

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	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>

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.

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					
	Total Stockholders <u>Equity</u>	Common <u>Stock</u>	Treasury <u>Stock</u>	Retained <u>Earnings</u>	Accumulated Other Comprehensive <u>Income (Loss)</u>	Non- controlling <u>Interests</u>
Balance October 31, 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.

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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.

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(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	