulative translation adjustment	(61.5)	(39.6)
Unrealized gain on derivatives	2.3	5.8
Unrealized gain on investments	1.1	.2
Other Comprehensive Income (Loss), Net of Income Taxes	29.6	117.5
Comprehensive Income of Consolidated Group	1,692.1	1,851.5
Less: Comprehensive income attributable to noncontrolling interests	.7	.1
Comprehensive Income Attributable to Deere & Company	\$ 1,691.4	\$ 1,851.4

See Condensed Notes to Interim Consolidated Financial Statements.

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

	April 30 2014	October 31 2013	April 30 2013
Assets			
Cash and cash equivalents	\$ 3,078.5	\$ 3,504.0	\$ 3,651.4
Marketable securities	1,571.7	1,624.8	1,399.0
Receivables from unconsolidated affiliates	38.3	31.2	52.4
Trade accounts and notes receivable - net	5,119.7	3,758.2	5,398.9
Financing receivables - net	25,496.1	25,632.7	22,744.9
Financing receivables securitized - net	4,345.4	4,153.1	3,788.3
Other receivables	1,194.2	1,464.0	1,149.9
Equipment on operating leases - net	3,203.8	3,152.2	2,575.5
Inventories	5,849.6	4,934.7	6,173.0
Property and equipment - net	5,373.1	5,466.9	5,114.0
Investments in unconsolidated affiliates	308.5	221.4	230.0
Goodwill	839.6	844.8	922.9
Other intangible assets - net	71.2	77.1	93.8
Retirement benefits	580.7	551.1	35.8
Deferred income taxes	2,458.1	2,325.4	3,373.2
Other assets	1,249.2	1,274.7	1,452.1
Assets held for sale	84.7	505.0	
Total Assets	\$ 60,862.4	\$ 59,521.3	\$ 58,155.1
Liabilities and Stockholders' Equity			
Short-term borrowings	\$ 8,763.0	\$ 8,788.9	\$ 8,414.0
Short-term securitization borrowings	4,329.5	4,109.1	3,788.4
Payables to unconsolidated affiliates	134.5	106.9	143.3
Accounts payable and accrued expenses	8,150.3	8,973.6	8,132.8
Deferred income taxes	162.0	160.3	158.6
Long-term borrowings	23,166.9	21,577.7	21,752.9
Retirement benefits and other liabilities	5,438.8	5,416.7	7,498.3
Liabilities held for sale	49.8	120.4	
Total liabilities	50,194.8	49,253.6	49,888.3
Commitments and contingencies (Note 14)			
Common stock, \$1 par value (issued shares at April 30, 2014 - 536,431,204)	3,621.6	3,524.2	3,474.4
Common stock in treasury	(11,224.1)	(10,210.9)	(8,987.0)
Retained earnings	20,931.3	19,645.6	18,231.5
Accumulated other comprehensive income (loss)	(2,663.5)	(2,693.1)	(4,454.0)
Total Deere & Company stockholders' equity	10,665.3	10,265.8	8,264.9
Noncontrolling interests	2.3	1.9	1.9
Total stockholders' equity	10,667.6	10,267.7	8,266.8
Total Liabilities and Stockholders' Equity	\$ 60,862.4	\$ 59,521.3	\$ 58,155.1

See Condensed Notes to Interim Consolidated Financial Statements.

DEERE & COMPANY
 STATEMENT OF CONSOLIDATED CASH FLOWS
 For the Six Months Ended April 30, 2014 and 2013
 (In millions of dollars) Unaudited

	2014	2013
Cash Flows from Operating Activities		
Net income	\$ 1,662.5	\$ 1,734.0
Adjustments to reconcile net income to net cash used for operating activities:		
Provision for credit losses	9.8	8.5
Provision for depreciation and amortization	630.3	554.4
Impairment charges	62.3	
Share-based compensation expense	44.7	45.0
Undistributed earnings of unconsolidated affiliates	7.9	9.1
Credit for deferred income taxes	(138.0)	(103.8)
Changes in assets and liabilities:		
Trade, notes and financing receivables related to sales	(1,692.8)	(2,030.0)
Insurance receivables	175.4	462.0
Inventories	(1,268.2)	(1,235.1)
Accounts payable and accrued expenses	(578.7)	(665.0)
Accrued income taxes payable/receivable	86.8	97.4
Retirement benefits	138.0	16.8
Other	28.1	(49.7)
Net cash used for operating activities	(831.9)	(1,156.4)
Cash Flows from Investing Activities		
Collections of receivables (excluding receivables related to sales)	8,344.7	7,780.6
Proceeds from maturities and sales of marketable securities	611.3	528.0
Proceeds from sales of equipment on operating leases	570.9	506.4
Proceeds from sales of businesses, net of cash sold	307.2	
Cost of receivables acquired (excluding receivables related to sales)	(8,409.3)	(8,224.1)
Purchases of marketable securities	(562.8)	(460.4)
Purchases of property and equipment	(426.2)	(503.6)
Cost of equipment on operating leases acquired	(618.1)	(518.7)
Other	(85.1)	(87.0)
Net cash used for investing activities	(267.4)	(978.8)
Cash Flows from Financing Activities		
Increase in total short-term borrowings	956.7	1,341.6
Proceeds from long-term borrowings	4,253.8	2,470.5
Payments of long-term borrowings	(3,135.5)	(2,175.1)
Proceeds from issuance of common stock	108.7	149.7
Repurchases of common stock	(1,093.4)	(288.0)
Dividends paid	(382.3)	(357.6)
Excess tax benefits from share-based compensation	24.2	43.1
Other	(32.9)	(33.0)
Net cash provided by financing activities	699.3	1,151.2
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(25.5)	(16.8)
Net Decrease in Cash and Cash Equivalents	(425.5)	(1,000.8)
Cash and Cash Equivalents at Beginning of Period	3,504.0	4,652.2
Cash and Cash Equivalents at End of Period	\$ 3,078.5	\$ 3,651.4

See Condensed Notes to Interim Consolidated Financial Statements.

DEERE & COMPANY

STATEMENT OF CHANGES IN CONSOLIDATED STOCKHOLDERS' EQUITY

For the Six Months Ended April 30, 2013 and 2014

(In millions of dollars) Unaudited

	Deere & Company Stockholders					Accumulated	Non-
	Total	Common	Treasury	Retained	Other	Comprehensive	controlling
	<u>Equity</u>	<u>Stock</u>	<u>Stock</u>	<u>Earnings</u>	<u>Income (Loss)</u>	<u>Income (Loss)</u>	<u>Interests</u>
Balance October 31, 2012	\$ 6,862.0	\$ 3,352.2	\$ (8,813.8)	\$ 16,875.2	\$ (4,571.5)	\$	19.9
Net income	1,734.0			1,733.9			.1
Other comprehensive income (loss)	117.5				117.5		
Repurchases of common stock	(288.0)		(288.0)				
Treasury shares reissued	114.8		114.8				
Dividends declared	(385.0)			(377.5)			(7.5)
Deconsolidation of variable interest entity	(10.6)						(10.6)
Stock options and other	122.1	122.2		(.1)			
Balance April 30, 2013	\$ 8,266.8	\$ 3,474.4	\$ (8,987.0)	\$ 18,231.5	\$ (4,454.0)	\$	1.9
Balance October 31, 2013	\$ 10,267.7	\$ 3,524.2	\$ (10,210.9)	\$ 19,645.6	\$ (2,693.1)	\$	1.9
Net income	1,662.5			1,661.8			.7
Other comprehensive income (loss)	29.6				29.6		
Repurchases of common stock	(1,093.4)		(1,093.4)				
Treasury shares reissued	80.2		80.2				
Dividends declared	(376.4)			(376.1)			(.3)
Stock options and other	97.4	97.4					
Balance April 30, 2014	\$ 10,667.6	\$ 3,621.6	\$ (11,224.1)	\$ 20,931.3	\$ (2,663.5)	\$	2.3

See Condensed Notes to Interim Consolidated Financial Statements.

Condensed Notes to Interim Consolidated Financial Statements (Unaudited)

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

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

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

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

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

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

Cash Flow Information

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

The Company had the following non-cash operating and investing activities that were not included in the Statement of Consolidated Cash Flows. The Company transferred inventory to equipment on operating leases of approximately \$272 million and \$219 million in the first six months of 2014 and 2013, respectively. The Company also had accounts payable related to purchases of property and equipment of approximately \$44 million and \$128 million at April 30, 2014 and 2013, respectively.

(3) New accounting standards adopted in the first six months of 2014 were as follows:

In the first quarter of 2014, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2011-11, Disclosures about Offsetting Assets and Liabilities, which amends Accounting Standards Codification (ASC) 210, Balance Sheet. This ASU requires entities to disclose gross and net information about both instruments and transactions eligible for offset in the statement of financial position and those subject to an agreement similar to a master netting arrangement. This includes derivatives and other financial securities arrangements. The adoption did not have a material effect on the Company's consolidated financial statements.

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

In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which amends ASC 205, Presentation of Financial Statements, and ASC 360, Property, Plant and Equipment. This ASU defines a discontinued operation as a component or group of components that is disposed of or meets the criteria as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results. This ASU requires additional disclosures about discontinued operations and new disclosures for components of an entity that are held for sale or disposed of and are individually significant but do not qualify for presentation as a discontinued operation. Early adoption is permitted for items that have not been reported as disposals or as held for sale in previously issued financial statements. The Company early adopted this standard in the second quarter of 2014. As a result, disposals that did not or will not meet the criteria for reporting in discontinued operations are presented in continuing operations.

A new accounting standard to be adopted is as follows:

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The effective date will be the first quarter of fiscal year 2018 using one of two retrospective application methods. The Company has not determined the potential effects on the consolidated financial statements.

(4) The after-tax changes in accumulated other comprehensive income (loss) in millions of dollars follow:

	Retirement Benefits Adjustment	Cumulative Translation Adjustment	Unrealized Gain (Loss) on Derivatives	Unrealized Gain (Loss) on Investments	Total Accumulated Other Comprehensive Income (Loss)
Balance October 31, 2013	\$ (2,809)	\$ 113	\$ (3)	\$ 6	\$ (2,693)
Other comprehensive income (loss) items before reclassification	12	(62)	(7)	1	(56)
Amounts reclassified from accumulated other comprehensive income	76		9		85
Net current period other comprehensive income (loss)	88	(62)	2	1	29
Balance April 30, 2014	\$ (2,721)	\$ 51	\$ (1)	\$ 7	\$ (2,664)

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The details about reclassifications of gains (losses) out of accumulated other comprehensive income (loss) in millions of dollars follows:

	Three Months Ended April 30, 2014	Six Months Ended April 30, 2014
Loss on derivatives		
Interest rate contracts Interest expense	\$ (3)	\$ (8)
Foreign exchange contracts Other expense	(1)	(6)
Total	(4)	(14)
Tax credit	1	5
After-tax amount	(3)	(9)
Amortization of retirement benefit adjustments *		
Pensions		
Actuarial losses	(43)	(86)
Prior service costs	(6)	(12)
Settlements/curtailments	(4)	(6)
Health care and life insurance		
Actuarial losses	(8)	(17)
Prior service credit	1	2
Total	(60)	(119)
Tax credit	22	43
After-tax amount	(38)	(76)
Total after-tax reclassifications for the period	\$ (41)	\$ (85)

* These accumulated other comprehensive income amounts are included in net periodic postretirement costs. See Note 7 for additional detail.

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The items included in other comprehensive income (loss) and the related tax effects in millions of dollars follow:

	Before Tax Amount		Tax (Expense) Credit		After Tax Amount
<u>Three Months Ended April 30, 2014</u>					
Net unrealized gain on retirement benefits adjustment	\$ 60.2	\$	(22.6)	\$	37.6
Cumulative translation adjustment	106.7		(.2)		106.5
Net unrealized loss on derivatives	(.9)		.3		(.6)
Net unrealized gain on investments	3.7		(1.3)		2.4
Total other comprehensive income (loss)	\$ 169.7	\$	(23.8)	\$	145.9
<u>Three Months Ended April 30, 2013</u>					
Net unrealized gain on retirement benefits adjustment	\$ 126.8	\$	(45.8)	\$	81.0
Cumulative translation adjustment	(58.3)		(1.5)		(59.8)
Net unrealized gain on derivatives	2.9		(.9)		2.0
Net unrealized gain on investments	3.6		(1.3)		2.3
Total other comprehensive income (loss)	\$ 75.0	\$	(49.5)	\$	25.5

In the second quarter of 2014 and 2013, the noncontrolling interests comprehensive income was \$.5 million and \$.1 million, respectively, which consisted of net income of \$.5 million in 2014 and \$.1 million in 2013.

	Before Tax Amount		Tax (Expense) Credit		After Tax Amount
<u>Six Months Ended April 30, 2014</u>					
Net unrealized gain on retirement benefits adjustment	\$ 138.0	\$	(50.3)	\$	87.7
Cumulative translation adjustment	(62.6)		1.1		(61.5)
Net unrealized gain on derivatives	3.6		(1.3)		2.3
Net unrealized gain on investments	1.6		(.5)		1.1
Total other comprehensive income (loss)	\$ 80.6	\$	(51.0)	\$	29.6
<u>Six Months Ended April 30, 2013</u>					
Net unrealized gain on retirement benefits adjustment	\$ 239.0	\$	(87.9)	\$	151.1
Cumulative translation adjustment	(45.2)		5.6		(39.6)
Net unrealized gain on derivatives	8.7		(2.9)		5.8
Net unrealized gain on investments	.2				.2
Total other comprehensive income (loss)	\$ 202.7	\$	(85.2)	\$	117.5

In the first six months of 2014 and 2013, the noncontrolling interests comprehensive income was \$.7 million and \$.1 million, respectively, which consisted of net income of \$.7 million in 2014 and \$.1 million in 2013.

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

	Three Months Ended April 30		Six Months Ended April 30	
	2014	2013	2014	2013
Dividends declared	\$.51	\$.51	\$ 1.02	\$.97
Dividends paid	\$.51	\$.46	\$ 1.02	\$.92

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

	Three Months Ended April 30		Six Months Ended April 30	
	2014	2013	2014	2013
Net income attributable to Deere & Company	\$ 980.7	\$ 1,084.2	\$ 1,661.8	\$ 1,733.9
Less income allocable to participating securities	.4	.3	.6	.4
Income allocable to common stock	\$ 980.3	\$ 1,083.9	\$ 1,661.2	\$ 1,733.5
Average shares outstanding	366.6	389.2	369.2	388.7
Basic per share	\$ 2.67	\$ 2.79	\$ 4.50	\$ 4.46
Average shares outstanding	366.6	389.2	369.2	388.7
Effect of dilutive share-based compensation	3.2	3.9	3.4	4.3
Total potential shares outstanding	369.8	393.1	372.6	393.0
Diluted per share	\$ 2.65	\$ 2.76	\$ 4.46	\$ 4.41

During the second quarter and first six months of 2014 and 2013, 2.4 million shares and 2.5 million shares, respectively, in both periods were excluded from the above diluted per share computation because the incremental shares under the treasury stock method would have been antidilutive.

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

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

	Three Months Ended April 30		Six Months Ended April 30	
	2014	2013	2014	2013
Service cost	\$ 62	\$ 69	\$ 123	\$ 136
Interest cost	120	112	239	222
Expected return on plan assets	(193)	(196)	(386)	(390)
Amortization of actuarial loss	43	63	86	128
Amortization of prior service cost	6	8	12	16
Settlements/curtailments	4	1	6	1
Net cost	\$ 42	\$ 57	\$ 80	\$ 113

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 April 30		Six Months Ended April 30	
	2014	2013	2014	2013
Service cost	\$ 11	\$ 15	\$ 22	\$ 29
Interest cost	65	63	131	127
Expected return on plan assets	(17)	(21)	(35)	(42)
Amortization of actuarial loss	8	34	17	70
Amortization of prior service credit	(1)	(1)	(2)	(2)
Net cost	\$ 66	\$ 90	\$ 133	\$ 182

During the first six months of 2014, the Company contributed approximately \$47 million to its pension plans and \$18 million to its other postretirement benefit plans. The Company presently anticipates contributing an additional \$43 million to its pension plans and \$9 million to its other postretirement benefit plans during the remainder of fiscal year 2014. 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 April 30, 2014 were \$279 million, compared to \$272 million at October 31, 2013. The liability at April 30, 2014 consisted of approximately \$55 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 changes to the unrecognized tax benefits for the first six months of 2014 were not significant. The Company expects that any reasonably possible change in the amounts of unrecognized tax benefits in the next 12 months would not be significant.

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

	Three Months Ended April 30			Six Months Ended April 30		
	2014	2013	% Change	2014	2013	% Change
Net sales and revenues:						
Agriculture and turf	\$ 7,646	\$ 8,691	-12	\$ 13,242	\$ 14,182	-7
Construction and forestry	1,600	1,574	+2	2,953	2,876	+3
Total net sales	9,246	10,265	-10	16,195	17,058	-5
Financial services	572	536	+7	1,159	1,063	+9
Other revenues	130	113	+15	248	214	+16
Total net sales and revenues	\$ 9,948	\$ 10,914	-9	\$ 17,602	\$ 18,335	-4
Operating profit: *						
Agriculture and turf	\$ 1,229	\$ 1,582	-22	\$ 2,026	\$ 2,347	-14
Construction and forestry	132	81	+63	226	153	+48
Financial services	229	198	+16	411	395	+4
Total operating profit	1,590	1,861	-15	2,663	2,895	-8
Reconciling items **	(130)	(111)	+17	(241)	(206)	+17
Income taxes	(479)	(666)	-28	(760)	(955)	-20
Net income attributable to Deere & Company	\$ 981	\$ 1,084	-10	\$ 1,662	\$ 1,734	-4
Intersegment sales and revenues:						
Agriculture and turf net sales	\$ 23	\$ 17	+35	\$ 42	\$ 36	+17
Construction and forestry net sales				1	1	
Financial services	59	58	+2	105	104	+1
Equipment operations outside the U.S. and Canada:						
Net sales	\$ 3,672	\$ 3,920	-6	\$ 6,280	\$ 6,491	-3
Operating profit	341	367	-7	552	508	+9
				April 30 2014	October 31 2013	
Identifiable assets:						
Agriculture and turf				\$ 11,161	\$ 10,799	+3
Construction and forestry				3,527	3,461	+2
Financial services				41,027	38,646	+6
Corporate				5,147	6,615	-22
Total assets				\$ 60,862	\$ 59,521	+2

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

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

(10) Past due balances of financing receivables still accruing finance income 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 financing receivables that are still accruing interest and non-performing financing receivables in millions of dollars follows:

	April 30, 2014			
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due
Retail Notes:				
Agriculture and turf	\$ 89	\$ 31	\$ 28	\$ 148
Construction and forestry	57	19	12	88
Other:				
Agriculture and turf	24	13	17	54
Construction and forestry	15	5	3	23
Total	\$ 185	\$ 68	\$ 60	\$ 313
	Total Past Due	Total Non- Performing	Current	Total Financing Receivables
Retail Notes:				
Agriculture and turf	\$ 148	\$ 102	\$ 19,027	\$ 19,277
Construction and forestry	88	14	2,113	2,215
Other:				
Agriculture and turf	54	17	7,335	7,406
Construction and forestry	23	4	1,088	1,115
Total	\$ 313	\$ 137	\$ 29,563	30,013
Less allowance for credit losses				171
Total financing receivables - net				\$ 29,842

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	October 31, 2013			
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due
Retail Notes:				
Agriculture and turf	\$ 75	\$ 26	\$ 20	\$ 121
Construction and forestry	39	14	9	62
Other:				
Agriculture and turf	28	9	5	42
Construction and forestry	12	4	3	19
Total	\$ 154	\$ 53	\$ 37	\$ 244

	Total Past Due	Total Non-Performing	Current	Total Financing Receivables
Retail Notes:				
Agriculture and turf	\$ 121	\$ 102	\$ 18,942	\$ 19,165
Construction and forestry	62	12	1,921	1,995
Other:				
Agriculture and turf	42	13	7,613	7,668
Construction and forestry	19	3	1,109	1,131
Total	\$ 244	\$ 130	\$ 29,585	29,959
Less allowance for credit losses				173
Total financing receivables - net				\$ 29,786

April 30, 2013

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due
Retail Notes:				
Agriculture and turf	\$ 60	\$ 25	\$ 19	\$ 104
Construction and forestry	44	17	5	66
Other:				
Agriculture and turf	22	10	7	39
Construction and forestry	8	4	4	16
Total	\$ 134	\$ 56	\$ 35	\$ 225

	Total Past Due	Total Non- Performing	Current	Total Financing Receivables
Retail Notes:				
Agriculture and turf	\$ 104	\$ 106	\$ 16,973	\$ 17,183
Construction and forestry	66	11	1,666	1,743
Other:				
Agriculture and turf	39	10	6,543	6,592
Construction and forestry	16	4	1,171	1,191
Total	\$ 225	\$ 131	\$ 26,353	26,709
Less allowance for credit losses				176
Total financing receivables - net				\$ 26,533

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

		Three Months Ended April 30, 2014						
		Retail Notes	Revolving Charge Accounts	Other		Total		
Allowance:								
Beginning of period balance	\$	97	\$	40	\$	30	\$	167
Provision (credit)		7		2		(4)		5
Write-offs		(5)		(6)				(11)
Recoveries		2		4				6
Translation adjustments		4						4
End of period balance	\$	105	\$	40	\$	26	\$	171
		Six Months Ended April 30, 2014						
Allowance:								
Beginning of period balance	\$	101	\$	41	\$	31	\$	173
Provision (credit)		8		3		(4)		7
Write-offs		(8)		(11)				(19)
Recoveries		4		7				11
Translation adjustments						(1)		(1)
End of period balance *	\$	105	\$	40	\$	26	\$	171
Financing receivables:								
End of period balance	\$	21,492	\$	2,215	\$	6,306	\$	30,013
Balance individually evaluated	\$	21	\$	3	\$	11	\$	35

* Individual allowances were not significant.

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Three Months Ended
April 30, 2013

	Retail Notes	Revolving Charge Accounts	Other	Total
Allowance:				
Beginning of period balance	\$ 108	\$ 40	\$ 27	\$ 175
Provision (credit)	(3)	1	4	2
Write-offs	(3)	(4)	(1)	(8)
Recoveries	3	4		7
End of period balance	\$ 105	\$ 41	\$ 30	\$ 176

Six Months Ended
April 30, 2013

Allowance:				
Beginning of period balance	\$ 110	\$ 40	\$ 27	\$ 177
Provision (credit)	(3)	1	4	2
Write-offs	(7)	(9)	(1)	(17)
Recoveries	5	9		14
End of period balance *	\$ 105	\$ 41	\$ 30	\$ 176
Financing receivables:				
End of period balance	\$ 18,926	\$ 2,250	\$ 5,533	\$ 26,709
Balance individually evaluated	\$ 17		\$ 39	\$ 56

* Individual allowances were not significant.

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 that are impaired are generally classified as non-performing.

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

	Recorded Investment	Unpaid Principal Balance	Specific Allowance	Average Recorded Investment
<u>April 30, 2014</u> *				
Receivables with specific allowance ****	\$ 10	\$ 10	\$ 2	\$ 11
Receivables without a specific allowance ***	6	6		7
Total	\$ 16	\$ 16	\$ 2	\$ 18
Agriculture and turf	\$ 14	\$ 14	\$ 2	\$ 16
Construction and forestry	\$ 2	\$ 2	\$	\$ 2
<u>October 31, 2013</u> *				
Receivables with specific allowance **	\$ 18	\$ 18	\$ 4	\$ 19
Receivables without a specific allowance ***	8	8		8
Total	\$ 26	\$ 26	\$ 4	\$ 27
Agriculture and turf	\$ 23	\$ 23	\$ 4	\$ 24
Construction and forestry	\$ 3	\$ 3	\$	\$ 3
<u>April 30, 2013</u> *				
Receivables with specific allowance **	\$ 19	\$ 19	\$ 4	\$ 20
Receivables without a specific allowance ***	9	9		9
Total	\$ 28	\$ 28	\$ 4	\$ 29
Agriculture and turf	\$ 24	\$ 24	\$ 4	\$ 25
Construction and forestry	\$ 4	\$ 4	\$	\$ 4

* Finance income recognized was not material.

** Primarily operating loans and retail notes.

*** Primarily retail notes.

**** Primarily operating loans.

A troubled debt restructuring is generally the modification of debt in which a creditor grants a concession it would not otherwise consider to a debtor that is experiencing financial difficulties. These modifications may include a reduction of the stated interest rate, an extension of the maturity dates, a reduction of the face amount or maturity amount of the debt, or a reduction of accrued interest. During the first six months of 2014, the Company identified 20 financing receivable contracts, primarily operating loans and retail notes, as troubled debt restructurings with aggregate balances of \$1.0 million pre-modification and \$.8 million post-modification. During the first six months of 2013, there were 67 financing receivable contracts, primarily retail notes, with \$15.0 million pre-modification and \$14.4 million post-modification balances. During these same periods, there were no significant troubled debt restructurings that subsequently defaulted and were written off. At April 30, 2014, the Company had no commitments to lend additional funds to borrowers whose accounts were modified in troubled debt restructurings.

(11) Securitization of financing receivables:

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

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

In certain securitizations, the Company consolidates the SPEs since it has both the power to direct the activities that most significantly impact the SPEs economic performance through its role as servicer of all the receivables held by the SPEs, and the obligation through variable interests in the SPEs to absorb losses or receive benefits that could potentially be significant to the SPEs. The restricted assets (retail notes securitized, allowance for credit losses and other assets) of the consolidated SPEs totaled \$2,843 million, \$2,626 million and \$2,466 million at April 30, 2014, October 31, 2013 and April 30, 2013, respectively. The liabilities (short-term securitization borrowings and accrued interest) of these SPEs totaled \$2,777 million, \$2,547 million and \$2,406 million at April 30, 2014, October 31, 2013 and April 30, 2013 respectively. The credit holders of these SPEs do not have legal recourse to the Company's general credit.

In certain securitizations, the Company transfers retail notes to a non-VIE banking operation, which is not consolidated since the Company does not have a controlling interest in the entity. The Company's carrying values and interests related to the securitizations with the unconsolidated non-VIE were restricted assets (retail notes securitized, allowance for credit losses and other assets) of \$350 million, \$353 million and \$307 million at April 30, 2014, October 31, 2013 and April 30, 2013, respectively. The liabilities (short-term securitization borrowings and accrued interest) were \$337 million, \$338 million and \$300 million at April 30, 2014, October 31, 2013 and April 30, 2013, respectively.

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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 \$1,267 million, \$1,274 million and \$1,111 million at April 30, 2014, October 31, 2013 and April 30, 2013, respectively. The liabilities (short-term securitization borrowings and accrued interest) related to these conduits were \$1,217 million, \$1,225 million and \$1,083 million at April 30, 2014, October 31, 2013 and April 30, 2013, respectively.

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

	<u>April 30, 2014</u>
Carrying value of liabilities	\$ 1,217
Maximum exposure to loss	1,267

The total assets of unconsolidated VIEs related to securitizations were approximately \$44 billion at April 30, 2014.

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

	April 30 2014	October 31 2013	April 30 2013
Financing receivables securitized (retail notes)	\$ 4,355	\$ 4,167	\$ 3,800
Allowance for credit losses	(10)	(14)	(12)
Other assets	115	100	96
Total restricted securitized assets	\$ 4,460	\$ 4,253	\$ 3,884

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

	April 30 2014	October 31 2013	April 30 2013
Short-term securitization borrowings	\$ 4,330	\$ 4,109	\$ 3,788
Accrued interest on borrowings	1	1	1
Total liabilities related to restricted securitized assets	\$ 4,331	\$ 4,110	\$ 3,789

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 April 30, 2014, the maximum remaining term of all restricted securitized retail notes was approximately seven years.

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(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:

	April 30 2014	October 31 2013	April 30 2013
Raw materials and supplies	\$ 2,024	\$ 1,954	\$ 2,006
Work-in-process	956	753	726
Finished goods and parts	4,389	3,757	4,789
Total FIFO value	7,369	6,464	7,521
Less adjustment to LIFO value	1,519	1,529	1,348
Inventories	\$ 5,850	\$ 4,935	\$ 6,173

(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, 2012:			
Goodwill	\$ 686	\$ 584	\$ 1,270
Less accumulated impairment losses	349		349
Goodwill-net	337	584	921
Translation adjustments		2	2
Balance April 30, 2013:			
Goodwill	686	586	1,272
Less accumulated impairment losses	349		349
Goodwill-net	\$ 337	\$ 586	\$ 923
Balance October 31, 2013:			
Goodwill	\$ 302	\$ 603	\$ 905
Less accumulated impairment losses *	60		60
Goodwill-net	242	603	845
Reclassification to assets held for sale	(60)		(60)
Translation adjustments and other	1	(6)	(5)
Balance April 30, 2014:			
Goodwill	243	597	840
Less accumulated impairment losses **			
Goodwill-net	\$ 243	\$ 597	\$ 840

* Accumulated impairment losses were reduced by \$289 million related to Landscapes reclassification to held for sale (see Note 18).

** Accumulated impairment losses were reduced by \$60 million related to the Water operations reclassification to held for sale (see Note 19).

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

	Useful Lives *	April 30 2014	October 31 2013	April 30 2013
Amortized intangible assets:				
Customer lists and relationships	15	\$ 20	\$ 20	\$ 99
Technology, patents, trademarks and other	18	87	88	110
Total at cost		107	108	209
Less accumulated amortization **		40	35	119
Total		67	73	90
Unamortized intangible assets:				
Licenses		4	4	4
Other intangible assets-net		\$ 71	\$ 77	\$ 94

* Weighted-averages

** Accumulated amortization at April 30, 2014 and 2013 for customer lists and relationships totaled \$8 million and \$66 million and technology, patents, trademarks and other totaled \$32 million and \$53 million, respectively.

The amortization of other intangible assets in the second quarter and the first six months of 2014 was \$3 million and \$5 million and for 2013 was \$5 million and \$12 million, respectively. The estimated amortization expense for the next five years is as follows in millions of dollars: remainder of 2014 - \$5, 2015 - \$10, 2016 - \$9, 2017 - \$9 and 2018 - \$5.

(14) Commitments and contingencies:

The Company generally determines its total warranty liability by applying historical claims rate experience to the estimated amount of equipment that has been sold and is still under warranty based on dealer inventories and retail sales. The historical claims rate is primarily determined by a review of five-year claims costs and current quality developments.

The premiums for extended warranties are primarily recognized in income in proportion to the costs expected to be incurred over the contract period. These unamortized extended warranty premiums (deferred revenue) included in the following table totaled \$378 million and \$325 million at April 30, 2014 and 2013, respectively.

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

Three Months Ended April 30		Six Months Ended April 30	
2014	2013	2014	2013

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Beginning of period balance	\$	1,172	\$	1,091	\$	1,164	\$	1,025
Payments		(177)		(158)		(366)		(323)
Amortization of premiums received		(32)		(29)		(59)		(57)
Accruals for warranties		182		204		366		415
Premiums received		49		47		95		91
Foreign exchange		2		(3)		(4)		1
End of period balance	\$	1,196	\$	1,152	\$	1,196	\$	1,152

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At April 30, 2014, the Company had approximately \$307 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 April 30, 2014, the Company had an accrued liability of approximately \$8 million under these agreements. The maximum remaining term of the receivables guaranteed at April 30, 2014 was approximately six years.

At April 30, 2014, the Company had commitments of approximately \$312 million for the construction and acquisition of property and equipment. Also, at April 30, 2014, the Company had restricted assets of \$72 million, primarily as collateral for borrowings and restricted other assets. See Note 11 for additional restricted assets associated with borrowings related to securitizations.

The Company also had other miscellaneous contingent liabilities totaling approximately \$40 million at April 30, 2014, for which it believes the probability of payment is substantially remote. The accrued liability for these contingencies was not material at April 30, 2014.

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

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

	April 30, 2014		October 31, 2013		April 30, 2013	
	Carrying Value	Fair Value *	Carrying Value	Fair Value *	Carrying Value	Fair Value *
Financing receivables - net	\$ 25,496	\$ 25,383	\$ 25,633	\$ 25,572	\$ 22,745	\$ 22,796
Financing receivables securitized - net	4,345	4,308	4,153	4,124	3,788	3,785
Short-term securitization borrowings	4,330	4,333	4,109	4,113	3,788	3,794
Long-term borrowings due within one year:						
Equipment operations	\$ 130	\$ 128	\$ 821	\$ 837	\$ 911	\$ 939
Financial services	4,391	4,405	4,408	4,441	5,008	5,065
Total	\$ 4,521	\$ 4,533	\$ 5,229	\$ 5,278	\$ 5,919	\$ 6,004
Long-term borrowings:						
Equipment operations	\$ 4,817	\$ 5,181	\$ 4,871	\$ 5,141	\$ 4,925	\$ 5,626
Financial services	18,350	18,548	16,707	16,887	16,828	17,029
Total	\$ 23,167	\$ 23,729	\$ 21,578	\$ 22,028	\$ 21,753	\$ 22,655

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

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

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

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

	April 30 2014*	October 31 2013*	April 30 2013*
Marketable securities			
Equity fund	\$ 30	\$ 20	\$ 3
Fixed income fund	10		
U.S. government debt securities	1,213	1,312	1,102
Municipal debt securities	35	36	38
Corporate debt securities	155	138	130
Mortgage-backed securities **	129	119	126
Total marketable securities	1,572	1,625	1,399
Other assets			
Derivatives:			
Interest rate contracts	296	347	589
Foreign exchange contracts	20	32	25
Cross-currency interest rate contracts	16	15	5
Total assets ***	\$ 1,904	\$ 2,019	\$ 2,018
Accounts payable and accrued expenses			
Derivatives:			
Interest rate contracts	\$ 136	\$ 120	\$ 66
Foreign exchange contracts	33	42	36
Cross-currency interest rate contracts		17	54
Total liabilities	\$ 169	\$ 179	\$ 156

* All measurements above were Level 2 measurements except for Level 1 measurements of U.S. government debt securities of \$1,144 million, \$1,247 million and \$1,041 million at April 30, 2014, October 31, 2013 and April 30, 2013, respectively, the equity fund of \$30 million, \$20 million and \$3 million at April 30, 2014, October 31, 2013 and April 30, 2013, respectively, and the fixed income fund of \$10 million at April 30, 2014. There were no transfers between Level 1 and Level 2 during the first six months of 2014 or 2013.

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

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

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The contractual maturities of debt securities at April 30, 2014 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	\$ 1,123	\$ 1,123
Due after one through five years	83	87
Due after five through 10 years	134	136
Due after 10 years	55	57
Mortgage-backed securities	131	129
Debt securities	\$ 1,526	\$ 1,532

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

	Fair Value *		Losses
	April 30 2014	October 31 2013	April 30 2013
Property and equipment net		\$ 36	\$ 26
Assets held for sale			
Water operations **	\$ 91		\$ 36

* See financing receivables with specific allowances in Note 10. Losses were not significant.

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

The property and equipment fair value measurement and impairment loss shown above were the result of changes in circumstances that indicate it was probable the future cash flows would not cover the carrying amounts of certain long-lived assets. The non-cash charge of \$26 million pretax and after-tax was recognized in the first quarter of 2014 in cost of sales. The impairment was associated with the Company's John Deere Water operations, which were included in the agriculture and turf operating segment. The first quarter loss was due to a review of strategic options for the business.

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.

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

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

Marketable Securities The portfolio of investments is primarily valued on a market approach (matrix pricing model) in which all significant inputs are observable or can be derived from or corroborated by observable market data such as interest rates, yield curves, volatilities, credit risk and prepayment speeds. Funds are primarily valued using the fund's net asset value, based on the fair value of the underlying securities.

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

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

Property and Equipment Net The impairments are measured at the lower of the carrying amount, or fair value. The valuations were based on an income approach using probability weighted cash flows of potential outcomes of the ongoing strategic option review. The inputs include estimates of the cash flow related to each of the alternatives being considered and management's estimate of the likelihood of each alternative.

Assets Held for Sale Water Operations The impairment of the disposal group 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 the final sale price.

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

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

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 April 30, 2014, October 31, 2013 and April 30, 2013 were \$3,400 million, \$3,100 million and \$3,350 million, respectively. The notional amounts of cross-currency interest rate contracts at April 30, 2014, October 31, 2013 and April 30, 2013 were \$70 million, \$816 million and \$816 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 changes on the related borrowings. Any ineffective portions of the gains or losses on all cash flow interest rate contracts designated as hedges were recognized currently in interest expense or other operating expenses (foreign exchange) and were not material during any periods presented. The cash flows from these contracts were recorded in operating activities in the consolidated statement of cash flows.

The amount of loss recorded in OCI at April 30, 2014 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 \$5 million after-tax. These contracts mature in up to 53 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 April 30, 2014, October 31, 2013 and April 30, 2013 were \$8,593 million, \$7,380 million and \$8,904 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 a gain of \$1 million and none during the second quarter of 2014 and 2013 and was a loss of \$1 million and a gain of \$2 million during the first six months of 2014 and 2013, respectively. The cash flows from these contracts were recorded in operating activities in the consolidated statement of cash flows.

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

	Three Months Ended April 30		Six Months Ended April 30	
	2014	2013	2014	2013
Interest rate contracts *	\$ (12)			