

MONSANTO CO /NEW/  
Form 10-Q  
June 29, 2012  
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MONSANTO COMPANY

THIRD QUARTER 2012 FORM 10-Q

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the quarterly period ended May 31, 2012

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-16167

## MONSANTO COMPANY

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

43-1878297  
(I.R.S. Employer Identification No.)

800 North Lindbergh Blvd.,  
St. Louis, MO  
(Address of principal executive offices)

63167  
(Zip Code)

(314) 694-1000

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 532,950,060 shares of Common Stock, \$0.01 par value, outstanding as of June 25, 2012.

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**CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

In the interests of our investors, and in accordance with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, this section of our report explains some of the important reasons that actual results may be materially different from those that we anticipate. In this report, and from time to time throughout the year, we share our expectations for our company's future performance. These forward-looking statements include statements about our business plans; the potential development, regulatory approval, and public acceptance of our products; our expected financial performance, including sales performance, and the anticipated effect of our strategic actions; the anticipated benefits of recent acquisitions; the outcome of contingencies, such as litigation and the previously announced SEC investigation; the previously reported material weakness in our internal control over financial reporting; domestic or international economic, political and market conditions; and other factors that could affect our future results of operations or financial position, including, without limitation, statements under the captions

Overview Executive Summary Outlook, Seeds and Genomics Segment, Agricultural Productivity Segment, Financial Condition, Liquidity, and Capital Resources, Outlook, Critical Accounting Policies and Estimates and Legal Proceedings. Any statements we make that are not matters of current reportage or historical fact should be considered forward-looking. Such statements often include words such as believe, expect, anticipate, intend, plan, estimate, will, and similar expressions. By their nature, these types of statements are uncertain and are not guaranteed to our future performance.

Since these statements are based on factors that involve risks and uncertainties, our company's actual performance and results may differ materially from those described or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, among others: continued competition in seeds, traits and agricultural chemicals; the company's exposure to various contingencies, including those related to intellectual property protection, regulatory compliance and the speed with which approvals are received, and public acceptance of biotechnology products; the success of the company's research and development activities; the outcomes of major lawsuits; developments related to foreign currencies and economies; successful operation of recent acquisitions; fluctuations in commodity prices; compliance with regulations affecting our manufacturing; the accuracy of the company's estimates related to distribution inventory levels; the company's ability to fund its short-term financing needs and to obtain payment for the products that it sells; the effect of weather conditions, natural disasters and accidents on the agriculture business or the company's facilities; and other risks and factors described or referenced in Part II Item 1A Risk Factors below and Part I Item 1A of our Report on Form 10-K for the fiscal year ended Aug. 31, 2011.

Our forward-looking statements represent our estimates and expectations and are based on currently available information at the time that we make those statements. However, circumstances change constantly, often unpredictably, and many events beyond our control will determine whether the expectations encompassed in our forward-looking statements will be realized. As a result, investors should not place undue reliance on these forward-looking statements. We disclaim any current intention or obligation to revise or update any forward-looking statements, or the factors that may affect their realization, whether in light of new information, future events or otherwise, and investors should not rely on us to do so.

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**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

The Statements of Consolidated Operations of Monsanto Company and its consolidated subsidiaries for the three months and nine months ended May 31, 2012, and May 31, 2011, the Condensed Statements of Consolidated Financial Position as of May 31, 2012, and Aug. 31, 2011, the Statements of Consolidated Cash Flows for the nine months ended May 31, 2012, and May 31, 2011, the Statements of Consolidated Shareowners' Equity and Comprehensive Income for the nine months ended May 31, 2012, and year ended Aug. 31, 2011, and related Notes to Consolidated Financial Statements follow. Unless otherwise indicated, Monsanto and the company are used interchangeably to refer to Monsanto Company or to Monsanto Company and its consolidated subsidiaries, as appropriate to the context. Unless otherwise indicated, earnings (loss) per share and per share mean diluted earnings (loss) per share. In the notes to the consolidated financial statements, all dollars are expressed in millions, except per share amounts. Unless otherwise indicated, trademarks owned or licensed by Monsanto or its subsidiaries are shown in all capital letters. Unless otherwise indicated, references to ROUNDUP herbicides mean ROUNDUP branded herbicides, excluding all lawn-and-garden herbicides, and references to ROUNDUP and other glyphosate-based herbicides exclude all lawn-and-garden herbicides.

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**Statements of Consolidated Operations**

Unaudited (Dollars in millions, except per share amounts)	Three Months Ended May 31,		Nine Months Ended May 31,	
	2012	2011	2012	2011
<b>Net Sales</b>	<b>\$4,219</b>	\$3,608	<b>\$11,406</b>	\$9,575
Cost of goods sold	<b>1,856</b>	1,635	<b>5,242</b>	4,468
<b>Gross Profit</b>	<b>2,363</b>	1,973	<b>6,164</b>	5,107
<b>Operating Expenses:</b>				
Selling, general and administrative expenses	<b>638</b>	591	<b>1,681</b>	1,543
Research and development expenses	<b>375</b>	360	<b>1,079</b>	983
Restructuring charges, net		1		9
Total Operating Expenses	<b>1,013</b>	952	<b>2,760</b>	2,535
<b>Income from Operations</b>	<b>1,350</b>	1,021	<b>3,404</b>	2,572
Interest expense	<b>39</b>	35	<b>139</b>	117
Interest income	<b>(21)</b>	(17)	<b>(59)</b>	(51)
Other expense, net	<b>3</b>	15	<b>46</b>	38
Income from Continuing Operations Before Income Taxes	<b>1,329</b>	988	<b>3,278</b>	2,468
Income tax provision	<b>361</b>	276	<b>971</b>	714
<b>Income from Continuing Operations Including Portion Attributable to Noncontrolling Interest</b>	<b>\$968</b>	\$712	<b>\$2,307</b>	\$1,754
<b>Discontinued Operations:</b>				
Income (loss) from operations of discontinued businesses	<b>(3)</b>		<b>8</b>	4
Income tax provision (benefit)	<b>(1)</b>		<b>3</b>	1
<b>Income (Loss) on Discontinued Operations</b>	<b>(2)</b>		<b>5</b>	3
<b>Net Income</b>	<b>\$966</b>	\$712	<b>\$2,312</b>	\$1,757
Less: Net income attributable to noncontrolling interest	<b>29</b>	20	<b>38</b>	38
<b>Net Income Attributable to Monsanto Company</b>	<b>\$937</b>	\$692	<b>\$2,274</b>	\$1,719
<b>Amounts Attributable to Monsanto Company:</b>				
Income from continuing operations	<b>\$939</b>	\$692	<b>\$2,269</b>	\$1,716
Income (loss) on discontinued operations	<b>(2)</b>		<b>5</b>	3
<b>Net Income Attributable to Monsanto Company</b>	<b>\$937</b>	\$692	<b>\$2,274</b>	\$1,719

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<b>Basic Earnings per Share Attributable to Monsanto Company:</b>				
Income from continuing operations	<b>\$1.76</b>	\$1.29	<b>\$4.25</b>	\$3.20
Income on discontinued operations			<b>0.01</b>	
<b>Net Income Attributable to Monsanto Company</b>	<b>\$1.76</b>	\$1.29	<b>\$4.26</b>	\$3.20
<b>Diluted Earnings per Share Attributable to Monsanto Company:</b>				
Income from continuing operations	<b>\$1.74</b>	\$1.28	<b>\$4.20</b>	\$3.16
Income on discontinued operations			<b>0.01</b>	0.01
<b>Net Income Attributable to Monsanto Company</b>	<b>\$1.74</b>	\$1.28	<b>\$4.21</b>	\$3.17
<b>Weighted Average Shares Outstanding:</b>				
Basic	<b>532.9</b>	535.5	<b>534.2</b>	536.9
Diluted	<b>538.8</b>	541.2	<b>540.2</b>	542.9
<b>Dividends Declared per Share</b>	<b>\$</b>	<b>\$</b>	<b>\$0.60</b>	\$0.56

The accompanying notes are an integral part of these consolidated financial statements.

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**Condensed Statements of Consolidated Financial Position**

Unaudited (Dollars in millions, except share amounts)	As of May 31, 2012	As of Aug. 31, 2011
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents (variable interest entities restricted - 2012: \$91 and 2011: \$96)	\$ 1,716	\$ 2,572
Short-term investments	302	302
Trade receivables, net (variable interest entities restricted - 2012: \$77 and 2011: \$51 )	3,727	2,117
Miscellaneous receivables	674	629
Deferred tax assets	659	446
Inventory, net	2,514	2,591
Other current assets	191	152
Total Current Assets	9,783	8,809
Total property, plant and equipment	8,556	8,697
Less accumulated depreciation	4,392	4,303
Property, Plant and Equipment, Net	4,164	4,394
Goodwill	3,282	3,365
Other Intangible Assets, Net	1,181	1,309
Noncurrent Deferred Tax Assets	595	873
Long-Term Receivables, Net	376	475
Other Assets	603	619
Total Assets	\$ 19,984	\$ 19,844
<b>Liabilities and Shareowners Equity</b>		
Current Liabilities:		
Short-term debt, including current portion of long-term debt	\$ 634	\$ 678
Accounts payable	584	839
Income taxes payable	440	117
Accrued compensation and benefits	470	427
Accrued marketing programs	778	1,110
Deferred revenues	370	373
Grower production accruals	100	87
Dividends payable		161
Customer payable	31	94
Restructuring reserves	12	24
Miscellaneous short-term accruals	863	819
Total Current Liabilities	4,282	4,729
Long-Term Debt	1,538	1,543
Postretirement Liabilities	468	509
Long-Term Deferred Revenue	259	337
Noncurrent Deferred Tax Liabilities	304	152
Long-Term Portion of Environmental and Litigation Liabilities	167	176
Other Liabilities	553	682



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Total Liabilities	7,571	8,128
Redeemable Common Stock and Capital in Excess of \$0.01 par value; 1,826,713 Shares issued and outstanding	141	
Shareowners' Equity:		
Common stock (authorized: 1,500,000,000 shares, par value \$0.01)		
Issued 593,934,442 and 591,516,732 shares, respectively		
Outstanding 532,288,083 and 535,297,120 shares, respectively	6	6
Treasury stock 61,646,359 and 56,219,612 shares, respectively, at cost	(3,036)	(2,613)
Additional contributed capital	10,162	10,096
Retained earnings	6,122	4,174
Accumulated other comprehensive loss	(1,176)	(116)
Reserve for ESOP debt retirement	(1)	(2)
<b>Total Monsanto Company Shareowners' Equity</b>	<b>12,077</b>	<b>11,545</b>
Noncontrolling Interest	195	171
<b>Total Shareowners' Equity</b>	<b>12,272</b>	<b>11,716</b>
<b>Total Liabilities and Shareowners' Equity</b>	<b>\$ 19,984</b>	<b>\$ 19,844</b>

The accompanying notes are an integral part of these consolidated financial statements.

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**Statements of Consolidated Cash Flows**

Unaudited (Dollars in millions)	Nine Months Ended May 31,	
	2012	2011
<b>Operating Activities:</b>		
Net Income	\$2,312	\$1,757
Adjustments to reconcile cash provided by operating activities:		
Items that did not require (provide) cash:		
Depreciation and amortization	466	457
Bad-debt expense	(9)	(6)
Stock-based compensation expense	102	83
Excess tax benefits from stock-based compensation	(33)	(24)
Deferred income taxes	195	(35)
Restructuring charges, net		9
Equity affiliate income, net	(11)	(12)
Net gain on sales of a business or other assets	(3)	(5)
Other items	51	48
Changes in assets and liabilities that provided (required) cash, net of acquisitions:		
Trade receivables, net	(1,773)	(1,759)
Inventory, net	(134)	69
Deferred revenues	(35)	30
Accounts payable and other accrued liabilities	(171)	678
Restructuring cash payments	(11)	(164)
Pension contributions	(57)	(47)
Other items	(36)	(135)
<b>Net Cash Provided by Operating Activities</b>	<b>853</b>	<b>944</b>
Cash Flows Provided (Required) by Investing Activities:		
Purchases of short-term investments	(444)	(430)
Maturities of short-term investments	444	180
Capital expenditures	(376)	(326)
Acquisition of businesses, net of cash acquired	(113)	(99)
Technology and other investments	(61)	(51)
Other investments and property disposal proceeds	8	19
<b>Net Cash Required by Investing Activities</b>	<b>(542)</b>	<b>(707)</b>
Cash Flows Provided (Required) by Financing Activities:		
Net change in financing with less than 90-day maturities	(86)	(40)
Short-term debt proceeds	9	59
Short-term debt reductions	(21)	(33)
Long-term debt proceeds		300
Long-term debt reductions	(142)	(192)
Payments on other financing	(2)	(3)
Debt issuance costs		(3)
Treasury stock purchases	(423)	(486)
Stock option exercises	69	45

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Excess tax benefits from stock-based compensation	33	24
Tax withholding on restricted stock and restricted stock units	(1)	(4)
Dividend payments	(482)	(452)
Proceeds from noncontrolling interest	101	69
Dividend payments to noncontrolling interest	(76)	(50)
<b>Net Cash Required by Financing Activities</b>	<b>(1,021)</b>	<b>(766)</b>
<b>Cash Assumed from Initial Consolidations of Variable Interest Entities</b>		<b>77</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>(146)</b>	<b>41</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(856)</b>	<b>(411)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>2,572</b>	<b>1,485</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$1,716</b>	<b>\$1,074</b>

See Note 20 Supplemental Cash Flow Information for further details.

The accompanying notes are an integral part of these consolidated financial statements.

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**Statements of Consolidated Shareowners Equity and Comprehensive Income**

Unaudited (Dollars in millions, except per share data)	Monsanto Shareowners							Total
	Common Stock	Treasury Stock	Additional Contributed Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) <sup>(1)</sup>	Reserve for ESOP Debt	Non-Controlling Interest	
Balance as of Aug. 31, 2010	\$ 6	\$ (2,110)	\$ 9,896	\$ 3,178	\$ (897)	\$ (4)	\$ 44	\$ 10,113
Net income				1,607			52	1,659
Foreign currency translation					510		4	514
Postretirement benefit plan activity, net of tax of \$98					160			160
Unrealized net derivative gains, net of tax of \$77					110			110
Realized net derivative losses, net of tax of \$5					1			1
Comprehensive income for 2011							56	2,444
Treasury stock purchases		(503)						(503)
Restricted stock withholding			(4)					(4)
Issuance of shares under employee stock plans			65					65
Excess tax benefits from stock-based compensation			36					36
Stock-based compensation expense			103					103
Cash dividends of \$1.14 per common share				(611)				(611)
Dividend payments to noncontrolling interest							(105)	(105)
Allocation of ESOP shares, net of dividends received						2		2
Proceeds from noncontrolling interest							69	69
Consolidation of VIEs							107	107
Balance as of Aug. 31, 2011	\$ 6	\$ (2,613)	\$ 10,096	\$ 4,174	\$ (116)	\$ (2)	\$ 171	\$ 11,716
Net income				2,274			38	2,312
Foreign currency translation					(944)		(39)	(983)
Postretirement benefit plan activity, net of tax of \$20					35			35
Unrealized net gains on investment holdings, net of tax of \$4					5			5
Unrealized net derivative losses, net of tax of (\$79)					(115)			(115)
Realized net derivative gains, net of tax of (\$23)					(41)			(41)
Comprehensive (loss) income for 2012							(1)	1,213
Treasury stock purchases		(423)						(423)
Restricted stock withholding			(1)					(1)

Issuance of shares under employee stock plans									
				69					69
Reclassification to redeemable common shares <sup>(2)</sup>			(136)	(5)					(141)
Excess tax benefits from stock-based compensation				33					33
Stock-based compensation expense			101						101
Cash dividends of \$0.60 per common share								(321)	(321)
Dividend payments to noncontrolling interest								(76)	(76)
Allocation of ESOP shares, net of dividends received							1		1
Proceeds from noncontrolling interest								101	101
<b>Balance as of May 31, 2012</b>	<b>\$ 6</b>	<b>\$ (3,036)</b>	<b>\$ 10,162</b>	<b>\$ 6,122</b>	<b>\$ (1,176)</b>	<b>\$ (1)</b>	<b>\$</b>	<b>195</b>	<b>\$ 12,272</b>

<sup>(1)</sup> See Note 18 *Comprehensive Income* for further details of the components of accumulated other comprehensive loss.

<sup>(2)</sup> See Note 19 *Earnings Per Share and Redeemable Common Stock* includes 1.8 million shares and \$141 million related to redeemable common stock.

The accompanying notes are an integral part of these consolidated financial statements.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED****NOTE 1. BACKGROUND AND BASIS OF PRESENTATION**

Monsanto Company (the company), along with its subsidiaries, is a leading global provider of agricultural products for farmers. Monsanto's seeds, biotechnology trait products, and herbicides provide farmers with solutions that improve productivity, reduce the costs of farming, and produce better foods for consumers and better feed for animals.

Monsanto manages its business in two segments: Seeds and Genomics and Agricultural Productivity. Through the Seeds and Genomics segment, Monsanto produces leading seed brands, including DEKALB, ASGROW, DELTAPINE, SEMINIS and DE RUITER, and Monsanto develops biotechnology traits that assist farmers in controlling insects and weeds. Monsanto also provides other seed companies with genetic material and biotechnology traits for their seed brands. Through the Agricultural Productivity segment, the company manufactures ROUNDUP and HARNESS brand herbicides and other herbicides. See Note 22 Segment Information for further details.

In the fourth quarter of 2008, the company announced plans to divest its animal agricultural products business, which focused on dairy cow productivity (the Dairy business). This transaction was consummated on Oct. 1, 2008. As a result, financial data for this business has been presented as discontinued operations. The financial statements have been prepared in compliance with the provisions of the Property, Plant and Equipment topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Accordingly, for all periods presented herein, the Statements of Consolidated Operations have been conformed to this presentation. See Note 23 Discontinued Operations for further details.

The accompanying consolidated financial statements have not been audited but have been prepared in conformity with accounting principles generally accepted in the United States for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, these unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods reported. This Report on Form 10-Q should be read in conjunction with Monsanto's Report on Form 10-K/A for the fiscal year ended Aug. 31, 2011. Financial information for the first nine months of fiscal year 2012 should not be annualized because of the seasonality of the company's business.

**NOTE 2. NEW ACCOUNTING STANDARDS**

In December 2011, the FASB issued a new accounting standard update which requires entities to disclose both gross and net information about both financial instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting agreement. The objective of the disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. Generally Accepted Accounting Principles and those entities that prepare their financial statements on the basis of International Financial Reporting Standards. This standard is effective for fiscal years, and interim periods within those years, beginning on or after Jan. 1, 2013. Retrospective presentation for all comparative periods presented is required. Accordingly, Monsanto will adopt this amendment in the first quarter of fiscal year 2014. The company is currently evaluating the impact of adoption on the consolidated financial statements.

In June 2011, the FASB issued an amendment to the Comprehensive Income topic of the ASC. This amendment eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareowners' equity. The amendment is effective for fiscal years beginning after Dec. 15, 2011, and interim periods within that year. Accordingly, Monsanto will adopt this amendment in first quarter fiscal year 2013. The company is currently evaluating the impact of adoption on the consolidated financial statements.

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In May 2011, the FASB issued a new accounting standard update, which amends the fair value measurement guidance and includes some enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for Level 3 measurements based on unobservable inputs. The amendment is effective for interim and annual periods beginning after Dec. 15, 2011. Accordingly, Monsanto adopted this standard in the third quarter of fiscal year 2012.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)****NOTE 3. BUSINESS COMBINATIONS**

*2012 Acquisitions:* In June 2012, Monsanto acquired 100 percent of the outstanding stock of Precision Planting, Inc., a planting technology developer based in Tremont, Illinois, for a total cash consideration of \$210 million for the business, plus a performance-based payment of up to \$40 million. Precision Planting develops technology to improve yields through on-farm planting performance. The acquisition of the company will become part of Monsanto's Integrated Farming Systems unit, which utilizes advanced agronomic practices, seed genetics and innovative on-farm technology to deliver optimal yield to farmers while using fewer resources. Acquisition costs incurred in fiscal year 2012 were less than \$1 million and were classified as selling, general, and administrative expenses. The acquisition of Precision Planting qualifies as a business under the Business Combinations topic of the ASC, and it is expected that goodwill and intangible assets will be recorded on the consolidated balance sheet. As of June 29, 2012, the initial accounting for the business combination has not been completed, including the measurement of certain intangible assets and goodwill.

In September 2011, Monsanto acquired 100 percent of the outstanding stock of Beeologics, a technology start-up business based in Israel, which researches and develops biological tools to provide targeted control of pests and diseases. The acquisition of the company, which qualifies as a business under the Business Combinations topic of the ASC, will allow Monsanto to further explore the use of biologicals broadly in agriculture to provide farmers with innovative approaches to the challenges they face. Monsanto intends to use the base technology from Beeologics as a part of its continuing discovery and development pipeline. Acquisition costs were approximately \$1 million and were classified as selling, general, and administrative expenses. The total cash paid and the fair value of the acquisition was \$113 million (net of cash acquired), and it was primarily allocated to goodwill and intangibles. The primary item that generated goodwill was the premium paid by the company for the right to control the acquired business and technology. The goodwill is deductible for tax purposes.

For the Beeologics acquisition, the business operations and expenses related to employees are included in the Seeds and Genomics segment results. The estimated fair values of the assets and liabilities, summarized in the table below, of the acquired entity represent the preliminary purchase price allocation. These allocations will be finalized as soon as the information becomes available, however not to exceed one year from the acquisition date.

(Dollars in millions)	<b>Beeologics Acquisition</b>
Current Assets	<b>\$ 2</b>
Goodwill	<b>81</b>
Other Intangible Assets	<b>46</b>
Acquired In-process Research and Development	<b>3</b>
Other Assets	<b>5</b>
 Total Assets Acquired	 <b>137</b>
Current Liabilities	<b>11</b>
Other Liabilities	<b>12</b>



Total Liabilities Assumed		<b>23</b>
Net Assets Acquired	\$	<b>114</b>
<b>Supplemental Information:</b>		
Net assets acquired	\$	<b>114</b>
Cash acquired		<b>1</b>
Cash paid, net of cash acquired	\$	<b>113</b>

Pro forma information related to the acquisition is not presented because the impact on the Company's consolidated results of operations is not significant.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS    UNAUDITED (continued)**

*2011 Acquisitions:* In February 2011, Monsanto acquired 100 percent of the outstanding stock of Divergence, Inc., a biotechnology research and development company located in St. Louis, Missouri. Acquisition costs were less than \$1 million and were classified as selling, general, and administrative expenses. The total cash paid and the fair value of the acquisition was \$71 million (net of cash acquired), and the purchase price was primarily allocated to intangibles and goodwill. The primary items that generated the goodwill were the premiums paid by the company for the right to control the business acquired and the value of the acquired assembled workforce. The goodwill is not deductible for tax purposes.

In December 2010, Monsanto acquired 100 percent of the outstanding stock of Pannon Seeds, a seed processing plant located in Hungary, from IKR Production Development and Commercial Corporation. The acquisition of this plant, which qualifies as a business under the Business Combinations topic of the ASC, allows Monsanto to reduce third party seed production in Hungary. Acquisition costs were less than \$1 million and were classified as selling, general, and administrative expenses. The total fair value of the acquisition was \$32 million, and the purchase price was primarily allocated to fixed assets and goodwill. This fair value includes \$28 million of cash paid (net of cash acquired) and \$4 million related to assumed liabilities. The primary items that generated the goodwill were the premiums paid by the company for the right to control the business acquired and the value of the acquired assembled workforce. The goodwill is not deductible for tax purposes.

**NOTE 4. CUSTOMER FINANCING PROGRAMS**

Monsanto participates in a revolving financing program in Brazil that allows Monsanto to transfer up to 1 billion Brazilian reais (approximately \$495 million) for select customers in Brazil to a special purpose entity (SPE), formerly a qualified special purpose entity (QSPE). Third parties, primarily investment funds, hold an 88 percent senior interest in the entity, and Monsanto holds the remaining 12 percent interest. Under the arrangement, a recourse provision requires Monsanto to cover the first 12 percent of credit losses within the program. The company has evaluated its relationship with the entity under updated guidance within the Consolidation topic of the ASC and, as a result, the entity has been consolidated on a prospective basis effective Sept. 1, 2010. For further information on this topic, see Note 5 – Variable Interest Entities.

Monsanto has an agreement in the United States to sell customer receivables up to a maximum of \$500 million and to service such accounts. These receivables qualify for sales treatment under the Transfers and Servicing topic of the ASC and, accordingly, the proceeds are included in net cash provided by operating activities in the Statements of Consolidated Cash Flows. The gross amount of receivables sold totaled \$325 million and \$3 million for the first nine months of fiscal years 2012 and 2011, respectively. The agreement includes recourse provisions and thus a liability is established at the time of sale that approximates fair value based upon the company's historical collection experience and a current assessment of credit exposure. The recourse liability recorded by Monsanto was \$1 million as of May 31, 2012. There was no recourse liability recorded by Monsanto as of Aug. 31, 2011. The maximum potential amount of future payments under the recourse provisions of the agreement was \$7 million as of May 31, 2012. The outstanding balance of the receivables sold was \$111 million and \$3 million as of May 31, 2012, and Aug. 31, 2011, respectively. There were delinquent accounts of \$2 million and \$3 million as of May 31, 2012, and Aug. 31, 2011, respectively.

Monsanto also sells accounts receivable in the United States and European regions, both with and without recourse. The sales within these programs qualify for sales treatment under the Transfers and Servicing topic of the ASC and, accordingly, the proceeds are included in net cash provided by operating activities in the Statements of Consolidated Cash Flows. The gross amounts of receivables sold totaled \$5 million for the first nine months of fiscal years 2012 and 2011. The liability for the guarantees for sales with recourse is recorded at an amount that approximates fair value, based on the company's historical collection experience for the customers associated with the sale of the receivables and a current assessment of credit exposure. There was no liability balance as of May 31, 2012, or Aug. 31, 2011. There was no maximum potential amount of future payments under the recourse provisions of the agreements as of May 31, 2012. The outstanding balance of receivables sold was \$4 million and \$55 million as of May 31, 2012, and Aug. 31, 2011, respectively. There were no delinquent loans as of May 31, 2012, or Aug. 31, 2011.

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Monsanto has additional agreements with lenders to establish programs that provide financing of up to 550 million Brazilian reais (approximately \$270 million) for selected customers in Brazil. Monsanto provides a guarantee of the accounts in the event of customer default. The term of the guarantee is equivalent to the term of the bank loans. The liability for the

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS    UNAUDITED (continued)**

guarantees is recorded at an amount that approximates fair value, based on the company's historical collection experience with customers that participate in the program and a current assessment of credit exposure. There was no liability balance as of May 31, 2012. The guarantee liability recorded by Monsanto was \$1 million as of Aug. 31, 2011. If performance is required under the guarantee, Monsanto may retain amounts that are subsequently collected from customers. There was no maximum potential amount of future payments under the guarantee as of May 31, 2012. The account balance outstanding for these programs was \$34 million and \$49 million as of May 31, 2012, and Aug. 31, 2011, respectively. There were no delinquent loans as of May 31, 2012. There were delinquent loans of \$1 million as of Aug. 31, 2011.

Monsanto also has similar agreements with banks that provide financing to its customers in the United States, Europe and Latin America where Monsanto provides a guarantee of the accounts in the event of customer default. There was no maximum potential amount of future payments under the guarantees as of May 31, 2012. The guarantee liability recorded by Monsanto was \$2 million as of May 31, 2012, and Aug. 31, 2011. The account balance outstanding for these programs was \$34 million and \$33 million as of May 31, 2012, and Aug. 31, 2011, respectively. There were delinquent loans of \$1 million as of May 31, 2012. There were no delinquent loans as of Aug. 31, 2011.

**NOTE 5. VARIABLE INTEREST ENTITIES**

Effective Sept. 1, 2010, Monsanto prospectively adopted the accounting standard update regarding improvements to financial reporting by enterprises involving variable interest entities (VIEs). A VIE is a legal entity that lacks sufficient equity to finance its activities, or the equity investors of the entity as a group lack any of the characteristics of a controlling interest. Monsanto is involved with various special purpose entities and other entities that are deemed to be VIEs. Monsanto has determined that the company holds variable interests in entities that are established as revolving financing programs. These programs allow the company to transfer a limited amount of customer receivables to a VIE. As of May 31, 2012, there is a program in Brazil. As of Aug. 31, 2011, one program is in Brazil and the other is in Argentina. In addition, Monsanto has various variable interests in biotechnology companies that focus on plant gene research, development, and commercialization. These variable interests have also been determined to be VIEs.

If a company is considered the primary beneficiary of a VIE, the company is required to consolidate the entity. The primary beneficiary of a VIE is the enterprise that has both the power to direct the activities most significant to the economic performance of the VIE and the obligation to absorb losses or receive benefits that could potentially be significant to the VIE. For all VIEs in which the company has a variable interest, the company performs ongoing qualitative assessments to determine whether it is the primary beneficiary. In determining whether Monsanto is the primary beneficiary, a number of factors are considered, including the structure of the entity, contractual provisions that grant any additional rights to influence or control the economic performance of the VIE, and the company's obligation to absorb significant losses. In addition, the company determines which activities most significantly impact the economic performance of the VIE and whether the company has any rights that would allow it to direct those activities. If Monsanto is determined to be the primary beneficiary, the assets, liabilities and operations of the VIE are consolidated.

As a result of the adoption of the updated accounting guidance, Monsanto was required to consolidate certain VIEs that were established as revolving financing programs including the special purpose entity referred to in Note 4 – Customer Financing Programs. As of the date of the initial consolidation of these VIEs, the company measured the assets and liabilities of the newly consolidated VIEs at their carrying value. The company was not required to deconsolidate any VIEs as of Sept. 1, 2010. The cumulative effect of the adoption of this guidance was insignificant to additional contributed capital, retained earnings and accumulated other comprehensive loss and, therefore, not identified separately on the Statement of Consolidated Shareowners' Equity and Comprehensive Income but is recorded within the Statement of Consolidated Operations.

**Consolidated VIEs**

Under the accounting guidance effective prior to Sept. 1, 2010, none of the interests in VIEs held were consolidated by Monsanto. For the most part, the VIEs involving the revolving financing programs are funded by investments from the company and other third parties, primarily investment funds, and have been established to service Monsanto's customer receivables. Creditors have no recourse against Monsanto in the event of default by these VIEs nor does the company have any implied or unfunded commitments to these VIEs. The company's financial or other support provided to these VIEs is limited to its original investment. Even though Monsanto holds a subordinate interest in the VIEs, the VIEs were established to service transactions involving the company and the company determines the receivables that are included in the revolving financing programs.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)**

Therefore, the determination is that Monsanto has the power to direct the activities most significant to the economic performance of the VIEs. As a result, the company is the primary beneficiary of these VIEs and, effective Sept. 1, 2010, these VIEs have been consolidated in Monsanto's Consolidated Financial Statements. The assets of these VIEs may only be used to settle the obligations of the respective entity. Third-party investors in the VIEs do not have recourse to the general assets of Monsanto other than the maximum exposure to loss relating to the VIE. The following table presents the carrying value of assets and liabilities, which are identified as restricted assets and liabilities on the company's Condensed Statement of Consolidated Financial Position, and the maximum exposure to loss relating to the VIEs for which Monsanto is the primary beneficiary.

(Dollars in millions)	<b>Financing Programs VIEs</b>	
	As of May 31, 2012	As of Aug. 31, 2011
Cash and cash equivalents	\$ 91	\$ 96
Trade receivables, net	77	51
Total Assets	168	147
Total Liabilities	1	
Maximum Exposure to Loss	\$ 21	\$ 11

**Non-Consolidated VIEs**

Monsanto has variable interests through investments and arrangements with biotechnology companies that focus on plant gene research, development, and commercialization. The company has not provided financial or other support with respect to these investments or arrangements other than its original interest. The company also has no implied or unfunded commitments to these VIEs. Monsanto's maximum exposure to loss on these variable interests is limited to the amount of the company's investment in the entity. The following table presents the carrying value of assets and liabilities, and the maximum exposure to loss relating to VIEs that the company does not consolidate:

(Dollars in millions)	<b>Biotechnology VIEs</b>	
	As of May 31, 2012	As of Aug. 31, 2011
Property, plant, and equipment, net	\$ 5	\$ 5
Other intangible assets, net	12	9
Other assets		15
Total Non-Current Assets	17	29
Total Liabilities		
Maximum Exposure to Loss	\$	\$ 15

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)****NOTE 6. RESTRUCTURING**

Restructuring charges were recorded in the Statements of Consolidated Operations as follows:

(Dollars in millions)	Three Months Ended May 31,		Nine Months Ended May 31,	
	2012	2011	2012	2011
Cost of Goods Sold <sup>(1)</sup>	\$	\$	\$	\$ (2)
Restructuring Charges, Net <sup>(1)(2)</sup>		(1)		(9)
Loss from Continuing Operations Before Income Taxes		(1)		(11)
Income Tax Benefit		1		5
Net Loss	\$	\$	\$	\$ (6)

<sup>(1)</sup> For the nine months ended May 31, 2011, the \$2 million of restructuring charges recorded in cost of goods sold related to the Seeds and Genomics segment. For the three months ended May 31, 2011, the \$1 million of restructuring charges recorded in restructuring charges, net related to the Seeds and Genomics segment. For the nine months ended May 31, 2011, the \$9 million of restructuring charges, net were split by segment as follows: \$(4) million in Agricultural Productivity and \$13 million in Seeds and Genomics.

<sup>(2)</sup> The restructuring charges for the three months and the nine months ended May 31, 2011, include reversals of \$6 million and \$31 million, respectively, related to the 2009 Restructuring Plan. The reversals are primarily related to severance. Although positions originally included in the plan were eliminated, individuals found new roles within the company due to attrition. There were no reversals during the three months and nine months ended May 31, 2012.

On June 23, 2009, the company's Board of Directors approved a restructuring plan (2009 Restructuring Plan) to take future actions to reduce costs in light of the changing market supply environment for glyphosate. These actions are designed to enable Monsanto to stabilize the Agricultural Productivity business and allow it to deliver optimal gross profit and a sustainable level of operating cash in the coming years, while better aligning spending and working capital needs. The company also announced that it would take steps to better align the resources of its global seeds and traits business. These actions included certain product and brand rationalization within the seed businesses. On Sept. 9, 2009, the company committed to take additional actions related to the previously announced restructuring plan. Furthermore, while implementing the plan, the company identified additional opportunities to better align the company's resources, and on Aug. 26, 2010, committed to take additional actions. The plan was substantially completed in the first quarter of fiscal year 2011, and the remaining payments are expected to be made by the end of fiscal year 2012.

There were no charges incurred for the three months and nine months ended May 31, 2012. The following table displays the pretax charges by segment under the 2009 Restructuring Plan of \$1 million incurred for the three months ended May 31, 2011, the pretax charges of \$11 million incurred for the nine months ended May 31, 2011, as well as the cumulative pretax charges of \$733 million.





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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)**

	Three Months Ended May 31,						Nine Months Ended May 31,					
	Seeds and Genomics		Agricultural Productivity		Total		Seeds and Genomics		Agricultural Productivity		Total	
(Dollars in millions)	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Work Force Reductions	\$	\$	\$	\$	\$	\$	\$	\$ (11)	\$	\$ (7)	\$	\$ (18)
Facility Closures / Exit Costs			1			1		24		3		27
Asset Impairments												
Property, plant and equipment												
Inventory								2				2
<b>Total Restructuring Charges, Net</b>	<b>\$</b>	<b>\$ 1</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 1</b>	<b>\$</b>	<b>\$ 15</b>	<b>\$</b>	<b>\$ (4)</b>	<b>\$</b>	<b>\$ 11</b>

	Cumulative Amount through May 31, 2012		
	Seeds and Genomics	Agricultural Productivity	Total
(Dollars in millions)			
Work Force Reductions	\$ 239	\$ 99	\$ 338
Facility Closures / Exit Costs	75	81	156
Asset Impairments			
Property, plant and equipment	43	5	48
Inventory	119	13	132
Other intangible assets	59		59
<b>Total Restructuring Charges, Net</b>	<b>\$ 535</b>	<b>\$ 198</b>	<b>\$ 733</b>

The company's written human resource policies are indicative of an ongoing benefit arrangement with respect to severance packages. Benefits paid pursuant to an ongoing benefit arrangement are specifically excluded from the Exit or Disposal Cost Obligations topic of the ASC, therefore severance charges incurred in connection with the 2009 Restructuring Plan are accounted for when probable and estimable as required under the Compensation - Nonretirement Postemployment Benefits topic of the ASC. In addition, when the decision to commit to a restructuring plan requires an asset impairment review, Monsanto evaluates such impairment issues under the Property, Plant and Equipment topic of the ASC.

In the nine months ended May 31, 2012, there were no charges recorded related to restructuring. In the nine months ended May 31, 2011, pretax restructuring charges of \$11 million were recorded. The facility closures/exit costs of \$27 million relate primarily to the finalization of the termination of a corn toiler contract in the United States. In workforce reductions, approximately \$13 million of additional charges were offset by \$31 million of reversals. Although positions originally included in the plan were eliminated, individuals found new roles within the company due to attrition. In asset impairments, inventory impairments of \$2 million recorded in cost of goods sold related to discontinued corn and sorghum seed products in the United States.

The following table summarizes the activities related to the company's 2009 Restructuring Plan.

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(Dollars in millions)	Work Force Reductions	Facility Closures / Exit Costs	Asset Impairments	Total
Beginning Liability as of Aug. 31, 2011	\$ 24	\$	\$	\$ 24
<b>Restructuring charges recognized in first nine months of fiscal year 2012</b>				
Cash payments	(11)			(11)
Asset impairments and write-offs				
Foreign currency impact	(1)			(1)
Ending Liability as of May 31, 2012	\$ 12	\$	\$	\$ 12

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)****NOTE 7. RECEIVABLES**

Trade receivables on the Condensed Statements of Consolidated Financial Position are net of allowances of \$59 million and \$98 million as of May 31, 2012, and Aug. 31, 2011, respectively.

Effective with the second quarter of 2011, the company adopted the amended guidance in the Receivables topic of the ASC which requires greater transparency about a company's allowance for credit losses and the credit quality of its financing receivables. The company has financing receivables that represent long-term customer receivable balances related to past due accounts which are not expected to be collected within the current year. The long-term customer receivables were \$195 million and \$220 million with a corresponding allowance for credit losses on these receivables of \$187 million and \$213 million, as of May 31, 2012, and Aug. 31, 2011, respectively. These long-term customer receivable balances and the corresponding allowance are included in long-term receivables, net on the Condensed Statements of Consolidated Financial Position. For these long-term customer receivables, interest is no longer accrued when the receivable is determined to be delinquent and classified as long-term based on estimated timing of collection.

The following table displays a roll forward of the allowance for credit losses related to long-term customer receivables.

(Dollars in millions)

Balance Aug. 31, 2010	\$ 226
Incremental Provision	20
Recoveries	(9)
Other <sup>(1)</sup>	(24)
<b>Balance Aug. 31, 2011</b>	<b>\$ 213</b>
<b>Incremental Provision</b>	<b>2</b>
<b>Recoveries</b>	<b>(8)</b>
<b>Write-Offs</b>	<b>(6)</b>
<b>Other<sup>(2)</sup></b>	<b>(14)</b>
<b>Balance May 31, 2012</b>	<b>\$ 187</b>

<sup>(1)</sup> Includes reclassifications from the allowance for current receivables, write-offs, and foreign currency translation adjustments.

<sup>(2)</sup> Includes reclassifications from the allowance for current receivables and foreign currency translation adjustments. In addition, the company has long-term contractual receivables. These receivables are collected at fixed and determinable dates in accordance with the customer long-term agreement. The long-term contractual receivables were \$368 million and \$468 million, as of May 31, 2012, and

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Aug. 31, 2011, respectively, and did not have any allowance recorded related to these balances. These receivables are included in long-term receivables, net on the Condensed Statements of Consolidated Financial Position. There are no balances related to these long-term contractual receivables that are past due. These receivables are outstanding with large, reputable companies who have been timely with scheduled payments thus far and are considered to be fully collectible. Interest is accrued on these receivables in accordance with the agreements and is included within interest income in the Statements of Consolidated Operations. See Note 11 Deferred Revenue for more details on the significant agreements related to these long-term contractual receivables.

On an ongoing basis, the company evaluates credit quality of its financing receivables utilizing aging of receivables, collection experience and write-offs, as well as evaluating existing economic conditions, to determine if an allowance is necessary.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)****NOTE 8. INVENTORY**

Components of inventory are:

(Dollars in millions)	As of May 31, 2012	As of Aug. 31, 2011
Finished Goods	\$ 1,094	\$ 953
Goods In Process	1,264	1,434
Raw Materials and Supplies	340	390
Inventory at FIFO Cost	2,698	2,777
Excess of FIFO over LIFO Cost	(184)	(186)
Total	\$ 2,514	\$ 2,591

**NOTE 9. GOODWILL AND OTHER INTANGIBLE ASSETS**

Changes in the net carrying amount of goodwill for the first nine months of fiscal year 2012, by segment, are as follows:

(Dollars in millions)	Seeds and Genomics	Agricultural Productivity	Total
Balance as of Aug. 31, 2011	\$ 3,308	\$ 57	\$ 3,365
Acquisition activity (see Note 3)	81		81
Effect of foreign currency translation adjustments	(164)		(164)
<b>Balance as of May 31, 2012</b>	<b>\$ 3,225</b>	<b>\$ 57</b>	<b>\$ 3,282</b>

In the nine months ended May 31, 2012, goodwill increased due to the 2012 acquisition of Beeologics, offset by the effects of foreign currency translation adjustments. See Note 3 Business Combinations for further information. The fiscal year 2012 annual goodwill impairment test was performed as of March 1, 2012, and no goodwill impairment existed as of that date. There were no events or circumstances indicating that goodwill might be impaired as of May 31, 2012.

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Information regarding the company's other intangible assets is as follows:

(Dollars in millions)	As of May 31, 2012			As of Aug. 31, 2011		
	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
<b>Intangible Assets with Finite Lives:</b>						
Acquired germplasm	\$ 1,141	\$ (696)	\$ 445	\$ 1,189	\$ (692)	\$ 497
Acquired intellectual property	1,016	(761)	255	973	(710)	263
Trademarks	340	(118)	222	352	(110)	242
Customer relationships	311	(163)	148	335	(146)	189
Other	146	(83)	63	136	(63)	73
<b>Total Other Intangible Assets, Finite Lives</b>	<b>\$ 2,954</b>	<b>\$ (1,821)</b>	<b>\$ 1,133</b>	<b>\$ 2,985</b>	<b>\$ (1,721)</b>	<b>\$ 1,264</b>
In process research & development, indefinite lives	48		48	45		45
<b>Total Other Intangible Assets</b>	<b>\$ 3,002</b>	<b>\$ (1,821)</b>	<b>\$ 1,181</b>	<b>\$ 3,030</b>	<b>\$ (1,721)</b>	<b>\$ 1,309</b>

The decrease in other intangible assets during the nine months ended May 31, 2012, primarily resulted from foreign currency translation adjustments and the result of identified intangible impairments during the three months ended May 31, 2012. See Note 14 Fair Value Measurements for further information.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)**

Total amortization expense of other intangible assets was \$25 million in third quarter of fiscal year 2012 and \$38 million in third quarter of fiscal year 2011. Total amortization expense of other intangible assets was \$101 million for the nine months ended May 31, 2012, and \$113 million for the nine months ended May 31, 2011. The estimated intangible asset amortization expense for fiscal year 2012 through fiscal year 2016 is as follows:

(Dollars in millions)	Amount
2012	\$ 144
2013	106
2014	113
2015	111
2016	114

**NOTE 10. INVESTMENTS AND EQUITY AFFILIATES****Investments**

As of May 31, 2012, and Aug. 31, 2011, Monsanto has short-term investments outstanding of \$302 million. The investments are comprised of treasury bills and commercial paper with original maturities of one year or less. See Note 14 Fair Value Measurements.

Monsanto has investments in long-term equity securities, which are considered available-for-sale. As of May 31, 2012, and Aug. 31, 2011, these long-term equity securities are recorded in other assets in the Condensed Statements of Consolidated Financial Position at a fair value of \$36 million and \$26 million, respectively. Net unrealized gains (net of deferred taxes) of \$5 million and less than \$1 million are included in accumulated other comprehensive loss in shareowners' equity related to these investments as of May 31, 2012, and Aug. 31, 2011, respectively. Monsanto recorded an impairment of \$7 million related to one of these long-term equity investments for the three months and nine months ended May 31, 2012.

Monsanto has cost basis investments recorded in other assets in the Condensed Statements of Consolidated Financial Position. As of May 31, 2012, and Aug. 31, 2011, these investments were recorded at \$69 million and \$74 million, respectively. Due to the nature of these investments, the fair market value is not readily determinable. These investments are reviewed for impairment indicators. As of May 31, 2012, no impairments were recorded.

**Equity Affiliates**

Monsanto owns a 19 percent interest in a seed supplier that produces, conditions, and distributes corn and soybean seeds. Monsanto is accounting for this investment as an equity method investment as Monsanto has the ability to exercise significant influence over the seed supplier. As of May 31, 2012, and Aug. 31, 2011, this investment is recorded in other assets in the Condensed Statements of Consolidated Financial Position at \$68 million and \$67 million, respectively. Monsanto purchased \$47 million and \$177 million of inventory from the seed

supplier for the three months and nine months ended May 31, 2012, respectively, and \$57 million and \$197 million for the three months and nine months ended May 31, 2011, respectively. There were sales of inventory to the seed supplier of \$10 million for the three months and nine months ended May 31, 2012. There were no sales of inventory to the seed supplier in the first nine months of 2011. As of May 31, 2012, there were no amounts payable to the seed supplier, while the payable as of Aug. 31, 2011, was \$2 million and recorded in accounts payable in the Condensed Statements of Consolidated Financial Position. As of May 31, 2012, there were no prepayments. As of Aug. 31, 2011, there were prepayments of \$9 million included in other current assets in the Statements of Consolidated Financial Position for inventory that was delivered in fiscal year 2012.

**NOTE 11. DEFERRED REVENUE**

In 2008, Monsanto entered into a corn herbicide tolerance and insect control trait technologies agreement with Pioneer Hi-Bred International, Inc. Among its provisions, the agreement modified certain existing corn license agreements between the



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)**

parties. Under the agreement, which requires fixed annual payments, the company recorded a receivable and deferred revenue of \$635 million in first quarter 2008. Cumulative cash receipts will be \$725 million over an eight-year period. Revenue of \$20 million related to this agreement was recorded for the three months ended May 31, 2012, and May 31, 2011, and revenue of \$60 million was recorded for the nine months ended May 31, 2012, and May 31, 2011. As of May 31, 2012, and Aug. 31, 2011, the remaining receivable balance is \$310 million and \$393 million, respectively. The majority of this balance is included in long-term receivables, and the current portion is included in trade receivables. As of May 31, 2012, and Aug. 31, 2011, the remaining deferred revenue balance is \$258 million and \$317 million, respectively, of which \$79 million is included in short-term deferred revenue in both periods. The interest income portion of this receivable totaled \$2 million and \$7 million for the three months and nine months ended May 31, 2012, respectively. Interest income for the three months and nine months ended May 31, 2011, was \$3 million and \$10 million, respectively.

In 2008, Monsanto and Syngenta entered into a GENUITY ROUNDUP READY 2 YIELD Soybean License Agreement. The agreement grants Syngenta access to Monsanto's GENUITY ROUNDUP READY 2 YIELD Soybean technology in consideration of royalty payments from Syngenta, based on sales. The minimum obligation from Syngenta over the nine-year contract period is \$81 million. Revenue of \$2 million and \$1 million related to this agreement was recorded for the three months ended May 31, 2012, and May 31, 2011, respectively, and revenue of \$6 million and \$4 million was recorded for the nine months ended May 31, 2012, and May 31, 2011, respectively. As of May 31, 2012, and Aug. 31, 2011, the remaining receivable balance is \$71 million and \$75 million, respectively. The majority of this balance is included in long-term receivables on the Condensed Statements of Consolidated Financial Position and the current portion is included in trade receivables. As of May 31, 2012, and Aug. 31, 2011, the remaining deferred revenue balance is \$57 million and \$62 million, respectively, of which \$12 million and \$4 million, respectively, is included in short-term deferred revenue. The interest income portion of this receivable is \$1 million and \$2 million for the three months and nine months ended May 31, 2012, and May 31, 2011, respectively.

**NOTE 12. INCOME TAXES**

Management regularly assesses the tax risk of the company's tax return filing positions for all open years and establishes reserves accordingly. During the first nine months of 2012, statutes expired in several jurisdictions and the company benefited from the favorable resolution of tax matters. These benefits were partially offset by deferred tax adjustments and tax reserves set up in multiple jurisdictions. Primarily as a result of these items, Monsanto recorded a tax benefit of \$65 million in the first nine months of 2012.

During the first nine months of 2011, statutes expired in several jurisdictions. The company benefited from the retroactive extension of the research and development credit pursuant to the enactment of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. Additionally, the company recorded favorable return-to-provision true-up adjustments, which were partially offset by deferred tax adjustments. Primarily as a result of these items, Monsanto recorded a tax benefit of \$21 million in the first nine months of 2011.

**NOTE 13. DEBT AND OTHER CREDIT ARRANGEMENTS**

In November 2011, Monsanto filed a new shelf registration with the SEC (2011 shelf registration) that allows the company to issue an unlimited capacity of debt, equity and hybrid offerings. The 2011 shelf registration will expire in November 2014.

In April 2011, Monsanto issued \$300 million of 2.75% Senior Notes under the 2008 shelf registration, which are due on April 15, 2016 (2.75% 2016 Senior Notes). The net proceeds from the sale of the 2.75% 2016 Senior Notes were used for general corporate purposes, including

refinancing of the company's indebtedness.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)**

Monsanto has a \$2 billion credit facility agreement with a group of banks that provides a senior unsecured revolving credit facility through April 1, 2016. Effective May 31, 2012, the facility was extended one year from April 1, 2015, to April 1, 2016.

In June 2012, Monsanto revised the estimated issue date of the new fixed-rate debt to on or before July 13, 2012, to repay \$485 million of 7<sup>3</sup>/<sub>8</sub>% Senior Notes that are due on Aug. 15, 2012. In March 2009, the company entered into forward-starting interest rate swaps with a total notional amount of \$250 million. The purpose of the swaps was to hedge the variability of the forecasted interest payments on this expected debt issuance that may result from changes in the benchmark interest rate before the debt is issued. Unrealized losses, net of tax, of \$28 million and \$14 million were recorded in accumulated other comprehensive loss to reflect the aftertax change in the fair value of the forward-starting interest rate swaps as of May 31, 2012, and Aug. 31, 2011, respectively. In August 2010, the company entered into forward-starting interest rate swaps with a total notional amount of \$225 million. The purpose of the swaps was to hedge the variability of the forecasted interest payments on this expected debt issuance that may result from changes in the benchmark interest rate before the debt is issued. Unrealized losses, net of tax, of \$41 million and \$10 million were recorded in accumulated other comprehensive loss to reflect the aftertax change in the fair value of the forward-starting interest rate swaps as of May 31, 2012, and Aug. 31, 2011, respectively. These swaps are accounted for under the Derivatives and Hedging topic of the ASC.

The fair value of the total short-term debt was \$639 million and \$710 million as of May 31, 2012, and Aug. 31, 2011, respectively. The fair value of the total long-term debt was \$1,904 million and \$1,797 million as of May 31, 2012, and Aug. 31, 2011, respectively.

**NOTE 14. FAIR VALUE MEASUREMENTS**

Monsanto determines the fair market value of its financial assets and liabilities based on quoted market prices, estimates from brokers, and other appropriate valuation techniques. The company uses the fair value hierarchy established in the Fair Value Measurements and Disclosures topic of the ASC, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy contains three levels as follows, with Level 3 representing the lowest level of input:

Level 1 Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 Values based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, discounted cash flow models, or other model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Values generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions would reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques could include use of option pricing models, discounted cash flow models and similar techniques. Monsanto does not currently have any instruments with fair value determined using Level 3 inputs.

The following tables set forth by level Monsanto's assets and liabilities that were accounted for or disclosed at fair value on a recurring basis as of May 31, 2012, and assets and liabilities that were accounted for on a recurring basis as of Aug. 31, 2011. As required by the Fair Value Measurements and Disclosures topic of the ASC, assets and liabilities are classified in their entirety based on the lowest level of input that is a significant component of the fair value measurement. Monsanto's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the classification of fair value assets and liabilities within the fair value hierarchy levels.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)**

(Dollars in millions)	Fair Value Measurements at May 31, 2012, Using				
	Level 1	Level 2	Level 3	Cash Collateral Offset <sup>(1)</sup>	Net Balance
<b>Assets at Fair Value:</b>					
Cash equivalents	\$ 1,392	\$	\$	\$	\$ 1,392
Short-term investments	302				302
Equity securities	36				36
<b>Derivative assets related to:</b>					
Foreign currency		23			23
Corn		13			13
Soybeans	5	2		(5)	2
Grower contracts		1			1
<b>Total Assets at Fair Value</b>	<b>\$ 1,735</b>	<b>\$ 39</b>	<b>\$</b>	<b>\$ (5)</b>	<b>\$ 1,769</b>
<b>Liabilities at Fair Value:</b>					
<b>Derivative liabilities related to:</b>					
Foreign currency	\$	\$ 30	\$	\$	\$ 30
Interest rates		112			112
Corn	40	13		(34)	19
Soybeans	7			(7)	
Energy and raw materials		19			19
Grower contracts		3			3
<b>Liabilities at Fair Value</b>	<b>\$ 47</b>	<b>\$ 177</b>	<b>\$</b>	<b>\$ (41)</b>	<b>\$ 183</b>
<b>Liabilities Not Recorded at Fair Value:</b>					
Short-term debt instruments <sup>(2)</sup>	\$	\$ 639	\$	\$	\$ 639
Long-term debt instruments <sup>(2)</sup>		1,904			1,904
<b>Liabilities Not Recorded at Fair Value</b>	<b>\$</b>	<b>\$ 2,543</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,543</b>
<b>Total Liabilities Recorded and Not Recorded at Fair Value</b>	<b>\$ 47</b>	<b>\$ 2,720</b>	<b>\$</b>	<b>\$ (41)</b>	<b>\$ 2,726</b>

<sup>(1)</sup> As allowed by the Derivatives and Hedging topic of the ASC, commodity derivative assets and liabilities have been offset by cash collateral due and paid under a master netting arrangement.

- (2) Short-term and long-term debt instruments are not recorded at fair value on a recurring basis however are measured at fair value for disclosure purposes.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)**

(Dollars in millions)	Fair Value Measurements at Aug. 31, 2011, Using				
	Level 1	Level 2	Level 3	Cash Collateral Offset <sup>(1)</sup>	Net Balance
<b>Assets at Fair Value:</b>					
Cash equivalents	\$ 1,896	\$	\$	\$	\$ 1,896
Short-term investments	302				302
Equity securities	26				26
<b>Derivative assets related to:</b>					
Foreign currency		3			3
Corn	88	30		(84)	34
Soybeans	21	2		(21)	2
Energy and raw materials		3			3
<b>Total Assets at Fair Value</b>	<b>\$ 2,333</b>	<b>\$ 38</b>	<b>\$</b>	<b>\$ (105)</b>	<b>\$ 2,266</b>
<b>Liabilities at Fair Value:</b>					
<b>Derivative liabilities related to:</b>					
Foreign currency	\$	\$ 14	\$	\$	\$ 14
Interest rates		38			38
Corn	2	30			32
Soybeans		1			1
Energy and raw materials		9			9
<b>Total Liabilities at Fair Value</b>	<b>\$ 2</b>	<b>\$ 92</b>	<b>\$</b>	<b>\$</b>	<b>\$ 94</b>

<sup>(1)</sup> As allowed by the Derivatives and Hedging topic of the ASC, commodity derivative assets and liabilities have been offset by cash collateral due and paid under a master netting arrangement.

Measurements during the three months and nine months ended May 31, 2012, of assets at fair value on a nonrecurring basis subsequent to their initial recognition were as follows:

*Other Intangible Assets, Net:* Other intangible assets with a carrying value of \$12 million were written down to their implied fair value of \$6 million, resulting in an impairment charge of \$6 million, which was primarily included in cost of goods sold in the Statement of Consolidated Operations. Other intangible assets with a carrying value of \$24 million were written down to their implied fair value of less than \$1 million, resulting in an impairment charge of \$24 million, which was primarily included in research and development expenses in the Statement of Consolidated Operations. Other intangible assets with a carrying value of \$25 million were written down to their implied fair value of \$7 million, resulting in an impairment charge of \$18 million, which was primarily included in selling, general and administrative expenses in the Statement of Consolidated Operations. The implied fair value calculations were performed using a discounted cash flow model.

There were no significant measurements of liabilities at fair value on a nonrecurring basis subsequent to their initial recognition during the three months and nine months ended May 31, 2012.

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The recorded amounts of cash, trade receivables, miscellaneous receivables, third-party guarantees, accounts payable, grower accruals, accrued marketing programs, miscellaneous short-term accruals, and short-term debt approximate their fair values as of May 31, 2012, and Aug. 31, 2011.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS    UNAUDITED (continued)****NOTE 15. FINANCIAL INSTRUMENTS****Cash Flow Hedges**

The company uses foreign currency options and foreign currency forward contracts as hedges of anticipated sales or purchases denominated in foreign currencies. The company enters into these contracts to protect itself against the risk that the eventual net cash flows will be adversely affected by changes in exchange rates.

Monsanto's commodity price risk management strategy is to use derivative instruments to minimize significant unanticipated earnings fluctuations that may arise from volatility in commodity prices. Price fluctuations in commodities, mainly in corn and soybeans, can cause the actual prices paid to production growers for corn and soybean seeds to differ from anticipated cash outlays. Monsanto uses commodity futures and options contracts to manage these risks. Monsanto's energy and raw material risk management strategy is to use derivative instruments to minimize significant unanticipated manufacturing cost fluctuations that may arise from volatility in natural gas, diesel and ethylene prices.

Monsanto's interest rate risk management strategy is to use derivative instruments, such as forward-starting interest rate swaps, to minimize significant unanticipated earnings fluctuations that may arise from volatility in interest rates of the company's borrowings and to manage the interest rate sensitivity of its debt.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive loss and reclassified into earnings in the period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

The maximum term over which the company is hedging exposures to the variability of cash flow (for all forecasted transactions) is 15 months for foreign currency hedges, 35 months for commodity hedges and 3 months for interest rate hedges. During the next 12 months, a pretax net gain of approximately \$4 million will be reclassified from accumulated other comprehensive loss into earnings. During the three months and nine months ended May 31, 2012, a pretax loss of \$2 million was reclassified into earnings as a result of the discontinuance of certain cash flow hedges, because it was no longer probable that the forecasted transaction would occur by the end of the originally specified time period. No cash flow hedges were discontinued during the three months and nine months ended May 31, 2011.

**Fair-Value Hedges**

The company uses commodity futures and options contracts as fair value hedges to manage the value of its soybean inventory. For derivative instruments that are designated and qualify as fair value hedges, both the gain or loss on the derivative and the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. No fair-value hedges were discontinued during the three months and nine months ended May 31, 2012, or May 31, 2011.

**Net Investment Hedges**

To protect the value of its investment from adverse changes in exchange rates, the company may, from time to time, hedge a portion of its net investment in one or more of its foreign subsidiaries. Gains or losses on derivative instruments that are designated as a net investment hedge are

included in accumulated foreign currency translation adjustment and reclassified into earnings in the period during which the hedged net investment is sold or liquidated.

**Derivatives Not Designated as Hedging Instruments**

The company uses foreign currency contracts to hedge the effects of fluctuations in exchange rates on foreign currency denominated third-party and intercompany receivables and payables. Both the gain or loss on the derivative and the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings.

The company uses commodity option contracts to hedge anticipated cash payments to corn growers in the United States, Mexico and Brazil, which can fluctuate with changes in corn price. Because these option contracts do not meet the provisions specified by the Derivatives and Hedging topic of the ASC, they do not qualify for hedge accounting treatment. Accordingly, the gain or loss on these derivatives is recognized in current earnings.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)**

To reduce credit exposure in Latin America, Monsanto collects payments on certain customer accounts in grain. Such payments in grain are negotiated at or near the time Monsanto's products are sold to the customers and are valued at the prevailing grain commodity prices. By entering into forward sales contracts related to grain, Monsanto mitigates the commodity price exposure from the time a contract is signed with a customer until the time a grain merchant collects the grain from the customer on Monsanto's behalf. The forward sales contracts do not qualify for hedge accounting treatment under the Derivatives and Hedging topic of the ASC. Accordingly, the gain or loss on these derivatives is recognized in current earnings.

Monsanto uses interest rate contracts to minimize the variability in forecasted cash flows arising from the company's VIE. The interest rate contracts do not qualify for hedge accounting under the Derivatives and Hedging Topic of the ASC. Accordingly, the gain or loss on these derivatives is recognized in current earnings.

Certain of Monsanto's grower contracts that include minimum guaranteed payment provisions are considered derivatives under the Derivatives and Hedging Topic of the ASC. These contracts do not qualify for hedge accounting treatment. Accordingly, the gain or loss on these derivatives is recognized in current earnings.

Financial instruments are neither held nor issued by the company for trading purposes.

The notional amounts of the company's derivative instruments outstanding as of May 31, 2012, and Aug. 31, 2011, were as follows:

(Dollars in millions)	As of May 31, 2012	As of Aug. 31, 2011
<b>Derivatives Designated as Hedges:</b>		
Foreign exchange contracts	\$ 358	\$ 359
Commodity contracts	862	517
Interest rate contracts	475	475
<b>Total Derivatives Designated as Hedges</b>	<b>\$ 1,695</b>	<b>\$ 1,351</b>
<b>Derivatives Not Designated as Hedges:</b>		
Foreign exchange contracts	\$ 1,043	\$ 779
Commodity contracts	433	181
Interest rate contracts	162	153
Grower contracts	45	71
<b>Total Derivatives Not Designated as Hedges</b>	<b>\$ 1,683</b>	<b>\$ 1,184</b>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**    **UNAUDITED** *(continued)*

The fair values of the company's derivative instruments outstanding as of May 31, 2012, and Aug. 31, 2011, were as follows:

(Dollars in millions)	Balance Sheet Location	Fair Value	
		As of May 31, 2012	As of Aug. 31, 2011
<b>Asset Derivatives:</b>			
Derivatives designated as hedges:			
Foreign exchange contracts	Miscellaneous receivables	\$ 9	\$ 1
Foreign exchange contracts	Other assets	7	
Commodity contracts	Other current assets <sup>(1)</sup>	5	93
Commodity contracts	Other assets <sup>(1)</sup>	1	16
<b>Total derivatives designated as hedges</b>		<b>22</b>	<b>110</b>
Derivatives not designated as hedges:			
Foreign exchange contracts	Miscellaneous receivables	7	2
Commodity contracts	Trade receivables, net	6	30
Commodity contracts	Miscellaneous receivables	8	2
Commodity contracts	Other current assets <sup>(1)</sup>		3
Grower contracts	Other current assets <sup>(1)</sup>	1	
<b>Total derivatives not designated as hedges</b>		<b>22</b>	<b>37</b>
<b>Total Asset Derivatives</b>		<b>\$ 44</b>	<b>\$ 147</b>
<b>Liability Derivatives:</b>			
Derivatives designated as hedges:			
Foreign exchange contracts	Miscellaneous short-term accruals	\$	\$ 9
Commodity contracts	Other current assets <sup>(1)</sup>	35	2
Commodity contracts	Other assets <sup>(1)</sup>	8	
Commodity contracts	Miscellaneous short-term accruals	11	6
Commodity contracts	Other liabilities	7	4
Interest rate contracts	Miscellaneous short-term accruals	112	38
<b>Total derivatives designated as hedges</b>		<b>173</b>	<b>59</b>
Derivatives not designated as hedges:			
Foreign exchange contracts	Miscellaneous short-term accruals	30	5
Commodity contracts	Trade receivables, net	13	1
Commodity contracts	Miscellaneous short-term accruals	4	29

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Grower contracts	Other assets <sup>(1)</sup>	<b>4</b>	
Total derivatives not designated as hedges		<b>51</b>	35
Total Liability Derivatives		<b>\$ 224</b>	\$ 94

<sup>(1)</sup> As allowed by the Derivatives and Hedging topic of the ASC, corn and soybean commodity derivative assets and liabilities have been offset by cash collateral due and paid under a master netting arrangement. Therefore, all commodity contracts that are in an asset or liability position are included in asset accounts within the Condensed Statements of Consolidated Financial Position. See Note 14 Fair Value Measurements for a reconciliation to amounts reported in the Condensed Statements of Consolidated Financial Position as of May 31, 2012, and Aug. 31, 2011.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)**

The gains and losses on the company's derivative instruments were as follows:

(Dollars in millions)	Amount of Gain (Loss) Recognized in AOCI <sup>(1)</sup> (Effective Portion) Three Months Ended May 31,		Amount of Gain (Loss) Recognized in Income <sup>(2)(3)</sup> Three Months Ended May 31,		Income Statement Classification
	2012	2011	2012	2011	
<b>Derivatives Designated as Hedges:</b>					
Fair value hedges:					
Commodity contracts <sup>(4)</sup>			\$ (2)	\$	Cost of goods sold
Cash flow hedges:					
Foreign exchange contracts	\$ 5	\$ (3)	(2)	(5)	Net sales
Foreign exchange contracts	11	(8)	1	(1)	Cost of goods sold
Commodity contracts	(60)	60	18	2	Cost of goods sold
Interest rate contracts	(32)	(24)	(2)	(2)	Interest expense
<b>Total Derivatives Designated as Hedges</b>	<b>(76)</b>	<b>25</b>	<b>13</b>	<b>(6)</b>	
<b>Derivatives Not Designated as Hedges:</b>					
Foreign exchange contracts <sup>(5)</sup>			(29)	(3)	Other expense, net
Commodity contracts			3	1	Net Sales
Commodity contracts			(7)	(1)	Cost of goods sold
<b>Total Derivatives Not Designated as Hedges</b>			<b>(33)</b>	<b>(3)</b>	
<b>Total Derivatives</b>	<b>\$ (76)</b>	<b>\$ 25</b>	<b>\$ (20)</b>	<b>\$ (9)</b>	

(Dollars in millions)	Amount of Gain (Loss) Recognized in AOCI <sup>(1)</sup> (Effective Portion) Nine Months Ended May 31,		Amount of Gain (Loss) Recognized in Income <sup>(2)(3)</sup> Nine Months Ended May 31,		Income Statement Classification
	2012	2011	2012	2011	
<b>Derivatives Designated as Hedges:</b>					
Fair value hedges:					
Commodity contracts <sup>(4)</sup>			\$ (9)	\$ (20)	Cost of goods sold
Cash flow hedges:					
Foreign exchange contracts	\$ 5	\$ (16)	(5)	(8)	Net sales

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Foreign exchange contracts	<b>18</b>	(17)	<b>2</b>	7	Cost of goods sold
Commodity contracts	<b>(144)</b>	181	<b>73</b>	(2)	Cost of goods sold
Interest rate contracts	<b>(73)</b>	51	<b>(6)</b>	(5)	Interest expense
<b>Total Derivatives Designated as Hedges</b>	<b>(194)</b>	199	<b>55</b>	(28)	
Derivatives Not Designated as Hedges:					
Foreign exchange contracts <sup>(5)</sup>			<b>(41)</b>		Other expense, net
Commodity contracts				3	Net sales
Commodity contracts			<b>(16)</b>	(2)	Cost of goods sold
<b>Total Derivatives Not Designated as Hedges</b>			<b>(57)</b>	1	
<b>Total Derivatives</b>	<b>\$ (194)</b>	\$ 199	<b>\$ (2)</b>	\$ (27)	

(1) Accumulated other comprehensive income (loss) (AOCI)

(2) For derivatives designated as cash flow and net investment hedges under the Derivatives and Hedging topic of the ASC, this represents the effective portion of the gain (loss) reclassified from AOCI into income during the period.

(3) Gain or loss on commodity cash flow hedges includes a gain of less than \$1 million and a gain of \$1 million from ineffectiveness for the three months ended May 31, 2012, and May 31, 2011, respectively, and a gain of \$1 million from ineffectiveness for each of the nine months ended May 31, 2012, and May 31, 2011, respectively. Additionally, the gain or loss on commodity cash flow hedges includes a loss from discontinued hedges of \$(2) million for the three months and nine months ended May 31, 2012. There were no hedges discontinued for the three months or nine months ended May 31, 2011.

(4) Loss on commodity fair value hedges contributes to a loss of \$(2) million and is offset by a gain of \$3 million on the underlying hedged inventory for the three months ended May 31, 2012, and May 31, 2011, respectively, and a gain of \$3 million and \$18 million on the underlying hedged inventory for the nine months ended May 31, 2012, and May 31, 2011, respectively. A loss and gain from ineffectiveness of \$(4) million and \$4 million, respectively, during the three months ended May 31, 2012, and May 31, 2011, and a loss from ineffectiveness of \$(6) million and \$(1) million, respectively, during the nine months ended May 31, 2012, and May 31, 2011, was included in cost of goods sold.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)**

<sup>(5)</sup> Gain or loss on foreign exchange contracts not designated as hedges is offset by a foreign currency transaction gain of \$23 million and a loss of \$(2) million during the three months ended May 31, 2012, and May 31, 2011, respectively, and a gain of \$29 million and a loss of \$(40) million during the nine months ended May 31, 2012, and May 31, 2011, respectively.

Most of the company's outstanding foreign-currency derivatives are covered by International Swap Dealers' Association (ISDA) Master Agreements with the counterparties. There are no requirements to post collateral under these agreements; however, should the company's credit rating fall below a specified rating immediately following the merger of the company with another entity, the counterparty may require all outstanding derivatives under the ISDA Master Agreement to be settled immediately at current market value, which equals carrying value. Any foreign-currency derivatives that are not covered by ISDA Master Agreements do not have credit-risk-related contingent provisions. Most of the company's outstanding commodity derivatives are listed commodity futures, and the company is required by the relevant commodity exchange to post collateral each day to cover the change in the fair value of these futures. Any non-exchange traded commodity derivatives are covered by the aforementioned ISDA Master Agreements and are subject to the same credit-risk-related contingent provisions, as are the company's interest rate derivatives. The aggregate fair value of all derivative instruments under ISDA Master Agreements that are in a liability position is \$139 million as of May 31, 2012, and \$50 million as of Aug. 31, 2011, which is the amount that would be required for settlement if the credit-risk-related contingent provisions underlying these agreements were triggered.

**Credit Risk Management**

Monsanto invests its excess cash in deposits with major banks or money market funds throughout the world in high-quality short-term debt instruments. Such investments are made only in instruments issued or enhanced by high-quality institutions. As of May 31, 2012, and Aug. 31, 2011, the company had no financial instruments that represented a significant concentration of credit risk. Limited amounts are invested in any single institution to minimize risk. The company has not incurred any credit risk losses related to those investments.

The company sells a broad range of agricultural products to a diverse group of customers throughout the world. In the United States, the company makes substantial sales to relatively few large wholesale customers. The company's agricultural products business is highly seasonal, and it is subject to weather conditions that affect commodity prices and seed yields. Credit limits, ongoing credit evaluation, and account monitoring procedures are used to minimize the risk of loss. Collateral is secured when it is deemed appropriate by the company.

Monsanto regularly evaluates its business practices to minimize its credit risk and periodically engages multiple banks in the United States, Brazil and Europe in the development of customer financing options that involve direct bank financing of customer purchases. For further information on these programs, see Note 4 Customer Financing Programs.

**NOTE 16. POSTRETIREMENT BENEFITS PENSIONS, HEALTH CARE AND OTHER**

The majority of Monsanto's employees are covered by noncontributory pension plans sponsored by the company. The company also provides certain postretirement health care and life insurance benefits for retired employees through insurance contracts. The company's net periodic benefit cost for pension benefits, and health care and other postretirement benefits include the following components:



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)**

Pension Benefits	Three Months Ended May 31, 2012			Three Months Ended May 31, 2011		
	Outside the			Outside the		
(Dollars in millions)	U.S.	U.S.	Total	U.S.	U.S.	Total
Service Cost for Benefits Earned During the Period	\$ 12	\$ 2	\$ 14	\$ 15	\$ 2	\$ 17
Interest Cost on Benefit Obligation	18	3	21	21	3	24
Assumed Return on Plan Assets	(26)	(3)	(29)	(27)	(4)	(31)
Amortization of Unrecognized Net Loss	13	1	14	18	1	19
Curtailement and Settlement Charge		2	2		1	1
Total Net Periodic Benefit Cost	\$ 17	\$ 5	\$ 22	\$ 27	\$ 3	\$ 30

Pension Benefits	Nine Months Ended May 31, 2012			Nine Months Ended May 31, 2011		
	Outside the			Outside the		
(Dollars in millions)	U.S.	U.S.	Total	U.S.	U.S.	Total
Service Cost for Benefits Earned During the Period	\$ 46	\$ 6	\$ 52	\$ 45	\$ 6	\$ 51
Interest Cost on Benefit Obligation	70	9	79	64	9	73
Assumed Return on Plan Assets	(101)	(9)	(110)	(82)	(12)	(94)
Amortization of Unrecognized Net Loss	50	3	53	54	4	58
Curtailement and Settlement Charge		6	6		3	3
Total Net Periodic Benefit Cost	\$ 65	\$ 15	\$ 80	\$ 81	\$ 10	\$ 91

Health Care and Other Postretirement Benefits	Three Months Ended May 31,		Nine Months Ended May 31,	
(Dollars in millions)	2012	2011	2012	2011
Service Cost for Benefits Earned During the Period	\$ 2	\$ 3	\$ 7	\$ 8
Interest Cost on Benefit Obligation	2	2	7	7
Amortization of Unrecognized Net Gain	(1)		(5)	(1)
Total Net Periodic Benefit Cost	\$ 3	\$ 5	\$ 9	\$ 14

Monsanto contributed \$40 million and \$30 million to its U.S. qualified plan in the nine-month periods ended May 31, 2012, and May 31, 2011, respectively. Monsanto contributed \$11 million and \$9 million to plans outside the United States in the nine-month periods ended May 31, 2012,

and May 31, 2011, respectively. As of May 31, 2012, management expects to make additional contributions of approximately \$31 million and \$2 million to the U.S. qualified plan and the company's pension plans outside the United States, respectively, during the remainder of fiscal year 2012.

#### **Employee Savings Plan**

The Monsanto leveraged employee stock ownership plan debt was restructured in December 2004 and November 2008 to level out the future allocation of stock thereunder in an impartial manner intended to ensure equitable treatment for and generally to be in the best interests of current and future plan participants consistent with the level of benefits that Monsanto intended for the plan to provide to participants. To that end, the terms of the restructuring were determined pursuant to an arm's length negotiation between Monsanto and an independent trust company serving as fiduciary for the plan for this restructuring. In this role, the independent fiduciary determined that the restructuring, including certain financial commitments and enhancements that were made or will be made in the future by Monsanto to benefit participants and beneficiaries of the plan, was completed in accordance with the best interests of plan participants. A liability of \$63 million and \$59 million is due to the Monsanto Savings and Investment Plan from the company as of May 31, 2012, and Aug. 31, 2011, respectively. As of May 31, 2012, \$58 million was considered short term and is included in accrued compensation and benefits, while the long-term balance is included in other liabilities on the Condensed Statements of Financial Position related to these restructurings. As of Aug. 31, 2011, there were no amounts included in short term.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)****NOTE 17. STOCK-BASED COMPENSATION PLANS**

The following table shows total stock-based compensation expense included in the Statements of Consolidated Operations for the three months and nine months ended May 31, 2012, and May 31, 2011. Stock-based compensation cost capitalized in inventory was \$7 million as of May 31, 2012, and Aug. 31, 2011.

(Dollars in millions)	Three Months Ended May 31,		Nine Months Ended May 31,	
	2012	2011	2012	2011
Cost of Goods Sold	\$ 3	\$ 5	\$ 15	\$ 14
Selling, General and Administrative Expenses	20	16	63	49
Research and Development Expenses	7	7	23	20
Pre-Tax Stock-Based Compensation Expense	30	28	101	83
Income Tax Benefit	(10)	(10)	(34)	(29)
<b>Net Stock-Based Compensation Expense</b>	<b>\$ 20</b>	<b>\$ 18</b>	<b>\$ 67</b>	<b>\$ 54</b>

The following table summarizes stock-based compensation activity for and as of the nine months ended May 31, 2012, for employees under the Monsanto Company Long-Term Incentive Plan (LTIP), as amended, and the Monsanto Company 2005 Long-Term Incentive Plan, as amended and restated effective Jan. 24, 2012 (2005 LTIP), and for directors under the Monsanto Non-Employee Director Incentive Compensation Plan (Director Plan):

	LTIP and 2005 LTIP			Director Plan	
	Stock Options	Restricted Stock Units	Restricted Stock	Deferred Stock	Restricted Stock
Granted	2,292,040	558,685		21,472	4,418
Weighted-average grant date fair value	\$ 21.89	\$ 74.65	\$	\$ 68.93	\$ 68.93
Pre-tax unrecognized compensation expense, net of estimated forfeitures as applicable	\$ 65.7	55.3		0.4	0.3
Remaining weighted-average period of expense recognition/requisite service periods in years	1.8	2.1		0.3	1.5

**NOTE 18. COMPREHENSIVE INCOME**

Comprehensive income includes all nonshareowner changes in equity. It consists of net income, foreign currency translation adjustments, net unrealized gains on available-for-sale securities, postretirement benefit plan activity, and net accumulated derivative gains and losses on cash flow hedges not yet realized. Information regarding comprehensive income is as follows:

(Dollars in millions)	Three Months Ended May 31,		Nine Months Ended May 31,	
	<b>2012</b>	2011	<b>2012</b>	2011
Comprehensive Income	<b>\$ 292</b>	\$ 953	<b>\$ 1,213</b>	\$ 2,457

The components of accumulated other comprehensive loss are as follows:

(Dollars in millions)	As of May 31, <b>2012</b>	As of Aug. 31, 2011
Accumulated Foreign Currency Translation Adjustments	<b>\$ (674)</b>	\$ 270
Net Unrealized Gain on Investments, Net of Tax	<b>5</b>	
Net Accumulated Derivative (Loss)/Income, Net of Tax	<b>(93)</b>	63
Postretirement Benefit Plan Activity, Net of Tax	<b>(414)</b>	(449)
Accumulated Other Comprehensive Loss	<b>\$ (1,176)</b>	\$ (116)

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)****NOTE 19. EARNINGS PER SHARE AND REDEEMABLE COMMON STOCK**

Basic earnings per share (EPS) was computed using the weighted-average number of common shares outstanding during the periods shown in the table below. For the three months and nine months ended May 31, 2012, and May 31, 2011, diluted EPS was computed taking into account the effect of dilutive potential common shares. Potential common shares consist primarily of stock options, restricted stock, restricted stock units and directors' deferred shares calculated using the treasury stock method and are excluded if their effect is antidilutive. Of those antidilutive options, certain options were excluded from the computations of dilutive potential common shares as their exercise prices were greater than the average market price of common shares for the period.

	Three Months Ended May 31, 2012	2011	Nine Months Ended May 31, 2012	2011
Weighted-Average Number of Common Shares	532.9	535.5	534.2	536.9
Dilutive Potential Common Shares	5.9	5.7	6.0	6.0
Antidilutive Potential Common Shares	6.7	11.4	6.9	11.4
Shares Excluded From Computation of Dilutive Potential Shares with Exercise Prices greater than the Average Market Price of Common Shares for the Period	4.5	7.6	6.7	7.6

**Redeemable Common Stock**

Monsanto may have exceeded the amount of shares registered for offer and sale under its Savings and Investment Plan, and, therefore, inadvertently failed to maintain an effective SEC registration statement. As a result, certain purchasers of common stock pursuant to that plan may have the right to rescind their purchases for an amount equal to the purchase price paid for the shares, plus interest from the date of purchase. As of May 31, 2012, Monsanto classified 1.8 million shares (\$141 million) that may be subject to the rescissionary rights outside shareowners' equity, as any redemption would ultimately be at the option of the benefit plan participants. These shares have always been treated as outstanding for financial reporting purposes. Monsanto intends to voluntarily make a rescission offer to such participants. Monsanto filed a new registration statement on Form S-8 to register offers and sales of shares under the Savings and Investment Plan. Monsanto believes that the rescission offer will not materially impact its consolidated results of operations, financial position or cash flows.

**NOTE 20. SUPPLEMENTAL CASH FLOW INFORMATION**

Cash payments for interest and taxes were as follows:

(Dollars in millions)	Nine Months Ended May 31,	
	<b>2012</b>	2011
Interest	\$ <b>112</b>	\$ 106
Taxes	<b>513</b>	272

**NOTE 21. COMMITMENTS AND CONTINGENCIES**

**Environmental and Litigation Liabilities:** Monsanto is involved in environmental remediation and legal proceedings to which we are party in our own name and proceedings to which our former parent Pharmacia Corporation or its former subsidiary Solutia Inc. is a party but that we manage and for which we are responsible. In addition, Monsanto has liabilities established

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)**

for various product claims. With respect to certain of these proceedings, Monsanto has a liability recorded of \$270 million and \$265 million as of May 31, 2012, and Aug. 31, 2011, respectively, for the estimated contingent liabilities. Information regarding the environmental liabilities appears in Monsanto's Report on Form 10-K/A for the fiscal year ended Aug. 31, 2011.

*Litigation:* The above liability includes amounts related to certain third-party litigation with respect to Monsanto's business, as well as tort litigation related to Pharmacia's former chemical business, including lawsuits involving polychlorinated biphenyls (PCBs), dioxins, and other chemical and premises liability litigation. Additional matters that are not reflected in the liability may arise in the future, and Monsanto may manage, settle, or pay judgments or damages with respect thereto in order to mitigate contesting potential liability. Following is a description of one of the more significant litigation matters for which we have accrued our best estimate as part of the above liability.

As described in our Report on Form 10-K/A for the fiscal year ended Aug. 31, 2011, and our Report on Form 10-Q for the quarterly periods ended Nov. 30, 2011, and Feb. 29, 2012, on Dec. 17, 2004, 15 plaintiffs filed a purported class action lawsuit, styled *Virdie Allen, et al. v. Monsanto, et al.*, in the Putnam County, West Virginia, state court against Monsanto, Pharmacia and seven other defendants. Monsanto is named as the successor in interest to the liabilities of Pharmacia. The alleged class consists of all current and former residents, workers, and students who, between 1949 and the present, were allegedly exposed to dioxins/furans contamination in counties surrounding Nitro, West Virginia. The complaint alleges that the source of the contamination is a chemical plant in Nitro, formerly owned and operated by Pharmacia and later by Flexsys, a joint venture between Solutia and Akzo Nobel Chemicals, Inc. (Akzo Nobel). Akzo Nobel and Flexsys were named defendants in the case but Solutia was not, due to its then pending bankruptcy proceeding. The suit seeks damages for property cleanup costs, loss of real estate value, funds to test property for contamination levels, funds to test for human exposure, and future medical monitoring costs. The complaint also seeks an injunction against further contamination and punitive damages. Monsanto has agreed to indemnify and defend Akzo Nobel and the Flexsys defendant group, but on May 27, 2011, the judge dismissed both Akzo Nobel and Flexsys from the case. The class action certification hearing was held on Oct. 29, 2007. On Jan. 8, 2008, the trial court issued an order certifying the *Allen* (now *Zina G. Bibb et al. v. Monsanto et al.*, because Bibb replaced Allen as class representative) case as a class action for property damage and for medical monitoring. On Nov. 2, 2011, the court, in response to defense motions, entered an order decertifying the property class. After the trial for the *Bibb* medical monitoring class action began on Jan. 3, 2012, the parties reached a settlement in principle as to both the medical monitoring and the property class claims. The proposed settlement provides for a 30 year medical monitoring program consisting of a primary fund of up to \$21 million and an additional fund of up to \$63 million over the life of the program, and a three year property remediation plan with funding up to \$9 million. On Feb. 24, 2012, the court preliminarily approved the parties' proposed settlement. A fairness hearing was held on June 18, 2012, with further written submission due in July 2012, after which the judge will issue a ruling regarding final approval of the class settlement.

In October 2007 and November 2009, a total of approximately 200 separate, single plaintiff civil actions were filed in Putnam County, West Virginia, against Monsanto, Pharmacia, Akzo Nobel (and several of its affiliates), Flexsys America Co. (and several of its affiliates), Solutia, and Apogee Coal Company, LLC. These cases allege personal injury occasioned by exposure to dioxin generated by the Nitro Plant during production of 2,4,5 T (1949-1969) and thereafter. Monsanto has agreed to accept the tenders of defense in the matters by Pharmacia, Solutia, Akzo Nobel, Flexsys America, and Apogee Coal under a reservation of rights. During the discovery phase of these several claims, the parties reached an agreement in principle to resolve all pending personal injury claims which is reflected in the above liability.

Including litigation reflected in the liability, Monsanto is involved in various legal proceedings that arise in the ordinary course of its business or pursuant to Monsanto's indemnification obligations to Pharmacia, as well as proceedings that management has considered to be material under SEC regulations. Some of the lawsuits seek damages in very large amounts, or seek to restrict the company's business activities. Monsanto believes that it has meritorious legal arguments and will continue to represent its interests vigorously in all of the proceedings that it is defending or prosecuting. Although the ultimate liabilities resulting from such proceedings, or the proceedings reflected in the above liability, may be significant to profitability in the period recognized, management does not anticipate they will have a material adverse effect on Monsanto's

consolidated results of operations, financial position, cash flows or liquidity.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)**

Recently, a court ruling in Brazil challenged the collectability of certain royalties for Roundup Ready soybeans through the point-of-delivery system. Subsequently, an appeals court in Brazil issued a preliminary injunction resulting in a suspension of the lower court ruling, and maintaining such royalty collections while the full case continues on appeal. We believe we have meritorious legal arguments and will continue to represent our interests vigorously in this proceeding. The current estimate of our reasonably possible loss contingency in this case is not material to consolidated results of operations, financial position, cash flows or liquidity.

**Guarantees:** Disclosures regarding the guarantees Monsanto provides for certain customer loans in the United States, Brazil, and Europe can be found in Note 4 Customer Financing Programs of this Form 10-Q. Except as described in that note, there have been no significant changes to guarantees made by Monsanto since Aug. 31, 2011. Disclosures regarding these guarantees made by Monsanto can be found in Note 26 Commitments and Contingencies of the notes to the consolidated financial statements contained in Monsanto's Report on Form 10-K/A for the fiscal year ended Aug. 31, 2011.

**NOTE 22. SEGMENT INFORMATION**

Monsanto conducts its worldwide operations through global businesses, which are aggregated into reportable segments based on similarity of products, production processes, customers, distribution methods and economic characteristics. The operating segments are aggregated into two reportable segments: Seeds and Genomics and Agricultural Productivity. The Seeds and Genomics segment consists of the global seeds and related traits businesses and biotechnology platforms. Within the Seeds and Genomics segment, Monsanto's significant operating segments are corn seed and traits, soybean seed and traits, cotton seed and traits, vegetable seeds and all other crops seeds and traits. In February 2011, the company reorganized the operating segments within our Agricultural Productivity reportable segment as a result of a change in the way the Chief Executive Officer, who is the chief operating decision maker, evaluates the performance of operations, develops strategy and allocates capital resources. The ROUNDUP and other glyphosate-based herbicides operating segment and the all other agricultural products operating segments within Agricultural Productivity were combined into one operating segment titled Agricultural Productivity representing our weed management platform and supporting our Seeds and Genomics business. The change in operating segments had no impact on the company's reportable segments. The historical segment disclosures have been recast. EBIT is defined as earnings (loss) before interest and taxes and is an operating performance measure for the two reportable segments. EBIT is useful to management in demonstrating the operational profitability of the segments by excluding interest and taxes, which are generally accounted for across the entire company on a consolidated basis. Sales between segments were not significant. Certain SG&A expenses are allocated between segments based on activity. Based on the Agricultural Productivity segment's relative contribution to total Monsanto operations, the allocation percentages were changed at the beginning of fiscal year 2011 and remain consistent for fiscal year 2012.

Data for the Seeds and Genomics and Agricultural Productivity reportable segments, as well as for Monsanto's significant operating segments, is presented in the table that follows:

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)**

(Dollars in millions)

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2012	2011	2012	2011
<b>Net Sales<sup>(1)</sup></b>				
Corn seed and traits	\$ 1,515	\$ 1,123	\$ 5,226	\$ 4,134
Soybean seed and traits	698	605	1,629	1,446
Cotton seed and traits	490	487	750	