DEERE & CO
Form 10-Q
March 01, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 31, 2012

Commission file no: 1-4121

DEERE & COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**36-2382580**
(State of incorporation)	(IRS employer identification no.)

One John Deere Place

Moline, Illinois 61265

(Address of principal executive offices)

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

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

Yes X No ____

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

Yes __X__ No ____

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

Large Accelerated Filer	X	Accelerated Filer
Non-Accelerated Filer (Do not check if a smaller reporting company)		Smaller Reporting Company

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

Yes ___No __X__

At January 31, 2012, 401,826,150 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 January 31, 2012 and 2011
(In millions of dollars and shares except per share amounts) Unaudited

		2012		2011
Net Sales and Revenues				
Net sales	$	6,119.0	$	5,513.8
Finance and interest income		475.1		460.1
Other income		172.4		145.3
Total		6,766.5		6,119.2
Costs and Expenses				
Cost of sales		4,576.0		4,094.1
Research and development expenses		312.5		268.9
Selling, administrative and general expenses		709.0		665.0
Interest expense		192.1		202.5
Other operating expenses		176.6		142.7
Total		5,966.2		5,373.2
Income of Consolidated Group before Income Taxes		800.3		746.0
Provision for income taxes		266.2		232.2
Income of Consolidated Group		534.1		513.8
Equity in income of unconsolidated affiliates		.3		.5
Net Income		534.4		514.3
Less: Net income attributable to noncontrolling interests		1.5		.6
Net Income Attributable to Deere & Company	$	532.9	$	513.7
Per Share Data				
Basic	$	1.32	$	1.22
Diluted	$	1.30	$	1.20
Average Shares Outstanding				
Basic		404.0		421.8
Diluted		408.4		427.5

See Condensed Notes to Interim Consolidated Financial Statements.

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

	January 31 2012	October 31 2011	January 31 2011
Assets			
Cash and cash equivalents	$ 3,388.3	$ 3,647.2	$ 3,438.0
Marketable securities	1,126.4	787.3	234.2
Receivables from unconsolidated affiliates	48.6	48.0	43.8
Trade accounts and notes receivable - net	3,333.4	3,294.5	3,237.1
Financing receivables - net	19,098.3	19,923.5	18,164.1
Financing receivables securitized - net	2,680.9	2,905.0	1,768.2
Other receivables	1,245.6	1,330.6	885.1
Equipment on operating leases - net	2,052.4	2,150.0	1,845.4
Inventories	5,677.7	4,370.6	4,178.4
Property and equipment - net	4,303.8	4,352.3	3,781.5
Investments in unconsolidated affiliates	226.0	201.7	215.3
Goodwill	964.9	999.8	997.3
Other intangible assets - net	119.4	127.4	133.1
Retirement benefits	29.1	30.4	176.9
Deferred income taxes	2,879.5	2,858.6	2,664.5
Other assets	1,402.6	1,180.5	1,132.9
Total Assets	$ 48,576.9	$ 48,207.4	$ 42,895.8
Liabilities and Stockholders Equity			
Short-term borrowings	$ 8,506.4	$ 6,852.3	$ 5,693.3
Short-term securitization borrowings	2,613.8	2,777.4	1,764.8
Payables to unconsolidated affiliates	113.5	117.7	276.9
Accounts payable and accrued expenses	6,816.7	7,804.8	5,910.5
Deferred income taxes	152.8	168.3	149.8
Long-term borrowings	16,924.0	16,959.9	16,705.9
Retirement benefits and other liabilities	6,670.5	6,712.1	5,807.9
Total liabilities	41,797.7	41,392.5	36,309.1
Commitments and contingencies (Note 14)			
Common stock, $1 par value (issued shares at January 31, 2012 536,431,204)	3,276.8	3,251.7	3,154.6
Common stock in treasury	(7,656.6)	(7,292.8)	(6,003.2)
Retained earnings	14,887.1	14,519.4	12,719.2
Accumulated other comprehensive income (loss)	(3,743.9)	(3,678.0)	(3,292.0)
Total Deere & Company stockholders equity	6,763.4	6,800.3	6,578.6
Noncontrolling interests	15.8	14.6	8.1
Total stockholders equity	6,779.2	6,814.9	6,586.7
Total Liabilities and Stockholders Equity	$ 48,576.9	$ 48,207.4	$ 42,895.8

See Condensed Notes to Interim Consolidated Financial Statements.

DEERE & COMPANY
STATEMENT OF CONSOLIDATED CASH FLOWS
For the Three Months Ended January 31, 2012 and 2011
(In millions of dollars) Unaudited

		2012		2011
Cash Flows from Operating Activities				
Net income	$	534.4	$	514.3
Adjustments to reconcile net income to net cash used for operating activities:				
Provision (credit) for doubtful receivables		(.8)		7.9
Provision for depreciation and amortization		243.3		219.0
Share-based compensation expense		19.5		15.0
Undistributed earnings of unconsolidated affiliates		.7		8.6
Credit for deferred income taxes		(28.2)		(185.1)
Changes in assets and liabilities:				
Trade, notes and financing receivables related to sales		221.6		(110.0)
Inventories		(1,449.1)		(1,096.1)
Accounts payable and accrued expenses		(854.8)		(447.3)
Accrued income taxes payable/receivable		160.4		130.5
Retirement benefits		101.5		94.2
Other		(175.3)		(51.3)
Net cash used for operating activities		(1,226.8)		(900.3)
Cash Flows from Investing Activities				
Collections of receivables (excluding receivables related to sales)		4,019.9		3,761.7
Proceeds from maturities and sales of marketable securities		8.2		9.4
Proceeds from sales of equipment on operating leases		222.3		196.5
Proceeds from sales of businesses, net of cash sold		6.9		891.6
Cost of receivables acquired (excluding receivables related to sales)		(3,485.4)		(3,390.2)
Purchases of marketable securities		(342.8)		(20.7)
Purchases of property and equipment		(269.1)		(214.9)
Cost of equipment on operating leases acquired		(118.3)		(92.4)
Acquisitions of businesses, net of cash acquired				(46.6)
Other		(78.1)		(111.6)
Net cash provided by (used for) investing activities		(36.4)		982.8
Cash Flows from Financing Activities				
Increase in total short-term borrowings		481.8		19.5
Proceeds from long-term borrowings		1,410.2		328.4
Payments of long-term borrowings		(315.0)		(453.5)
Proceeds from issuance of common stock		18.9		88.9
Repurchases of common stock		(387.9)		(302.2)
Dividends paid		(167.8)		(127.2)
Excess tax benefits from share-based compensation		10.6		32.6
Other		(10.7)		(11.5)
Net cash provided by (used for) financing activities		1,040.1		(425.0)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(35.8)		(10.1)
Net Decrease in Cash and Cash Equivalents		(258.9)		(352.6)
Cash and Cash Equivalents at Beginning of Period		3,647.2		3,790.6
Cash and Cash Equivalents at End of Period	$	3,388.3	$	3,438.0

See Condensed Notes to Interim Consolidated Financial Statements.

DEERE & COMPANY

STATEMENT OF CHANGES IN CONSOLIDATED STOCKHOLDERS EQUITY

For the Three Months Ended January 31, 2011 and 2012

(In millions of dollars)

			Deere & Company Stockholders				
	Total Stockholders Equity	Comprehensive Income (Loss)	Common Stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests
Balance October 31, 2010	$ 6,303.4		$ 3,106.3	$ (5,789.5)	$ 12,353.1	$ (3,379.6)	$ 13.1
Net income	514.3	$ 513.7			513.7		.6
Other comprehensive income (loss)							
Retirement benefits adjustment	66.2	66.2				66.2	
Cumulative translation adjustment	20.4	20.4				20.4	
Unrealized gain on derivatives	5.1	5.1				5.1	
Unrealized loss on investments	(4.1)	(4.1)				(4.1)	
Comprehensive income	601.9	$ 601.3					.6
Repurchases of common stock	(302.2)			(302.2)			
Treasury shares reissued	88.5			88.5			
Dividends declared	(151.2)				(147.7)		(3.5)
Stock options and other	46.3		48.3		.1		(2.1)
Balance January 31, 2011	$ 6,586.7		$ 3,154.6	$ (6,003.2)	$ 12,719.2	$ (3,292.0)	$ 8.1
Balance October 31, 2011	$ 6,814.9		$ 3,251.7	$ (7,292.8)	$ 14,519.4	$ (3,678.0)	$ 14.6
Net income	534.4	$ 532.9			532.9		1.5
Other comprehensive income (loss)							
Retirement benefits adjustment	70.4	70.4				70.4	
Cumulative translation adjustment	(136.1)	(135.9)				(135.9)	(.2)
Unrealized loss on derivatives	(3.6)	(3.6)				(3.6)	
Unrealized gain on investments	3.2	3.2				3.2	
Comprehensive income	468.3	$ 467.0					1.3
Repurchases of common stock	(387.9)			(387.9)			
Treasury shares reissued	24.1			24.1			
Dividends declared	(165.3)				(165.3)		
Stock options and other	25.1		25.1		.1		(.1)
Balance January 31, 2012	$ 6,779.2		$ 3,276.8	$ (7,656.6)	$ 14,887.1	$ (3,743.9)	$ 15.8

See Condensed Notes to Interim Consolidated Financial Statements.

Condensed Notes to Interim Consolidated Financial Statements (Unaudited)

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

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

Financial Services - Includes the Company s financial services operations.

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

Reclassifications

Certain items previously reported in specific financial statement captions have been reclassified to conform to the 2012 financial statement presentation. Short-term securitization borrowings have been shown separately from other short-term borrowings on the Condensed Consolidated Balance Sheet as a result of the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2009-17 last year. In the Supplemental Consolidating Data in Note 18, the costs and collections of trade receivables and wholesale notes for the financial services statement of cash flows investing activities have been presented on a net basis. These receivables have short durations with a high turnover rate. The total cash flows for the financial services investing activities have not changed. The presentation of these receivables on the Statement of Consolidated Cash Flows has also not changed and continues to be shown as an adjustment to net income in the operating activities since they are related to sales.

Variable Interest Entities

The Company is the primary beneficiary of and consolidates a supplier that is a variable interest entity (VIE). The Company has both the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. No additional support beyond what was previously contractually required has been provided during any periods presented. The VIE produces blended fertilizer and other lawn care products for the agriculture and turf segment.

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

	January 31 2012	October 31 2011	January 31 2011
Cash and cash equivalents		$ 11	
Intercompany receivables	$ 10	14	$ 9
Inventories	46	30	58
Property and equipment - net	3	3	4
Other assets	2	3	3
Total assets	$ 61	$ 61	$ 74
Short-term borrowings	$ 5		$ 9
Accounts payable and accrued expenses	49	$ 56	65
Total liabilities	$ 54	$ 56	$ 74

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

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

(2) The consolidated financial statements of Deere & Company and consolidated subsidiaries have been prepared by the Company, without audit, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the U.S. have been condensed or omitted as permitted by such rules and regulations. All adjustments, consisting of normal recurring adjustments, have been included. Management believes that the disclosures are adequate to present fairly the financial position, results of operations and cash flows at the dates and for the periods presented. It is suggested that these interim financial statements be read in conjunction with the 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 $78 million and $51 million in the first three months of 2012 and 2011, respectively. The Company also had accounts payable related to purchases of property and equipment of approximately $44 million and $34 million at January 31, 2012 and 2011, respectively.

(3) New accounting standard adopted in the first three months of 2012 was as follows:

In the first quarter of 2012, the Company adopted the remaining provisions of FASB ASU No. 2010-06, Improving Disclosures about Fair Value Measurements, which amends Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures. This ASU requires disclosures of transfers into and out of Levels 1 and 2, more detailed roll forward reconciliations of Level 3 recurring fair value measurements on a gross basis, fair value information by class of assets and liabilities, and descriptions of valuation techniques and inputs for Level 2 and Level 3 measurements. The effective date was the second quarter of fiscal year 2010 except for the roll forward reconciliations, which were required in the first quarter of fiscal year 2012. The adoption in 2010 and the adoption in the first quarter of 2012 did not have a material effect on the Company s consolidated financial statements.

New accounting standards to be adopted are as follows:

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

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income, which amends ASC 220, Comprehensive Income. This ASU requires the presentation of total comprehensive income, total net income and the components of net income and comprehensive income either in a single continuous statement or in two separate but consecutive statements. The requirements do not change how earnings per share is calculated or presented. The effective date will be the first quarter of fiscal year 2013 and must be applied retrospectively. The adoption will not have a material effect on the Company s consolidated financial statements.

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

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

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

	Three Months Ended January 31	
	2012	2011
Net income	$ 534.4	$ 514.3
Other comprehensive income (loss), net of tax:		
Retirement benefits adjustment	70.4	66.2
Cumulative translation adjustment	(136.1)	20.4
Unrealized gain (loss) on derivatives	(3.6)	5.1
Unrealized gain (loss) on investments	3.2	(4.1)
Comprehensive income	$ 468.3	$ 601.9

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For the first quarter of 2012 and 2011, the table above includes noncontrolling interests comprehensive income of $1.3 million and $.6 million, which consists of net income of $1.5 million and $.6 million and cumulative translation adjustments of $(.2) million and none, respectively.

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

	Three Months Ended January 31	
	2012	2011
Dividends declared	$ .41	$ .35
Dividends paid	$ .41	$ .30

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

	Three Months Ended January 31	
	2012	2011
Net income attributable to Deere & Company	$ 532.9	$ 513.7
Less income allocable to participating securities	.2	.1
Income allocable to common stock	$ 532.7	$ 513.6
Average shares outstanding	404.0	421.8
Basic per share	$ 1.32	$ 1.22
Average shares outstanding	404.0	421.8
Effect of dilutive share-based compensation	4.4	5.7
Total potential shares outstanding	408.4	427.5
Diluted per share	$ 1.30	$ 1.20

During the first quarter of 2012 and 2011, 4.4 million shares and 4.0 million shares, respectively, related to share-based compensation were excluded from the above diluted per share computation because the incremental shares under the treasury stock method would have been antidilutive.

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

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

	Three Months Ended January 31	
	2012	2011
Service cost	$ 53	$ 49

Interest cost		116		124
Expected return on plan assets		(196)		(199)
Amortization of actuarial loss		52		38
Amortization of prior service cost		10		10
Settlements/curtailments		1		
Net cost	$	36	$	22

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

	Three Months Ended January 31	
	2012	2011
Service cost	$ 12	$ 11
Interest cost	71	81
Expected return on plan assets	(25)	(28)
Amortization of actuarial loss	60	67
Amortization of prior service credit	(3)	(4)
Net cost	$ 115	$ 127

During the first quarter of 2012, the Company contributed approximately $21 million to its pension plans and $12 million to its other postretirement benefit plans. The Company presently anticipates contributing an additional $412 million to its pension plans and $15 million to its other postretirement benefit plans during the remainder of fiscal year 2012. These contributions include payments from Company funds to either increase plan assets or make direct payments to plan participants.

(8) The Company s unrecognized tax benefits at January 31, 2012 were $176 million, compared to $199 million at October 31, 2011. The January 31, 2012 liability consisted of approximately $43 million that would affect the effective tax rate if it was recognized. The remaining liability was related to tax positions for which there are offsetting tax receivables, or the uncertainty was only related to timing. The changes to the unrecognized tax benefits for the first three months of 2012 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.

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

	Three Months Ended January 31		
	2012	2011	% Change
Net sales and revenues:			
Agriculture and turf	$ 4,724	$ 4,371	+8
Construction and forestry	1,395	1,143	+22
Total net sales	6,119	5,514	+11
Financial services	548	507	+8
Other revenues	100	98	+2
Total net sales and revenues	$ 6,767	$ 6,119	+11
Operating profit *			
Agriculture and turf	$ 574	$ 558	+3
Construction and forestry	124	88	+41
Financial services	175	172	+2
Total operating profit	873	818	+7
Other reconciling items **	(340)	(304)	+12
Net income attributable to Deere & Company	$ 533	$ 514	+4
Identifiable assets:			
Agriculture and turf	$ 10,154	$ 8,378	+21
Construction and forestry	3,049	2,515	+21
Financial services	29,817	26,626	+12
Corporate	5,557	5,377	+3
Total assets	$ 48,577	$ 42,896	+13
Intersegment sales and revenues:			
Agriculture and turf net sales	$ 23	$ 19	+21
Construction and forestry net sales		3	
Financial services	52	48	+8
Equipment operations outside the U.S. and Canada:			
Net sales	$ 2,528	$ 2,093	+21
Operating profit	170	214	-21

* 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.

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

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

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

	January 31, 2012			
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due *	Total Past Due
Retail Notes:				
Agriculture and turf	$ 68	$ 30	$ 25	$ 123
Construction and forestry	38	17	10	65
Other:				
Agriculture and turf	19	13	4	36
Construction and forestry	9	4	2	15
Total	$ 134	$ 64	$ 41	$ 239

	Total Past Due	Total Non-Performing	Current	Total Financing Receivables
Retail Notes:				
Agriculture and turf	$ 123	$ 145	$ 14,617	$ 14,885
Construction and forestry	65	15	1,327	1,407
Other:				
Agriculture and turf	36	15	4,667	4,718
Construction and forestry	15	3	946	964
Total	$ 239	$ 178	$ 21,557	21,974
Less allowance for doubtful receivables				195
Total financing receivables - net				$ 21,779

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

	October 31, 2011			
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due *	Total Past Due
Retail Notes:				
Agriculture and turf	$ 81	$ 30	$ 25	$ 136
Construction and forestry	45	20	11	76
Other:				
Agriculture and turf	23	10	5	38
Construction and forestry	7	4	2	13
Total	$ 156	$ 64	$ 43	$ 263

	Total Past Due	Total Non-Performing	Current	Total Financing Receivables
Retail Notes:				
Agriculture and turf	$ 136	$ 132	$ 14,667	$ 14,935
Construction and forestry	76	17	1,264	1,357
Recreational products			4	4
Other:				
Agriculture and turf	38	16	5,655	5,709
Construction and forestry	13	5	1,003	1,021
Total	$ 263	$ 170	$ 22,593	23,026
Less allowance for doubtful receivables				197
Total financing receivables - net				$ 22,829

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

	January 31, 2011			
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due *	Total Past Due
Retail Notes:				
Agriculture and turf	$ 97	$ 46	$ 35	$ 178
Construction and forestry	49	30	27	106
Other:				
Agriculture and turf	30	13	16	59
Construction and forestry	14	6	6	26
Total	$ 190	$ 95	$ 84	$ 369

	Total Past Due	Total Non-Performing	Current	Total Financing Receivables
Retail Notes:				
Agriculture and turf	$ 178	$ 160	$ 12,767	$ 13,105
Construction and forestry	106	26	1,181	1,313
Recreational products			5	5
Other:				
Agriculture and turf	59	18	4,762	4,839
Construction and forestry	26	12	849	887
Total	$ 369	$ 216	$ 19,564	20,149
Less allowance for doubtful receivables				217
Total financing receivables - net				$ 19,932

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

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

	Retail Notes	Revolving Charge Accounts	Other	Total
January 31, 2012				
Allowance:				
Beginning of period balance	$ 130	$ 40	$ 27	$ 197
Provision		1		1
Write-offs	(2)	(7)	(1)	(10)
Recoveries	2	6		8
Translation adjustments	(1)			(1)
End of period balance	$ 129	$ 40	$ 26	$ 195
Balance individually evaluated *	$ 1			$ 1
Financing receivables:				
End of period balance	$ 16,292	$ 1,813	$ 3,869	$ 21,974
Balance individually evaluated *	$ 13		$ 5	$ 18
January 31, 2011				
Allowance:				
Beginning of period balance	$ 144	$ 44	$ 37	$ 225
Provision	4	3	1	8
Write-offs	(17)	(10)	(2)	(29)
Recoveries	3	8		11
Translation adjustments	2			2
End of period balance	$ 136	$ 45	$ 36	$ 217
Balance individually evaluated *	$ 2	$ 1	$ 4	$ 7
Financing receivables:				
End of period balance	$ 14,424	$ 1,867	$ 3,858	$ 20,149
Balance individually evaluated *	$ 15	$ 2	$ 14	$ 31

* Remainder is collectively evaluated.

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

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

	Recorded Investment	Unpaid Principal Balance	Specific Allowance	Average Recorded Investment
January 31, 2012				
Receivables with specific allowance *	$ 4	$ 4	$ 1	$ 4
Receivables without a specific allowance **	10	10		9
Total	$ 14	$ 14	$ 1	$ 13
Agriculture and turf	$ 9	$ 9	$ 1	$ 8
Construction and forestry	$ 5	$ 5		$ 5
October 31, 2011				
Receivables with specific allowance *	$ 7	$ 7	$ 1	$ 8
Receivables without a specific allowance **	9	9		12
Total	$ 16	$ 16	$ 1	$ 20
Agriculture and turf	$ 11	$ 11	$ 1	$ 14
Construction and forestry	$ 5	$ 5		$ 6
January 31, 2011				
Receivables with specific allowance *	$ 9	$ 9	$ 7	$ 20
Receivables without a specific allowance **	9	9		9
Total	$ 18	$ 18	$ 7	$ 29
Agriculture and turf	$ 12	$ 12	$ 6	$ 13
Construction and forestry	$ 6	$ 6	$ 1	$ 16

* Finance income recognized was not material.

** Primarily retail notes.

A troubled debt restructuring is generally the modification of debt in which a creditor grants a concession it would not otherwise consider to a debtor that is experiencing financial difficulties. These modifications may include a reduction of the stated interest rate, an extension of the maturity dates, a reduction of the face amount or maturity amount of the debt, or a reduction of accrued interest. During the first quarter of 2012, the Company identified 52 financing receivable contracts, primarily retail notes, as troubled debt restructurings with aggregate balances of $1.1 million pre-modification and $1.0 million post-modification. During the first quarter of 2011, there were 45 contracts with $1.6 million pre-modification and $1.4 million post-modification balances. During these same periods, there were no troubled debt restructurings that subsequently defaulted and were written off. At January 31, 2012, the Company had no commitments to lend additional funds to borrowers whose accounts were modified in troubled debt restructurings.

(11) Securitization of financing receivables:

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

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

In certain securitizations, the Company consolidates the SPEs since it has both the power to direct the activities that most significantly impact the SPEs economic performance through its role as servicer of all the receivables held by the SPEs, and the obligation through variable interests in the SPEs to absorb losses or receive benefits that could potentially be significant to the SPEs. The restricted assets (retail notes securitized, allowance for credit losses and other assets) of the consolidated SPEs totaled $1,278 million, $1,523 million and $1,133 million at January 31, 2012, October 31, 2011 and January 31, 2011, respectively. The liabilities (short-term securitization borrowings and accrued interest) of these SPEs totaled $1,159 million, $1,395 million and $1,073 million at January 31, 2012, October 31, 2011 and January 31, 2011, respectively. The credit holders of these SPEs do not have legal recourse to the Company s general credit.

In certain securitizations, the Company transfers retail notes to a non-VIE bank operation, which is not consolidated since the Company does not have a controlling interest in the entity. The Company s carrying values and interests related to the securitizations with the unconsolidated non-VIE were restricted assets (retail notes securitized, allowance for credit losses and other assets) of $354 million, $369 million and $177 million at January 31, 2012, October 31, 2011 and January 31, 2011, respectively. The liabilities (short-term securitization borrowings and accrued interest) were $344 million, $346 million and $173 million at January 31, 2012, October 31, 2011 and January 31, 2011, respectively.

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 $1,143 million, $1,109 million and $531 million at January 31, 2012, October 31, 2011 and January 31, 2011, respectively. The liabilities (short-term securitization borrowings and accrued interest) related to these conduits were $1,112 million, $1,038 million and $520 million at January 31, 2012, October 31, 2011 and January 31, 2011, 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:

	January 31, 2012
Carrying value of liabilities	$ 1,112
Maximum exposure to loss	1,143

The total assets of unconsolidated VIEs related to securitizations were approximately $29 billion at January 31, 2012.

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

	January 31 2012	October 31 2011	January 31 2011
Financing receivables securitized (retail notes)	$ 2,695	$ 2,923	$ 1,788
Allowance for credit losses	(14)	(18)	(20)
Other assets	94	96	73
Total restricted securitized assets	$ 2,775	$ 3,001	$ 1,841

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

	January 31 2012	October 31 2011	January 31 2011
Short-term securitization borrowings	$ 2,614	$ 2,777	$ 1,765
Accrued interest on borrowings	1	2	1
Total liabilities related to restricted securitized assets	$ 2,615	$ 2,779	$ 1,766

The secured borrowings related to these restricted securitized retail notes are obligations that are payable as the retail notes are liquidated. Repayment of the secured borrowings depends primarily on cash flows generated by the restricted assets. Due to the Company s short-term credit rating, cash collections from these restricted assets are not required to be placed into a restricted collection account until immediately prior to the time payment is required to the secured creditors. At January 31, 2012, the maximum remaining term of all restricted receivables was approximately six years.

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

	January 31 2012	October 31 2011	January 31 2011
Raw materials and supplies	$ 1,850	$ 1,626	$ 1,413
Work-in-process	814	647	612
Finished goods and parts	4,503	3,584	3,591
Total FIFO value	7,167	5,857	5,616
Less adjustment to LIFO value	1,489	1,486	1,438
Inventories	$ 5,678	$ 4,371	$ 4,178

(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, 2010:			
Goodwill	$ 705	$ 610	$ 1,315
Less accumulated impairment losses	316		316
Goodwill - net	389	610	999
Translation adjustments	(1)	2	1
Other	(4)	1	(3)
Balance January 31, 2011:			
Goodwill	700	613	1,313
Less accumulated impairment losses	316		316
Goodwill - net	$ 384	$ 613	$ 997
Balance October 31, 2011:			
Goodwill	$ 701	$ 615	$ 1,316
Less accumulated impairment losses	316		316
Goodwill - net	385	615	1,000
Translation adjustments	(6)	(29)	(35)
Balance January 31, 2012:			
Goodwill	695	586	1,281
Less accumulated impairment losses	316		316
Goodwill - net	$ 379	$ 586	$ 965

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

	Useful Lives * Years	January 31 2012	2011
Amortized intangible assets:			
Customer lists and relationships	14	$ 102	$ 110
Technology, patents, trademarks and other	15	106	94
Total at cost		208	204
Less accumulated amortization **		93	75
Total		115	129
Unamortized intangible assets:			
Licenses		4	4
Other intangible assets - net		$ 119	$ 133

* Weighted-averages

** Accumulated amortization at January 31, 2012 and 2011 for customer lists and relationships totaled $54 million and $47 million and technology, patents, trademarks and other totaled $39 million and $28 million, respectively.

The amortization of other intangible assets in the first quarter of 2012 and 2011 was $5 million and $4 million, respectively. The estimated amortization expense for the next five years is as follows in millions of dollars: remainder of 2012 - $14, 2013 - $16, 2014 - $15, 2015 - $14 and 2016 - $12.

(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 $238 million and $206 million at January 31, 2012 and 2011, respectively.

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

	Three Months Ended January 31 2012	2011
Beginning of period balance	$ 892	$ 762

Payments	(136)	(133)
Amortization of premiums received	(25)	(22)
Accruals for warranties	139	191
Premiums received	35	25
Foreign exchange	(10)	(1)
End of period balance	$ 895	$ 822

At January 31, 2012, the Company had approximately $250 million of guarantees issued primarily to banks outside the U.S. and Canada related to third-party receivables for the retail financing of John

Deere equipment. The Company may recover a portion of any required payments incurred under these agreements from repossession of the equipment collateralizing the receivables. At January 31, 2012, the Company had an accrued liability of approximately $8 million under these agreements. The maximum remaining term of the receivables guaranteed at January 31, 2012 was approximately five years.

At January 31, 2012 the Company had commitments of approximately $383 million for the construction and acquisition of property and equipment. Also, at January 31, 2012, the Company had pledged or restricted assets of $151 million, primarily as collateral for borrowings. See Note 11 for additional restricted assets associated with borrowings related to securitizations.

The Company also had other miscellaneous contingent liabilities totaling approximately $45 million at January 31, 2012, for which it believes the probability for payment is substantially remote. The accrued liability for these contingencies was not material at January 31, 2012.

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

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

	January 31, 2012		October 31, 2011		January 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financing receivables - net	$ 19,098	$ 19,096	$ 19,924	$ 19,919	$ 18,164	$ 18,181
Financing receivables securitized - net	2,681	2,679	2,905	2,907	1,768	1,777
Short-term securitization borrowings	2,614	2,624	2,777	2,789	1,765	1,778
Long-term borrowings due within one year:						
Equipment operations	$ 242	$ 233	$ 244	$ 233	$ 39	$ 41
Financial services	6,300	6,357	5,249	5,331	3,075	3,134
Total	$ 6,542	$ 6,590	$ 5,493	$ 5,564	$ 3,114	$ 3,175
Long-term borrowings:						
Equipment operations	$ 3,134	$ 3,788	$ 3,167	$ 3,771	$ 3,315	$ 3,581
Financial services	13,790	14,123	13,793	14,154	13,391	13,838
Total	$ 16,924	$ 17,911	$ 16,960	$ 17,925	$ 16,706	$ 17,419

Fair values of the long-term financing receivables were based on the discounted values of their related cash flows at current market interest rates. The fair values of the remaining financing receivables approximated the carrying amounts.

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

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

	January 31 2012*	October 31 2011*	January 31 2011*
Marketable securities			
U.S. government debt securities	$ 885	$ 576	$ 63
Municipal debt securities	37	36	29
Corporate debt securities	99	89	67
Residential mortgage-backed securities **	105	86	73
Other debt securities			2
Total marketable securities	1,126	787	234
Other assets			
Derivatives:			
Interest rate contracts	569	471	365
Foreign exchange contracts	8	12	12
Cross-currency interest rate contracts	7	2	2
Total assets ***	$ 1,710	$ 1,272	$ 613
Accounts payable and accrued expenses			
Derivatives:			
Interest rate contracts	$ 58	$ 61	$ 36
Foreign exchange contracts	86	100	26
Cross-currency interest rate contracts	45	7	64
Total liabilities	$ 189	$ 168	$ 126

* All measurements above were Level 2 measurements except for Level 1 measurements of U.S. government debt securities of $843 million, $540 million and $36 million at January 31, 2012, October 31, 2011 and January 31, 2011, respectively.

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

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

The contractual maturities of debt securities at January 31, 2012 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	$ 309	$ 310
Due after one through five years	563	568
Due after five through 10 years	78	85
Due after 10 years	52	58
Residential mortgage-backed securities	101	105
Debt securities	$ 1,103	$ 1,126

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

	Fair Value *			Losses Three Months Ended January 31	
	January 31 2012	October 31 2011	January 31 2011	2012	2011
Financing receivables	$ 3	$ 5	$ 3		$ 1

* Does not include cost to sell.

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 assets and liabilities at fair value:

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

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

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

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

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

Certain of the Company s derivative agreements contain credit support provisions that may require the Company to post collateral based on reductions in credit ratings. The aggregate fair value of all derivatives with credit-risk-related contingent features that were in a net liability position at January 31, 2012, October 31, 2011 and January 31, 2011, was $13 million, $23 million and $32 million, respectively. The Company, due to its credit rating and amounts of net liability position, has not posted any collateral. If the credit-risk-related contingent features were triggered, the Company would be required to post full collateral for this liability position, prior to considering applicable netting provisions.

Derivative instruments are subject to significant concentrations of credit risk to the banking sector. The Company manages individual counterparty exposure by setting limits that consider the credit rating of the counterparty and the size of other financial commitments and exposures between the Company and the counterparty banks. All interest rate derivatives are transacted under International Swaps and Derivatives Association (ISDA) documentation. Some of these agreements include credit support provisions. Each master agreement permits the net settlement of amounts owed in the event of 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 $584 million, $485 million and $379 million as of January 31, 2012, October 31, 2011 and January 31, 2011, respectively. The amount of collateral received at January 31, 2012, October 31, 2011 and January 31, 2011 to offset this potential maximum loss was $38 million, $25 million and $60 million, respectively. The netting provisions of the agreements would reduce the maximum amount of loss the Company would incur if the counterparties to derivative instruments fail to meet their obligations by an additional $81 million, $59 million and $59 million as of January 31, 2012, October 31, 2011 and January 31, 2011, respectively. None of the concentrations of risk with any individual counterparty was considered significant in any periods presented.

Cash flow hedges

Certain interest rate and cross-currency interest rate contracts (swaps) were designated as hedges of future cash flows from borrowings. The total notional amounts of the receive-variable/pay-fixed interest rate contracts at January 31, 2012, October 31, 2011 and January 31, 2011 were $1,600 million, $1,350 million and $634 million, respectively. The notional amounts of cross-currency interest rate contracts at January 31, 2012, October 31, 2011 and January 31, 2011 were $853 million, $853 million and $849 million, respectively. The effective portions of the fair value gains or losses on these cash flow hedges were recorded in other comprehensive income (OCI) and subsequently reclassified into interest expense or other operating expenses (foreign exchange) in the same periods during which the hedged transactions affect earnings. These amounts offset the effects of interest rate or foreign currency changes on the related borrowings. Any ineffective portions of the gains or losses on all cash flow interest rate contracts designated as hedges were recognized currently in interest expense or other operating expenses (foreign exchange) and were not material during any periods presented. The cash flows from these contracts were recorded in operating activities in the consolidated statement of cash flows.

The amount of loss recorded in OCI at January 31, 2012 that is expected to be reclassified to interest expense or other operating expenses in the next twelve months if interest rates or exchange rates remain unchanged is approximately $4 million after-tax. These contracts mature in up to 32 months. There were no gains or losses reclassified from OCI to earnings based on the probability that the original forecasted transaction would not occur.

Fair value hedges

Certain interest rate contracts (swaps) were designated as fair value hedges of borrowings. The total notional amounts of these receive-fixed/pay-variable interest rate contracts at January 31, 2012, October 31, 2011 and January 31, 2011 were $7,892 million, $7,730 million and $6,853 million, respectively. The effective portions of the fair value gains or losses on these contracts were offset by fair value gains or losses on the hedged items (fixed-rate borrowings). Any ineffective portions of the gains or losses were recognized currently in interest expense. During the first three months of 2012 and 2011, the ineffective portions were losses of $3 million and $4 million, respectively. The cash flows from these contracts were recorded in operating activities in the consolidated statement of cash flows.

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

	Three Months Ended January 31	
	2012	2011
Interest rate contracts *	$ 107	$ (134)
Borrowings **	(110)	130

* Includes changes in fair values of interest rate contracts excluding net accrued interest income of $41 million and $46 million during the first three months of 2012 and 2011, respectively.

** Includes adjustment for fair values of hedged borrowings excluding accrued interest expense of $71 million and $70 million during the first three months of 2012 and 2011, respectively.

Derivatives not designated as hedging instruments

The Company has certain interest rate contracts (swaps and caps), foreign exchange contracts (forwards and swaps) and cross-currency interest rate contracts (swaps), which were not formally designated as hedges. These derivatives were held as economic hedges for underlying interest rate or foreign currency exposures primarily for certain borrowings and purchases or sales of inventory. The total notional amounts of these interest rate swaps at January 31, 2012, October 31, 2011 and January 31, 2011 were $2,693 million, $3,216 million and $2,509 million, the foreign exchange contracts were $3,253 million, $3,058 million and $2,936 million and the cross-currency interest rate contracts were $61 million, $52 million and $52 million, respectively. At January 31, 2012, October 31, 2011 and January 31, 2011, there were also $1,505 million, $1,402 million and $946 million, respectively, of interest rate caps purchased and the same amounts sold at the same capped interest rate to facilitate borrowings through securitization of retail notes. The fair value gains or losses from the interest rate contracts were recognized currently in interest expense and the gains or losses from foreign exchange contracts in cost of sales or other operating expenses, generally offsetting over time the expenses on the exposures being hedged. The cash flows from these non-designated contracts were recorded in operating activities in the consolidated statement of cash flows.

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

Other Assets	January 31 2012	October 31 2011	January 31 2011
Designated as hedging instruments:			
Interest rate contracts	$ 494	$ 404	$ 332
Cross-currency interest rate contracts	5		
Total designated	499	404	332
Not designated as hedging instruments:			
Interest rate contracts	75	67	33
Foreign exchange contracts	8	12	12
Cross-currency interest rate contracts	2	2	2
Total not designated	85	81	47
Total derivatives	$ 584	$ 485	$ 379
Accounts Payable and Accrued Expenses			
Designated as hedging instruments:			
Interest rate contracts	$ 3	$ 13	$ 21
Cross-currency interest rate contracts	44	7	62
Total designated	47	20	83
Not designated as hedging instruments:			
Interest rate contracts	55	48	15
Foreign exchange contracts	86	100	26
Cross-currency interest rate contracts	1		2
Total not designated	142	148	43
Total derivatives			