DEERE & CO
Form 10-K
December 18, 2008

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED OCTOBER 31, 2008

Commission file number 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**	**(309) 765-8000**
(Address of principal executive offices)	(Zip Code)	(Telephone Number)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT

Title of each class	**Name of each exchange on which registered**
Common stock, $1 par value	New York Stock Exchange
8.95% Debentures Due 2019	New York Stock Exchange

8-1/2% Debentures Due 2022	New York Stock Exchange
6.55% Debentures Due 2028	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No x

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 o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Yes o No x

The aggregate quoted market price of voting stock of registrant held by non-affiliates at April 30, 2008 was $36,116,700,082. At November 30, 2008, 422,307,701 shares of common stock, $1 par value, of the registrant were outstanding. *Documents Incorporated by Reference*. Portions of the proxy statement for the annual meeting of stockholders to be held on February 25, 2009 are incorporated by reference in Part III.

PART I

ITEM 1. BUSINESS.

Products

Deere & Company (Company) and its subsidiaries (collectively called John Deere) have operations which are categorized into four major business segments.

The *agricultural equipment* segment manufactures and distributes a full line of farm equipment and related service parts including tractors; combine, cotton and sugarcane harvesters; tillage, seeding, nutrient management and soil preparation machinery; sprayers; hay and forage equipment; integrated agricultural management systems technology; and precision agricultural irrigation equipment and supplies.

The *commercial and consumer equipment* segment manufactures and distributes equipment, products and service parts for commercial and residential uses including tractors for lawn, garden, commercial and utility purposes; mowing equipment, including walk-behind mowers; golf course equipment; utility vehicles; landscape and nursery products; irrigation equipment; and other outdoor power products.

The *construction and forestry* segment manufactures, distributes to dealers and sells at retail a broad range of machines and service parts used in construction, earthmoving, material handling and timber harvesting including backhoe loaders; crawler dozers and loaders; four-wheel-drive loaders; excavators; motor graders; articulated dump trucks; landscape loaders; skid-steer loaders; and log skidders, feller bunchers, log loaders, log forwarders, log harvesters and related attachments.

The products and services produced by the segments above are marketed primarily through independent retail dealer networks and major retail outlets.

The *credit* segment primarily finances sales and leases by John Deere dealers of new and used agricultural, commercial and consumer, and construction and forestry equipment. In addition, it provides wholesale financing to dealers of the foregoing equipment, provides operating loans, finances retail revolving charge accounts, offers certain crop risk mitigation products and invests in wind energy generation.

John Deere s worldwide agricultural equipment; commercial and consumer equipment; and construction and forestry operations are sometimes referred to as the Equipment Operations. The credit and certain miscellaneous service operations are sometimes referred to as Financial Services.

Additional information is presented in the discussion of business segment and geographic area results on page 16. The John Deere enterprise has manufactured agricultural machinery since 1837. The present Company was incorporated under the laws of Delaware in 1958.

The Company s Internet address is http://www.JohnDeere.com. Through that address, the Company s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available free of charge as soon as reasonably practicable after they are filed with the United States Securities and Exchange Commission (Securities and Exchange Commission or Commission). The information contained on the Company s website is not included in, or incorporated by reference into, this annual report on Form 10-K.

Market Conditions and Outlook

Given the sudden, sharp downturn in global economic activity, and the ongoing turmoil in world financial markets, the outlook for the year ahead is highly uncertain and its impact on the Company s operations is difficult to assess. Subject to the economic uncertainties, Company equipment sales are projected to be about flat for the full year of 2009 and up about 7 percent for the first quarter. Included in the forecast is a negative currency-translation impact of about 6 percent for both the full year and first quarter. John Deere s net income is forecast to be about $1.9 billion for 2009 and about $275 million for the first quarter.

Agricultural Equipment. Worldwide sales of the Company s agricultural equipment are forecast to increase by about 5 percent for full-year 2009. This includes a negative currency-translation impact of about 8 percent.

Farm-machinery industry sales in the United States and Canada are forecast to be up about 5 percent for the year, led by an increase in large tractors and combines. The company expects agricultural commodity prices to remain at healthy levels in 2009, though below the previous year, while costs moderate for key inputs such as fuel and fertilizer. Sales of cotton equipment, small tractors, and equipment commonly used by livestock producers are expected to be lower.

Industry sales in Western Europe are forecast to be down 5 to 10 percent for the year. Sales are expected to be down moderately in Central Europe and the CIS (Commonwealth of Independent States) countries, including Russia. While demand in these areas for

highly productive farm equipment remains good, sales will depend on the availability and cost of credit. Sales in South American markets are expected to be down 10 to 20 percent in 2009, with the decline related to credit access in Brazil and drought conditions in Argentina.

Commercial & Consumer Equipment. Reflecting the U.S. housing market decline and recessionary economic conditions, John Deere commercial and consumer equipment sales are projected to be down about 6 percent for the year. The segment expects sales gains from new products to partly offset the impact of the economic decline.

Construction & Forestry. U.S. markets for construction and forestry equipment are forecast to remain under pressure due to further deterioration in the already-weakened housing sector, a steep decline in nonresidential construction, and negative economic growth. The global economic slowdown is expected to lead to a lower level of forestry equipment sales in both the United States and Europe. Subject to the economic uncertainties discussed earlier, John Deere s worldwide sales of construction and forestry equipment are forecast to decline by approximately 12 percent for the year. Despite the poor economic climate, company sales are expected to benefit from innovative new products.

Credit. Subject to the uncertainty associated with present economic conditions, full-year 2009 net income for John Deere s credit operations is forecast to be approximately $300 million. The forecast decrease from 2008 is primarily due to narrower financing spreads related to the current funding environment.

2008 Consolidated Results Compared with 2007

Worldwide net income in 2008 was $2,053 million, or $4.70 per share diluted ($4.76 basic), compared with $1,822 million, or $4.00 per share diluted ($4.05 basic), in 2007. Net sales and revenues increased 18 percent to $28,438 million in 2008, compared with $24,082 million in 2007. Net sales of the Equipment Operations increased 20 percent in 2008 to $25,803 million from $21,489 million last year. This included a positive effect for currency translation of 4 percent and price changes of 2 percent. Net sales in the U.S. and Canada increased 9 percent in 2008. Net sales outside the U.S. and Canada increased by 40 percent, which included a positive effect of 10 percent for currency translation.

Worldwide Equipment Operations had an operating profit of $2,927 million in 2008, compared with $2,318 million in 2007. Higher operating profit was primarily due to the favorable impact of higher shipment volumes and improved price realization. Partially offsetting these factors were increased raw material costs, higher selling, administrative and general expenses, increased research and development costs and expenses to close a facility in Canada (see Note 3).

The Equipment Operations net income was $1,676 million in 2008, compared with $1,429 million in 2007. The same operating factors mentioned above as well as a higher effective tax rate this year affected these results.

Net income of the company s Financial Services operations in 2008 decreased to $337 million, compared with $364 million in 2007. The decrease was primarily a result of increased selling, administrative and general expenses, an increase in average leverage and a higher provision

for credit losses, partially offset by growth in the average credit portfolio. Additional information is presented in the following discussion of the credit operations.

The cost of sales to net sales ratio for 2008 was 75.9 percent, compared with 75.6 percent last year. The increase was primarily due to higher raw material costs, partially offset by higher sales and production volumes and improved price realization.

Additional information on 2008 results is presented on pages 15 17.

EQUIPMENT OPERATIONS

Agricultural Equipment

The John Deere worldwide agricultural equipment segment manufactures and distributes a full line of farm equipment and related service parts, including tractors, combine, cotton and sugar harvesting equipment, tillage, seeding, nutrient management and soil preparation machinery, sprayers, hay and forage equipment, material handling equipment, integrated agricultural systems technology, and precision agricultural irrigation equipment and supplies.

Sales of agricultural equipment are affected by total farm cash receipts, which reflect levels of farm commodity prices, acreage planted, crop yields and governmental policies, including the amount and timing of government payments. Sales are also influenced by general economic conditions, farm land prices, farmers debt levels and access to financing, interest and exchange rates, agricultural trends, including the production of and demand for renewable fuels, energy costs and other input costs associated with farming. Other important factors affecting new equipment sales are the value and level of used equipment, including tractors,

harvesting equipment, self-propelled sprayers, hay and forage equipment and seeding equipment. Weather and climatic conditions can also affect buying decisions of equipment purchasers.

Innovations in machinery and technology also influence buying. For example, larger, more productive equipment is well accepted where farmers are striving for more efficiency in their operations. The Company has developed a comprehensive agricultural management systems approach using advanced technology and global satellite positioning to enable farmers to better control input costs and yields, improve soil conservation and minimize chemical use and to gather information.

Large, cost-efficient, highly-mechanized agricultural operations account for an important share of worldwide farm output. The large-size agricultural equipment used on such farms has been particularly important to John Deere. A large proportion of the Equipment Operations total agricultural equipment sales in the United States, and a growing proportion of sales outside North America, is comprised of tractors over 100 horsepower, self-propelled combines, self-propelled cotton pickers, self-propelled forage harvesters, self-propelled sprayers and seeding equipment.

The agricultural equipment segment also manufactures and sells a variety of equipment attachments under the Frontier brand name as well as the John Deere brand.

Seasonality. Seasonal patterns in retail demand for agricultural equipment result in substantial variations in the volume and mix of products sold to retail customers during various times of the year. Seasonal demand must be estimated in advance, and equipment must be manufactured in anticipation of such demand in order to achieve efficient utilization of manpower and facilities throughout the year. For certain equipment, the Company offers early order discounts to retail customers. Production schedules are based, in part, on these early order programs. The agricultural equipment segment incurs substantial seasonal variation in cash flows to finance production and inventory of equipment. The agricultural equipment segment also incurs costs to finance sales to dealers in advance of seasonal demand. New combine and cotton harvesting equipment has been sold under early order programs with waivers of retail finance charges available to customers who take delivery of machines during off-season periods. In the U.S. and Canada, there are typically several used equipment trade-in transactions for every new combine and cotton harvesting equipment sale. To provide support to the Company s dealers for these used equipment trade-ins, the Company provides dealers with a fixed pool of funds, and the dealers are then responsible for all associated inventory and sale costs using these funds.

An important part of the competition within the agricultural equipment industry during the past decade has come from a diverse variety of short-line and specialty manufacturers with differing manufacturing and marketing methods. Because of industry conditions, including the merger of certain large integrated competitors and the global capability and emergence of many competitors, the agricultural equipment business continues to undergo significant change and may become even more competitive.

John Deere Water Technologies, a unit of the agricultural equipment segment, manufactures and distributes precision irrigation products. In 2008, John Deere expanded its water technology business with the acquisitions of T-Systems International, Inc. and Plastro Irrigation Systems, Ltd.

Commercial and Consumer Equipment

The John Deere commercial and consumer segment includes lawn and garden tractors, compact utility tractors, residential and commercial zero-turn radius mowers, front mowers, utility vehicles, and golf and turf equipment. A broad line of associated implements for mowing, tilling, snow and debris handling, aerating, and many other residential, commercial, golf and sports turf care applications are also included. The product line also includes walk-behind mowers and other outdoor power products. Retail sales of these commercial and consumer equipment products are influenced by weather conditions, consumer spending patterns and general economic conditions. To increase asset turnover and reduce the average level of field inventories through the year, the production and shipment schedules of the commercial and consumer equipment segment s product lines closely correspond to the seasonal pattern of retail sales.

The commercial and consumer segment manufactures and sells certain equipment attachments under the Frontier brand name, and manufactures and sells walk-behind mowers and scarifiers in Europe under the SABO brand, as well as the John Deere brand. The segment also builds products for sale by mass retailers, including The Home Depot and Lowe s.

John Deere Landscapes, Inc., a unit of the segment, distributes irrigation equipment, nursery products and landscape supplies, including seed, fertilizer and hardscape materials, primarily to landscape service professionals. In 2007, John Deere acquired LESCO, Inc., expanding its customer base for these products.

In addition to the equipment manufactured by the commercial and consumer equipment segment, John Deere purchases certain products from other manufacturers for resale.

Seasonality. Retail demand for the segment s equipment normally is higher in the second and third quarters. The commercial and consumer equipment segment is pursuing a strategy of building and shipping as close to retail demand as possible. Consequently,

production, shipping and retail sales normally will be proportionately higher in the second and third quarters of each year.

Construction and Forestry

John Deere construction, earthmoving, material handling and forestry equipment includes a broad range of backhoe loaders, crawler dozers and loaders, four-wheel-drive loaders, excavators, motor graders, articulated dump trucks, landscape loaders, skid-steer loaders, log skidders, log feller bunchers, log loaders, log forwarders, log harvesters and a variety of attachments.

Today, the construction and forestry segment provides sizes of equipment that compete for over 90 percent of the estimated total North American market for those categories of construction, earthmoving and material handling equipment in which it competes. This segment also provides the most complete line of forestry machines and attachments available in the world. These forestry machines and attachments are distributed under the John Deere, Timberjack and Waratah brand names. In addition to the equipment manufactured by the construction and forestry segment, John Deere purchases certain products from other manufacturers for resale.

The prevailing levels of residential, commercial and public construction and the condition of the forest products industry influence retail sales of John Deere construction, earthmoving, material handling and forestry equipment. General economic conditions, the level of interest rates, availability of credit and certain commodity prices such as those applicable to pulp, paper and saw logs also influence sales.

John Deere and Hitachi have a joint venture for the manufacture of hydraulic excavators and track log loaders in the United States and Canada. John Deere also distributes Hitachi brands of construction and mining equipment in North, Central and South America. John Deere also has supply agreements with Hitachi under which a range of construction, earthmoving, material handling and forestry products manufactured by John Deere in the United States, Finland and New Zealand are distributed by Hitachi in certain Asian markets.

In 2008, John Deere expanded this segment s business outside of the United States and Canada by entering into two joint ventures, one in China and one in India. John Deere entered into a joint venture with Xuzhou Bohui Science & Technology Development CO. Ltd. (Xuzhou) by purchasing a 50% ownership interest in Xuzhou s wholly-owned excavator manufacturing subsidiary, Xuzhou Xuwa Excavator Machinery CO. Ltd. (now known as Xuzhou XCG John Deere Machinery Manufacturing Co., Ltd. (Xuzhou XCG)). John Deere also signed an agreement to form a joint venture with Ashok Leyland Limited in India (Ashok Leyland John Deere Construction Equipment Company Private Limited) for the manufacture of backhoes and four-wheel drive loaders.

The segment has a number of initiatives in the rent-to-rent, or short-term rental, market for construction, earthmoving and material handling equipment. These include specially designed rental programs for John Deere dealers and expanded cooperation with major, national equipment rental companies.

John Deere also owns Nortrax, Inc., Nortrax Investments, Inc. and Nortrax Canada Inc. (formerly known as Ontrac Equipment Services, Inc.) (collectively called Nortrax). Nortrax is an authorized John Deere dealer for construction, earthmoving, material handling and forestry equipment in a variety of markets in the United States and Canada.

Engineering and Research

John Deere invests heavily in engineering and research to improve the quality and performance of its products, and to develop new products. Such expenditures were $943 million or 3.7 percent of net sales of equipment in 2008, $817 million or 3.8 percent in 2007, and $726 million or 3.7 percent in 2006.

Manufacturing

Manufacturing Plants. In the United States and Canada, the Equipment Operations own and operate 18 factory locations and lease and operate another four locations, which contain approximately 27.3 million square feet of floor space. Of these 22 factories, 13 are devoted primarily to agricultural equipment, four to commercial and consumer equipment, two to construction and forestry equipment, and one engine and two hydraulic and power train component facilities. Outside the United States and Canada, the Equipment Operations own or lease and operate: agricultural equipment factories in Brazil, China, France, Germany, India, Mexico, the Netherlands and Russia; engine factories in Argentina, France, India and Mexico; a component factory in Spain; a commercial and consumer equipment factory in Germany and forestry equipment factories in Finland and New Zealand. In addition, John Deere Water Technologies has manufacturing operations outside of North America in Argentina, Australia, Brazil, Chile, Ecuador, Israel and Spain. These factories and manufacturing operations outside the United States and Canada contain approximately 15.2 million square feet of floor space. The Equipment Operations also have financial interests in other manufacturing organizations, which include agricultural equipment manufacturers in the United States, an industrial truck manufacturer in South Africa, the Hitachi joint venture that builds hydraulic excavators and track log loaders in the United States and Canada, the Xuzhou XCG joint venture that builds excavators and ventures that manufacture transaxles and transmissions used in certain commercial and consumer equipment segment products.

The engine factories referred to above manufacture non-road, heavy duty diesel engines a majority of which are manufactured for the Company s Equipment Operations; the remaining engines are sold to other regional and global original equipment manufacturers.

John Deere s facilities are well maintained, in good operating condition and are suitable for their present purposes. These facilities, together with both short-term and long-term planned capital expenditures, are expected to meet John Deere s manufacturing needs in the foreseeable future.

Capacity is adequate to satisfy the Company s current expectations for retail market demand. The Equipment Operations manufacturing strategy involves the implementation of appropriate levels of technology and automation to allow manufacturing processes to remain profitable at varying production levels. Operations are also designed to be flexible enough to accommodate the product design changes required to meet market conditions. Common manufacturing facilities and techniques are employed in the production of components for agricultural, commercial and consumer and construction and forestry equipment.

In order to utilize manufacturing facilities and technology more effectively, the Equipment Operations pursue continuous improvements in manufacturing processes. These include steps to streamline manufacturing processes and enhance responsiveness to customers. The Company has implemented flexible assembly lines that can handle a wider product mix and deliver products when dealers and customers require them. Additionally, considerable effort is being directed to manufacturing cost reduction through process improvement, product design, advanced manufacturing technology, enhanced environmental management systems, supply management and logistics as well as compensation incentives related to productivity and organizational structure. The Company is experiencing volatility in the price of many raw materials. The Company has offset, and expects to continue to offset, any increased costs through the above-described cost reduction measures and through pricing. Significant cost increases, if they occur, could have an adverse effect on the Company s operating results. The Equipment Operations also pursue external sales of selected parts and components that can be manufactured and supplied to third parties on a competitive basis.

Capital Expenditures. The Equipment Operations capital expenditures totaled $781 million in 2008, compared with $575 million in 2007, and $481 million in 2006. Provisions for depreciation applicable to these operations property, plant and equipment during these years were $432 million, $389 million, and $370 million, respectively. Capital expenditures for the Equipment Operations in 2009 are currently estimated to be approximately $1 billion. The 2009 expenditures will relate primarily to the modernization and restructuring of key manufacturing facilities and will also relate to the development of new products. Future levels of capital expenditures will depend on business conditions.

Patents and Trademarks

John Deere owns a significant number of patents, licenses and trademarks. The Company believes that, in the aggregate, the rights under these patents, licenses and trademarks are generally important to its operations, but does not consider that any patent, license, trademark or related group of them (other than its house trademarks, which include but are not limited to the John Deere mark, the leaping deer logo, the Nothing Runs Like a Deere slogan and green and yellow equipment colors) is of material importance in relation to John Deere s business.

Marketing

In the United States and Canada, the Equipment Operations distribute equipment and service parts through the following facilities (collectively called sales branches): one agricultural equipment and one commercial and consumer equipment sales and administration office each supported by seven agricultural equipment and commercial and consumer equipment sales branches; and one construction, earthmoving, material handling and forestry equipment sales and administration office.

In addition, the Equipment Operations operate a centralized parts distribution warehouse in coordination with several regional parts depots and distribution centers in the United States and Canada and have an agreement with a third party to operate a high-volume parts warehouse in Indiana.

The sales branches in the United States and Canada market John Deere products at approximately 2,752 dealer locations, most of which are independently owned. Of these, approximately 1,567 sell agricultural equipment, while 517 sell construction, earthmoving, material handling and/or forestry equipment. Nortrax owns some of the 517 locations. Commercial and consumer equipment is sold by most John Deere agricultural equipment dealers, a few construction, earthmoving, material handling and forestry equipment dealers, and about 650 commercial and consumer equipment dealers, many of which also handle competitive brands and dissimilar lines of products. In addition, certain lawn and garden product lines are sold through The Home Depot and Lowe s.

John Deere Landscapes operates its business from 612 branch locations throughout the United States and Canada, along with 94 Stores-on-Wheels.

Outside the United States and Canada, John Deere agricultural equipment is sold to distributors and dealers for resale in over 100 countries. Sales branches are located in Argentina, Australia, Brazil, Germany, France, India, Italy, Mexico, Poland, Russia, Singapore, South Africa, Spain, Switzerland, Turkey, the United Kingdom and Uruguay. Export sales branches are located in Europe

and the United States. Associated companies doing business in China also sell agricultural equipment. Commercial and consumer equipment sales outside the United States and Canada occur primarily in Europe and Australia. Construction, earthmoving, material handling and forestry equipment is sold to distributors and dealers primarily by sales offices located in the United States, Brazil, Finland and Singapore. Some of these dealers are independently owned while the Company owns others.

John Deere Water Technologies operates from 29 sales and marketing locations and 16 warehousing locations in 14 countries including Argentina, Australia, Brazil, Chile, China, Columbia, Ecuador, France, Israel, Peru, the Philippines, Spain, Turkey and the United States. Its products are marketed through approximately 1,500 dealers and distributors in over 100 countries.

John Deere engines are marketed worldwide through select sales branches to large original equipment manufacturers and independently owned engine distributors.

Trade Accounts and Notes Receivable

Trade accounts and notes receivable arise primarily from sales of goods to independent dealers. Most trade receivables originated by the Equipment Operations are purchased by Financial Services. The Equipment Operations compensate Financial Services at market rates of interest for these receivables. Additional information appears in Note 10 to the Consolidated Financial Statements.

FINANCIAL SERVICES

Credit Operations

United States and Canada. The Company s credit segment (collectively referred to as the Credit Companies) primarily provide and administer financing for retail purchases from John Deere dealers of new equipment manufactured by the Company s agricultural equipment, commercial and consumer equipment, and construction and forestry divisions and used equipment taken in trade for this equipment. The Company and John Deere Construction & Forestry Company are referred to as the sales companies. John Deere Capital Corporation (Capital Corporation), a United States credit subsidiary, generally purchases retail installment sales and loan contracts (retail notes) from the sales companies. These retail notes are acquired by the sales companies through John Deere retail dealers in the United States. John Deere Credit Inc., a Canadian credit subsidiary, purchases and finances retail notes acquired by John Deere Limited, the Company s Canadian sales branch. The terms of retail notes and the basis on which the Credit Companies acquire retail notes from the sales companies are governed by agreements with the sales companies. The Credit Companies also finance and service revolving charge accounts, in most cases acquired from and offered through merchants in the agricultural, commercial and consumer and construction and forestry markets (revolving charge accounts). Further, the Credit Companies finance and service operating loans, in most cases offered through and acquired from farm input providers or through direct relationships with agricultural producers or agribusinesses (operating loans). Additionally, the Credit Companies provide wholesale financing for inventories of John Deere agricultural, commercial and consumer, and construction and forestry equipment owned by dealers of those products (wholesale notes). In the

United States, certain Company subsidiaries included in the credit segment also offer certain crop risk mitigation products, and invest in wind energy generation.

Retail notes acquired by the sales companies are immediately sold to the Credit Companies. The Equipment Operations are the Credit Companies major source of business, but many retail purchasers of John Deere products finance their purchases outside the John Deere organization.

The Credit Companies offer retail leases to equipment users in the United States. A small number of leases are executed with units of local government. Leases are usually written for periods of two to five years, and frequently contain an option permitting the customer to purchase the equipment at the end of the lease term. Retail leases are also offered in a generally similar manner to customers in Canada through John Deere Credit Inc. and John Deere Limited.

The Credit Companies terms for financing equipment retail sales (other than smaller items financed with unsecured revolving charge accounts) provide for retention of a security interest in the equipment financed. The Credit Companies guidelines for minimum down payments, which vary with the types of equipment and repayment provisions, are generally not less than 20 percent on agricultural equipment, 10 percent on construction and forestry equipment and 10 percent on lawn and grounds care equipment used for personal use. Finance charges are sometimes waived for specified periods or reduced on certain John Deere products sold or leased in advance of the season of use or in other sales promotions. The Credit Companies generally receive compensation from the sales companies equal to a competitive interest rate for periods during which finance charges are waived or reduced on the retail notes or leases. The cost is accounted for as a deduction in arriving at net sales by the Equipment Operations.

The Company has an agreement with the Capital Corporation to make income maintenance payments to the Capital Corporation such that its ratio of earnings to fixed charges is not less than 1.05 to 1 for any fiscal quarter. For 2008 and 2007, the Capital Corporation s ratios were 1.52 to 1 and 1.54 to 1, respectively, and never less than 1.43 to 1 and 1.54 to 1 for any fiscal quarter of 2008 and 2007, respectively. The Company has also committed to continue to own at least 51 percent of the voting shares of capital stock of the Capital Corporation and to maintain the Capital Corporation s consolidated tangible net worth at not less than $50 million. The Company s obligations to make payments to the Capital Corporation under the agreement are independent of whether the Capital

Corporation is in default on its indebtedness, obligations or other liabilities. Further, the Company s obligations under the agreement are not measured by the amount of the Capital Corporation s indebtedness, obligations or other liabilities. The Company s obligations to make payments under this agreement are expressly stated not to be a guaranty of any specific indebtedness, obligation or liability of the Capital Corporation and are enforceable only by or in the name of the Capital Corporation. No payments were required under this agreement in 2008 or 2007.

Outside the United States and Canada. The Credit Companies also offer financing, primarily for John Deere products, in Australia, New Zealand, Russia, and in several countries in Europe and in Latin America. In certain areas, financing is offered through cooperation agreements or joint ventures. Financing outside of the United States and Canada is affected by a variety of customs and regulations.

The Credit Companies also offer to select customers and dealers credit enhanced international export financing for the purchase of John Deere products.

Capital Expenditures. The Credit operations capital expenditures totaled $337 million in 2008, compared with $450 million in 2007, and $292 million in 2006. Provisions for depreciation applicable to these operations property, plant and equipment during these years were $34 million, $13 million, and $8 million respectively. Capital expenditures for the credit operations in 2009 are currently estimated to be approximately $125 million. The increases in capital expenditures since 2004 have related primarily to wind energy generation.

Additional information on the Credit Companies appears on pages 16, 17, 19 and 21.

ENVIRONMENTAL MATTERS

The Company is subject to a wide variety of state, federal and international environmental laws, rules and regulations. These laws, rules and regulations may affect the way the Company conducts its operations, and failure to comply with these regulations could lead to fines and other penalties. The Company is also involved in the evaluation and clean-up of a limited number of sites. Management does not expect that these matters will have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company. With respect to acquired properties and businesses, the Company cannot be certain that it has identified all adverse environmental conditions. The Company expects that it will acquire additional properties and businesses in the future.

EMPLOYEES

At October 31, 2008, John Deere had approximately 56,700 full-time employees, including approximately 31,700 employees in the United States and Canada. From time to time, John Deere also retains consultants, independent contractors, and temporary and part-time workers. Unions are certified as bargaining agents for approximately 36 percent of John Deere s United States employees. Most of the Company s United States production and maintenance workers are covered by a collective bargaining agreement with the United Auto Workers (UAW), with an expiration date of September 30, 2009.

Unions also represent the majority of employees at John Deere manufacturing facilities outside the United States.

EXECUTIVE OFFICERS OF THE REGISTRANT

Following are the names and ages of the executive officers of the Company, their positions with the Company and summaries of their backgrounds and business experience. All executive officers are elected or appointed by the Board of Directors and hold office until the annual meeting of the Board of Directors following the annual meeting of stockholders in each year.

Name, age and office (at December 1, 2008), and year elected to office				**Principal occupation during last five years other than office of the Company currently held**
Robert W. Lane	59	Chairman, President and Chief Executive Officer	2000	Has held this position for the last five years
Samuel R. Allen	55	President, Worldwide Construction & Forestry Division and John Deere Power Systems	2005	2003-2005 President Global Financial Services, John Deere Power Systems and Corporate Human Resources
David C. Everitt	56	President, Agricultural Division - North America, Australia, Asia and Global Tractor & Implement Sourcing	2006	2003-2006 President Agricultural Division - Europe, Africa, South America and Global Harvesting Equipment Sourcing
James M. Field	45	President, Worldwide Commercial and Consumer Equipment Division	2007	2003-2007 Vice President and Comptroller
James A. Israel	52	President, John Deere Credit	2006	2003-2006 Vice President Marketing and Product Support - Europe, Africa and Middle East
James R. Jenkins	63	Senior Vice President and General Counsel	2000	Has held this position for the last five years
Michael J. Mack, Jr.	52	Senior Vice President and Chief Financial Officer	2006	2004-2006 Vice President and Treasurer; 2003-2004 Senior Vice President Marketing and Administration, Worldwide Commercial & Consumer Equipment Division
H. J. Markley	58	Executive Vice President Deere & Company, Worldwide Parts Services, Global Supply Management and Logistics, Enterprise Information Technology, and Corporate Communications	2007	2006-2007 President Agricultural Division - Europe, Africa, South America and Global Harvesting Equipment Sourcing 2003-2006 President, Agricultural Division - North America, Australia, Asia and Global Tractor & Implement Sourcing
Markwart von Pentz	45	President, Agricultural Division - Europe, Africa, South America and Global Harvesting Equipment Sourcing	2007	2006-2007 Senior Vice President Marketing and Product Support - Europe, Africa and Middle East; 2005-2006 Vice President Agricultural Marketing U.S. & Canada; 2003-2005 Director Market Development U.S. & Canada; 1999-2003 General Manager John Deere International GmbH

ITEM 1A. RISK FACTORS.

Governmental Actions. The Company s agricultural business is exposed to a variety of risks and uncertainties related to the action or inaction of governmental bodies. The outcome of the global negotiations under the auspices of the World Trade Organization could have a material effect on the international flow of agricultural commodities which may result in a corresponding effect on the demand for agricultural equipment in many areas of the world. The policies of the Brazilian government (including those related to exchange rates and commodity prices) and Argentine government could significantly change the dynamics of the agricultural economy in South America. With respect to the current global economic downturn, changes in governmental banking, monetary and fiscal policies to restore liquidity and increase the availability of credit may not be effective and could have a material impact on the Company s customers and markets.

In addition, to the extent that the Company participates in governmental programs designed to address current conditions, both in the U.S. and outside the U.S., there is no assurance such programs will remain available for sufficient periods of time or on acceptable terms to benefit the Company, and the expiration of such programs could have unintended adverse effects. In addition, certain competitors may be eligible for certain programs that the Company is ineligible for, which may create a competitive disadvantage.

The Emergency Economic Stabilization Act of 2008 (the EESA) was signed into law on October 3, 2008 to stabilize and provide liquidity to U.S. financial markets. There can be no assurance as to the actual impact of the implementing regulations of the EESA, or any other governmental program, on the financial markets. The Company s business, financial condition, results of operations, access to credit, and trading price of common stock could be materially and adversely affected if the financial markets fail to stabilize, or if current financial market conditions worsen.

The Company may also become subject to additional restrictions pursuant to participation in the EESA s specific programs. For example, John Deere s participation in the FDIC Temporary Liquidity Guarantee Program will require the payment of certain fees to the FDIC. The costs of participation or non-participation in any such program, as well as the effect of such programs on the Company s results of operations, cannot be reliably determined at this time.

Changing Demand for Farm Outputs. Changing worldwide demand for food and the demand for different forms of bio-energy could have an effect on prices for farm commodities and consequently the demand for the Company s agricultural equipment. In addition, global economic conditions may have an impact on commodity prices.

Globalization. The continuing globalization of agricultural businesses may significantly change the dynamics of the Company s competition, customer base and product offerings. The Company s efforts to grow its businesses depend to a large extent on access to, and its success in developing market share and operating profitably in, additional geographic markets including but not limited to Brazil, Russia, India and China. In some cases, these countries have greater political and economic volatility and greater vulnerability to infrastructure and labor disruptions. Operating in a large number of different regions and countries exposes the Company to multiple regulatory requirements that are subject to change; increased exposure to currency fluctuations; differing local product preferences and product requirements; differing labor regulations and differing tax laws. Simultaneously, these emerging markets are becoming more competitive as other international companies grow globally and local low cost manufacturers expand their production capacities.

Economic Condition and Outlook. Recent significant changes in market liquidity conditions could impact access to funding and associated funding costs, which could reduce the Company s earnings and cash flows. The Company s investment management operations could be adversely impacted by changes in the equity and bond markets, which would negatively affect earnings. General economic conditions can affect the demand for the Company s equipment. Current negative economic conditions and outlook have decreased housing starts and other construction and dampened demand for certain construction equipment. The Company s commercial and consumer equipment and construction and forestry segments are dependent on construction activity and general economic conditions. A significant or prolonged decline in construction activity and housing starts could have a material adverse effect on the Company s results of operations if current economic difficulties, as well as depressed housing markets, continue into the foreseeable future. If current economic conditions extend to the overall farm economy, there could be a similar effect on agricultural equipment sales.

The volatility in global financial markets has reached unprecedented levels. Global financial market downturns began in the second half of 2007, and significantly increased during the fourth quarter of 2008. Volatile oil prices, falling equity market values, declining business, weakened consumer confidence, and risks of increased inflation and deflation and increased unemployment rates have created fears of a severe recession. Conditions in the global financial markets and general economy materially affect the Company s results of operations. The demand for the Company s products and services could be adversely affected in an economic crisis characterized by higher unemployment, lower consumer spending, lower corporate earnings, and lower business investment.

Currency Fluctuations. The reporting currency for the Company s consolidated financial statements is the U.S. dollar. Certain of the Company s assets, liabilities, expenses and revenues are denominated in other countries currencies. Those assets, liabilities, expenses and revenues are translated into U.S. dollars at the applicable exchange rates to prepare the Company s consolidated financial statements. Therefore, increases or decreases in exchange rates between the U.S. dollar and those other currencies affect the value of those items as reflected in the Company s consolidated

financial statements, even if their value remains unchanged in their original currency. Substantial fluctuations in the value of the U.S. dollar could have a continuing and significant impact on the Company s results.

Risks to Financial Services Segment. The current economic downturn and market volatility have adversely affected the financial industry in which the credit segment operates. The credit segment provides financing to a significant portion of John Deere sales worldwide. The credit segment s inability to access funds to support its financing activities to the Company s customers could have a material adverse effect on the Company s business. The credit segment s liquidity and ongoing profitability depend largely on timely access to capital to meet future cash flow requirements and fund operations and the costs associated with engaging in diversified funding activities. In recent weeks, the credit markets have reached unprecedented levels of volatility, resulting in reduced levels of liquidity and disruption of domestic and foreign financial markets. If current levels of market disruption and volatility continue or worsen, funding could be unavailable or insufficient. Additionally, under current market conditions customer confidence levels may result in declines in credit applications and increases in delinquencies and default rates, which could materially impact the credit segment s write-offs and provisions for credit losses.

Consumer Attitudes. The confidence the Company s customers have in the general economic outlook can have a significant effect on their propensity to purchase equipment and, consequently, on the Company s sales. Current negative economic conditions could significantly impair customer confidence. The Company s ability to match its new product offerings to its customers anticipated preferences for enhanced technologies and different types and sizes of equipment is important as well.

Weather. Poor or unusual weather conditions, particularly in the spring, can significantly affect the purchasing decisions of the Company s customers, particularly the customers of the agricultural and commercial and consumer segments. Sales in the important spring selling season can have a dramatic effect on the commercial and consumer segment s financial results.

Supply Base and Raw Material Costs. Many of the Company s suppliers also supply the automotive industry. The severe downturn in automotive sales and the weak financial condition of some major automakers could cause these suppliers to face severe financial hardship and disrupt the Company s access to critical components. Changes in the availability and price of raw materials, which are more likely to occur during times of economic volatility, could have a material negative impact on the Company s costs of production and, in turn, on the profitability of the business.

Interest Rates and Credit Ratings. If interest rates rise, they could have a dampening effect on overall economic activity and could affect the demand for the Company s equipment. In addition, credit market dislocations could have an impact on funding costs which are very important to the Company s credit segment. Decisions and actions by credit rating agencies can affect the availability and cost of funding for the Company. Credit rating downgrades or negative changes to ratings outlooks can increase the Company s cost of capital and hurt its competitive position. Guidance from rating agencies as to acceptable leverage can affect the Company s returns as well.

Environmental. The Company s operations are subject to and affected by environmental, health and safety laws and regulations by federal, state and local authorities in the United States and regulatory authorities with jurisdiction over the Company s foreign operations. Violations of such laws or regulations can lead to investigation and remediation costs, significant fines or penalties. In addition, increased requirements of governmental authorities, and claims for damages to property or injury to persons resulting from the environmental, health or safety impacts of the Company s operations or past contamination, could prevent or restrict the Company s operations, require significant expenditures to achieve compliance, involve the imposition of cleanup liens and/or give rise to civil or criminal liability. There can be no assurance that violations of such legislation and/or regulations, which could result in enforcement actions or private claims would not have consequences that result in a material adverse effect on the Company s business, financial condition or results of operations.

Climate Change. There is a growing political and scientific consensus that emissions of greenhouse gases (GHG) continue to alter the composition of the global atmosphere in ways that are affecting and are expected to continue affecting the global climate. Various stakeholders, including legislators and regulators, shareholders and non-governmental organizations, as well as companies in many business sectors are considering ways to reduce GHG emissions. There is growing consensus that some form of regulation will be forthcoming at the federal level with respect to greenhouse gas emissions and such regulation could result in the creation of additional costs in the form of taxes or emission allowances. The impact of any future mandatory GHG legislative or regulatory requirements on the Company s businesses and products is dependent on the design of the mandate, and so the Company is unable to predict its significance at this time.

Furthermore, the potential physical impacts of climate change on the Company s customers, and therefore on the Company s operations, are highly uncertain, and will be particular to the circumstances developing in various geographical regions. These may include changes in weather patterns (including drought and rainfall levels), water availability, storm patterns and intensities, and temperature levels. These potential physical effects may adversely impact the cost, production and financial performance of John Deere s operations.

The risks identified above should be considered in conjunction with Management s Discussion and Analysis beginning on page 15 and, specifically, the other risks described in the Safe Harbor Statement on pages 17 and 18. The Company s results of operations may be affected by these identified risks and/or by risks not currently contemplated.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

See Manufacturing in Item 1.

The Equipment Operations own 14 facilities housing sales branches, one centralized parts depot, regional parts depots, training centers, transfer houses and warehouses throughout the United States and Canada. These facilities contain approximately 4.3 million square feet of floor space. The Equipment Operations also own and occupy buildings housing sales branches, one centralized parts depot and regional parts depots in Australia, Brazil, Europe and New Zealand. These facilities contain approximately 1.0 million square feet of floor space.

Deere & Company administrative offices and research facilities, all of which are owned by John Deere, together contain about 2.6 million square feet of floor space and miscellaneous other facilities total 1.0 million square feet.

Overall, the Company owns approximately 48.8 million square feet of facilities and leases approximately 12.4 million additional square feet in various locations.

ITEM 3. LEGAL PROCEEDINGS.

The Company is subject to various unresolved legal actions which arise in the normal course of its business, the most prevalent of which relate to product liability (including asbestos-related liability), retail credit, software licensing, patent and trademark matters. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible loss, the Company believes these unresolved legal actions will not have a material effect on its financial statements.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

(a) The Company s common stock is listed on the New York Stock Exchange. See the information concerning quoted prices of the Company s common stock, the number of stockholders and the data on dividends declared and paid per share in Note 29**.**

(b) Not applicable.

(c) The Company s purchases of its common stock during the fourth quarter of 2008 were as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	**Total Number of Shares Purchased(2) (thousands)**		**Average Price Paid Per Share (2)**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)(2) (thousands)**	**Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs (1)(2) (millions)**
Aug 1 to Aug 31	3,073	$	68.10	3,073	145.1
Sept 1 to Sept 30	1,710		64.53	1,710	143.4
Oct 1 to Oct 31					143.4
Total	4,783			4,783	

(1) During the fourth quarter of 2008, the Company had a share repurchase plan that was announced in May 2007 to purchase up to 40 million shares of the Company s common stock. In May 2008, an announcement was made to purchase up to $5 billion of additional shares of the Company s common stock after the previous 40 million share plan is completed. The maximum number of shares that may yet be purchased above is based on the remaining shares under the previous 40 million share plan plus 129.7 million shares for the $5 billion addition using the October 31, 2008 closing share price of $38.56 per share.

(2) Adjusted for two-for-one stock split effected in the form of a 100 percent stock dividend. Additional information is in Notes 1 and 23 to the Consolidated Financial Statements.

ITEM 6. SELECTED FINANCIAL DATA.

Financial Summary

(Millions of dollars except per share amounts)	2008*	2007	2006*	2005	2004
For the Year Ended October 31:					
Total net sales and revenues	$ 28,438	$ 24,082	$ 22,148	$ 21,191	$ 19,204
Income from continuing operations	$ 2,053	$ 1,822	$ 1,453	$ 1,414	$ 1,398
Net income	$ 2,053	$ 1,822	$ 1,694	$ 1,447	$ 1,406
Income per share from continuing operations basic**	$ 4.76	$ 4.05	$ 3.11	$ 2.90	$ 2.82
Income per share from continuing operations diluted**	$ 4.70	$ 4.00	$ 3.08	$ 2.87	$ 2.76
Net income per share basic**	$ 4.76	$ 4.05	$ 3.63	$ 2.97	$ 2.84
Net income per share diluted**	$ 4.70	$ 4.00	$ 3.59	$ 2.94	$ 2.78
Dividends declared per share**	$ 1.06	$ .91	$ .78	$ .60 ½	$ .53
At October 31:					
Total assets	$ 38,735	$ 38,576	$ 34,720	$ 33,637	$ 28,754
Long-term borrowings	$ 13,899	$ 11,798	$ 11,584	$ 11,739	$ 11,090

* In 2008, the Company had special charges of $31 million after-tax, or $.07 per share, related to closing a facility in Welland, Ontario, Canada. In 2006, the Company recognized a gain from the sale of discontinued operations (health care operations) of $223 million after-tax, or $.47 per share diluted ($.48 basic). In 2006, the Company also had special charges of $44 million after-tax, or $.09 per share, for a tender offer and repurchase of outstanding notes and $28 million after-tax, or $.06 per share, related to closing a facility in Woodstock, Ontario, Canada.

**Adjusted for two-for-one stock split effected in the form of a 100 percent stock dividend in November 2007. Additional information is in Notes 1 and 23 to the Consolidated Financial Statements.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

See the information under the caption Management s Discussion and Analysis on pages 15 - 24.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company is exposed to a variety of market risks, including interest rates and currency exchange rates. The Company attempts to actively manage these risks. See the information under Management s Discussion and Analysis on page 24 and in Note 27 to the Consolidated Financial Statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

See the consolidated financial statements and notes thereto and supplementary data on pages 25 - 52.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

The Company s principal executive officer and its principal financial officer have concluded that the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Act)) were effective as of October 31, 2008, based on the evaluation of these controls and procedures required by Rule 13a-15(b) or 15d-15(b) of the Act. During the fourth quarter, there were no changes that have materially affected or are reasonably likely to materially affect the Company s internal control over financial reporting.

Management s Report on Internal Control Over Financial Reporting

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting. Deere & Company s internal control system was designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be

effective can provide only reasonable assurance with respect to financial statement preparation and presentation in accordance with generally accepted accounting principles.

Management assessed the effectiveness of the Company s internal control over financial reporting as of October 31, 2008, using the criteria set forth in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management believes that, as of October 31, 2008, the Company s internal control over financial reporting was effective.

The Company s independent registered public accounting firm has issued an audit report on the effectiveness of the Company s internal control over financial reporting. That report is included herein.

ITEM 9B. OTHER INFORMATION.

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information regarding directors in the proxy statement dated January 15, 2009 (proxy statement), under the captions Election of Directors, Directors Continuing in Office and in the third paragraph under the caption Committees - The Audit Review Committee, is incorporated herein by reference. Information regarding executive officers is presented in Item 1 of this report under the caption Executive Officers of the Registrant.

The Company has adopted a code of ethics that applies to its principal executive officer, principal financial officer and principal accounting officer. This code of ethics and the Company s corporate governance policies are posted on the Company s website at http://www.JohnDeere.com. The Company intends to satisfy disclosure requirements regarding amendments to or waivers from its code of ethics by posting such information on this website. The charters of the Audit Review, Corporate Governance and Compensation committees of the Company s Board of Directors are available on the Company s website as well. This information is also available in print free of charge to any person who requests it.

ITEM 11. EXECUTIVE COMPENSATION.

The information in the proxy statement under the captions Compensation of Directors, Compensation Discussion & Analysis, Compensation Committee Reports, and Executive Compensation Tables is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

(a) *Securities authorized for issuance under equity compensation plans.*

Equity compensation plan information in the proxy statement, under the caption Equity Compensation Plan Information, is incorporated herein by reference.

(b) *Security ownership of certain beneficial owners.*

The information on the security ownership of certain beneficial owners in the proxy statement under the caption Security Ownership of Certain Beneficial Owners and Management is incorporated herein by reference.

(c) *Security ownership of management.*

The information on shares of common stock of the Company beneficially owned by, and under option to (i) each director, (ii) certain named executive officers and (iii) the directors and officers as a group, contained in the proxy statement under the captions Security Ownership of Certain Beneficial Owners and Management, and Executive Compensation Tables Outstanding Equity Awards at Fiscal 2008 Year-End is incorporated herein by reference.

(d) *Change in control.*

None.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information in the proxy statement under the caption Certain Business and Related Person Transactions and the sixth through eighth paragraphs under the caption Committees is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information in the proxy statement under the caption Fees Paid to the Independent Registered Public Accounting Firm is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

		Page
(1)	*Financial Statements*	
	Statement of Consolidated Income for the years ended October 31, 2008, 2007 and 2006	25
	Consolidated Balance Sheet, October 31, 2008 and 2007	26
	Statement of Consolidated Cash Flows for the years ended October 31, 2008, 2007 and 2006	27
	Statement of Changes in Consolidated Stockholders Equity for the years ended October 31, 2006, 2007 and 2008	28
	Notes to Consolidated Financial Statements	29
(2)	*Schedule to Consolidated Financial Statements*	
	Schedule II - Valuation and Qualifying Accounts for the years ended October 31, 2008, 2007 and 2006	58
(3)	*Exhibits*	

See the Index to Exhibits on pages 59 61 of this report.

Certain instruments relating to long-term borrowings, constituting less than 10 percent of registrant s total assets, are not filed as exhibits herewith pursuant to Item 601(b)4(iii)(A) of Regulation S-K. Registrant agrees to file copies of such instruments upon request of the Commission.

Financial Statement Schedules Omitted

The following schedules for the Company and consolidated subsidiaries are omitted because of the absence of the conditions under which they are required: I, III, IV and V.

MANAGEMENT S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS FOR THE YEARS ENDED OCTOBER 31, 2008, 2007 AND 2006

OVERVIEW

Organization

The company s Equipment Operations generate revenues and cash primarily from the sale of equipment to John Deere dealers and distributors. The Equipment Operations manufacture and distribute a full line of agricultural equipment; a variety of commercial, consumer and landscapes equipment and products; and a broad range of equipment for construction and forestry. The company s Financial Services primarily provide credit services, which mainly finance sales and leases of equipment by John Deere dealers and trade receivables purchased from the Equipment Operations. In addition, Financial Services offer certain crop risk mitigation products and invest in wind energy generation. The information in the following discussion is presented in a format that includes information grouped as consolidated, Equipment Operations and Financial Services. The company also views its operations as consisting of two geographic areas, the U.S. and Canada, and outside the U.S. and Canada.

Trends and Economic Conditions

Demand for productive agricultural machinery has continued to be strong due in large part to the financial health of the farm sector. Industry sales of farm machinery in the U.S. and Canada in 2009 are expected to be up about 5 percent for the year, led by an increase in large tractors and combines. Industry sales in Western Europe are forecast to be down 5 to 10 percent. Sales in South American markets are expected to be down 10 to 20 percent in 2009. The company s agricultural equipment net sales were up 37 percent for 2008 and are forecast to be up approximately 5 percent in 2009. The company s commercial and consumer equipment net sales were up 2 percent in 2008, including an increase of about 6 percent from a landscapes acquisition in May 2007. Commercial and consumer equipment sales are forecast to be down about 6 percent in 2009, reflecting the U.S. housing decline and recessionary economic conditions. U.S. markets for construction and forestry equipment are forecast to remain under pressure in 2009 due to further deterioration in the housing sector, declines in nonresidential construction and negative economic growth. The company s construction and forestry net sales decreased 4 percent in 2008 and are forecast to be down approximately 12 percent in 2009. Net income for the company s credit operations in 2009 is expected to decrease to approximately $300 million.

Items of concern include the sharp downturn in global economic activity and the turmoil in financial markets. Significant fluctuations in currency translation rates could also impact the company s results. The volatility in the price of many commodities used in the company s products are a concern. Escalating prices driven by global demand impacted the results of the company s equipment operations during 2008. The availability of certain components that could impact the company s ability to meet production schedules continues to be monitored. The availability and price of food may prompt changes in renewable fuel standards that could affect commodity prices. Producing engines that continue to meet high performance standards, yet also comply with increasingly stringent emissions regulations is one of the company s major priorities.

In spite of the present economic situation, the company remains encouraged by its growth prospects and believes that trends favorable to its businesses remain intact. These trends include increasing global demand for farm commodities and renewable fuels, as well as a growing need over time for housing and infrastructure.

2008 COMPARED WITH 2007

CONSOLIDATED RESULTS

Worldwide net income in 2008 was $2,053 million, or $4.70 per share diluted ($4.76 basic), compared with $1,822 million, or $4.00 per share diluted ($4.05 basic), in 2007. Net sales and revenues increased 18 percent to $28,438 million in 2008, compared with $24,082 million in 2007. Net sales of the Equipment Operations increased 20 percent in 2008 to $25,803 million from $21,489 million last year. This included a positive effect for currency translation of 4 percent and price changes of 2 percent. Net sales in the U.S. and Canada increased 9 percent in 2008. Net sales outside the U.S. and Canada increased by 40 percent, which included a positive effect of 10 percent for currency translation.

Worldwide Equipment Operations had an operating profit of $2,927 million in 2008, compared with $2,318 million in 2007. Higher operating profit was primarily due to the favorable impact of higher shipment volumes and improved price realization. Partially offsetting these factors were increased raw material costs, higher selling, administrative and general expenses, increased research and development costs and expenses to close a facility in Canada (see Note 3).

The Equipment Operations net income was $1,676 million in 2008, compared with $1,429 million in 2007. The same operating factors mentioned above as well as a higher effective tax rate this year affected these results.

Net income of the company s Financial Services operations in 2008 decreased to $337 million, compared with $364 million in 2007. The decrease was primarily a result of increased selling, administrative and general expenses, an increase in average leverage and a higher provision for credit losses, partially offset by growth in the average credit portfolio. Additional information is presented in the following discussion of the credit operations.

The cost of sales to net sales ratio for 2008 was 75.9 percent, compared with 75.6 percent last year. The increase was primarily due to higher raw material costs, partially offset by higher sales and production volumes and improved price realization.

Other income increased this year primarily from increased crop insurance commissions. Research and development costs increased primarily due to increased spending in support of new products, Tier 4 emission requirements and the effect of currency translation. Selling, administrative and general expenses increased primarily due to growth and acquisitions, the effect of currency translation and the provision for credit losses.

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Other operating expenses were higher primarily as a result of higher expenses related to wind energy entities, expenses from crop insurance, depreciation on operating lease equipment and foreign exchange losses.

The company has several defined benefit pension plans and defined benefit health care and life insurance plans. The company s postretirement benefit costs for these plans in 2008 were $277 million, compared with $415 million in 2007. The long-term expected return on plan assets, which is reflected in these costs, was an expected gain of 8.2 percent in 2008 and 8.3 percent in 2007, or $920 million in 2008 and $838 million in 2007. The actual return was a loss of $2,158 million in 2008 and a gain of $1,503 million in 2007. In 2009, the expected return will be approximately 8.2 percent. The company expects postretirement benefit costs in 2009 to be approximately the same as 2008. The company makes any required contributions to the plan assets under applicable regulations and voluntary contributions from time to time based on the company s liquidity and ability to make tax-deductible contributions. Total company contributions to the plans were $431 million in 2008 and $646 million in 2007, which include direct benefit payments for unfunded plans. These contributions also included voluntary contributions to total plan assets of approximately $297 million in 2008 and $520 million in 2007. Total company contributions in 2009 are expected to be approximately $168 million, which are primarily direct benefit payments. The company has no significant contributions to pension plan assets required in 2009 under applicable funding regulations. See the following discussion of Critical Accounting Policies for more information about postretirement benefit obligations.

BUSINESS SEGMENT AND GEOGRAPHIC AREA RESULTS

The following discussion relates to operating results by reportable segment and geographic area. Operating profit is income before external interest expense, certain foreign exchange gains or losses, income taxes and corporate expenses. However, operating profit of the credit segment includes the effect of interest expense and foreign exchange gains or losses.

Worldwide Agricultural Equipment Operations

The agricultural equipment segment had an operating profit of $2,224 million in 2008, compared with $1,443 million in 2007. Net sales increased 37 percent this year due to higher shipment volumes, the favorable effects of currency translation and improved price realization. The increase in operating profit was primarily due to higher shipment volumes and improved price realization, partially offset by higher raw material costs, increased selling, administrative and general expenses, higher research and development costs and expenses to close a facility in Canada.

Worldwide Commercial and Consumer Equipment Operations

The commercial and consumer equipment segment had an operating profit of $237 million in 2008, compared with $304 million in 2007. Net sales increased 2 percent for the year, which included 6 percent from a landscapes operation acquired in May 2007. The decline in operating profit was primarily due to higher selling, administrative and general expenses in the landscapes operation, increased raw

material costs and expenses to close the previously mentioned Canadian facility. Partially offsetting these items were improved price realization and a more favorable product mix.

Worldwide Construction and Forestry Operations

The construction and forestry segment had an operating profit of $466 million in 2008, compared with $571 million in 2007. Net sales decreased 4 percent for the year reflecting the pressure from U.S. market conditions. The operating profit was lower primarily due to lower shipment volumes and higher raw material costs, partially offset by improved price realization.

Worldwide Credit Operations

The operating profit of the credit operations was $478 million in 2008, compared with $548 million in 2007. The decrease in operating profit was primarily due to higher selling, administrative and general expenses, an increase in average leverage, a higher provision for credit losses and foreign exchange losses, partially offset by growth in the average credit portfolio and increased commissions from crop insurance. Total revenues of the credit operations, including intercompany revenues, increased 3 percent in 2008, primarily reflecting the larger portfolio. The average balance of receivables and leases financed was 6 percent higher in 2008, compared with 2007. An increase in average borrowings, offset by lower average interest rates, resulted in approximately the same interest expense in both 2008 and 2007. The credit operations ratio of earnings to fixed charges was 1.45 to 1 in 2008, compared with 1.55 to 1 in 2007.

Equipment Operations in U.S. and Canada

The equipment operations in the U.S. and Canada had an operating profit of $1,831 million in 2008, compared with $1,539 million in 2007. The increase was primarily due to higher shipment volumes and improved price realization, partially offset by higher raw material costs, increased selling, administrative and general expenses, higher research and development costs and expenses to close the previously mentioned Canadian facility. Net sales increased 9 percent due to higher volumes, improved price realization and the favorable effects of currency translation. The physical volume increased 4 percent excluding acquisitions, compared with 2007.

Equipment Operations outside U.S. and Canada

The equipment operations outside the U.S. and Canada had an operating profit of $1,096 million in 2008, compared with $779 million in 2007. The increase was primarily due to the effects of higher shipment volumes and improved price realization, partially offset by increases in raw material costs, increased selling, administrative and general expenses and higher research and development costs. Net sales were 40 percent higher reflecting higher volumes, the effect of currency translation and improvements in price realization. The physical volume increased 27 percent excluding acquisitions, compared with 2007.

MARKET CONDITIONS AND OUTLOOK

Given the sudden, sharp downturn in global economic activity, and the ongoing turmoil in world financial markets, the outlook for the year ahead is highly uncertain and its impact on the company s operations is difficult to assess. Subject to the economic uncertainties, company equipment sales are projected to be about the same for the full year of 2009 and up about 7 percent for the first quarter, compared to the same periods in 2008. Included in the forecast is a negative currency translation impact of about 6 percent for both the full year and first quarter. The company s net income is forecast to be about $1.9 billion for 2009 and about $275 million for the first quarter.

Agricultural Equipment. Worldwide sales of the company s agricultural equipment are forecast to increase by about 5 percent for full-year 2009. This includes a negative currency translation impact of about 8 percent.

Farm machinery industry sales in the U.S. and Canada are forecast to be up about 5 percent for the year, led by an increase in large tractors and combines. The company expects agricultural commodity prices to remain at healthy levels in 2009, though below the previous year, while costs moderate for key inputs such as fuel and fertilizer. Sales of cotton equipment, small tractors, and equipment commonly used by livestock producers are expected to be lower.

Industry sales in Western Europe are forecast to be down 5 to 10 percent for the year. Sales are expected to be down moderately in Central Europe and the CIS (Commonwealth of Independent States) countries, including Russia. While demand in these areas for highly productive farm equipment remains good, sales will depend on the availability and cost of credit. Sales in South American markets are expected to be down 10 to 20 percent in 2009, with the decline related to credit access in Brazil and drought conditions in Argentina.

Commercial and Consumer Equipment. Reflecting the U.S. housing market decline and recessionary economic conditions, the company s commercial and consumer equipment sales are projected to be down about 6 percent for the year. The segment expects sales gains from new products to partly offset the impact of the economic decline.

Construction and Forestry. U.S. markets for construction and forestry equipment are forecast to remain under pressure due to further deterioration in the already weakened housing sector, a steep decline in nonresidential construction, and negative economic growth. The global economic slowdown is expected to lead to a lower level of forestry equipment sales in both the U.S. and Europe. Subject to the economic uncertainties discussed earlier, the company s worldwide sales of construction and forestry equipment are forecast to decline by approximately 12 percent for the year. Despite the poor economic climate, company sales are expected to benefit from innovative new products.

Credit. Subject to the uncertainty associated with present economic conditions, net income for 2009 for the company s credit operations is forecast to be approximately $300 million. The forecast decrease from 2008 is primarily due to narrower financing spreads related to the current funding environment.

SAFE HARBOR STATEMENT

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: Statements under Overview, Market Conditions and Outlook and other statements herein that relate to future operating periods are subject to important risks and uncertainties that could cause actual results to differ materially. Some of these risks and uncertainties could affect particular lines of business, while others could affect all of the company s businesses.

Forward looking statements involve certain factors that are subject to change, including for the company s agricultural equipment segment the many interrelated factors that affect farmers confidence. These factors include worldwide economic conditions, demand for agricultural products, world grain stocks, weather conditions, soil conditions, harvest yields, prices for commodities and livestock, crop and livestock production expenses, availability of transport for crops, the growth of non-food uses for some crops (including ethanol and bio-energy production), real estate values, available acreage for farming, the land ownership policies of various governments, changes in government farm programs and policies (including those in the U.S. and Brazil), international reaction to such programs, global trade agreements, animal diseases and their effects on poultry and beef consumption and prices (including avian flu and bovine spongiform encephalopathy, commonly known as mad cow disease), crop pests and diseases (including Asian rust), and the level of farm product exports (including concerns about genetically modified organisms).

Factors affecting the outlook for the company s commercial and consumer equipment segment include weather conditions, general economic conditions, customer profitability, consumer confidence, consumer borrowing patterns, consumer purchasing preferences, housing starts, infrastructure investment, spending by municipalities and golf courses, and consumable input costs.

General economic conditions, consumer spending patterns, real estate and housing prices, the number of housing starts and interest rates are especially important to sales of the company s construction equipment. The levels of public and non-residential construction also impact the results of the company s construction and forestry segment. Prices for pulp, lumber and structural panels are important to sales of forestry equipment.

All of the company s businesses and its reported results are affected by general economic conditions in, and the political and social stability of, the global markets in which the company operates, especially material changes in economic activity in these markets; customer confidence in the general economic conditions; capital market disruptions; significant changes in capital market liquidity, access to capital and associated funding costs; changes in and the impact of governmental banking, monetary and fiscal policies and governmental programs in particular jurisdictions or for the benefit of certain sectors; actions by rating agencies; customer access to capital for purchases of our products and borrowing and repayment practices, the number and size of customer loan delinquencies and defaults, and the sub-prime credit market crises; changes in the market values of investment assets; production, design and technological difficulties, including capacity and supply constraints and prices; the availability and prices of strategically

sourced materials, components and whole goods; delays or disruptions in the company s supply chain due to weather, natural disasters or financial hardship of suppliers; start-up of new plants and new products; the success of new product initiatives and customer acceptance of new products; oil and energy prices and supplies; inflation and deflation rates, interest rates and foreign currency exchange rates, especially fluctuations in the value of the U.S. dollar; the availability and cost of freight; trade, monetary and fiscal policies of various countries, wars and other international conflicts and the threat thereof; actions by the U.S. Federal Reserve Board and other central banks; actions by the U.S. Securities and Exchange Commission; actions by environmental, health and safety regulatory agencies, including those related to engine emissions (in particular Tier 4 emission requirements), noise and the risk of global warming; actions by other regulatory bodies; actions of competitors in the various industries in which the company competes, particularly price discounting; dealer practices especially as to levels of new and used field inventories; labor relations and regulations; changes to accounting standards; changes in tax rates and regulations; the effects of, or response to, terrorism; and changes in laws and regulations affecting the sectors in which the company operates. The spread of major epidemics (including influenza, SARS, fevers and other viruses) also could affect company results. Changes in weather patterns could impact customer operations and company results. Company results are also affected by changes in the level of employee retirement benefits, changes in market values of investment assets and the level of interest rates, which impact retirement benefit costs, and significant changes in health care costs. Other factors that could affect results are acquisitions and divestitures of businesses; the integration of new businesses; changes in company declared dividends and common stock issuances and repurchases.

With respect to the current global economic downturn, changes in governmental banking, monetary and fiscal policies to restore liquidity and increase the availability of credit may not be effective and could have a material impact on the company s customers and markets. Recent significant changes in market liquidity conditions could impact access to funding and associated funding costs, which could reduce the company s earnings and cash flows. The company s investment management operations could be impaired by changes in the equity and bond markets, which would negatively affect earnings.

General economic conditions can affect the demand for the company s equipment as well. Current negative economic conditions and outlook have dampened demand for certain equipment. Furthermore, governmental programs providing assistance to certain industries or sectors could negatively impact the company s competitive position.

The current economic downturn and market volatility have adversely affected the financial industry in which John Deere Capital Corporation (Capital Corporation) operates. Capital Corporation s liquidity and ongoing profitability depend largely on timely access to capital to meet future cash flow requirements and fund operations and the costs associated with engaging in diversified funding activities and to fund purchases of the company s products. If current levels of market disruption and volatility continue or worsen, funding could be unavailable or insufficient. Additionally, under current market conditions customer confidence levels may result in declines in credit applications and increases in delinquencies and default rates, which could materially impact Capital Corporation s write-offs and provisions for credit losses.

The company s outlook is based upon assumptions relating to the factors described above, which are sometimes based upon estimates and data prepared by government agencies. Such estimates and data are often revised. The company, except as required by law, undertakes no obligation to update or revise its outlook, whether as a result of new developments or otherwise. Further information concerning the company and its businesses, including factors that potentially could materially affect the company s financial results, is included in other filings with the U.S. Securities and Exchange Commission.

2007 COMPARED WITH 2006

CONSOLIDATED RESULTS

Worldwide net income in 2007 was $1,822 million, or $4.00 per share diluted ($4.05 basic), compared with $1,694 million, or $3.59 per share diluted ($3.63 basic), in 2006. Income from continuing operations, which excludes the company s discontinued health care business (see Note 2), was also $1,822 million, or $4.00 per share diluted ($4.05 basic), in 2007, compared with $1,453 million, or $3.08 per share diluted ($3.11 basic), in 2006. Net sales and revenues from continuing operations increased 9 percent to $24,082 million in 2007, compared with $22,148 million in 2006. Net sales of the Equipment Operations increased 8 percent in 2007 to $21,489 million from $19,884 million in 2006. This included a positive effect for currency translation and price changes of 5 percent. Net sales in the U.S. and Canada were flat in 2007. Net sales outside the U.S. and Canada increased by 27 percent, which included a positive effect of 7 percent for currency translation.

Worldwide Equipment Operations had an operating profit of $2,318 million in 2007, compared with $1,905 million in 2006. Higher operating profit was primarily due to improved price realization and higher sales and production volumes. Partially offsetting these factors were higher selling, administrative and general expenses, increased raw material costs and higher research and development costs.

The Equipment Operations net income was $1,429 million in 2007, compared with $1,089 million in 2006. The same operating factors mentioned above along with the expense related to the repurchase of certain outstanding debt securities in 2006 and lower effective tax rates in 2007 affected these results.

Net income of the company s Financial Services operations in 2007 decreased to $364 million, compared with $584 million in 2006, primarily due to the sale of the health care operations in 2006. Income from the Financial Services continuing operations in 2007 was also $364 million, compared with $344 million in 2006. The increase was primarily a result of growth in the credit portfolio, partially offset by increased selling, administrative and general expenses and a higher provision for credit losses. Additional information is presented in the following discussion of the credit operations.

Income from discontinued operations was $241 million in 2006, or $.51 per share diluted ($.52 basic), primarily due to the sale of the health care operations in 2006.

The cost of sales to net sales ratio for 2007 was 75.6 percent, compared with 77.3 percent in 2006. The decrease was primarily due to improved price realization and higher sales and production volumes, partially offset by higher raw material costs.

Finance and interest income, and interest expense increased in 2007 primarily due to growth in the credit operations portfolio and higher financing rates. Other income increased in 2007 primarily from increased service revenues. Research and development costs increased in 2007 due to increased spending in support of new products and the effect of currency translation. Selling, administrative and general expenses increased primarily due to growth and the effect of currency translation. Other operating expenses were higher primarily as a result of increased cost of services, higher depreciation expense on operating lease equipment and the effect of currency translation, partially offset by the expense related to the repurchase of outstanding notes in 2006 (see Note 3).

The company has several defined benefit pension plans and defined benefit health care and life insurance plans. The company s postretirement benefit costs for these plans in 2007 were $415 million, compared with $447 million in 2006. The long-term expected return on plan assets, which is reflected in these costs, was an expected gain of 8.3 percent in 2007 and 8.4 percent in 2006, or $838 million in 2007 and $795 million in 2006. The actual return was a gain of $1,503 million in 2007, compared with a gain of $1,364 million in 2006. Total company contributions to the plans were $646 million in 2007 and $866 million in 2006, which include direct benefit payments for unfunded plans. These contributions also included voluntary contributions to total plan assets of approximately $520 million in 2007 and $760 million in 2006.

BUSINESS SEGMENT AND GEOGRAPHIC AREA RESULTS

Worldwide Agricultural Equipment Operations

The agricultural equipment segment had an operating profit of $1,443 million in 2007, compared with $882 million in 2006. Net sales increased 18 percent in 2007 due to higher volumes, the favorable effects of currency translation and improved price realization. The increase in operating profit was primarily due to higher sales and production volumes, and improved price realization, partially offset by higher selling, administrative and general expenses attributable in large part to growth initiatives and currency translation. Also affecting the profit were increased raw material costs and higher research and development costs.

Worldwide Commercial and Consumer Equipment Operations

The commercial and consumer equipment segment had an operating profit of $304 million in 2007, compared with $221 million in 2006. Net sales increased 12 percent in 2007, which included 9 percent from an acquisition of a landscapes operation in May 2007. The improved operating profit was primarily due to higher sales volumes and improved price realization, partially offset by higher selling, administrative and general expenses largely attributed to the acquisition.

Worldwide Construction and Forestry Operations

The construction and forestry segment had an operating profit of $571 million in 2007, compared with $802 million in 2006. Net sales decreased 13 percent for the year reflecting the downturn in U.S. housing starts. The operating profit was lower primarily due to lower sales and production volumes and higher raw material costs, partially offset by positive price realization. The results in 2006 included expenses related to the closure of a Canadian forestry equipment facility (see Note 3).

Worldwide Credit Operations

The operating profit of the credit operations was $548 million in 2007, compared with $520 million in 2006. The increase in operating profit was primarily due to growth in the credit portfolio, partially offset by increased selling, administrative and general expenses and a higher provision for credit losses. Total revenues of the credit operations, including intercompany revenues, increased 13 percent in 2007, primarily reflecting the larger portfolio and higher average finance rates. The average balance of receivables and leases financed was 8 percent higher in 2007, compared with 2006. An increase in average borrowings and higher interest rates in 2007 resulted in a 16 percent increase in interest expense, compared with 2006. The credit operations ratio of earnings to fixed charges was 1.55 to 1 in 2007, compared with 1.61 to 1 in 2006.

CAPITAL RESOURCES AND LIQUIDITY

The discussion of capital resources and liquidity has been organized to review separately, where appropriate, the company s consolidated totals, Equipment Operations and Financial Services operations.

CONSOLIDATED

Positive cash flows from consolidated operating activities in 2008 were $1,949 million. This resulted primarily from net income adjusted for non-cash provisions and an increase in accounts payable and accrued expenses, which were partially offset by an increase in inventories and trade receivables. Cash outflows from investing activities were $1,426 million in 2008, primarily due to the purchases of property and equipment of $1,112 million, the cost of receivables and equipment on operating leases exceeding collections of receivables and the proceeds from sales of equipment on operating leases by $726 million, and acquisitions of businesses for $252 million. These items were partially offset by the proceeds from maturities and sales of marketable securities exceeding the cost of marketable securities purchased by $597 million. Cash outflows from financing activities were $649 million in 2008, primarily due to repurchases of common stock of $1,678 million and dividends paid of $448 million, which were partially offset by an increase in borrowings of $1,322 million, proceeds from issuance of common stock of $109 million (resulting from the exercise of stock options) and excess tax benefits from share-based compensation of $73 million. Cash and cash equivalents also decreased $67 million during 2008.

Over the last three years, operating activities have provided an aggregate of $5,682 million in cash. In addition, increases in borrowings were $3,397 million, proceeds from maturities and sales of marketable securities exceeded purchases by $1,244 million, proceeds from issuance of common stock were $722 million and the proceeds from sales of businesses were $559 million. The aggregate amount of these cash flows was used mainly to fund repurchases of common stock of $4,495 million, purchases of property and equipment of $2,901 million, receivable and lease acquisitions, which exceeded collections and the proceeds from sales of equipment on operating leases by $3,168 million, pay dividends to stockholders of $1,183 million and acquire businesses for $497 million. Cash and cash equivalents also decreased $47 million over the three-year period.

Given the downturn in global economic activity and the recent significant changes in credit market liquidity, sources of funds for the company have been impacted. However, because of the funding sources that are available, the company expects to have sufficient sources of liquidity to meet its funding needs. Sources of liquidity for the company include cash and cash equivalents, marketable securities, funds from operations, the issuance of commercial paper and term debt, the securitization of retail notes (both public and private markets) and committed and uncommitted bank lines of credit. At October 31, 2008, $2.1 billion of commercial paper of John Deere Capital Corporation (Capital Corporation) was guaranteed by the Federal Deposit Insurance Corporation (FDIC) under its Temporary Liquidity Guarantee Program (TLGP) (see Notes 18 and 29 of the consolidated financial statements). If the Capital Corporation issues certain maturities of commercial paper and senior unsecured debt following year end, that debt would also be guaranteed under the same program. The company s commercial paper outstanding at October 31, 2008 and 2007 was approximately $3.0 billion and $2.8 billion, respectively, while the total cash and cash equivalents and marketable securities position was $3.2 billion and $3.9 billion, respectively.

Lines of Credit. The company also has access to bank lines of credit with various banks throughout the world. Some of the lines are available to both Deere & Company and Capital Corporation. Worldwide lines of credit totaled $4,548 million at October 31, 2008, $1,534 million of which were unused. For the purpose of computing unused credit lines, commercial paper and short-term bank borrowings, excluding secured borrowings and the current portion of long-term borrowings, were considered to constitute utilization. Included in the total credit lines at October 31, 2008 was a long-term credit facility agreement of $3.75 billion, expiring in February 2012. The credit agreement requires the Capital Corporation to maintain its consolidated ratio of earnings to fixed charges at not less than 1.05 to 1 for each fiscal quarter and the ratio of senior debt, excluding securitization indebtedness, to capital base (total subordinated debt and stockholder s equity excluding accumulated other comprehensive income (loss)) at not more than 11 to 1 at the end of any fiscal quarter. The credit agreement also requires the Equipment Operations to maintain a ratio of total debt to total capital (total debt and stockholders equity excluding accumulated other comprehensive income (loss)) of 65 percent or less at the end of each fiscal quarter according to accounting principles generally accepted in the U.S. in effect at October 31, 2006. Under this provision, the company s excess equity capacity and retained earnings balance free of restriction at October 31, 2008 was $6,730 million. Alternatively under this provision, the Equipment Operations had the capacity to incur additional debt of $12,499 million at October 31, 2008. All of these requirements of the credit agreement have been met during the periods included in the consolidated financial statements.

Debt Ratings. To access public debt capital markets, the company relies on credit rating agencies to assign short-term and long-term credit ratings to the company s securities as an indicator of credit quality for fixed income investors. A security rating is not a recommendation by the rating agency to buy, sell or hold company securities. A credit rating agency may change or withdraw company ratings based on its assessment of the company s current and future ability to meet interest and principal repayment obligations. Each agency s rating should be evaluated independently of any other rating. Lower credit ratings generally result in higher borrowing costs and reduced access to debt capital markets. The senior long-term and short-term debt ratings and outlook currently assigned to unsecured company securities by the rating agencies engaged by the company are as follows:

	Senior Long-Term	Short-Term	Outlook
Moody s Investors Service, Inc.	A2	Prime-1	Stable
Standard & Poor s	A	A-1	Stable

Trade accounts and notes receivable primarily arise from sales of goods to independent dealers. Trade receivables increased by $180 million in 2008 primarily due to the increase in sales and acquisitions of businesses. The ratio of trade accounts and notes receivable at October 31 to fiscal year net sales was 13 percent in 2008, compared with 14 percent in 2007. Total worldwide agricultural equipment receivables increased $205 million, commercial and consumer equipment receivables decreased $13 million and construction and forestry receivables decreased $12 million. The collection period for trade receivables averages less than 12 months. The percentage of trade receivables outstanding for a period exceeding 12 months was 2 percent and 3 percent at October 31, 2008 and 2007, respectively.

Stockholders equity was $6,533 million at October 31, 2008, compared with $7,156 million at October 31, 2007.

The decrease of $623 million resulted primarily from an increase in treasury stock of $1,579 million, dividends declared of $456 million, a decrease in the cumulative translation adjustment of $406 million, a decrease in the retirement benefits adjustment of $305 million and a charge of $48 million to retained earnings from the adoption of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (see Note 6). These items were partially offset by net income of $2,053 million and an increase in common stock of $157 million.

The cash flows from discontinued operations included in the consolidated cash flows were not material except for the cash inflow from the sale of the health care operations (net of cash sold) of approximately $440 million included in the proceeds from sales of businesses in 2006.

EQUIPMENT OPERATIONS

The company s equipment businesses are capital intensive and are subject to seasonal variations in financing requirements for inventories and certain receivables from dealers. The Equipment Operations sell most of their trade receivables to the company s credit operations. As a result, there are relatively small seasonal variations in the financing requirements of the Equipment Operations. To the extent necessary, funds provided from operations are supplemented by external financing sources.

Cash provided by operating activities of the Equipment Operations during 2008, including intercompany cash flows, was $2,365 million primarily due to net income adjusted for non-cash provisions and an increase in accounts payable and accrued expenses, partially offset by an increase in inventories.

Over the last three years, these operating activities, including intercompany cash flows, have provided an aggregate of $6,365 million in cash.

Trade receivables held by the Equipment Operations decreased by $15 million during 2008. The Equipment Operations sell a significant portion of their trade receivables to the credit operations (see previous consolidated discussion).

Inventories increased by $705 million in 2008 reflecting the increase in sales and acquisitions of businesses. Most of these inventories are valued on the last-in, first-out (LIFO) method. The ratios of inventories on a first-in, first-out (FIFO) basis (see Note 15), which approximates current cost, to fiscal year cost of sales were 22 percent at both October 31, 2008 and 2007.

Total interest-bearing debt of the Equipment Operations was $2,209 million at the end of 2008, compared with $2,103 million at the end of 2007 and $2,252 million at the end of 2006. The ratio of total debt to total capital (total interest-bearing debt and stockholders equity) at the end of 2008, 2007 and 2006 was 25 percent, 23 percent and 23 percent, respectively.

Purchases of property and equipment for the Equipment Operations in 2008 were $773 million, compared with $557 million in 2007. Capital expenditures in 2009 are estimated to be approximately $1 billion.

FINANCIAL SERVICES

The Financial Services credit operations rely on their ability to raise substantial amounts of funds to finance their receivable and lease portfolios. Their primary sources of funds for this purpose are a combination of commercial paper, term debt, securitization of retail notes and equity

capital.

Cash flows from the company s Financial Services operating activities, including intercompany cash flows, were $940 million in 2008. Cash provided by financing activities totaled $1,736 million in 2008, representing primarily a $1,264 million increase in external borrowings, an increase in borrowings from Deere & Company of $569 million and $495 million capital investment from Deere & Company, partially offset by the payment of $565 million of dividends paid to Deere & Company. The cash provided by operating and financing activities was used primarily to increase receivables and leases. Cash used by investing activities totaled $1,832 million in 2008, primarily due to the cost of receivables and equipment on operating leases exceeding collections of receivables and the proceeds from sales of equipment on operating leases by $1,517 million, and purchases of property and equipment of $339 million. Cash and cash equivalents also increased $918 million.

Over the last three years, the Financial Services operating activities, including intercompany cash flows, have provided $2,583 million in cash. In addition, an increase in borrowings of $4,985 million, proceeds from sales of receivables of $458 million and capital investment from Deere & Company of $644 million provided cash inflows. These amounts have been used mainly to fund receivable and lease acquisitions, which exceeded collections and the proceeds from sales of equipment on operating leases by $5,342 million, pay dividends to Deere & Company of $1,260 million and fund purchases of property and equipment of $1,078 million. Cash and cash equivalents also increased $863 million over the three-year period.

Receivables and leases decreased by $136 million in 2008, compared with 2007. Acquisition volumes of receivables and leases increased 16 percent in 2008, compared with 2007. The volumes of operating loans, wholesale notes, revolving charge accounts, trade receivables, financing leases, operating leases and retail notes increased approximately 58 percent, 23 percent, 21 percent, 16 percent, 14 percent, 9 percent and 6 percent, respectively. At October 31, 2008 and 2007, net receivables and leases administered, which include receivables administered but not owned, were $22,281 million and $22,543 million, respectively.

Total external interest-bearing debt of the credit operations was $20,210 million at the end of 2008, compared with $19,665 million at the end of 2007 and $17,453 million at the end of 2006. Included in this debt are secured borrowings of $1,682 million at the end of 2008, $2,344 million at the end of 2007 and $2,403 million at the end of 2006. Total external borrowings have increased generally corresponding with the level of the receivable and lease portfolio, the level of cash and cash equivalents and the change in payables owed to Deere & Company. The credit operations ratio of total interest-bearing debt to total stockholder s equity was 8.3 to 1 at the end of 2008, 8.2 to 1 at the end of 2007 and 7.1 to 1 at the end of 2006.

During 2008, the credit operations issued $6,320 million and retired $4,565 million of long-term borrowings. The retirements included $850 million of 3.90% Notes due 2008 and the remainder consisted primarily of medium-term notes.

Purchases of property and equipment for Financial Services in 2008 were $339 million, compared with $465 million in 2007, primarily related to investments in wind energy generation in both years. Capital expenditures for 2009 are estimated to be approximately $125 million, also primarily related to investments in wind energy generation.

OFF-BALANCE-SHEET ARRANGEMENTS

The company s credit operations offer crop insurance products through a managing general agency agreement (Agreement) with insurance companies (Insurance Carriers) rated Excellent by A.M. Best Company. The credit operations have guaranteed certain obligations under the Agreement, including the obligation to pay the Insurance Carriers for any uncollected premiums. At October 31, 2008, the maximum exposure for uncollected premiums was approximately $60 million. Substantially all of the crop insurance risk under the Agreement has been mitigated by a syndicate of private reinsurance companies. In the event of a widespread catastrophic crop failure throughout the U.S. and the default of all the reinsurance companies on their obligations, the company would be required to reimburse the Insurance Carriers approximately $824 million at October 31, 2008. The company believes the likelihood of this event is substantially remote.

At October 31, 2008, the company had approximately $180 million of guarantees issued primarily to banks outside the U.S. 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. The maximum remaining term of the receivables guaranteed at October 31, 2008 was approximately seven years.

AGGREGATE CONTRACTUAL OBLIGATIONS

The payment schedule for the company s contractual obligations at October 31, 2008 in millions of dollars is as follows:

	Total	Less than 1 year	2&3 years	4&5 years	More than 5 years
Debt*					
Equipment Operations	$ 2,142	$ 218	$ 313		$ 1,611
Financial Services**	20,009	7,555	6,372	$ 4,206	1,876
Total	22,151	7,773	6,685	4,206	3,487
Interest on debt	3,690	827	1,024	497	1,342
Purchase obligations	3,045	2,998	30	10	7
Operating leases	466	123	150	81	112
Capital leases	57	13	26	4	14
Total	$ 29,409	$ 11,734	$ 7,915	$ 4,798	$ 4,962

* Principal payments.

** Notes payable of $1,682 million classified as short-term on the balance sheet related to the securitization of retail notes are included in this table based on the expected payment schedule (see Note 18).

The table above does not include unrecognized tax benefit liabilities of approximately $236 million at October 31, 2008 since the timing of future payments is not reasonably estimable at this time (see Note 6 to the consolidated financial statements). For additional information regarding pension and other postretirement employee benefit obligations, short-term borrowings, long-term borrowings and lease obligations, see Notes 5, 18, 20 and 21, respectively.

CRITICAL ACCOUNTING POLICIES

The preparation of the company s consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. Changes in these estimates and assumptions could have a significant effect on the financial statements. The accounting policies below are those management believes are the most critical to the preparation of the company s financial statements and require the most difficult, subjective or complex judgments. The company s other accounting policies are described in the Notes to the Consolidated Financial Statements.

Sales Incentives

At the time a sale to a dealer is recognized, the company records an estimate of the future sales incentive costs for allowances and financing programs that will be due when the dealer sells the equipment to a retail customer. The estimate is based on historical data, announced incentive programs, field inventory levels and settlement volumes. The final cost of these programs and the amount of accrual required for a specific sale are fully determined when the dealer sells the equipment to the retail customer. This is due to numerous programs available at any particular time and new programs that may be announced after the company records the sale. Changes in the mix and types of programs affect these estimates, which are reviewed quarterly.

The sales incentive accruals at October 31, 2008, 2007 and 2006 were $737 million, $711 million and $629 million, respectively. The increases in 2008 and 2007 were primarily due to the increases in sales.

The estimation of the sales incentive accrual is impacted by many assumptions. One of the key assumptions is the historical percent of sales incentive costs to settlements from dealers. Over the last five fiscal years, this percent has varied by approximately plus or minus .8 percent, compared to the average sales incentive costs to settlements percent during that period. Holding other assumptions constant, if this cost experience percent were to increase or decrease 1.0 percent, the sales incentive accrual at October 31, 2008 would increase or decrease by approximately $50 million.

Product Warranties

At the time a sale to a dealer is recognized, the company records the estimated future warranty costs. 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 consideration of current quality developments. Variances in claims experience and the type of warranty programs affect these estimates, which are reviewed quarterly.

The product warranty accruals, excluding extended warranty unamortized premiums, at October 31, 2008, 2007 and 2006 were $586 million, $549 million and $507 million, respectively. The increases in 2008 and 2007 were primarily due to increases in sales volume.

Estimates used to determine the product warranty accruals are significantly affected by the historical percent of warranty claims costs to sales. Over the last five fiscal years, this loss experience percent has varied by approximately plus or minus .03 percent, compared to the average warranty costs to sales percent during that period. Holding other assumptions constant, if this estimated cost experience percent were to increase or decrease .05 percent, the warranty accrual at October 31, 2008 would increase or decrease by approximately $15 million.

Postretirement Benefit Obligations

Pension obligations and other postretirement employee benefit (OPEB) obligations are based on various assumptions used by the company s actuaries in calculating these amounts. These assumptions include discount rates, health care cost trend rates, expected return on plan assets, compensation increases, retirement rates, mortality rates and other factors. Actual results that differ from the assumptions and changes in assumptions affect future expenses and obligations.

The pension assets, net of pension liabilities, recognized on the balance sheet at October 31, 2008, 2007 and 2006 were $683 million, $1,467 million and $1,945 million, respectively. The OPEB liabilities on these same dates were $2,535 million, $3,065 million and $1,985 million, respectively. The decrease in the pension net assets in 2008 was primarily due to the decrease in market value of assets, partially offset by the increase in the discount rates for the liabilities. The decrease in the OPEB liabilities in 2008 was primarily due to the increase in discount rates. The decrease in the pension net assets and the increase in the OPEB liabilities in 2007 were primarily due to the adoption in 2007 of Financial Accounting Standards Board Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (see Note 5). This standard required unrecognized gains or losses relating to postretirement benefit obligations to be recorded on the consolidated balance sheet with a corresponding charge or credit to stockholders equity.

The effect of hypothetical changes to selected assumptions on the company s major U. S. retirement benefit plans would be as follows in millions of dollars:

Assumptions	Percentage Change	October 31, 2008 Increase (Decrease) PBO/APBO*	2009 Increase (Decrease) Expense
Pension			
Discount rate**	+/-.5	$ (268)/290	$ (18)/19
Expected return on assets	+/-.5		(41)/41
OPEB			
Discount rate**	+/-.5	(189)/206	(30)/33
Expected return on assets	+/-.5		(8)/8
Health care cost trend rate**	+/-1.0	405/(346)	108/(92)

* Projected benefit obligation (PBO) for pension plans and accumulated postretirement benefit obligation (APBO) for OPEB plans.
** Pretax impact on service cost, interest cost and amortization of gains or losses.

Allowance for Credit Losses

The allowance for credit losses represents an estimate of the losses expected from the company s receivable portfolio. The level of the allowance is based on many quantitative and qualitative factors, including historical loss experience by product category, portfolio duration, delinquency trends, economic conditions and credit risk quality. The adequacy of the allowance is assessed quarterly. Different assumptions or changes in economic conditions would result in changes to the allowance for credit losses and the provision for credit losses.

The total allowance for credit losses at October 31, 2008, 2007 and 2006 was $226 million, $236 million and $217 million, respectively. The decrease in 2008 was primarily due to foreign currency translation. The increase in 2007 was primarily due to growth in the receivable portfolio.

The assumptions used in evaluating the company s exposure to credit losses involve estimates and significant judgment. The historical loss experience on the receivable portfolio represents one of the key assumptions involved in determining the allowance for credit losses. Over the last five fiscal years, the average loss experience has fluctuated between 2 basis points and 18 basis points in any given fiscal year over the applicable prior period. Holding other estimates constant, a 10 basis point increase or decrease in estimated loss experience on the receivable portfolio would result in an increase or decrease of approximately $20 million to the allowance for credit losses at October 31, 2008.

Operating Lease Residual Values

The carrying value of equipment on operating leases is affected by the estimated fair values of the equipment at the end of the lease (residual values). Upon termination of the lease, the equipment is either purchased by the lessee or sold to a third party, in which case the company may record a gain or a loss for the difference between the estimated residual value and the sales price. The residual values are dependent on current economic conditions and are reviewed quarterly. Changes in residual value assumptions would affect the amount of depreciation expense and the amount of investment in equipment on operating leases.

The total operating lease residual values at October 31, 2008, 2007 and 2006 were $1,055 million, $1,072 million and $917 million, respectively. The changes in 2008 and 2007 were primarily due to the levels of operating leases.

Estimates used in determining end of lease market values for equipment on operating leases significantly impact the amount and timing of depreciation expense. If future market values for this equipment were to decrease 5 percent from the company s present estimates, the total impact would be to increase the company s annual depreciation for equipment on operating leases by approximately $20 million.

FINANCIAL INSTRUMENT RISK INFORMATION

The company is naturally exposed to various interest rate and foreign currency risks. As a result, the company enters into derivative transactions to manage certain of these exposures that arise in the normal course of business and not for the purpose of creating speculative positions or trading. The company s credit operations manage the relationship of the types and amounts of their funding sources to their receivable and lease portfolio in an effort to diminish risk due to interest rate and foreign currency fluctuations, while responding to favorable financing opportunities. Accordingly, from time to time, these operations enter into interest rate swap agreements to manage their interest rate exposure. The company also has foreign currency exposures at some of its foreign and domestic operations related to buying, selling and financing in currencies other than the local currencies. The company has entered into agreements related to the management of these currency transaction risks. The credit risk under these interest rate and foreign currency agreements is not considered to be significant.

Interest Rate Risk

Quarterly, the company uses a combination of cash flow models to assess the sensitivity of its financial instruments with interest rate exposure to changes in market interest rates. The models calculate the effect of adjusting interest rates as follows. Cash flows for financing receivables are discounted at the current prevailing rate for each receivable portfolio. Cash flows for marketable securities are primarily discounted at the applicable benchmark yield curve. Cash flows for unsecured borrowings are discounted at the applicable benchmark yield curve plus market credit spreads for similarly rated borrowers. Cash flows for securitized borrowings are discounted at the swap yield curve plus a market credit spread for similarly rated borrowers. Cash flows for interest rate swaps are projected and discounted using forecasted rates from the swap yield curve at the repricing dates. The net loss in these financial instruments fair values which would be caused by decreasing the interest rates by 10 percent from the market rates at October 31, 2008 would have been approximately $87 million. The net loss from increasing the interest rates by 10 percent at October 31, 2007 would have been approximately $22 million.

Foreign Currency Risk

In the Equipment Operations, it is the company s practice to hedge significant currency exposures. Worldwide foreign currency exposures are reviewed quarterly. Based on the Equipment Operations anticipated and committed foreign currency cash inflows and outflows for the next twelve months and the foreign currency derivatives at year end, the company estimates that a hypothetical 10 percent weakening of the U.S. dollar relative to other currencies through 2009 would decrease the 2009 expected net cash inflows by $31 million. At last year end, a hypothetical 10 percent weakening of the U.S. dollar under similar assumptions and calculations indicated a potential $77 million adverse effect on the 2008 net cash inflows.

In the Financial Services operations, the company s policy is to hedge the foreign currency risk if the currency of the borrowings does not match the currency of the receivable portfolio. As a result, a hypothetical 10 percent adverse change in the value of the U.S. dollar relative to all other foreign currencies would not have a material effect on the Financial Services cash flows.

DEERE & COMPANY

STATEMENT OF CONSOLIDATED INCOME

For the Years Ended October 31, 2008, 2007 and 2006

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

	2008	2007	2006
Net Sales and Revenues			
Net sales	$ 25,803.5	$ 21,489.1	$ 19,884.0
Finance and interest income	2,068.4	2,054.8	1,776.8
Other income	565.7	538.3	487.0
Total	28,437.6	24,082.2	22,147.8
Costs and Expenses			
Cost of sales	19,574.8	16,252.8	15,362.0
Research and development expenses	943.1	816.8	725.8
Selling, administrative and general expenses	2,960.2	2,620.8	2,323.9
Interest expense	1,137.0	1,151.2	1,017.5
Other operating expenses	698.7	565.1	544.8
Total	25,313.8	21,406.7	19,974.0
Income of Consolidated Group before Income Taxes	3,123.8	2,675.5	2,173.8
Provision for income taxes	1,111.2	883.0	741.6
Income of Consolidated Group	2,012.6	1,792.5	1,432.2
Equity in income of unconsolidated affiliates	40.2	29.2	21.0
Income from Continuing Operations	2,052.8	1,821.7	1,453.2
Income from Discontinued Operations			240.6
Net Income	$ 2,052.8	$ 1,821.7	$ 1,693.8
Per Share Data			
Basic:			
Continuing operations	$ 4.76	$ 4.05	$ 3.11
Discontinued operations			.52
Net Income	$ 4.76	$ 4.05	$ 3.63
Diluted:			
Continuing operations	$ 4.70	$ 4.00	$ 3.08
Discontinued operations			.51
Net Income	$ 4.70	$ 4.00	$ 3.59
Dividends declared	$ 1.06	$ .91	$ .78
Average Shares Outstanding			
Basic	431.1	449.3	466.8
Diluted	436.3	455.0	471.6

The notes to consolidated financial statements are an integral part of this statement.

DEERE & COMPANY

CONSOLIDATED BALANCE SHEET

As of October 31, 2008 and 2007

(In millions of dollars except per share amounts)

	2008	2007
ASSETS		
Cash and cash equivalents	$ 2,211.4	$ 2,278.6
Marketable securities	977.4	1,623.3
Receivables from unconsolidated affiliates	44.7	29.6
Trade accounts and notes receivable - net	3,234.6	3,055.0
Financing receivables - net	16,017.0	15,631.2
Restricted financing receivables - net	1,644.8	2,289.0
Other receivables	664.9	596.3
Equipment on operating leases - net	1,638.6	1,705.3
Inventories	3,041.8	2,337.3
Property and equipment - net	4,127.7	3,534.0
Investments in unconsolidated affiliates	224.4	149.5
Goodwill	1,224.6	1,234.3
Other intangible assets - net	161.4	131.0
Retirement benefits	1,106.0	1,976.0
Deferred income taxes	1,440.6	1,399.5
Other assets	974.7	605.8
Total Assets	$ 38,734.6	$ 38,575.7
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Short-term borrowings	$ 8,520.5	$ 9,969.4
Payables to unconsolidated affiliates	169.2	136.5
Accounts payable and accrued expenses	6,393.6	5,632.2
Deferred income taxes	171.8	183.4
Long-term borrowings	13,898.5	11,798.2
Retirement benefits and other liabilities	3,048.3	3,700.2
Total liabilities	32,201.9	31,419.9
Commitments and contingencies (Note 22)		
STOCKHOLDERS EQUITY		
Common stock, $1 par value (authorized 1,200,000,000 shares; issued 536,431,204 shares in 2008 and 2007), at paid-in amount	2,934.0	2,777.0
Common stock in treasury, 114,134,933 shares in 2008 and 96,795,090 shares in 2007, at cost	(5,594.6)	(4,015.4)
Retained earnings	10,580.6	9,031.7
Accumulated other comprehensive income (loss):		
Retirement benefits adjustment	(1,418.4)	(1,113.1)
Cumulative translation adjustment	73.4	479.4
Unrealized loss on derivatives	(40.1)	(7.6)
Unrealized gain (loss) on investments	(2.2)	3.8
Accumulated other comprehensive income (loss)	(1,387.3)	(637.5)
Total stockholders equity	6,532.7	7,155.8

Total Liabilities and Stockholders Equity	$	38,734.6	$	38,575.7

The notes to consolidated financial statements are an integral part of this statement.

DEERE & COMPANY

STATEMENT OF CONSOLIDATED CASH FLOWS

For the Years Ended October 31, 2008, 2007 and 2006

(In millions of dollars)

	2008	2007	2006
Cash Flows from Operating Activities			
Net income	$ 2,052.8	$ 1,821.7	$ 1,693.8
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for doubtful receivables	95.4	71.0	65.9
Provision for depreciation and amortization	831.0	744.4	691.4
Share-based compensation expense	70.6	82.0	90.7
Gain on the sale of a business			(356.0)
Undistributed earnings of unconsolidated affiliates	(18.7)	(17.1)	(18.5)
Provision (credit) for deferred income taxes	89.7	(4.2)	15.8
Changes in assets and liabilities:			
Trade, notes and financing receivables related to sales	(428.4)	131.1	(703.9)
Inventories	(1,195.4)	(357.2)	(78.0)
Accounts payable and accrued expenses	702.1	418.6	155.3
Accrued income taxes payable/receivable	92.8	10.5	29.7
Retirement benefits	(133.2)	(163.2)	(400.0)
Other	(209.7)	21.8	(213.0)
Net cash provided by operating activities	1,949.0	2,759.4	973.2
Cash Flows from Investing Activities			
Collections of receivables	12,608.8	10,335.3	9,274.9
Proceeds from sales of financing receivables	45.2	141.4	108.0
Proceeds from maturities and sales of marketable securities	1,738.5	2,458.5	3,006.0
Proceeds from sales of equipment on operating leases	465.7	355.2	310.9
Proceeds from sales of businesses, net of cash sold	42.0	77.2	440.1
Cost of receivables acquired	(13,304.4)	(11,388.3)	(10,451.0)
Purchases of marketable securities	(1,141.4)	(2,251.6)	(2,565.6)
Purchases of property and equipment	(1,112.3)	(1,022.5)	(766.0)
Cost of equipment on operating leases acquired	(495.9)	(461.7)	(417.4)
Acquisitions of businesses, net of cash acquired	(252.3)	(189.3)	(55.7)
Other	(19.9)	12.5	(33.1)
Net cash used for investing activities	(1,426.0)	(1,933.3)	(1,148.9)
Cash Flows from Financing Activities			
Increase (decrease) in short-term borrowings	(413.0)	99.4	1,208.7
Proceeds from long-term borrowings	6,320.2	4,283.9	3,140.2
Payments of long-term borrowings	(4,585.4)	(3,136.5)	(3,520.6)
Proceeds from issuance of common stock	108.9	285.7	327.6
Repurchases of common stock	(1,677.6)	(1,517.8)	(1,299.3)
Dividends paid	(448.1)	(386.7)	(348.4)
Excess tax benefits from share-based compensation	72.5	102.2	85.6
Other	(26.0)	(11.2)	(10.6)
Net cash used for financing activities	(648.5)	(281.0)	(416.8)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	58.3	46.0	21.8

Net Increase (Decrease) in Cash and Cash Equivalents	(67.2)	591.1	(570.7)
Cash and Cash Equivalents at Beginning of Year	2,278.6	1,687.5	2,258.2
Cash and Cash Equivalents at End of Year	$ 2,211.4	$ 2,278.6	$ 1,687.5

The notes to consolidated financial statements are an integral part of this statement.

DEERE & COMPANY

STATEMENT OF CHANGES IN CONSOLIDATED STOCKHOLDERS EQUITY

For the Years Ended October 31, 2006, 2007 and 2008

(In millions of dollars)

	Total Equity	Common Stock	Treasury Stock	Unamortized Restricted Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
Balance October 31, 2005	$ 6,851.5	$ 2,081.7	$ (1,743.5)	$ (16.4)	$ 6,556.1	$ (26.4)
Comprehensive income						
Net income	1,693.8				1,693.8	
Other comprehensive income (loss)						
Minimum pension liability adjustment	21.3					21.3
Cumulative translation adjustment	79.7					79.7
Unrealized gain on derivatives	.6					.6
Unrealized loss on investments	(.9)					(.9)
Total comprehensive income	1,794.5					
Reclassification to adopt FASB Statement No. 123 (revised 2004)		(16.4)		16.4		
Repurchases of common stock	(1,299.3)		(1,299.3)			
Treasury shares reissued	369.4		369.4			
Dividends declared	(363.4)				(363.4)	
Stock options and other	138.5	138.2			.3	
Balance October 31, 2006	7,491.2	2,203.5	(2,673.4)		7,886.8	74.3
Comprehensive income						
Net income	1,821.7				1,821.7	
Other comprehensive income (loss)						
Minimum pension liability adjustment	65.8					65.8
Cumulative translation adjustment	329.1					329.1
Unrealized loss on derivatives	(14.4)					(14.4)
Unrealized loss on investments	(1.0)					(1.0)
Total comprehensive income	2,201.2					
Repurchases of common stock	(1,517.8)		(1,517.8)			
Treasury shares reissued	175.8		175.8			
Dividends declared	(408.4)				(408.4)	
Stock options and other	305.1	305.3			(.2)	
Adjustment to adopt FASB Statement No. 158, net of tax	(1,091.3)					(1,091.3)
Transfer for two-for-one stock split effective November 26, 2007		268.2			(268.2)	
Balance October 31, 2007	7,155.8	2,777.0	(4,015.4)		9,031.7	(637.5)
Comprehensive income						
Net income	2,052.8				2,052.8	
Other comprehensive income (loss)						
Retirement benefits adjustment	(305.3)					(305.3)

Cumulative translation adjustment	(406.0)					(406.0)
Unrealized loss on derivatives	(32.5)					(32.5)
Unrealized loss on investments	(6.0)					(6.0)
Total comprehensive income	1,303.0					
Adjustment to adopt FIN No. 48	(48.0)				(48.0)	
Repurchases of common stock	(1,677.6)		(1,677.6)			
Treasury shares reissued	98.4		98.4			
Dividends declared	(455.9)				(455.9)	
Stock options and other	157.0	157.0				
Balance October 31, 2008	$ 6,532.7	$ 2,934.0	$ (5,594.6)		$ 10,580.6	$ (1,387.3)

The notes to consolidated financial statements are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are significant accounting policies in addition to those included in other notes to the consolidated financial statements.

Principles of Consolidation

The consolidated financial statements represent the consolidation of all companies in which Deere & Company has a controlling interest. Certain variable interest entities (VIEs) primarily related to the securitization of financing receivables for secured borrowings are consolidated since the company is the primary beneficiary. Deere & Company records its investment in each unconsolidated affiliated company (generally 20 to 50 percent ownership) at its related equity in the net assets of such affiliate. Other investments (less than 20 percent ownership) are recorded at cost. Consolidated retained earnings at October 31, 2008 include undistributed earnings of the unconsolidated affiliates of $99 million. Dividends from unconsolidated affiliates were $20 million in 2008, $13 million in 2007 and $3 million in 2006 (see Note 8).

Reclassification

Certain items previously reported in specific financial statement captions have been reclassified to conform to the 2008 financial statement presentation. In particular, Accrued taxes previously presented separately has been combined with Accounts payable and accrued expenses on the consolidated balance sheet.

Structure of Operations

Certain information in the notes and related commentary are presented in a format which includes data grouped as follows:

Equipment Operations Includes the company s agricultural equipment, commercial and consumer equipment and construction and forestry operations with Financial Services reflected on the equity basis except for the health care operations, which were disposed of in February 2006 and are reported on a discontinued basis (see Note 2).

Financial Services Includes the company s credit and certain miscellaneous service operations with the health care operations reported on a discontinued basis.

Consolidated Represents the consolidation of the Equipment Operations and Financial Services with the health care operations reported on a discontinued basis. References to Deere & Company or the company refer to the entire enterprise.

Stock Split in Form of Dividend

On November 14, 2007, a special meeting of stockholders was held authorizing a two-for-one stock split effected in the form of a 100 percent stock dividend to holders of record on November 26, 2007, distributed on December 3, 2007. All share and per share data (except par value) have been adjusted to reflect the effect of the stock split for all periods presented. The number of shares of common stock issuable upon exercise of outstanding stock options, vesting of other stock awards, and the number of shares reserved for issuance under various employee benefit plans were proportionately increased in accordance with terms of the respective plans.

Use of Estimates in Financial Statements

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.

Revenue Recognition

Sales of equipment and service parts are recorded when the sales price is determinable and the risks and rewards of ownership are transferred to independent parties based on the sales agreements in effect. In the U.S. and most international locations, this transfer occurs primarily when goods are shipped. In Canada and some other international locations, certain goods are shipped to dealers on a consignment basis under which the risks and rewards of ownership are not transferred to the dealer. Accordingly, in these locations, sales are not recorded until a retail customer has purchased the goods. In all cases, when a sale is recorded by the company, no significant uncertainty exists surrounding the purchaser s obligation to pay. No right of return exists on sales of equipment. Service parts returns are estimable and accrued at the time a sale is recognized. The company makes appropriate provisions based on experience for costs such as doubtful receivables, sales incentives and product warranty.

Financing revenue is recorded over the lives of related receivables using the interest method. Deferred costs on the origination of financing receivables are recognized as a reduction in finance revenue over the expected lives of the receivables using the interest method. Income from operating leases is recognized on a straight-line basis over the scheduled lease terms.

Sales Incentives

At the time a sale is recognized, the company records an estimate of the future sales incentive costs for allowances and financing programs that will be due when a dealer sells the equipment to a retail customer. The estimate is based on historical data, announced incentive programs, field inventory levels and settlement volumes.

Product Warranties

At the time a sale is recognized, the company records the estimated future warranty costs. These costs are usually estimated based on historical warranty claims (see Note 22).

Sales Taxes

The company collects and remits taxes assessed by different governmental authorities that are both imposed on and concurrent with revenue producing transactions between the company and its customers. These taxes may include sales, use, value-added and some excise taxes. The company reports the collection of these taxes on a net basis (excluded from revenues).

Securitization of Receivables

Certain financing receivables are periodically transferred to Special Purpose Entities (SPEs) in securitization transactions (see Note 12). These securitizations qualify as collateral for secured borrowings and no gains or losses are recognized at the time of securitization. The receivables remain on the balance sheet and are classified as Restricted financing receivables - net. The company recognizes finance income over the lives of these receivables using the interest method.

Shipping and Handling Costs

Shipping and handling costs related to the sales of the company s equipment are included in cost of sales.

Advertising Costs

Advertising costs are charged to expense as incurred. This expense was $188 million in 2008, $169 million in 2007 and $165 million in 2006.

Depreciation and Amortization

Property and equipment, capitalized software and other intangible assets are depreciated over their estimated useful lives generally using the straight-line method. Equipment on operating leases is depreciated over the terms of the leases using the straight-line method. Property and equipment expenditures for new and revised products, increased capacity and the replacement or major renewal of significant items are capitalized. Expenditures for maintenance, repairs and minor renewals are generally charged to expense as incurred.

Receivables and Allowances

All financing and trade receivables are reported on the balance sheet at outstanding principal adjusted for any charge-offs, the allowance for credit losses and doubtful accounts, and any deferred fees or costs on originated financing receivables. Allowances for credit losses and doubtful accounts are maintained in amounts considered to be appropriate in relation to the receivables outstanding based on collection experience, economic conditions and credit risk quality.

Impairment of Long-Lived Assets, Goodwill and Other Intangible Assets

The company evaluates the carrying value of long-lived assets (including property and equipment, goodwill and other intangible assets) when events and circumstances warrant such a review. Goodwill and intangible assets with indefinite lives are also tested for impairment annually at the end of the third fiscal quarter each year. Goodwill is allocated and reviewed for impairment by reporting units, which consist primarily of the operating segments. The goodwill is allocated to the reporting unit in which the business that created the goodwill resides. To test for goodwill impairment, the carrying value of each reporting unit is compared with its fair value. If the carrying value of the goodwill or long-lived asset is considered impaired, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset.

Derivative Financial Instruments

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

All derivatives are recorded at fair value on the balance sheet. Each derivative is designated as either a cash flow hedge, a fair value hedge, or remains undesignated. Changes in the fair value of derivatives that are designated and effective as cash flow hedges are recorded in other comprehensive income and reclassified to the income statement when the effects of the item being hedged are recognized in the income statement. Changes in the fair value of derivatives that are designated and effective as fair value hedges are recognized currently in net income. These changes are offset in net income to the extent the hedge was effective by fair value changes related to the risk being hedged on the hedged item. Changes in the fair value of undesignated hedges are recognized currently in the income statement. All ineffective changes in derivative fair values are recognized currently in net income.

All designated hedges are formally documented as to the relationship with the hedged item as well as the risk-management strategy. Both at inception and on an ongoing basis the hedging instrument is assessed as to its effectiveness, when applicable. If and when a derivative is determined not to be highly effective as a hedge, or the underlying hedged transaction is no longer likely to occur, or the derivative is terminated, the hedge accounting discussed above is discontinued (see Note 27).

Foreign Currency Translation

The functional currencies for most of the company s foreign operations are their respective local currencies. The assets and liabilities of these operations are translated into U.S. dollars at the end of the period exchange rates. The revenues and expenses are translated at weighted-average rates for the period. The gains or losses from these translations are recorded in other comprehensive income. Gains or losses from transactions denominated in a currency other than the functional currency of the subsidiary involved and foreign exchange forward contracts and options are included in net income or other comprehensive income as appropriate. The total foreign exchange pretax net gain (loss) for 2008, 2007 and 2006 was $(13) million, $(28) million and $2 million, respectively.

New Accounting Standards Adopted

In the first quarter of 2008, the company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes. This Interpretation clarifies that the recognition for uncertain tax positions should be based on a more-likely-than-not threshold that the tax position will be sustained upon audit. The tax position is measured as the largest amount of benefit that has a greater than 50 percent probability of being realized upon settlement. The standard was adopted at the beginning of fiscal year 2008 with the cumulative effect reported as an adjustment to beginning retained earnings as required. The cumulative effect of adoption increased assets by $158 million, increased liabilities by $206 million and decreased retained earnings by $48 million (see Note 6).

At October 31, 2007, the company adopted FASB Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (see Note 5). This Statement requires retirement benefit accruals or prepaid benefit costs on the balance sheet to be adjusted to the difference between the benefit obligations and the plan assets at fair value. The offset to the adjustment is recorded directly in stockholders equity net of tax. The amount recorded in stockholders equity represents the after-tax unrecognized actuarial gains or losses and

unamortized prior service costs, which have previously been disclosed in the notes to the annual consolidated financial statements. Prospective application is required. At October 31, 2007, the effect of adopting this Statement decreased assets by $9 million, increased liabilities by $1,082 million and decreased stockholders equity by $1,091 million after-tax. The company did not violate any credit agreement financial covenants as a result of adopting this new standard.

New Accounting Standards to be Adopted

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements. This Statement defines fair value and expands disclosures about fair value measurements. These methods will apply to other accounting standards that use fair value measurements and may change the application of certain measurements used in current practice. The effective date is the beginning of fiscal year 2009 for financial assets and liabilities. For nonfinancial assets and liabilities, the effective date is the beginning of fiscal year 2010, except items that are recognized or disclosed on a recurring basis (at least annually). The adoption will not have a material effect on the company s consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This Statement permits entities to measure most financial instruments at fair value if desired. It may be applied on a contract by contract basis and is irrevocable once applied to those contracts. The standard may be applied at the time of adoption for existing eligible items, or at initial recognition of eligible items. After election of this option, changes in fair value are reported in earnings. The items measured at fair value must be shown separately on the balance sheet. The effective date is the beginning of fiscal year 2009. The cumulative effect of adoption would be reported as an adjustment to beginning retained earnings. The adoption will not have a material effect on the company s consolidated financial statements.

In December 2007, the FASB issued Statement No. 141 (revised 2007), Business Combinations, and Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements. Statement No. 141 (revised 2007) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. This standard also requires the fair value measurement of certain other assets and liabilities related to the acquisition such as contingencies and research and development. Statement No. 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. Consolidated net income should include the net income for both the parent and the noncontrolling interest with disclosure of both amounts on the consolidated statement of income. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. The effective date for both Statements is the beginning of fiscal year 2010. The company has currently not determined the potential effects on the consolidated financial statements.

In March 2008, the FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities. This Statement increases the disclosure requirements for derivative instruments. The new requirements include the location and fair value amounts of all derivatives by category reported in the consolidated balance sheet; the location and amount of gains or losses of all derivatives and designated hedged items by category reported in the consolidated income statement, or in other comprehensive income in the consolidated balance sheet; and measures of volume such as notional amounts. For derivatives designated as hedges, the gains or losses must be divided into the effective portions and the ineffective portions. The Statement also requires the disclosure of group concentrations of credit risk by counterparties, including the maximum amount of loss due to credit risk and policies concerning collateral and master netting arrangements. Most disclosures are required on an interim and annual basis. The effective date is the second quarter of fiscal year 2009. The adoption will not have a material effect on the company s consolidated financial statements

In May 2008, the FASB issued Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles. This Statement identifies the sources for generally accepted accounting principles (GAAP) in the U.S. and lists the categories in descending order. An entity should follow the highest category of GAAP applicable for each of its accounting transactions. The adoption will not have a material effect on the company s consolidated financial statements.

Variable Interest Entities

The company s credit operations are the primary beneficiary of certain variable interest entities (VIEs) that are special purpose entities (SPEs) related to the securitization of financing receivables. Under FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, these SPEs were consolidated. The SPEs included assets (restricted retail notes) of $1,259 million and $1,494 million at October 31, 2008 and 2007, respectively. These restricted retail notes are included in the restricted financing receivables related to securitizations shown in the table in Note 12.

The company is also the primary beneficiary of a supplier that is a VIE. The VIE produces blended fertilizer and other lawn care products for the commercial and consumer equipment segment. The assets of the VIE that were consolidated, less the intercompany receivables eliminated in consolidation, totaled $74 million. The creditors of the VIE do not have recourse to the general credit of the company.

Acquisitions

In May 2008, the company acquired T-Systems International, Inc. (T-Systems) for a cost of approximately $85 million. T-Systems, which is headquartered in California, manufactures and markets drip tape and agronomic technologies for irrigation. The acquisition is included in the agricultural equipment segment. The preliminary values assigned to major assets and liabilities related to the acquisition were $29 million of receivables, $20 million of inventories, $43 million of property equipment,

$12 million of identifiable intangibles primarily for technology and trademarks, $8 million of goodwill, $17 million of accounts payable and accrued expenses and $10 million of deferred income tax liabilities. The weighted-average amortization period of the identifiable intangibles was six years. The goodwill is not expected to be deductible for tax purposes.

In June 2008, the company acquired Plastro Irrigation Systems Ltd. (Plastro) for a cost of approximately $120 million. Plastro, which is headquartered in Israel, manufactures and markets drip and micro drip irrigation products for nursery and agricultural applications. The acquisition is included in the agricultural equipment segment. The preliminary values assigned to major assets and liabilities related to the acquisition were $12 million of cash, $63 million of receivables, $48 million of inventories, $44 million of property and equipment, $4 million of other assets, $40 million of identifiable intangible assets primarily for customer lists and trademarks, $46 million of goodwill, $61 million of accounts payable and accrued expenses, $51 million of short-term borrowings, $13 million of long-term borrowings and $12 million of deferred income tax liabilities. The weighted-average amortization period of the identifiable intangibles was eight years. The goodwill is not expected to be deductible for tax purposes.

In June 2008, the company acquired a 50 percent equity investment in Xuzhou Xuwa Excavator Machinery Co., Ltd. (XCG) and has invested approximately $55 million in the joint venture in 2008. XCG is a domestic excavator manufacturer in China and is included in the construction and forestry segment.

The goodwill generated in these acquisitions was the result of the future cash flows and related fair values of the entity acquired exceeding the fair values of its identifiable assets and liabilities. Certain long-lived assets including other intangibles are still being evaluated. The results of these operations have been included in the company s financial statements since the date of the acquisition. The pro forma results of operations as if the acquisition had occurred at the beginning of the fiscal year would not differ significantly from the reported results.

2. DISCONTINUED OPERATIONS

In February 2006, the company sold its wholly-owned subsidiary, John Deere Health Care, Inc. (health care operations), to UnitedHealthcare for $512 million and recognized a gain on the sale of $356 million pretax, or $223 million after-tax ($.47 per share diluted, $.48 per share basic). These operations and the gain on the sale have been reflected as discontinued operations in the consolidated financial statements for all periods presented.

The revenue from discontinued operations on the statement of consolidated income in 2006 was $621 million, and the income before income taxes was $384 million. The fees paid from the continuing operations to the discontinued health care operations for administering health care claims in 2006 were $7 million. The company will continue to pay fees to UnitedHealthcare to administer health claims. The employee termination benefit expense accrued in the discontinued operations in 2006 was $8 million, with payments of $4 million in 2006, $1 million in 2007 and $3 million in 2008.

3. SPECIAL ITEMS

Restructuring

Welland

In September 2008, the company announced it will close its manufacturing facility in Welland, Ontario, Canada, and transfer production to company operations in Wisconsin and Mexico. The Welland factory manufactures utility vehicles and attachments for the agricultural equipment and commercial and consumer equipment businesses. The move supports ongoing efforts aimed at improved efficiency and profitability. The plant is scheduled to close by the end of 2009.

The closure is expected to result in total expenses recognized in cost of sales of approximately $98 million pretax, of which $49 million was recorded in the fourth quarter of 2008. These total expenses will consist of approximately $41 million of pension and other postretirement benefits, $21 million of property and equipment impairments, $26 million of employee termination benefits and $10 million of other expenses. The expenses in the fourth quarter of 2008 were $10 million of pension and other postretirement benefits, $21 million of property and equipment impairments and $18 million of employee termination benefits. The liability for employee termination benefits at October 31, 2008 was $18 million.

The total expenses will be approximately $59 million for the agricultural equipment segment and $39 million for the commercial and consumer equipment segment. In the fourth quarter of 2008, the total expenses were $29 million for the agricultural equipment segment and $20 million for the commercial and consumer equipment segment. The total pretax cash expenditures associated with this closure will be approximately $40 million. The annual increase in earnings and cash flows in the future due to this restructuring is estimated to be approximately $40 million.

Woodstock

In January 2006, the company decided to close its forestry manufacturing facility in Woodstock, Ontario, Canada and consolidate the manufacturing into the company s existing Davenport and Dubuque, Iowa facilities. This restructuring was intended to reduce costs and further improve product delivery times. The facility was included in the construction and forestry segment.

The total pretax expense recognized in costs of sales in 2006 related to the closure was $44 million pretax, which included $21 million for pension and other postretirement benefits; $10 million for employee termination benefits; $6 million for impairments and write-downs of property, equipment and inventory; $5 million for relocation of production and $2 million for other expenses. At October 31, 2006, there were no remaining significant liabilities or expenses related to the restructuring. The pretax cash expenditures associated with this closure were approximately $35 million. The annual increase in earnings and cash flows due to this restructuring were approximately $10 million.

Debt Repurchase

In February 2006, the company announced a cash tender offer of up to $500 million to repurchase outstanding notes. An aggregate principal amount of $433 million was repurchased in 2006 consisting of $144 million of 8.95% Debentures due 2019, $194 million of 7.85% Debentures due 2010 and $95 million of 8-1/2% Debentures due 2022. The repurchase of these notes for approximately $500 million resulted in an expense of $70 million pretax in 2006, which was included in other operating expenses.

4. CASH FLOW INFORMATION

For purposes of the statement of consolidated cash flows, the company considers investments with purchased maturities of three months or less to be cash equivalents. Substantially all of the company s short-term borrowings, excluding the current maturities of long-term borrowings, mature or may require payment within three months or less.

The Equipment Operations sell most of their trade receivables to Financial Services. These intercompany cash flows are eliminated in the consolidated cash flows.

All cash flows from the changes in trade accounts and notes receivable (see Note 10) 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 (see Note 11) 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 $307 million, $269 million and $290 million in 2008, 2007 and 2006, respectively. The company had accounts payable related to purchases of property and equipment of approximately $158 million, $100 million and $80 million at October 31, 2008, 2007 and 2006, respectively. At October 31, 2007, the company recorded a receivable of $47 million for a portion of the sale of a business and a liability of $41 million for a portion of the acquisition of a business, which were settled in 2008.

Cash payments for interest and income taxes consisted of the following in millions of dollars:

	2008	2007	2006
Interest:			
Equipment Operations	$ 414	$ 423	$ 457
Financial Services	1,001	1,005	866
Intercompany eliminations	(288)	(294)	(296)
Consolidated	$ 1,127	$ 1,134	$ 1,027
Income taxes:			

Equipment Operations	$ 667	$ 601	$ 658
Financial Services	95	196	208
Intercompany eliminations	(50)	(157)	(165)
Consolidated	$ 712	$ 640	$ 701

5. PENSION AND OTHER POSTRETIREMENT BENEFITS

The company has several defined benefit pension plans covering its U.S. employees and employees in certain foreign countries. The company has several postretirement health care and life insurance plans for retired employees in the U.S. and Canada. The company uses an October 31 measurement date for these plans.

On October 31, 2007, the company adopted FASB Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans. This Statement requires retirement benefit liabilities or benefit assets on the balance sheet to be adjusted to the difference between the benefit obligations and the plan assets at fair value. The offset to the adjustment is recorded directly in stockholders equity net of tax. The amount recorded in stockholders equity represents the after-tax unamortized actuarial gains or losses and unamortized prior service cost (credit). This Statement also requires all benefit obligations and plan assets to be measured at fiscal year end, which the company presently does. Prospective application of the new accounting is required.

The incremental effects of the adoption of FASB Statement No. 158 on October 31, 2007 in millions of dollars follow:

	Prior to Adoption	**Adjustment**	**After Adoption**
Other intangible assets-net	$ 135	$ (4)	$ 131
Retirement benefits	2,681	(705)	1,976
Deferred income taxes	700	700	1,400
Total assets	38,585	(9)	38,576
Retirement benefits and other liabilities	2,618	1,082	3,700
Retirement benefits adjustment		(1,113)	(1,113)
Minimum pension liability adjustment	(22)	22	
Accumulated other comprehensive income	453	(1,091)	(638)
Total liabilities and stockholders equity	38,585	(9)	38,576

The components of net periodic pension cost and the assumptions related to the cost consisted of the following in millions of dollars and in percents:

	2008	**2007**	**2006**
Pensions			
Service cost	$ 159	$ 168	$ 152
Interest cost	514	488	475
Expected return on plan assets	(743)	(682)	(667)
Amortization of actuarial loss	48	94	110
Amortization of prior service cost	26	27	42
Early-retirement benefits	10		2
Settlements/curtailments	3	4	18
Net cost	$ 17	$ 99	$ 132
Weighted-average assumptions			

Discount rates	6.2%	5.7%	5.7%
Rate of compensation increase	3.9%	3.8%	3.8%
Expected long-term rates of return	8.3%	8.4%	8.5%

The components of net periodic postretirement benefits cost and the assumptions related to the cost consisted of the following in millions of dollars and in percents:

	2008	2007	2006
Health care and life insurance			
Service cost	$ 49	$ 69	$ 68
Interest cost	323	321	308
Expected return on plan assets	(177)	(156)	(128)
Amortization of actuarial loss	82	215	196
Amortization of prior service credit	(17)	(133)	(132)
Early-retirement benefits			1
Settlements/curtailments			2
Net cost	$ 260	$ 316	$ 315
Weighted-average assumptions			
Discount rates	6.4%	5.9%	6.0%
Expected long-term rates of return	7.8%	7.8%	8.1%

The above benefit plan costs in net income and other changes in plan assets and benefit obligations in other comprehensive income in 2008 in millions of dollars were as follows:

	Pensions	Health Care and Life Insurance
Net costs	$ 17	$ 260
Retirement benefits adjustment included in other comprehensive (income) loss:		
Net actuarial losses (gain)	986	(435)
Prior service cost	4	12
Amortization of actuarial losses	(48)	(82)
Amortization of prior service (cost) credit	(26)	17
Settlements/curtailments	(3)	
Total loss recognized in other comprehensive (income) loss	913	(488)
Total recognized in comprehensive (income) loss	$ 930	$ (228)

The benefit plan obligations, funded status and the assumptions related to the obligations at October 31 in millions of dollars follow:

	Pensions		Health Care and Life Insurance	
	2008	2007	2008	2007
Change in benefit obligations				
Beginning of year balance	$ (8,535)	$ (8,751)	$ (5,250)	$ (5,654)
Service cost	(159)	(168)	(49)	(69)
Interest cost	(514)	(488)	(323)	(321)
Actuarial gain	1,361	463	1,163	475
Amendments	(4)	(1)	(12)	70
Benefits paid	588	574	312	285
Health care subsidy receipts			(14)	(14)
Early-retirement benefits	(10)			
Settlements/curtailments	(1)	7		

Foreign exchange and other		129		(171)		15		(22)
End of year balance	$	(7,145)	$	(8,535)	$	(4,158)	$	(5,250)

		Pensions				Health Care and Life Insurance		
		2008		2007		2008		2007
Change in plan assets (fair value)								
Beginning of year balance	$	10,002	$	8,927	$	2,185	$	1,893
Actual return on plan assets		(1,610)		1,220		(548)		283
Employer contribution		137		358		294		288
Benefits paid		(588)		(574)		(312)		(285)
Settlements				(7)				
Foreign exchange and other		(113)		78		4		6
End of year balance		7,828		10,002		1,623		2,185
Funded status	$	683	$	1,467	$	(2,535)	$	(3,065)
Weighted-average assumptions								
Discount rates		8.1%		6.2%		8.2%		6.4%
Rate of compensation increase		3.9%		3.9%				

The amounts recognized at October 31 in millions of dollars consist of the following:

		Pensions				Health Care and Life Insurance		
		2008		2007		2008		2007
Amounts recognized in balance sheet								
Noncurrent asset	$	1,106	$	1,976				
Current liability		(38)		(32)	$	(22)	$	(23)
Noncurrent liability		(385)		(477)		(2,513)		(3,042)
Total	$	683	$	1,467	$	(2,535)	$	(3,065)
Amounts recognized in accumulated other comprehensive income pretax								
Net actuarial losses	$	1,625	$	688	$	585	$	1,102
Prior service cost (credit)		90		114		(48)		(77)
Total	$	1,715	$	802	$	537	$	1,025

The total accumulated benefit obligations for all pension plans at October 31, 2008 and 2007 was $6,856 million and $8,131 million, respectively.

The accumulated benefit obligations and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were $767 million and $423 million, respectively, at October 31, 2008 and $741 million and $312 million, respectively, at October 31, 2007. The projected benefit obligations and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets were $873 million and $450 million, respectively, at October 31, 2008 and $877 million and $368 million, respectively, at October 31, 2007.

The amounts in accumulated other comprehensive income that are expected to be amortized as net expense (income) during fiscal 2009 in millions of dollars follow:

	Pensions	Health Care and Life Insurance
Net actuarial losses	$ 1	$ 39
Prior service cost (credit)	25	(11)
Total	$ 26	$ 28

The company expects to contribute approximately $69 million to its pension plans and approximately $99 million to its health care and life insurance plans in 2009, which include direct benefit payments on unfunded plans.

The benefits expected to be paid from the benefit plans, which reflect expected future years of service, and the Medicare subsidy expected to be received are as follows in millions of dollars:

	Pensions	Health Care and Life Insurance	Health Care Subsidy Receipts*
2009	$ 596	$ 306	$ 15
2010	603	321	17
2011	617	336	18
2012	629	348	19
2013	638	360	20
2014 to 2018	3,336	1,959	117

* Medicare Part D subsidy.

The annual rates of increase in the per capita cost of covered health care benefits (the health care cost trend rates) used to determine benefit obligations at October 31, 2008 were based on the trends for medical and prescription drug claims for pre- and post-65 age groups due to the effects of Medicare. The weighted-average composite trend rates were assumed to be 7.1 percent for 2009, 6.3 percent for 2010, 5.8 percent for 2011, 5.2 percent for 2012 and 5.0 percent for 2013 and all future years. The obligations at October 31, 2007 assumed 8.0 percent for 2008, 7.1 percent for 2009, 6.3 percent for 2010, 5.8 percent for 2011, 5.2 percent for 2012 and 5.0 percent for 2013 and all future years. An increase of one percentage point in the assumed health care cost trend rate would increase the accumulated postretirement benefit obligations at October 31, 2008 by $412 million and the aggregate of service and interest cost component of net periodic postretirement benefits cost for the year by $45 million. A decrease of one percentage point would decrease the obligations by $352 million and the cost by $38 million.

The discount rate assumptions used to determine the postretirement obligations at October 31, 2008 and 2007 were based on hypothetical AA yield curves represented by a series of annualized individual discount rates. Each bond issue underlying the yield curves are required to have a rating of Aa or better by Moody s Investor Service, Inc. or a rating AA or better by Standard & Poor s.

The following is the percentage allocation for plan assets at October 31:

	Pensions		Health Care	
	2008	2007	2008	2007
Equity securities	27%	34%	42%	51%
Debt securities*	47	43	42	35
Real estate	6	4	3	3
Other	20	19	13	11

* The pension and health care debt securities include 24 percent and 7 percent in 2008 and 20 percent and 7 percent in 2007, respectively, of non-fixed income securities that have been combined with derivatives to create fixed income exposures.

The primary investment objective is to maximize the growth of the pension and health care plan assets to meet the projected obligations to the beneficiaries over a long period of time, and to do so in a manner that is consistent with the company s earnings strength and risk tolerance. Asset allocation policy is the most important decision in managing the assets and it is reviewed regularly. The asset allocation policy considers the company s financial strength and long-term asset class risk/ return expectations since the obligations are long-term in nature. On an on-going basis, the target allocations for pension assets are approximately 32 percent for equity securities, 44 percent for debt securities (see note in table above), 5 percent for real estate and 19 percent for other. The target allocations for health care assets are approximately 49 percent for equity securities, 37 percent for debt securities (see note in table above), 3 percent for real estate and 11 percent for other. The assets are well diversified and are managed by professional investment firms as well as by investment professionals who are company employees.

The expected long-term rate of return on plan assets reflects management s expectations of long-term average rates of return on funds invested to provide for benefits included in the projected benefit obligations. The expected return is based on the outlook for inflation and for returns in multiple asset classes, while also considering historical returns, asset allocation and investment strategy. The company s approach has emphasized the long-term nature of the return estimate such that the return assumption is not changed unless there are fundamental changes in capital markets that affect the company s expectations for returns over an extended period of time (i.e., ten to 20 years). The average annual return of the company s U.S. pension fund was approximately 7.1 percent during the past ten years and approximately 10.0 percent during the past 20 years. Since return premiums over inflation and total returns for major asset classes vary widely even over ten-year periods, recent history is not necessarily indicative of long-term future expected returns. The company s systematic methodology for determining the long-term rate of return for the company s investment strategies supports the long-term expected return assumptions.

The company has created certain Voluntary Employees Beneficiary Association trusts (VEBAs) for the funding of postretirement health care benefits. The future expected asset returns for these VEBAs are lower than the expected return on the other pension and health care plan assets due to investment in a higher proportion of short-term liquid securities.

These assets are in addition to the other postretirement health care plan assets that have been funded under Section 401(h) of the U.S. Internal Revenue Code and maintained in a separate account in the company s pension plan trust.

See Note 25 for defined contribution plans related to employee investment and savings.

6. INCOME TAXES

The provision for income taxes from continuing operations by taxing jurisdiction and by significant component consisted of the following in millions of dollars:

	2008	2007	2006
Current:			
U.S.:			
Federal	$ 559	$ 484	$ 448
State	60	40	28
Foreign	402	354	260
Total current	1,021	878	736
Deferred:			
U.S.:			
Federal	74	(2)	3
State	3	8	6
Foreign	13	(1)	(3)
Total deferred	90	5	6
Provision for income taxes	$ 1,111	$ 883	$ 742

Based upon location of the company s operations, the consolidated income from continuing operations before income taxes in the U.S. in 2008, 2007 and 2006 was $1,730 million, $1,601 million and $1,431 million, respectively, and in foreign countries was $1,394 million, $1,075 million and $743 million, respectively. Certain foreign operations are branches of Deere & Company and are, therefore, subject to U.S., as well as foreign income tax regulations. The pretax income by location and the preceding analysis of the income tax provision by taxing jurisdiction are, therefore, not directly related.

A comparison of the statutory and effective income tax provision from continuing operations and reasons for related differences in millions of dollars follow:

	2008	2007	2006
U.S. federal income tax provision at a statutory rate of 35 percent	$ 1,093	$ 936	$ 761
Increase (decrease) resulting from:			
State and local income taxes, net of federal income tax benefit	41	32	22
Taxes on foreign activities	21	(24)	8
Nondeductible costs and other-net	(44)	(61)	(49)
Provision for income taxes	$ 1,111	$ 883	$ 742

At October 31, 2008, accumulated earnings in certain subsidiaries outside the U.S. totaled $1,220 million for which no provision for U.S. income taxes or foreign withholding taxes has been made, because it is expected that such earnings will be reinvested overseas indefinitely. Determination of the amount of unrecognized deferred tax liability on these unremitted earnings is not practical.

Deferred income taxes arise because there are certain items that are treated differently for financial accounting than for income tax reporting purposes. An analysis of the deferred income tax assets and liabilities at October 31 in millions of dollars follows:

	2008		2007	
	Deferred Tax Assets	**Deferred Tax Liabilities**	**Deferred Tax Assets**	**Deferred Tax Liabilities**
Other postretirement benefit liabilities	$ 1,054		$ 1,282	
Pension assets - net		$ 361		$ 646
Accrual for sales allowances	361		350	
Tax over book depreciation		266		237
Accrual for employee benefits	231		212	
Lease transactions		172		127
Tax loss and tax credit carryforwards	124		118	
Allowance for credit losses	113		88	
Intercompany profit in inventory	70		49	
Deferred gains on distributed foreign earnings	69		46	
Stock option compensation	54		45	
Deferred compensation	32		30	
Undistributed foreign earnings		40		20
Other items	237	164	213	131
Less valuation allowances	(73)		(56)	
Deferred income tax assets and liabilities	$ 2,272	$ 1,003	$ 2,377	$ 1,161

Deere & Company files a consolidated federal income tax return in the U.S., which includes the wholly-owned Financial Services subsidiaries. These subsidiaries account for income taxes generally as if they filed separate income tax returns.

At October 31, 2008, certain tax loss and tax credit carryforwards for $124 million were available with $1 million expiring in 2009, $92 million expiring from 2010 through 2028 and $31 million with an unlimited expiration date.

The company adopted FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, at the beginning of 2008. As a result of adoption, the company recorded an increase in its liability for unrecognized tax benefits of $170 million, an increase in accrued interest and penalties payable of $30 million, an increase in deferred tax liabilities of $6 million, a reduction in the beginning retained earnings balance of $48 million, an increase in tax receivables of $136 million, an increase in deferred tax assets of $11 million and an increase in interest receivable of $11 million.

A reconciliation of the total amounts of unrecognized tax benefits at October 31 in millions of dollars is as follows:

	2008
Beginning of year balance	$ 218

Increases to tax positions taken during the current year		23
Increases to tax positions taken during prior years		31
Decreases to tax positions taken during prior years		(20)
Decreases due to lapse of statute of limitations		(3)
Acquisitions		2
Foreign exchange		(15)
End of year balance	$	236

The amount of unrecognized tax benefits at October 31, 2008 that would affect the effective tax rate if the tax benefits were recognized was $61 million. The remaining liability was related to tax positions for which there are offsetting tax receivables, or the uncertainty was only related to timing. The company does not believe it is reasonably possible that the amounts of unrecognized tax benefits will significantly increase or decrease over the next twelve months.

The company files its tax returns according to the tax laws of the jurisdictions in which it operates, which includes the U.S. federal jurisdictions, and various state and foreign jurisdictions. The U.S. Internal Revenue Service has completed its examination of the company s federal income tax returns for periods prior to 2001, and for the years 2002, 2003 and 2004. The year 2001 and 2005 through 2007 federal income tax returns are either currently under examination or remain subject to examination. Various state and foreign income tax returns, including major tax jurisdictions in Canada and Germany, also remain subject to examination by taxing authorities.

The company s continuing policy is to recognize interest related to income taxes in interest expense and interest income, and recognize penalties in selling, administrative and general expenses. During 2008, the total amount of expense from interest and penalties was $23 million and the interest income was $2 million. At October 31, 2008, the liability for accrued interest and penalties totaled $45 million and the receivable for interest was $5 million.

7. OTHER INCOME AND OTHER OPERATING EXPENSES

The major components of other income and other operating expenses from continuing operations consisted of the following in millions of dollars:

	2008		2007		2006	
Other income						
Revenues from services	$	421	$	314	$	251
Investment income		21		83		89
Securitization and servicing fee income		6		23		37
Other		118		118		110
Total	$	566	$	538	$	487
Other operating expenses						
Depreciation of equipment on operating leases	$	308	$	297	$	269
Cost of services		295		248		203
Debt repurchase						70
Other		96		20		3
Total	$	699	$	565	$	545

8. UNCONSOLIDATED AFFILIATED COMPANIES

Unconsolidated affiliated companies are companies in which Deere & Company generally owns 20 percent to 50 percent of the outstanding voting shares. Deere & Company does not control these companies and accounts for its investments in them on the equity basis. The investments in these companies primarily consist of Deere-Hitachi Construction Machinery Corporation (50 percent ownership), Xuzhou Xuwa Excavator Machinery Co., Ltd. (50 percent ownership), Bell Equipment Limited (32 percent ownership) and A&I Products (36 percent ownership). The unconsolidated affiliated companies primarily manufacture or market equipment. Deere & Company s share of the income of these companies is

reported in the consolidated income statement under Equity in Income of Unconsolidated Affiliates. The investment in these companies is reported in the consolidated balance sheet under Investments in Unconsolidated Affiliates.

Combined financial information of the unconsolidated affiliated companies in millions of dollars is as follows:

Operations	**2008**	**2007**	**2006**
Sales	$ 2,214	$ 2,026	$ 2,062
Net income	99	79	54
Deere & Company s equity in net income	40	29	21

Financial Position	**2008**	**2007**
Total assets	$ 1,382	$ 1,081
Total external borrowings	260	140
Total net assets	545	385
Deere & Company s share of the net assets	224	150

9. MARKETABLE SECURITIES

All marketable securities are classified as available-for-sale, with unrealized gains and losses shown as a component of stockholders equity. Realized gains or losses from the sales of marketable securities are based on the specific identification method.

The amortized cost and fair value of marketable securities at October 31 in millions of dollars follow:

	Amortized Cost or Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
2008				
U.S. government debt securities	$ 402	$ 2	$ 1	$ 403
Municipal debt securities	119		1	118
Corporate debt securities	239		4	235
Mortgage-backed debt securities	87	1	1	87
Asset-backed securities	44			44
Other debt securities	90			90
Marketable securities	$ 981	$ 3	$ 7	$ 977
2007				
U.S. government debt securities	$ 228	$ 2		$ 230
Municipal debt securities	135			135
Corporate debt securities	555	1		556
Mortgage-backed debt securities	303	1		304
Asset-backed securities	254			254
Other debt securities	144			144
Marketable securities	$ 1,619	$ 4		$ 1,623

The contractual maturities of debt securities at October 31, 2008 in millions of dollars follow:

	Amortized Cost	Fair Value
Due in one year or less	$ 508	$ 509
Due after one through five years	267	267
Due after five through 10 years	68	66
Due after 10 years	138	135
Debt securities	$ 981	$ 977

Actual maturities may differ from contractual maturities because some securities may be called or prepaid. Proceeds from the sales of available-for-sale securities were $1,137 million in 2008, $1,379 million in 2007 and $2,157 in 2006. Realized gains were $12 million, $4 million and $.4 million and realized losses were $15 million, $10 million and $4 million in 2008, 2007 and 2006, respectively. Unrealized gains and losses, the increase (decrease) in net unrealized gains or losses and unrealized losses that have been continuous for over twelve months were not significant in any years presented. Unrealized losses at October 31, 2008 were primarily the result of an increase in interest rates and were not recognized in income due to the ability and intent to hold to maturity. Losses related to impairment write-downs were $27 million in 2008, $7 million in 2007 and were not significant for 2006.

10. TRADE ACCOUNTS AND NOTES RECEIVABLE

Trade accounts and notes receivable at October 31 consisted of the following in millions of dollars:

	2008	2007
Trade accounts and notes:		
Agricultural	$ 2,072	$ 1,867
Commercial and consumer	645	658
Construction and forestry	518	530
Trade accounts and notes receivable net	$ 3,235	$ 3,055

At October 31, 2008 and 2007, dealer notes included in the previous table were $499 million and $413 million, and the allowance for doubtful trade receivables was $56 million and $64 million, respectively.

The Equipment Operations sell a significant portion of newly originated trade receivables to the credit operations and provide compensation to the credit operations at market rates of interest for these receivables.

Trade accounts and notes receivable primarily arise from sales of goods to independent dealers. Under the terms of the sales to dealers, interest is charged to dealers on outstanding balances, from the earlier of the date when goods are sold to retail customers by the dealer or the expiration of certain interest-free periods granted at the time of the sale to the dealer, until payment is received by the company. Dealers cannot cancel purchases after the equipment is shipped and are responsible for payment even if the equipment is not sold to retail customers. The interest-free periods are determined based on the type of equipment sold and the time of year of the sale. These periods range from one to twelve months for most equipment. Interest-free periods may not be extended. Interest charged may not be forgiven and the past due interest

rates exceed market rates. The company evaluates and assesses dealers on an ongoing basis as to their credit worthiness and generally retains a security interest in the goods associated with the trade receivables. The company is obligated to repurchase goods sold to a dealer upon cancellation or termination of the dealer s contract for such causes as change in ownership and closeout of the business.

Trade accounts and notes receivable have significant concentrations of credit risk in the agricultural, commercial and consumer, and construction and forestry sectors as shown in the previous table. On a geographic basis, there is not a disproportionate concentration of credit risk in any area.

11. FINANCING RECEIVABLES

Financing receivables at October 31 consisted of the following in millions of dollars:

	2008 Unrestricted/Restricted		2007 Unrestricted/Restricted	
Retail notes:				
Equipment:				
Agricultural	$ 9,924	$ 1,380	$ 9,394	$ 2,027
Commercial and consumer	1,102		1,235	
Construction and forestry	2,011	434	2,417	571
Recreational products	16		24	
Total	13,053	1,814	13,070	2,598
Wholesale notes	1,336		1,303	
Revolving charge accounts	1,905		1,649	
Financing leases (direct and sales-type)	1,005		1,088	
Operating loans	358		287	
Total financing receivables	17,657	1,814	17,397	2,598
Less:				
Unearned finance income:				
Equipment notes	1,361	158	1,473	296
Recreational product notes	3		5	
Financing leases	117		129	
Total	1,481	158	1,607	296
Allowance for doubtful receivables	159	11	159	13
Financing receivables net	$ 16,017	$ 1,645	$ 15,631	$ 2,289

The residual values for investments in financing leases at October 31, 2008 and 2007 totaled $63 million and $71 million, respectively.

Financing receivables have significant concentrations of credit risk in the agricultural, commercial and consumer, and construction and forestry sectors as shown in the previous table. On a geographic basis, there is not a disproportionate concentration of credit risk in any area. The company retains as collateral a security interest in the equipment associated with retail notes, wholesale notes and financing leases.

Financing receivables at October 31 related to the company s sales of equipment (see Note 4) that were included in the table above were unrestricted and consisted of the following in millions of dollars:

	2008	2007
Retail notes*:		
Equipment:		
Agricultural	$ 1,286	$ 1,394
Commercial and consumer	105	111
Construction and forestry	513	719
Total	1,904	2,224
Wholesale notes	1,336	1,303
Sales-type leases	584	652
Total	3,824	4,179
Less:		
Unearned finance income:		
Equipment notes	197	255
Sales-type leases	61	67
Total	258	322
Financing receivables related to the company s sales of equipment	$ 3,566	$ 3,857

* These retail notes generally arise from sales of equipment by company-owned dealers or through direct sales.

Financing receivable installments, including unearned finance income, at October 31 are scheduled as follows in millions of dollars:

	2008 Unrestricted/Restricted		2007 Unrestricted/Restricted	
Due in months:				
0 12	$ 8,223	$ 743	$ 8,068	$ 847
13 24	3,864	581	3,999	766
25 36	2,712	326	2,679	592
37 48	1,665	133	1,590	302
49 60	917	29	828	85
Thereafter	276	2	233	6
Total	$ 17,657	$ 1,814	$ 17,397	$ 2,598

The maximum terms for retail notes are generally seven years for agricultural equipment, seven years for commercial and consumer equipment and five years for construction and forestry equipment. The maximum term for financing leases is generally five years, while the average term for wholesale notes is less than twelve months.

At October 31, 2008 and 2007, the unpaid balances of receivables administered but not owned were $326 million and $453 million, respectively. At October 31, 2008 and 2007, worldwide financing receivables administered, which include financing receivables administered but not owned, totaled $17,988 million and $18,373 million, respectively.

Generally when financing receivables become approximately 120 days delinquent, accrual of finance income is suspended and the estimated uncollectible amount is written off to the allowance for credit losses. Accrual of finance income is resumed when the receivable becomes contractually current and collection doubts are removed. Investments in financing receivables on non-accrual status at October 31, 2008 and 2007 were $88 million and $59 million, respectively.

Total financing receivable amounts 60 days or more past due were $45 million at October 31, 2008, compared with $46 million at October 31, 2007. These past-due amounts represented .25 percent of the receivables financed at both October 31, 2008 and 2007. The allowance for doubtful financing receivables represented .95 percent of financing receivables outstanding at both October 31, 2008 and 2007. In addition, at October 31, 2008 and 2007, the company s credit operations had $189 million and $192 million, respectively, of deposits withheld from dealers and merchants available for potential credit losses. An analysis of the allowance for doubtful financing receivables follows in millions of dollars:

	2008	2007	2006
Beginning of year balance	$ 172	$ 155	$