DEERE & CO
Form 10-K
December 19, 2006

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED OCTOBER 31, 2006

Commission file number 1-4121

DEERE & COMPANY

(Exact name of registrant as specified in its charter)

Delaware (State of incorporation)		**36-2382580** (IRS Employer Identification No.)
One John Deere Place, Moline, Illinois (Address of principal executive offices)	**61265** (Zip Code)	**(309) 765-8000** (Telephone Number)

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

Title of each class	**Name of each exchange on which registered**
Common stock, $1 par value	New York Stock Exchange
8.95% Debentures Due 2019	New York Stock Exchange
8-1/2% Debentures Due 2022	New York Stock Exchange
6.55% Debentures Due 2028	New York Stock Exchange

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

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

Yes x No o

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

Yes o No x

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

Yes x No o

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

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

Yes o No x

The aggregate quoted market price of voting stock of registrant held by nonaffiliates at April 30, 2006 was $20,594,210,725. At November 30, 2006, 227,532,167 shares of common stock, $1 par value, of the registrant were outstanding. *Documents Incorporated by Reference*. Portions of the proxy statement for the annual meeting of stockholders to be held on February 28, 2007 are incorporated by reference in Part III.

PART I

ITEM 1. BUSINESS.

Products

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

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

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

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

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

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

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

Additional information is presented in the discussion of business segment and geographic area results on pages 19 and 20. The John Deere enterprise has manufactured agricultural machinery since 1837. The present Company was incorporated under the laws of Delaware in 1958.

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

Market Conditions and Outlook

The Company s equipment sales are projected to be roughly flat for the full year and to increase approximately 5 percent for the first quarter of 2007, compared to the same periods in 2006. Consistent with ongoing asset management initiatives, production levels are expected to be down about 4 percent for both the year and first quarter. Construction and forestry production in the United States and Canada is expected to be down about 16 percent in the first quarter. Based on the above, net income is forecast to be around $1.325 billion for the year and in a range of $150 million to $175 million for the first quarter.

Agricultural Equipment. Worldwide farm economic conditions remain quite promising. Demand for crops is benefiting from a global population that is gaining in both size and affluence, and from a sharp rise in the use of renewable fuels in the United States and other parts of the world. Prices for key farm commodities have surged recently and worldwide carryover stocks for wheat and corn are at 30 year lows in relation to consumption. Nevertheless, fiscal 2007 sales in the United States and Canada are expected to get off to a slow start as a result of higher than desired used equipment inventories and customer uncertainty regarding the direction of United States farm legislation. In addition, farmers concerns over the sustainability of the recent commodity price rally, and with respect to input costs, are expected to weigh on 2007 sales. Based on these factors, the Company projects that industry retail sales in the United States and Canada will be roughly flat for the year.

In Western Europe, industry retail sales are forecast to be flat to down slightly for the year due to the effect of a higher value-added tax in Germany and further farm consolidation. Following the sharp downturn of the last two years, industry sales in South America are expected to be down about 10 percent for 2007. The forecast reduction is primarily related to uncertainty over government sponsored financing programs in Brazil. Sales in Australia are expected to be down by nearly 25 percent for the year, due in large part to the effect of serious drought on the nation s wheat crop.

Based on these factors and market conditions, worldwide sales of John Deere agricultural equipment are forecast to increase by about 4 percent for full year 2007. First quarter sales are expected to rise by about 10 percent, being driven by new products in Europe and by a late calendar year 2006 sales pickup in Germany, expected in advance of the value-added tax hike on January 1. Farm machinery production in the United States and Canada is expected to be down approximately 8 percent for the first quarter in comparison with the same period a year ago.

Commercial & Consumer Equipment. John Deere commercial and consumer equipment sales are forecast to be up about 4 percent for the year. Growth in the landscapes operations and the successful introduction of new products are expected to more than offset the impact of a softer market for residential housing.

Construction & Forestry. Markets for construction and forestry equipment are expected to see a slowdown in 2007. While nonresidential spending is forecast for further improvement, residential housing construction is expected to be lower. In this environment, the Company s worldwide sales of construction and forestry equipment are forecast to decrease by about 5 percent for fiscal 2007.

Credit. Full year 2007 net income for Deere s credit operations is forecast to be approximately $345 million. The expected improvement is being driven by growth in the credit portfolio, largely offset by higher selling and administrative expenses in support of division growth initiatives.

2006 Consolidated Results Compared with 2005

Worldwide net income in 2006 was $1,694 million, or $7.18 per share diluted ($7.26 basic), compared with $1,447 million, or $5.87 per share diluted ($5.95 basic), in 2005. Income from continuing operations, which excludes the Company s discontinued health care business (see Note 2), was $1,453

million, or $6.16 per share diluted ($6.23 basic) in 2006, compared to $1,414 million, or $5.74 per share diluted ($5.81 basic) last year. Net sales and revenues from continuing operations increased 5 percent to $22,148 million in 2006, compared with $21,191 million in 2005. Net sales of the Equipment Operations increased 2 percent in 2006 to $19,884 million from $19,401 million last year. This included a positive effect for price changes of 3 percent. Equipment net sales in the United States and Canada increased 3 percent in 2006. Net sales outside the United States and Canada increased by 2 percent, which included a negative effect of 1 percent for currency translation.

Worldwide Equipment Operations had an operating profit of $1,905 million in 2006, compared with $1,842 million in 2005. Higher operating profit was primarily due to improved price realization and lower retirement benefit costs. Partially offsetting these factors were increased raw material costs, higher selling and administrative expenses, the impact of lower shipping volumes and increased spending for research and development.

The Equipment Operations net income was $1,089 million in 2006, compared with $1,096 million in 2005. The same operating factors mentioned above along with the expense related to the repurchase of certain outstanding debt securities and higher effective tax rates affected these results.

Net income of the Company s Financial Services operations in 2006 increased to $584 million, compared with $345 million in 2005, primarily due to the sale of the health care operations. Income from the Financial Services continuing operations in 2006 was $344 million, compared with $312 million in 2005. The increase was primarily a result of growth in the credit portfolio, partially offset by a higher provision for credit losses. Additional information is presented in the following discussion of the credit operations.

Income from discontinued operations was $241 million in 2006, or $1.02 per share diluted ($1.03 basic), compared to $33 million, or $.13 per share diluted ($.14 basic), last year. The increase was primarily due to the previously mentioned sale of the health care operations.

The cost of sales to net sales ratio for 2006 was 77.3 percent, compared to 78.2 percent last year. The decrease was primarily due to improved price realization and lower retirement benefit costs, partially offset by higher raw material costs and lower shipping volumes.

Finance and interest income, and interest expense increased this year primarily due to growth in the credit operations portfolio and higher financing rates. Other income increased this year primarily due to investment income from marketable securities, insurance premiums for extended warranties, crop insurance commissions and service income. Research and development costs increased this year due to a large number of new products. Selling, administrative and general expenses increased primarily due to growth, share-based compensation expense and the provision for credit losses. Other operating expenses were higher primarily as a result of the expense related to the repurchase of outstanding notes (see Note 3), extended warranty claims, depreciation related to a higher level of equipment on operating leases, and service expenses.

The Company has several defined benefit pension plans and defined benefit health care and life insurance plans. The Company s postretirement benefit costs for these plans in 2006 were $447 million, compared to $538 million in 2005. The long-term expected return on plan assets, which is reflected in these costs, was an expected gain of 8.4 percent in 2006 and 8.5 percent in 2005, or $795 million in 2006, compared to $744 million in 2005. The actual return was a gain of $1,364 million in 2006, compared to a gain of $1,057 million in 2005. In 2007, the expected return will be approximately 8.4 percent. The total unrecognized losses related to the plans at October 31, 2006 and 2005 were $3,693 million and $3,969 million, respectively. The Company expects postretirement benefit costs in 2007 to be approximately the same as 2006. The Company makes any required contributions to the plan assets under applicable regulations and voluntary contributions from time to time based on the Company s liquidity and ability to make tax-deductible contributions. Total Company contributions to the plans were $866 million in 2006 and $859 million in 2005, which include direct benefit payments for unfunded plans. These contributions also included voluntary contributions to the United States plan assets of $739 million in 2006 and $556 million in 2005. Total Company contributions in 2007 are expected to be approximately $443 million, including voluntary contributions to United States plan assets of approximately $340 million. See the following discussion of Critical Accounting Policies for more information about postretirement benefit obligations.

Additional information on 2006 results is presented on pages 18 - 20.

EQUIPMENT OPERATIONS

Agricultural Equipment

Sales of agricultural equipment, particularly in the United States and Canada, are affected by total farm cash receipts, which reflect levels of farm commodity prices, acreage planted, crop yields and the amount and timing of government payments. Sales are also influenced by general economic conditions, farm land prices, farmers debt levels, interest rates, agricultural trends, including the production of and demand for renewable fuels, energy costs and other input costs associated with farming. Other important factors affecting new equipment sales are the value and level of used equipment, including tractors, harvesting equipment, self-propelled sprayers and seeding equipment. Weather and climatic conditions can also affect buying decisions of equipment purchasers.

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

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

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

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

Commercial and Consumer Equipment

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

The division manufactures and sells walk-behind mowers in Europe under the SABO brand as well as the John Deere brand. The division also builds products for sale by mass retailers. Since 1999, the Company has built products for sale through The Home Depot. In 2006, the Company began selling products through Lowe s as well.

John Deere Landscapes, Inc., a unit of the division, distributes irrigation equipment, nursery products and landscape supplies primarily to landscape service professionals.

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

Seasonality. Retail demand for the division s equipment normally is higher in the second and third quarters. The division is pursuing a strategy of building and shipping as close to retail demand as possible. Consequently, production, shipping and retail sales normally will be proportionately higher in the second and third quarters of each year.

Construction and Forestry

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

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

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

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

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

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

Engineering and Research

John Deere makes large expenditures for engineering and research to improve the quality and performance of its products, and to develop new products. Such expenditures were $726 million or 3.7 percent of net sales of equipment in 2006, $677 million or 3.5 percent in 2005, and $612 million or 3.5 percent in 2004.

Manufacturing

Manufacturing Plants. In the United States and Canada, the Equipment Operations own and operate 19 factory locations and lease and operate another three locations, which contain approximately 27.3 million square feet of floor space. Of these 22 factories, 13 are devoted primarily to agricultural equipment, four to commercial and consumer equipment, two to construction and forestry equipment, one to engines, and two to hydraulic and power train components. Outside the United States and Canada, the Equipment Operations own and operate: agricultural equipment factories in Brazil, China, France, Germany, India, Mexico, the Netherlands and Russia; engine factories in Argentina, France, India and Mexico; a component factory in Spain; commercial and consumer equipment factories in Germany and the Netherlands; and forestry equipment factories in Finland and New Zealand. These factories outside the United States and Canada contain approximately 12.3 million square feet of floor space. The Equipment Operations also have financial interests in other manufacturing organizations, which include agricultural equipment manufacturers in China and the United States, an industrial truck manufacturer in South Africa, the Hitachi joint venture that builds hydraulic excavators and track log loaders in the United States and Canada and ventures that manufacture transaxles and transmissions used in certain commercial and consumer equipment division products.

The engine factories referred to above manufacture non-road, heavy duty diesel engines mostly for the Company s Equipment Operations; a significant number of these engines are sold to global original equipment manufacturers.

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

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

In order to utilize manufacturing facilities and technology more effectively, the Equipment Operations pursue continuous improvements in manufacturing processes. These include steps to streamline manufacturing processes and enhance responsiveness to customers. The Company has implemented flexible assembly lines that can handle a wider product mix and deliver products when dealers and

customers require them. Additionally, considerable effort is being directed to manufacturing cost reduction through process improvement, product design, advanced manufacturing technology, enhanced environmental management systems, supply management and logistics as well as compensation incentives related to productivity and organizational structure. The Company continues to experience raw materials and fuel cost pressures. The Company has offset and expects to continue to offset any increased costs through the above-described cost reduction measures and through pricing. Significant cost increases, if they occur, could have an adverse effect on our operating results. The Equipment Operations also pursue external sales of selected parts and components that can be manufactured and supplied to third parties on a competitive basis.

Capital Expenditures. The agricultural equipment, commercial and consumer equipment and construction and forestry operations capital expenditures totaled $481 million in 2006, compared with $465 million in 2005, and $346 million in 2004. Provisions for depreciation applicable to these operations property, plant and equipment during these years were $370 million, $349 million, and $333 million, respectively. Capital expenditures for the Equipment Operations in 2007 are currently estimated to be $570 million. The 2007 expenditures will relate primarily to the modernization and restructuring of key manufacturing facilities and will also relate to the development of new products. Future levels of capital expenditures will depend on business conditions.

Patents and Trademarks

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

Marketing

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

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

The sales branches in the United States and Canada market John Deere products at approximately 2984 dealer locations, most of which are independently owned. Of these, approximately 1577 sell agricultural equipment, while 537 sell construction, earthmoving, material handling and/or forestry equipment. Nortrax owns some of the 537 locations. Commercial and consumer equipment is sold by most John Deere agricultural equipment dealers, a few construction, earthmoving, material handling and forestry equipment dealers, and about 870 commercial and consumer equipment dealers, many of which also handle competitive brands and dissimilar lines of products. In addition, certain lawn and garden product lines are sold through mass merchandisers, including The Home Depot and Lowe s.

John Deere Landscapes operates its business from 287 branch locations throughout the United States and Canada.

John Deere engines are marketed through 13 independent engine distributors.

Outside the United States and Canada, John Deere agricultural equipment is sold to distributors and dealers for resale in over 130 countries. Sales branches are located in Argentina, Australia, Brazil, Germany, France, Hong Kong, India, Italy, Mexico, Poland, Russia, South Africa, Spain, Switzerland, Turkey, the United Kingdom, and Uruguay. Export sales branches are located in Europe and the United States. Associated companies doing business in China also sell agricultural equipment. Commercial and consumer equipment sales outside the United States and Canada occur primarily in Europe and Australia. Construction, earthmoving, material handling and forestry equipment is sold to distributors and dealers primarily by sales offices located in the United States, Brazil, Singapore and Finland. Some of these dealers are independently owned while the Company owns others.

Trade Accounts and Notes Receivable

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

FINANCIAL SERVICES

Credit Operations

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

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

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

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

The Company has an agreement with the Capital Corporation to make income maintenance payments to the Capital Corporation such that its ratio of earnings before fixed charges to fixed charges is not less than 1.05 to 1 for any fiscal quarter. For 2006 and 2005, the Capital Corporation s ratios were 1.60 to 1 and 1.88 to 1, respectively, and never less than 1.53 to 1 and 1.74 to 1 for any fiscal quarter of 2006 and 2005, respectively. The Company has also committed to continue to own at least 51 percent of the voting shares of capital stock of the Capital Corporation and to maintain the Capital Corporation s consolidated tangible net worth at not less than $50 million. The Company s obligations to make payments to the Capital Corporation under the agreement are independent of whether the Capital Corporation is in default on its indebtedness, obligations or other liabilities. Further, the Company s obligations under the agreement are not measured by the amount of the Capital Corporation s indebtedness, obligations or other liabilities. The Company s obligations to make payments under this agreement are expressly stated not to be a guaranty of any specific indebtedness, obligation or liability of the Capital Corporation and are enforceable only by or in the name of the Capital Corporation. No payments were necessary under this agreement in 2006 or 2005.

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

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

Capital Expenditures. The Credit Companies capital expenditures totaled $292 million in 2006, compared with $46 million in 2005, and $4 million in 2004. Provisions for depreciation applicable to these operations property, plant and equipment during these years were $8 million, $5 million, and $5 million respectively. Capital expenditures for the credit operations in 2007 are currently estimated to be $606 million. The increases in capital expenditures since 2004 have related primarily to wind energy generation.

Additional information on the Credit Companies appears on pages 19, 20 and 22.

ENVIRONMENTAL MATTERS

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

EMPLOYEES

At October 31, 2006, John Deere had approximately 46,500 full-time employees, including approximately 27,000 employees in the United States and Canada. From time to time, John Deere also retains consultants, independent contractors, and temporary and part-time workers. Unions are certified as bargaining agents for approximately 38 percent of John Deere s United States employees. Most of the Company s United States production and maintenance workers are covered by a collective bargaining agreement with the United Auto Workers (UAW), with an expiration date of September 30, 2009.

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

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name, age and office (at December 1, 2006), and year elected to office				**Principal occupation during last five years other than office of the Company currently held**
Robert W. Lane	57	Chairman, President and Chief Executive Officer	2000	Has held this position for the last five years
Samuel R. Allen	53	President, Worldwide Construction & Forestry and John Deere Power Systems	2005	2003-2005 President, Global Financial Services and Corporate Human Resources; 2001-2002 Senior Vice President Global Human Resources and Industrial Relations
David C. Everitt	54	President, Agricultural Division-North America, Australia, Asia and Global Tractor and Implement Sourcing	2006	2001-2006 President,, Agricultural Division-Europe, Africa, Middle East, South America and Global Harvesting Equipment Sourcing
James A. Israel	50	President, John Deere Credit	2006	2003-2006 Vice President, Marketing and Product Support, Europe, Africa and Middle East; 2000-2003 Senior Vice President, Worldwide Equipment Lending, John Deere Credit
James R. Jenkins	61	Senior Vice President and General Counsel	2000	Has held this position for the last five years
Nathan J. Jones	50	President, Worldwide Commercial and Consumer Division	2006	1997-2006 Senior Vice President and Chief Financial Officer
Michael J. Mack, Jr.	50	Senior Vice President and Chief Financial Officer	2006	2004-2006 Vice President and Treasurer; 2001-2004 Senior Vice President, Marketing & Administration, Worldwide Commercial & Consumer Equipment Division
H. J. Markley	56	President, Agricultural Division-Europe, Africa, South America and Global Harvesting Equipment Sourcing	2006	2001-2006 President, Agricultural Division-North America, Australia, Asia and Global Tractor and Implement Sourcing

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ITEM 1A. RISK FACTORS.

Governmental Actions. The Company s agricultural business is exposed to a variety of risks and uncertainties related to the action or inaction of governmental bodies. The outcome of the global negotiations under the auspices of the World Trade Organization could have a material effect on the international flow of agricultural commodities which may result in a corresponding effect on the demand for agricultural equipment in many areas of the world.

In the United States, the 2007 Farm Bill may significantly affect prices for farm commodities, particularly corn, cotton and rice, and this in turn could affect farmers demand for the Company s products and services.

The policies of the Brazilian government (including those related to exchange rates and commodity prices) could significantly change the dynamics of the agricultural economy in that country.

Changing Demand for Farm Outputs. Changing worldwide demand for food and the demand for different forms of bio-energy could have an effect on prices for farm commodities and consequently the demand for the Company s agricultural equipment.

Globalization. The continuing globalization of agricultural businesses may significantly change the dynamics of the Company s competition, customer base and product offerings. The Company s efforts to grow its businesses depend to a large extent on its success in developing geographic markets.

Economic Condition and Outlook. General economic conditions can affect the demand for the Company s equipment as well. Negative economic conditions or a negative outlook, for example, can decrease housing starts and other construction and dampen demand for equipment. Weakness in the overall farm economy can have a similar effect on agricultural equipment sales.

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

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

Raw Material Costs. Changes in the availability and price of raw materials (such as steel, rubber and fuel) used in the production of the Company s equipment could have an effect on its costs of production and, in turn, on the success of the business.

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

The risks identified above should be considered in conjunction with Management s Discussion and Analysis beginning on page 18, and, specifically, the other risks described in the Safe Harbor Statement on pages 20 and 21. The Company s results of operations may be affected by these identified risks and/or by risks not currently contemplated.

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ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

See Manufacturing in Item 1.

The Equipment Operations own 13 facilities housing sales branches, one centralized parts depot, regional parts depots, transfer houses and warehouses throughout the United States and Canada. These facilities contain approximately 4.3 million square feet of floor space. The Equipment Operations also own and occupy buildings housing sales branches, one centralized parts depot and regional parts depots in Australia, Brazil, Europe and New Zealand. These facilities contain approximately 1.0 million square feet of floor space.

Deere & Company administrative offices and research facilities, all of which are owned by John Deere, together contain about 2.5 million square feet of floor space and miscellaneous other facilities total 1.0 million square feet.

Overall, the Company owns approximately 48.1 million square feet of facilities and leases approximately 8.7 million additional square feet in various locations.

ITEM 3. LEGAL PROCEEDINGS.

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

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

None.

PART II

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

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

(b) Not applicable

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(c) The Company s purchases of its common stock during the fourth quarter of 2006 were as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	**Total Number of Shares Purchased (thousands)**	**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) (thousands)**	**Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs (1) (millions)**
Aug 1 to Aug 31	1,712	$72.31	1,712	13.0
Sept 1 to Sept 30	1,860	79.32	1,860	11.2
Oct 1 to Oct 31	880	82.94	880	&nb