The Cooperative
Accounting for Brand Equity

Honors Thesis

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VITA

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FIELDS OF STUDY

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CHAPTER 1

INTRODUCTION AND PROBLEM STATEMENT

1.1 INTRODUCTION AND RATIONALE

The Capper-Volstead Act of 1922 established the cooperative business form, declaring that individuals could incorporate as a cooperative without violating anti-trust laws so long as members were agricultural producers, each member had only one vote or dividends on equity were less than 8%, business conducted with cooperative nonmembers was less than 50% of total business, and the prices of the products marketed by the cooperative were not unjustifiably enhanced (Barton 2-22). The cooperative exists to allow members to, "…unite to get a fair price; reduce costs through economies of size and coordination; provide markets, supplies and services that are missing or in danger of being lost; pool risk; capture profits from another level; and benefit from increased market power" (Barton 1-17).

According to the USDA, "A cooperative is a user-owned and controlled business form from which benefits are derived and distributed equally on the basis of use" (Barton 1-7). The cooperative business form is distinguished from a sole proprietorship, partnership, or corporation because of requirements that it is owned by users or members, owners democratically control the entity on a one-member, one-vote basis, and the basis of net income distribution is use, not ownership of the entity. All cooperatives have patrons, owners, and members. A patron is an individual or entity that regularly uses the cooperative and receives a portion of cooperative net income based on use. An owner is an individual or entity that has made an equity investment in the cooperative. A member is an individual or entity that posses the right to vote on significant cooperative matters. In the simplest cooperative form, called a "pure cooperative" (Barton 1-13), all patrons are also owners and members. Throughout the remainder of this paper, a pure cooperative perspective has been adopted, and the term member is used to refer to cooperative patron-owner-members.

Cooperatives are private businesses, and most are chartered under a state incorporation statute as either a capital stock or noncapital stock organization. Under capital stock organization, cooperative capital is split among shares of common stock which are owned by members. Heavy restrictions are often placed on cooperative common stock transferability in order to limit ownership to members. Purchase of one common stock share may be a requirement for cooperative membership. Nonstock cooperatives issue membership certificates to members upon receipt of membership fees in order to raise equity capital. Additionally, nonstock cooperatives will issue capital certificates to supplement the equity capital gained through membership certificates (Cropp). Only qualified members can purchase common stock or membership certificates and become owners, and only qualified members control the cooperative. Nonmembers can patronize the cooperative so long as their business composes less than 50% of the business attributable to a given cooperative. However, nonmembers have no organization ownership or control. Nonmembers can only make passive equity investments with the understanding that the cooperative's primary reason for operation is its members, not its investors. Returns are distributed to passive investors on the basis of past patronage, not on level of investment; therefore, passive investing in a cooperative generally does not appear desirable, and cooperatives are left to rely heavily on members to supply required equity capital (Bostrom). Cooperative members are limited in the amount of equity capital they are able to contribute, causing equity capital sources in total to be limited.

Cooperative capital structure is composed of both equity and debt. Historically, cooperative assets have been between 40% and 50% equity financed (Peterson 14-12), implying that between 50% and 60% of cooperative assets have been debt financed. Of the total amount of debt financing, long term borrowed capital composes approximately 30% of the total capital structure while other liabilities such as accounts payable and accruals compose about 29% of the total (Peterson 14-4). Cooperative ability to retain debt capital is based on the health of its balance sheet and income statement, availability of collateral, management quality, and member support (Peterson).

Cooperative capital sources for investment projects are limited. Equity is limited because of member constraints, and debt is limited to a prudent percentage of total financing. The remainder of this paper focuses on the ability of cooperatives to have access to more significant levels of capital. More specifically, the primary purpose of this paper is to evaluate whether or not brand equity should be recorded as an asset by an organization's accounting system based on Generally Accepted Accounting Principles [GAAP]. Many cooperatives, such as Ocean Spray, Sunkist, Welch's, and Land O' Lakes, invest heavily in developing and maintaining brand recognition. Current accounting standards require that all amounts expended on brand recognition development and maintenance are expensed in the period they are incurred rather than be capitalized and impaired as the benefits associated with the expenditures deteriorate. Current accounting standards do not allow value associated with any particular brand name to be capitalized as an asset unless the asset was purchased, and thus valued, in an arm's-length transaction. Capitalization of costs associated with building and maintaining brand equity would simultaneously increase a cooperative's total assets and net income. Net income would increase because brand development costs formerly expensed every period will be capitalized and therefore have no impact on income. Increased net income will result in greater distributions to members and in greater internally generated, retained capital. If brand equity costs are capitalized as the brand is developed, net income will only be affected if the value of the brand equity asset is determined to be impaired, and therefore needs to be written down. The increase in total assets created by capitalization of brand equity results in increased available collateral, and increased collateral allows the cooperative increased access to debt capital.

1.2 RESEARCH PROBLEM

The primary issue addressed in this paper is whether or not brand equity should be recorded as an asset by an organization's accounting system based on GAAP.

1.3 RESEARCH PREMISE

The overall objective of this paper is to determine whether or not brand equity is an asset. Many groups interested in entity valuation believe that brand equity should be considered an asset by the accounting system; however, accounting professionals indicate through current accounting standards that they possess a belief to the contrary.

1.4 RESEARCH OBJECTIVES

In order to address the overall objective of this paper, research must yield answers to the following specific questions:

1. What are the overall objectives of the accounting system based on GAAP?
2. How do the overall objectives of the accounting system based on GAAP effect asset recognition?
3. What are the conditions in the current financial reporting environment?
4. Based on findings from questions 1, 2, and 3, should brand equity be recognized as an asset?
5. What are the implications of these findings for the cooperative?

1.5 RESEARCH SIGNIFICANCE

Research of this topic is significant in its ability to allow individuals to more fully understand capital sources available to cooperatives. Conflicting opinions currently exist as to whether or not brand equity is substantively an asset; therefore, examination of this issue will result in a conclusive understanding of the accounting classification of brand equity and the implication of that classification on capital sources.

1.6 ORGANIZATION OF RESEARCH

Chapter 1 has offered an introduction, rationale, and overview for the research to be presented in this paper. Chapter 2 addresses objectives of the accounting information system. Chapter 3 assesses current financial reporting environment relating to intangible assets. Chapter 4 communicates research conclusions and implications for the cooperative organization.

CHAPTER 2

ACCOUNTING OBJECTIVES

Cooperative accounting standards are generally the same as those used by other business entities (Peterson 12-7). Accounting standards are promulgated by the Financial Accounting Standards Board [FASB] and are referred to as Generally Accepted Accounting Principles [GAAP]. Compare exhibits 1, 2, and 3 to exhibits 4, 5, and 6 in order to see that the reporting requirements for Sunkist Growers, Inc., a cooperative, are essentially the same as those for Deere & Company, a publicly traded corporation. However, Deere & Company lists "Goodwill" and "Other Intangibles" as assets while Sunkist Growers, Inc. has no such asset line items on its balance sheet. The underlying reason for the difference between the two companies is not related to business form, but rather to the nature of the transaction that gives rise to intangible assets. This chapter is written to aid understanding of the nature of transactions that do give rise to intangible assets under GAAP. Current accounting practice is based first on theory, and then on accounting standards. Understanding of both is necessary to determining whether or not brand equity should be recognized as an asset.

2.1 THEORY OF ACCOUNTING

In 1973 the Executive Committee of the American Accounting Association commissioned the Committee on Concepts and Standards for External Financial Reports to develop a document that contained current thoughts on accounting theory. In response to their assignment, the committee developed a Statement on Accounting Theory and Theory Acceptance. Rather than communicate one, agreed upon theory of accounting for external financial reporting, the statement describes three basic theoretical approaches to accounting that were held at the time. According to the committee, "At a very general level, accounting writers appear to agree that the central purpose of financial accounting is the systematic provision of economic data about reporting entities" (Committee 1). The bases for the differences among the three basic theoretical approaches are the specifications for users of the accounting data and the different environments perceived in which both accounting data users and preparers behave (Committee). It is apparent that these conflicting ideas regarding accounting theory exist in the present.

2.1.1 CLASSICAL

The classical approach to accounting theory has two schools of thought. The normative deductive school bases an approach on, "…the neoclassical economic theory of the firm, in which historical costs are ignored entirely" (Committee 6). Normative deductivists believe that users want information, or should want information, on current value, not on historical cost. While normative deductivists attempt to implicitly develop accounting models, the inductive school of thought observes current accounting practice to see where change is necessary. Generally, inductivists reject the idea of using current value because it is not verifiable (Committee).

2.1.2 DECISION USEFULNESS

The decision usefulness approach to accounting theory is based on the belief that, "The primary objective of accounting is to provide financial information about the economic affairs of an entity to interested parties for use in making decisions" (Committee 13). In order to be useful, information must be relevant and reliable. Additionally, the information should be objective, verifiable, free from bias, and accurate. Understanding, comparability, and timeliness are also important attributes in order for information to be useful (Committee 13).

2.1.3 INFORMATION ECONOMICS

The information economics approach to accounting theory is based on the belief that accounting provides information to users, that information is an economic good, and that the economic good of information is valuable (Committee 21). "The information content perspective, the notion that accounting is designed to provide information, views accounting as using the language and algebra of valuation but for the purpose of conveying information. The 'information content' approach stresses the importance of a formal measurement system that well conveys information. The information content school…views the financial measures as measures of informative events, not of value" (Christensen 4).

2.2 ACCOUNTING STANDARDS

The Financial Accounting Standards Board [FASB] is a private sector organization recognized by the American Institute of Certified Public Accountants [AICPA] that establishes standards of financial accounting and reporting, otherwise known as GAAP (FASB Facts). In November of 1978, the FASB issued Concept Statement No. 1, the first in a series of Statements of Financial Accounting Concepts, with the purpose of establishing widespread understanding of the, "…fundamentals on which financial accounting and reporting standards will be based." This section discusses some of the fundamentals established in the concept statements issued by the FASB and their application to asset recognition.

2.2.1 OBJECTIVES OF FINANCIAL REPORTING

The FASB provides in Concept Statement No. 1 that, "Financial reporting is not an end in itself but it is intended to provide information that is useful in making business and economic decisions." External financial reporting provides approximate, general purpose financial information regarding individual companies based on historical information. External financial reports are believed to be one of many financial information sources required by decision makers. Specific objectives of external financial reporting outline in FASB Concept Statement No. 1 are (1) it should, "…provide information that is useful…, (2) provide information to help…in assessing the amounts, timing, and uncertainty of prospective cash receipts…, (3) provide information about the economic resources of an enterprise, the claims to those resources, and the effects of transactions, events, and circumstances that change its resources and claims to those resources."

Further, in Concept Statement No. 2, the FASB states that relevance and reliability are required for accounting information to be useful for decision making. In order to be relevant, timeliness and predictive value are necessary. In order to be reliable, information must be free of error or bias, be verifiable, and be neutral. Information usefulness for decision making is further improved when information is comparable and consistent.

The FASB's objectives of financial reporting indicate the assumption of an information economics foundation, as it states that the very purpose of the activity of reporting is to provide information. However, the FASB's objectives also indicate that, beyond its information economics foundation, it recognizes and implements the decision usefulness approach in its regulatory requirements, as it states that the information communicated through financial reporting should be useful in making decisions. "The frameworks [Concept Statements] rely on three central features: Information is being provided; this information is conveyed using the language and algebra of valuation; and this information perspective can be well articulated with or by 'qualitative characteristics' of that information." (Christensen 426). An information content perspective cannot always be adequately conveyed using qualitative characteristics of information because qualitative characteristics cannot adequately describe the value of information in setting with many decision alternatives. However, the Concept Statements, authored by a regulatory institution, are a broad policy declaration not meant to be binding or complete. Therefore, although vague, the framework laid out by the Concept Statements provides a somewhat useful guideline based on an information economics approach to accounting.

2.2.2 ASSET RECOGNITION

According to FASB Concept Statement No. 5, "An item and information about it should meet four fundamental recognition criteria to be recognized and should be recognized when the criteria are met, subject to a cost-benefit constraint and a materiality threshold." The recognition criteria require that the information is relevant, reliable, measurable, and the item meets its definition as a financial statement element.

Therefore, an item should be recognized and recorded as an asset when information concerning the item is relevant, reliable, measurable, and the item meets the definition of an asset as outlined in section 2.3.1 below.

2.3 DEFINITIONS

Critical to comprehension of the asset recognition process as related to brand equity is an understanding of the definitions below.

2.3.1 ASSET

FASB Concept Statement No. 6 provides that, "Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events." Footnote 18 of Concept Statement No. 6 goes on to state that probable, as used in the definition of assets, refers, "…to that which can reasonably be expected or believed on the basis of evidence or logic but is nether certain nor proved."

2.3.2 INTANGIBLE ASSET

FASB Financial Accounting Standard 142 defines intangible assets as, "Assets [not including financial assets] that lack physical substance." In a business combination as outlined in Financial Accounting Standard 141, intangible assets are recognized individually, apart from goodwill, when the asset is the result of a legal right or when the asset is otherwise separable from goodwill because it can be, "…sold, transferred, licensed, rented, or exchanged…individually…or in combination with a related contract, asset, or liability."

FASB Financial Accounting Standard 142 defines goodwill as, "The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed."

2.3.3 BRAND EQUITY

Brand equity can be defined as, "…the incremental cash flows which accrue to branded products over and above the cash flows which would result from the sale of unbranded products" (Simon 1).

CHAPTER 3

CURRENT ENVIRONMENT

The current financial reporting environment has been effected by the Sarbanes-Oxley Act of 2002, financial reporting standards issued by the FASB, and by recent developments within the FASB.

3.1 IMPLICATIONS OF SARBANES – OXLEY LEGISLATION

The Sarbanes–Oxley Act of 2002 only applies to publicly traded companies; however, it does speak to the condition of the current financial reporting environment. The law was created to address corporate governance and accountability and also to address the accountability of auditors for the relevance, reliability, and transparency of external financial reports. The Sarbanes-Oxley Act does not directly speak to accounting for intangible assets; however, in Section 401 it does state that, "… the Commission shall issue final rules providing that each annual and quarterly financial report required to be filed with the Commission shall disclose all material off-balance sheet transactions, arrangements, obligations [including contingent obligations], and other relationships of the issuer with unconsolidated entities or other persons, that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues or expenses." The intent of the law is relevant, reliable, and transparent financial reporting; however, the major concern of the law appears to be with understated liabilities rather than with potentially understated assets as the result of unrecognized intangible assets like brand equity.

3.2 ACCOUNTING STANDARDS FOR INTANGIBLE ASSETS

Current accounting standards related to recognizing and recording intangible assets include Financial Accounting Standard 141, Business Combinations, and Financial Accounting Standard 142, Goodwill and Other Intangible Assets.

Under Financial Accounting Standard 141, goodwill and separately identifiable intangibles are recognized as assets in a business combination. A description of separately identifiable intangibles can be found in section 2.3.2. Post-acquisition, these intangible assets are accounted for according to Financial Accounting Standard 142.

Under Financial Accounting Standard 142, intangible assets acquired through a type of transaction other than a business combination are initially recognized and measured based on fair value. Fair value refers to the value spent or received for the asset in an arm's-length transaction. If a group of assets is acquired through some means other than a business combination, the cost of each is allocated based on relative fair values, resulting in no recognized goodwill. If a recognized intangible asset has a definite useful life, it is amortized systematically. However, if the recognized intangible asset has an indefinite useful life, it is not amortized. The balances of both types of recognized intangible assets must be tested for impairment at least annually. Goodwill is never amortized, and must be periodically tested for impairment. Most important to this paper, Financial Accounting Standard 142 states that, "Costs associated with internally developing, maintaining, or restoring intangible assets that are not specifically identifiable, that have indeterminate lives, or that are inherent in a continuing business and related to an entity as a whole, shall be recognized as an expense when incurred."

3.3 RECENT DEVELOPMENTS

The FASB considered developing standards that would improve information disclosure concerning intangibles not recognized in the financial statements. However, the FASB removed this item from its technical agenda, and it is currently not being considered for action (FASB Agenda).

CHAPTER 4

SUMMARY, CONCLUSION, AND IMPLICATIONS

4.1 SUMMARY

Many cooperatives spend significant resources on developing and maintaining brand name recognition in order to secure future revenues. However, brand equity is not listed as an asset on cooperative balance sheets. Cooperatives have limited access to capital; however, capitalization of significant brand equity could provide a significant new source of both debt and equity capital.

An individual's selection of an approach to accounting theory determines what he or she expects to get out of the accounting information system. Many individuals interested in firm valuation take a classical approach to accounting theory. However, the FASB has adopted an information content approach, using decision usefulness as a rule of thumb in its Conceptual Framework. The information content approach signifies that the FASB does not expect accounting to be a valuation tool, but that it does expect accounting to be a source of information. FASB financial reporting requirements reflect its selected accounting theory approach.

In order for an item to be recognized as an asset it must meet the definition of an asset, meaning it must provide a probable future benefit, be controlled by the entity, and be the result of a past event or transaction. The item also must be relevant [verifiable, free of error, and free of bias], reliable [timely and posses predictive value], and measurable.

The current financial reporting environment does not indicate that internally generated intangible assets, such as the brand equity generated by cooperatives, should be capitalized as an asset. Recent FASB developments are not favorable for developing standards allowing capitalization or even requiring disclosure of internally generated intangible assets. However, intangible acquired by a cooperative in a transaction are generally recognized as assets and capitalized.

4.2 CONCLUSIONS

This research conclusively finds that brand equity should not be recorded as an asset by an organization's accounting information system based on Generally Accepted Accounting Principles. While brand equity does meet the definition of an asset (i.e., it provides a probable future benefit, it is controlled by the entity, and it is the result of a past event or transaction), it does not meet the remaining requirements for recognition. The argument that information on brand equity is relevant can be put forth soundly, and methods used to arrive at a measurement of brand equity have been developed over the past decade (Simon). However, brand equity measurement information is not reliable as it cannot be verified as there is not available market for unique brand equity, and the measurement is subject to bias as well as to significant error. Therefore, brand equity falls short of asset recognition requirements under Generally Accepted Accounting Principles.

4.3 IMPLICATIONS FOR COOPERATIVES

Brand equity is not eligible to be recognized as an asset under Generally Accepted Accounting Principles. Therefore, cooperatives do not have the opportunity to access increased capital sources through capitalization of expenditures related to development and maintenance of brand equity.

EXHIBIT 1
Sunkist 2004 Annual Report Excerpt

Sunkist Growers, Inc. and Subsidiaries
Consolidated Statements of Operations and Comprehensive (Loss) Income

For the Years Ended October 31, 2004 and 2003

In thousands of dollars	2004	2003
Operations and Comprehensive (Loss) Income		
Revenues:		
Fresh fruit sales, all varieties:		
Domestic	$ 587,083	$ 525,049
Export	229,334	219,258
Total fresh fruit sales	816,417	744,307
Fruit products, all varieties	38,055	56,439
Gain on sale of property and equipment	2,812	23,593
Transportation revenues	77,214	81,205
Royalty income	20,958	19,857
Sales and lease of packinghouse equipment	10,214	8,315
Other revenues	9,279	8,212
Total Revenues	974,949	941,928
Costs and Expenses:		
Production costs of fruit products sold	28,785	36,416
Payments on products fruit delivered and sold	7,362	8,447
Costs of sale and lease of packinghouse equipment	5,971	1,990
General administrative & other expenses	66,393	69,126
Transportation expenses	77,518	81,940
Advertising & promotion expenses	14,433	16,638
Depreciation & amortization expenses	5,954	6,146
Total Costs and Expenses	206,416	220,703
Revenues in Excess of Costs and Expenses	768,533	721,225
Payments to Members	779,395	700,060
Payments on products fruit delivered and sold included in Costs and Expenses	(7,362)	(8,447)
Payments to members – net of payments on products fruit delivered and sold	772,033	691,613
Retained (Loss) Income Before Income Tax Expense	(3,500)	29,612
Income Tax Expense	3,464	1,993
Retained (Loss) Income	(6,964)	27,619
Other Comprehensive (Loss) Income		
Foreign currency translation adjustment	(4)	(9)
Additional minimum pension liability	(1,964)	(464)
Comprehensive (Loss) Income	$ (8,932)	$ 27,146

Changes in Members' Equity

	Capital Fund	Accumulated Other Comprehensive Loss	Unallocated Retained Earnings	Total
Balance, October 31, 2002	$ 4,263	$ (6,211)	$ 51,628	$ 49,680
Net capital fund refund	(196)	-	-	(196)
Foreign currency translation adjustment	-	(9)	-	(9)
Additional minimum pension liability	-	(464)	-	(464)
Reclassification of payables to members to retained earnings	-	-	1,200	1,200
Retained income for 2003	-	-	27,619	27,619
Balance, October 31, 2003	4,067	(6,684)	80,447	77,830
Net capital fund refund	(110)	-	-	(110)
Foreign currency translation adjustment	-	(4)	-	(4)
Additional minimum pension liability	-	(1,964)	-	(1,964)
Retained loss income for 2004	-	-	(6,964)	(6,964)
Balance, October 31, 2004	$ 3,957	$ (8,652)	$ 73,483	$ 68,788

See accompanying notes to consolidated financial statements.

EXHIBIT 2
Sunkist 2004 Annual Report Excerpt

Sunkist Growers, Inc. and Subsidiaries
Consolidated Statements of Financial Position

October 31, 2004 and 2003

In thousands of dollars	2004	2003
Assets:		
Current Assets:		
Cash and cash equivalents	$ 11,619	$ 6,291
Receivables – trade and other – net	68,632	61,146
Advances in excess of margins earned	10,027	11,210
Inventory – net	27,108	34,320
Prepaid expenses	2,210	886
Total Current Assets	119,596	113,853
Investments	11,362	12,104
Property – net	34,402	38,042
Other Assets	9,908	15,619
Total Assets	$ 175,268	$ 179,618
Liabilities and Members' Equity		
Current Liabilities:		
Short-term obligations	$ 11,281	$ 1,334
Trade payables and other accrued liabilities	23,020	22,714
Payables to members:		
Fresh fruit proceeds	53,818	41,664
Product pools	2,745	11,220
Other	152	377
Total payables to members	56,715	53,261
Total Current Liabilities	91,016	77,309
Long-term Obligations	15,464	24,479
Commitments and Contingencies		
Members' Equity		
Capital fund	3,957	4,067
Accumulated other comprehensive loss	(8,652)	(6,684)
Unallocated retained earnings	73,483	80,447
Members' Equity	68,788	77,830
Total Liabilities and Members' Equity	$ 175,268	$ 179,618

See accompanying notes to consolidated financial statements.

EXHIBIT 3
Sunkist 2004 Annual Report Excerpt

Sunkist Growers, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

For the Years Ended October 31, 2004 and 2003

In thousands of dollars	2004	2003
Cash flows from operating activities:		
Retained (loss) income	$ (6,964)	$ 27,619
Adjustments to reconcile retained (loss) income to net cash provided by operating activities:		
Depreciation and amortization	5,954	6,146
Provision for contract termination costs	-	2,440
Provision for employee severance accrual	-	2,518
Provision for losses on trade receivables	275	32
Deferred income taxes	(343)	19
Change in inventory reserve	5,049	(2,389)
Gain on sale of property and equipment	(2,812)	(23,593)
Unrealized gain on investments	(211)	(576)
Changes in assets and liabilities:		
Receivables	(7,746)	9,387
Advances in excess of margins earned	1,183	(522)
Investments	(241)	(1,698)
Inventory	2,163	(7,396)
Prepaid expenses	(1,324)	168
Other assets	5,428	10,055
Trade payables and other accrued liabilities	645	(6,119)
Payables to members	3,329	1,366
Deferred compensation and pension obligation	(696)	(1,473)
Net cash provided by operating activities	3,689	15,984
Cash flows from investing activities:		
Purchase of property	(5,661)	(7,342)
Dividend received	1,194	-
Construction of storage facility	-	(796)
Proceeds from sales of property	6,159	16,303
Net cash provided by investing activities	1,692	8,165
Cash flows from financing activities:		
Decrease in short-term obligations	(53)	(5,704)
Proceeds from long-term debt	-	495
Repayment of long-term debt	-	(25,318)
Net cash used in financing activities	(53)	(30,527)
Net increase (decrease) in cash and cash equivalents	5,328	(6,378)
Cash and cash equivalents at beginning of year	6,291	12,669
Cash and cash equivalents at end of year	$ 11,619	$ 6,291
Supplemental Disclosure of Cash Flow Information:		
Cash paid for:		
Interest	$ 282	$ 1,080
Income taxes	$ 2,185	$ 2,810
Supplemental disclosure of non-cash activities:		
Note received on sale of property	$ -	$ 7,486
Reclassification of payable to members to retained earnings	$ -	$ 1,200
Recognized additional pension liability	$ 1,681	$ 1,169
(Decrease) increase in pension intangible asset	$ (283)	$ 705
Reclassification of capital fund refund payable to members	$ (110)	$ (196)
Reclassification of long-term obligation to short-term	$ 10,000	$ -

See accompanying notes to consolidated financial statements.

EXHIBIT 4

Deere & Company 2004 Annual Report Excerpt

DEERE & COMPANY

STATEMENT OF CONSOLIDATED INCOME

For the Years Ended October 31, 2004, 2003 and 2002

(In millions of dollars except per share amounts)

	2004	2003	2002
Net Sales and Revenues			
Net sales	$ 17,673.0	$ 13,349.1	$ 11,702.8
Finance and interest income	1,195.7	1,275.6	1,339.2
Health care premiums and fees	766.2	664.5	636.0
Other income	351.2	245.4	269.0
Total	19,986.1	15,534.6	13,947.0
Costs and Expenses			
Cost of sales	13,567.5	10,752.7	9,593.4
Research and development expenses	611.6	577.3	527.8
Selling, administrative and general expenses	2,117.4	1,744.2	1,657.3
Interest expense	592.1	628.5	637.1
Health care claims and costs	650.3	536.1	518.4
Other operating expenses	333.5	324.5	410.3
Total	17,872.4	14,563.3	13,344.3
Income of Consolidated Group before Income Taxes	2,113.7	971.3	602.7
Provision for income taxes	708.5	336.9	258.3
Income of Consolidated Group	1,405.2	634.4	344.4
Equity in Income (Loss) of Unconsolidated Affiliates			
Credit	.6	.2	(3.8)
Other	.3	8.5	(21.4)
Total	.9	8.7	(25.2)
Net Income	$ 1,406.1	$ 643.1	$ 319.2
Per Share Data			
Net income – basic	$ 5.69	$ 2.68	$ 1.34
Net income – diluted	$ 5.56	$ 2.64	$ 1.33
Dividends declared	$ 1.06	$ .88	$ .88

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

EXHIBIT 5
Deere & Company 2004 Annual Report Excerpt

DEERE & COMPANY
CONSOLIDATED BALANCE SHEET
As of October 31, 2004 and 2003
(In millions of dollars except per share amounts)

	2004	2003
ASSETS		
Cash and cash equivalents	$ 3,181.1	$ 4,384.5
Marketable securities	246.7	231.8
Receivables from unconsolidated affiliates	17.6	303.2
Trade accounts and notes receivable - net	3,206.9	2,619.3
Financing receivables - net	11,232.6	9,974.2
Other receivables	663.0	428.3
Equipment on operating leases - net	1,296.9	1,381.9
Inventories	1,999.1	1,366.1
Property and equipment - net	2,161.6	2,075.6
Investments in unconsolidated affiliates	106.9	195.5
Goodwill	973.6	872.1
Other intangible assets - net	21.7	252.9
Prepaid pension costs	2,493.1	62.6
Other assets	515.4	534.3
Deferred income taxes	528.1	1,476.1
Deferred charges	109.7	99.6
Total Assets	$ 28,754.0	$ 26,258.0
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Short-term borrowings	$ 3,457.5	$ 4,347.2
Payables to unconsolidated affiliates	142.3	87.8
Accounts payable and accrued expenses	3,973.6	3,105.5
Health care claims and reserves	135.9	94.1
Accrued taxes	179.2	226.5
Deferred income taxes	62.6	30.7
Long-term borrowings	11,090.4	10,404.2
Retirement benefit accruals and other liabilities	3,319.7	3,959.9
Total liabilities	22,361.2	22,255.9
STOCKHOLDERS' EQUITY		
Common stock, $1 par value (authorized – 600,000,000 shares; issued – 268,215,602 shares in 2004 and 2003), at stated value	2,043.5	1,987.8
Common stock in treasury, 21,356,458 shares in 2004 and 24,694,170 shares in 2003, at cost	(1,040.4)	(1,141.4)
Unamortized restricted stock compensation	(12.7)	(5.8)
Retained earnings	5,445.1	4,329.5
Total	6,435.5	5,170.1
Minimum pension liability adjustment	(57.2)	(1,078.0)
Cumulative translation adjustment	9.1	(79.2)
Unrealized loss on derivatives	(6.4)	(22.4)
Unrealized gain on investments	11.8	11.6
Accumulated other comprehensive income (loss)	(42.7)	(1,168.0)
Total stockholders' equity	6,392.8	4,002.1
Total Liabilities and Stockholders' Equity	$ 28,754.0	$ 26,258.0

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

EXHIBIT 6

Deere & Company 2004 Annual Report Excerpt

DEERE & COMPANY

STATEMENT OF CONSOLIDATED CASH FLOWS

For the Years Ended October 31, 2004, 2003 and 2002

(In millions of dollars)

	2004	2003	2002
Cash Flows from Operating Activities			
Net income	$ 1,406.1	$ 643.1	$ 319.2
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for doubtful receivables	51.4	106.8	160.7
Provision for depreciation and amortization	621.0	631.4	725.3
Undistributed earnings of unconsolidated affiliates	20.7	(5.5)	22.7
Provision (credit) for deferred income taxes	385.0	33.1	(1.2)
Changes in assets and liabilities:			
Receivables	(477.8)	182.3	158.2
Inventories	(293.7)	84.1	85.8
Accounts payable and accrued expenses	872.7	(184.9)	144.0
Other*	(1,422.9)	45.3	263.6
Net cash provided by operating activities	1,162.5	1,535.7	1,878.3
Cash Flows from Investing Activities			
Collections of receivables	10,233.6	9,077.6	6,987.0
Proceeds from sales of financing receivables	2,333.6	1,941.0	2,967.8
Proceeds from maturities and sales of marketable securities	66.7	76.4	75.4
Proceeds from sales of equipment on operating leases	444.4	514.5	495.2
Proceeds from sales of businesses	90.6	22.5	53.5
Cost of receivables acquired	(13,628.2)	(11,576.8)	(9,955.3)
Purchases of marketable securities	(79.6)	(118.2)	(87.8)
Purchases of property and equipment	(363.8)	(309.6)	(358.7)
Cost of operating leases acquired	(571.1)	(473.7)	(487.9)
Acquisitions of businesses, net of cash acquired	(192.9)	(10.6)	(19.0)
Decrease (increase) in receivables from unconsolidated affiliates	(68.7)	(6.8)	14.8
Other	(.1)	(32.4)	1.0
Net cash used for investing activities	(1,735.5)	(896.1)	(314.0)
Cash Flows from Financing Activities			
Increase (decrease) in short-term borrowings	(356.0)	126.9	(1,413.2)
Proceeds from long-term borrowings	2,189.5	3,312.9	4,573.7
Principal payments on long-term borrowings	(2,312.7)	(2,542.7)	(2,771.0)
Proceeds from issuance of common stock	250.8	174.5	48.0
Repurchases of common stock	(193.1)	(.4)	(1.2)
Dividends paid	(246.6)	(210.5)	(208.9)
Other	(.4)	(1.8)	(1.5)
Net cash provided by (used for) financing activities	(668.5)	858.9	225.9
Effect of Exchange Rate Changes on Cash	38.1	71.1	(5.3)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,203.4)	1,569.6	1,784.9
Cash and Cash Equivalents at Beginning of Year	4,384.5	2,814.9	1,030.0
Cash and Cash Equivalents at End of Year	$ 3,181.1	$ 4,384.5	$ 2,814.9

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

* Primarily related to pension and other postretirement benefits in 2004.

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