

CATERPILLAR INC
Form 10-Q
May 03, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

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: 1-768

CATERPILLAR INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

37-0602744
(IRS Employer I.D. No.)

100 NE Adams Street, Peoria, Illinois
(Address of principal executive offices)

61629
(Zip Code)

Registrant's telephone number, including area code:
(309) 675-1000

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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | |
|-------------------------|-------------------------------------|---------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer |
| Non-accelerated filer | <input type="checkbox"/> | 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

At March 31, 2010, 627,745,394 shares of common stock of the registrant were outstanding.

Page 1

Table of Contents

Part I. Financial Information

| | |
|----------------|---|
| <u>Item 1.</u> | <u>Financial Statements</u> |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis</u> |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> |
| <u>Item 4.</u> | <u>Controls and Procedures</u> |

Part II. Other Information

| | |
|-----------------|--|
| <u>Item 1.</u> | <u>Legal Proceedings</u> |
| <u>Item 1A.</u> | <u>Risk Factors</u> |
| <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> |
| Item 3. | Defaults Upon Senior Securities * |
| Item 4. | Removed and Reserved * |
| Item 5. | Other Information * |
| <u>Item 6.</u> | <u>Exhibits</u> |

* Item omitted because no answer is called for or item is not applicable.

Page 2

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

Caterpillar Inc.
Consolidated Statement of Results of Operations
(Unaudited)
(Dollars in millions except per share data)

Edgar Filing: CATERPILLAR INC - Form 10-Q

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| | 2010 | 2009 |
| Sales and revenues: | | |
| Sales of Machinery and Engines | \$ 7,551 | \$ 8,510 |
| Revenues of Financial Products | 687 | 715 |
| Total sales and revenues | 8,238 | 9,225 |
| Operating costs: | | |
| Cost of goods sold | 5,894 | 7,027 |
| Selling, general and administrative expenses | 932 | 882 |
| Research and development expenses | 402 | 388 |
| Interest expense of Financial Products | 233 | 279 |
| Other operating (income) expenses | 269 | 824 |
| Total operating costs | 7,730 | 9,400 |
| Operating profit (loss) | 508 | (175) |
| Interest expense excluding Financial Products | 102 | 101 |
| Other income (expense) | 63 | 64 |
| Consolidated profit (loss) before taxes | 469 | (212) |
| Provision (benefit) for income taxes | 231 | (80) |
| Profit (loss) of consolidated companies | 238 | (132) |
| Equity in profit (loss) of unconsolidated affiliated companies | (2) | 1 |
| Profit (loss) of consolidated and affiliated companies | 236 | (131) |
| Less: Profit (loss) attributable to noncontrolling interests | 3 | (19) |
| Profit (loss) 1 | \$ 233 | \$ (112) |
| Profit (loss) per common share | \$ 0.37 | \$ (0.19) |
| Profit (loss) per common share – diluted 2 | \$ 0.36 | \$ (0.19) |
| Weighted-average common shares outstanding (millions) | | |
| - Basic | 626.4 | 602.1 |
| - Diluted 2 | 643.5 | 602.1 |
| Cash dividends declared per common share | \$ — | \$ — |

1 Profit (loss) attributable to common stockholders.

2 Diluted by assumed exercise of stock-based compensation awards using the treasury stock method.

See accompanying notes to Consolidated Financial Statements.

Page 3

| Caterpillar Inc. | | | |
|--|-----------|----|--------------|
| Consolidated Statement of Financial Position | | | |
| (Unaudited) | | | |
| (Dollars in millions) | | | |
| | March 31, | | December 31, |
| | 2010 | | 2009 |
| Assets | | | |
| Current assets: | | | |
| Cash and short-term investments | \$ 3,538 | \$ | 4,867 |
| Receivables – trade and other | 6,068 | | 5,611 |
| Receivables – finance | 8,123 | | 8,301 |
| Deferred and refundable income taxes | 1,153 | | 1,216 |
| Prepaid expenses and other current assets | 540 | | 434 |
| Inventories | 6,990 | | 6,360 |
| Total current assets | 26,412 | | 26,789 |
| Property, plant and equipment – net | 12,057 | | 12,386 |
| Long-term receivables – trade and other | 722 | | 971 |
| Long-term receivables – finance | 12,157 | | 12,279 |
| Investments in unconsolidated affiliated companies | 133 | | 105 |
| Noncurrent deferred and refundable income taxes | 2,558 | | 2,714 |
| Intangible assets | 488 | | 465 |
| Goodwill | 2,284 | | 2,269 |
| Other assets | 2,025 | | 2,060 |
| Total assets | \$ 58,836 | \$ | 60,038 |
| Liabilities | | | |
| Current liabilities: | | | |
| Short-term borrowings: | | | |
| Machinery and Engines | \$ 584 | \$ | 433 |
| Financial Products | 2,996 | | 3,650 |
| Accounts payable | 3,431 | | 2,993 |
| Accrued expenses | 3,216 | | 3,351 |
| Accrued wages, salaries and employee benefits | 900 | | 797 |
| Customer advances | 1,367 | | 1,217 |
| Dividends payable | — | | 262 |
| Other current liabilities | 881 | | 888 |
| Long-term debt due within one year: | | | |
| Machinery and Engines | 248 | | 302 |
| Financial Products | 4,794 | | 5,399 |
| Total current liabilities | 18,417 | | 19,292 |
| Long-term debt due after one year: | | | |
| Machinery and Engines | 5,135 | | 5,652 |
| Financial Products | 16,413 | | 16,195 |
| Liability for postemployment benefits | 7,281 | | 7,420 |

Edgar Filing: CATERPILLAR INC - Form 10-Q

| | | |
|--|-----------|-----------|
| Other liabilities | 2,116 | 2,179 |
| Total liabilities | 49,362 | 50,738 |
| Commitments and contingencies (Notes 10 and 12) | | |
| Redeemable noncontrolling interest | 452 | 477 |
| Stockholders' equity | | |
| Common stock of \$1.00 par value: | | |
| Authorized shares: 900,000,000 | | |
| Issued shares: (3/31/10 and 12/31/09 – 814,894,624) | | |
| at paid-in amount | 3,482 | 3,439 |
| Treasury stock (3/31/10 – 187,149,230 shares; 12/31/09 – 190,171,905 shares) at cost | (10,595) | (10,646) |
| Profit employed in the business | 19,941 | 19,711 |
| Accumulated other comprehensive income (loss) | (3,886) | (3,764) |
| Noncontrolling interests | 80 | 83 |
| Total stockholders' equity | 9,022 | 8,823 |
| Total liabilities, redeemable noncontrolling interest and stockholders' equity | \$ 58,836 | \$ 60,038 |

See accompanying notes to Consolidated Financial Statements.

Page 4

Caterpillar Inc.
Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)
(Dollars in millions)

| | Common stock | Treasury stock | Profit employed in the business | Accumulated other comprehensive income (loss) | Noncontrolling interests | Total | Comprehensive income (loss) |
|---|--------------|----------------|---------------------------------|---|--------------------------|---------|-----------------------------|
| Three Months Ended March 31, 2009 | | | | | | | |
| Balance at December 31, 2008 | \$3,057 | \$(11,217) | \$19,826 | \$(5,579) | \$ 103 | \$6,190 | |
| Profit (loss) of consolidated and affiliated companies | — | — | (112) | — | (19) | (131) | \$ (131) |
| Foreign currency translation, net of tax of \$38 | — | — | — | (120) | (3) | (123) | (123) |
| Pension and other postretirement benefits | | | | | | | |
| Current year actuarial gain (loss), net of tax of \$831 | — | — | — | 50 | — | 50 | 50 |
| Amortization of actuarial (gain) loss, net of tax of \$30 | — | — | — | 50 | 2 | 52 | 52 |
| Current year prior service cost, net of tax of \$1971 | — | — | — | 236 | — | 236 | 236 |
| | — | — | — | 6 | — | 6 | 6 |

| | | | | | | | | |
|--|----------|------------|----------|-----------|--------|---------|--------|--|
| Amortization of prior service cost, net of tax of \$3 | | | | | | | | |
| Derivative financial instruments and other | | | | | | | | |
| Gains (losses) deferred, net of tax of \$7 | — | — | — | 9 | — | 9 | 9 | |
| (Gains) losses reclassified to earnings, net of tax of \$5 | — | — | — | 8 | (1) | 7 | 7 | |
| Retained interests | | | | | | | | |
| Gains (losses) deferred, net of tax of \$5 | — | — | — | (9) | — | (9) | (9) | |
| (Gains) losses reclassified to earnings, net of tax of \$7 | — | — | — | 14 | — | 14 | 14 | |
| Available-for-sale securities | | | | | | | | |
| Gains (losses) deferred, net of tax of \$4 | — | — | — | (8) | — | (8) | (8) | |
| (Gains) losses reclassified to earnings, net of tax of \$6 | — | — | — | 11 | — | 11 | 11 | |
| Common shares issued from treasury stock for stock-based compensation: 183,040 | (3) | 3 | — | — | — | — | — | |
| Stock-based compensation expense | 32 | — | — | — | — | 32 | — | |
| Cat Japan share redemption ² | — | — | (20) | — | 20 | — | — | |
| Balance at March 31, 2009 | \$3,086 | \$(11,214) | \$19,694 | \$(5,332) | \$ 102 | \$6,336 | \$ 114 | |
| Three Months Ended March 31, 2010 | | | | | | | | |
| Balance at December 31, 2009 | \$3,439 | \$(10,646) | \$19,711 | \$(3,764) | \$ 83 | \$8,823 | | |
| Adjustment to adopt consolidation of variable interest entities ³ | — | — | (6) | 3 | — | (3) | | |
| Balance at January 1, 2010 | \$ 3,439 | \$(10,646) | \$19,705 | \$(3,761) | \$ 83 | \$8,820 | | |
| Profit (loss) of consolidated and affiliated companies | — | — | 233 | — | 3 | 236 | \$ 236 | |
| Foreign currency translation, net of tax of \$64 | — | — | — | (165) | (5) | (170) | (170) | |
| Pension and other postretirement benefits | | | | | | | | |

| | | | | | | | |
|--|---------|------------|----------|-----------|-------|---------|--------|
| Amortization of actuarial (gain) loss, net of tax of \$46 | — | — | — | 77 | 4 | 81 | 81 |
| Amortization of prior service cost, net of tax of \$4 | — | — | — | (2) | — | (2) | (2) |
| Derivative financial instruments and other | | | | | | | |
| Gains (losses) deferred, net of tax of \$40 | — | — | — | (65) | — | (65) | (65) |
| (Gains) losses reclassified to earnings, net of tax of \$9 | — | — | — | 16 | — | 16 | 16 |
| Available-for-sale securities | | | | | | | |
| Gains (losses) deferred, net of tax of \$9 | — | — | — | 14 | — | 14 | 14 |
| Change in ownership from noncontrolling interests | (17) | — | — | — | (11) | (28) | — |
| Common shares issued from treasury stock for stock-based compensation: 2,489,804 | (14) | 40 | — | — | — | 26 | — |
| Common shares issued from treasury stock for benefit plans: 532,871 | 18 | 11 | — | — | — | 29 | — |
| Stock-based compensation expense | 42 | — | — | — | — | 42 | — |
| Excess tax benefits from stock-based compensation | 14 | — | — | — | — | 14 | — |
| Cat Japan share redemption ² | — | — | 3 | — | 6 | 9 | — |
| Balance at March 31, 2010 | \$3,482 | \$(10,595) | \$19,941 | \$(3,886) | \$ 80 | \$9,022 | \$ 110 |

1 Changes in amounts due to plan re-measurements. See Note 9 for additional information.

2 See Note 16 regarding the Cat Japan share redemption.

3 See Note 15 for additional information.

See accompanying notes to Consolidated Financial Statements.

Edgar Filing: CATERPILLAR INC - Form 10-Q

| | 2010 | March 31, | 2009 |
|--|----------|-----------|---------|
| Cash flow from operating activities: | | | |
| Profit (loss) of consolidated and affiliated companies | \$ 236 | \$ | (131) |
| Adjustments for non-cash items: | | | |
| Depreciation and amortization | 554 | | 534 |
| Other | 94 | | 106 |
| Changes in assets and liabilities: | | | |
| Receivables – trade and other | (373) | | 1,622 |
| Inventories | (644) | | 764 |
| Accounts payable | 533 | | (1,406) |
| Accrued expenses | (65) | | (321) |
| Customer advances | 140 | | (179) |
| Other assets – net | 109 | | 48 |
| Other liabilities – net | (33) | | (142) |
| Net cash provided by (used for) operating activities | 551 | | 895 |
| Cash flow from investing activities: | | | |
| Capital expenditures – excluding equipment leased to others | (204) | | (224) |
| Expenditures for equipment leased to others | (169) | | (221) |
| Proceeds from disposals of property, plant and equipment | 353 | | 208 |
| Additions to finance receivables | (1,757) | | (1,789) |
| Collections of finance receivables | 1,956 | | 2,450 |
| Proceeds from sales of finance receivables | 2 | | 27 |
| Investments and acquisitions (net of cash acquired) | (103) | | — |
| Proceeds from sale of available-for-sale securities | 45 | | 87 |
| Investments in available-for-sale securities | (46) | | (58) |
| Other – net | 33 | | 23 |
| Net cash provided by (used for) investing activities | 110 | | 503 |
| Cash flow from financing activities: | | | |
| Dividends paid | (262) | | (253) |
| Common stock issued, including treasury shares reissued | 26 | | — |
| Excess tax benefit from stock-based compensation | 13 | | — |
| Acquisitions of noncontrolling interests | (26) | | — |
| Proceeds from debt issued (original maturities greater than three months): | | | |
| – Machinery and Engines | 54 | | 121 |
| – Financial Products | 1,264 | | 4,697 |
| Payments on debt (original maturities greater than three months): | | | |
| – Machinery and Engines | (607) | | (205) |
| – Financial Products | (2,729) | | (3,116) |
| Short-term borrowings – net (original maturities three months or less) | 331 | | (1,779) |
| Net cash provided by (used for) financing activities | (1,936) | | (535) |
| Effect of exchange rate changes on cash | (54) | | (33) |
| Increase (decrease) in cash and short-term investments | (1,329) | | 830 |
| Cash and short-term investments at beginning of period | 4,867 | | 2,736 |
| Cash and short-term investments at end of period | \$ 3,538 | \$ | 3,566 |

All short-term investments, which consist primarily of highly liquid investments with original maturities of three months or less, are considered to be cash equivalents.

See accompanying notes to Consolidated Financial Statements.

Page 6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. A. Basis of Presentation

In the opinion of management, the accompanying financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of (a) the consolidated results of operations for the three month periods ended March 31, 2010 and 2009, (b) the consolidated financial position at March 31, 2010 and December 31, 2009, (c) the consolidated changes in stockholders' equity for the three month periods ended March 31, 2010 and 2009, and (d) the consolidated cash flow for the three month periods ended March 31, 2010 and 2009. The financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain amounts for prior periods have been reclassified to conform to the current period financial statement presentation.

Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with the audited financial statements and notes thereto included in our Company's annual report on Form 10-K for the year ended December 31, 2009 (2009 Form 10-K).

The December 31, 2009 financial position data included herein is derived from the audited consolidated financial statements included in the 2009 Form 10-K but does not include all disclosures required by U.S. GAAP.

B. Nature of Operations

We operate in three principal lines of business:

- (1) Machinery - A principal line of business which includes the design, manufacture, marketing and sales of construction, mining and forestry machinery—track and wheel tractors, track and wheel loaders, pipelayers, motor graders, wheel tractor-scrappers, track and wheel excavators, backhoe loaders, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, skid steer loaders, underground mining equipment, tunnel boring equipment and related parts. Also includes logistics services for other companies and the design, manufacture, remanufacture, maintenance and services of rail-related products.
- (2) Engines - A principal line of business including the design, manufacture, marketing and sales of engines for Caterpillar machinery, electric power generation systems, locomotives, marine,

petroleum, construction, industrial, agricultural and other applications, and related parts. Also includes remanufacturing of Caterpillar engines and a variety of Caterpillar machine and engine components and remanufacturing services for other companies. Reciprocating engines meet power needs ranging from 10 to 21,800 horsepower (8 to over 16 000 kilowatts). Turbines range from 1,600 to 30,000 horsepower (1 200 to 22 000 kilowatts).

- (3) Financial Products - A principal line of business consisting primarily of Caterpillar Financial Services Corporation (Cat Financial), Caterpillar Insurance Holdings, Inc. (Cat Insurance) and their respective subsidiaries. Cat Financial provides a wide range of financing alternatives to customers and dealers for Caterpillar machinery and engines, Solar gas turbines as well as other equipment and marine vessels. Cat Financial also extends loans to customers and dealers. Cat Insurance provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment.

Our Machinery and Engines operations are highly integrated. Throughout the Notes, Machinery and Engines represents the aggregate total of these principal lines of business.

C. Accumulated Other Comprehensive Income (Loss)

Comprehensive income (loss) and its components are presented in Consolidated Statement of Changes in Stockholders' Equity. Accumulated other comprehensive income (loss), net of tax, consisted of the following:

| (Millions of dollars) | March 31, 2010 | March 31, 2009 |
|---|-------------------|-------------------|
| Foreign currency translation | \$ 438 | \$ 141 |
| Pension and other postretirement benefits | (4,364) | (5,507) |
| Derivative financial instruments | 11 | 112 |
| Retained interests | — | (2) |
| Available-for-sale securities | 29 | (76) |
| Total accumulated other comprehensive income (loss) | \$ (3,886) | \$ (5,332) |

2. New Accounting Guidance

Fair value measurements - In September 2006, the Financial Accounting Standards Board (FASB) issued accounting guidance on fair value measurements, which provides a common definition of fair value and a framework for measuring assets and liabilities at fair values when a particular standard prescribes it. In addition, this guidance expands disclosures about fair value measurements. In February 2008, the FASB issued additional guidance that (1) deferred the effective date of the original guidance for one year for certain nonfinancial assets and

nonfinancial liabilities and (2) removed certain leasing transactions from the scope of the original guidance. We applied this new guidance to financial assets and liabilities effective January 1, 2008 and nonfinancial assets and liabilities effective January 1, 2009. The adoption of this guidance did not have a material impact on our financial statements. See Note 17 for additional information.

In January 2010, the FASB issued new accounting guidance that requires the gross presentation of activity within the Level 3 fair value measurement roll forward and details of transfers in and out of Level 1 and 2 fair value measurements. It also clarifies existing disclosure requirements regarding the level of disaggregation of fair value measurements and disclosures on inputs. We adopted this new accounting guidance for the quarterly period ended March 31, 2010. The adoption of this guidance did not have a material impact on our financial statements. See Note 17 for additional information.

Business combinations and noncontrolling interests in consolidated financial statements - In December 2007, the FASB issued accounting guidance on business combinations and noncontrolling interests in consolidated financial statements. The guidance on business combinations requires the acquiring entity in a business combination to recognize the assets acquired and liabilities assumed. Further, it changes the accounting for acquired in-process research and development assets, contingent consideration, partial acquisitions and transaction costs. Under the guidance on noncontrolling interests, all entities are required to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. In addition, transactions between an entity and noncontrolling interests are treated as equity transactions. We adopted this new guidance on January 1, 2009. As required, the guidance on noncontrolling interests was adopted through retrospective application. The adoption of this guidance did not have a material impact on our financial statements. See Note 19 for further details.

Disclosures about derivative instruments and hedging activities - In March 2008, the FASB issued accounting guidance on disclosures about derivative instruments and hedging activities. This guidance expands disclosures for derivative instruments by requiring entities to disclose the fair value of derivative instruments and their gains or losses in tabular format. It also requires disclosure of information about credit risk-related contingent features in derivative agreements, counterparty credit risk, and strategies and objectives for using derivative instruments. We adopted this new guidance on January 1, 2009. The adoption of this guidance did not have a material impact on our financial statements. See Note 4 for additional information.

Employers' disclosures about postretirement benefit plan assets - In December 2008, the FASB issued accounting guidance on employers' disclosures about postretirement benefit plan assets. This guidance expands the disclosure set forth in previous guidance by adding required disclosures about (1) how investment allocation decisions are made by management, (2) major categories of plan assets, and (3) significant concentration of risk. Additionally, this guidance requires an employer to disclose information about the valuation of plan assets similar to that required under the accounting guidance on fair value measurements. We adopted this guidance for our financial statements for the annual period ending December 31, 2009. The adoption of this guidance did not have a material impact on our financial statements.

Recognition and presentation of other-than-temporary impairments - In April 2009, the FASB issued accounting guidance on the recognition and presentation of other-than-temporary impairments. This new guidance amends the existing impairment guidance relating to certain

debt securities and requires a company to assess the likelihood of selling the security prior to recovering its cost basis. When a security meets the criteria for impairment, the impairment charges related to credit losses would be recognized in earnings, while noncredit losses would be reflected in other comprehensive income. Additionally, it requires a more detailed, risk-oriented breakdown of major security types and related information. We adopted this guidance on April 1, 2009. The adoption of this guidance did not have a material impact on our financial statements. See Note 8 for additional information.

Page 8

Subsequent events - In May 2009, the FASB issued accounting guidance on subsequent events that establishes standards of accounting for and disclosure of subsequent events. In addition, it requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. This new guidance was adopted for our financial statements for the quarterly period ending June 30, 2009. The adoption of this guidance did not have a material impact on our financial statements.

In February 2010, the FASB issued new accounting guidance that amends the May 2009 subsequent events guidance described above to (1) eliminate the requirement for an SEC filer to disclose the date through which it has evaluated subsequent events, (2) clarify the period through which conduit bond obligors must evaluate subsequent events, and (3) refine the scope of the disclosure requirements for reissued financial statements. We adopted this new accounting guidance for our financial statements for the quarterly period ended March 31, 2010. The adoption of this guidance did not have a material impact on our financial statements.

Accounting for transfers of financial assets - In June 2009, the FASB issued accounting guidance on accounting for transfers of financial assets. This guidance amends previous guidance and includes: the elimination of the qualifying special-purpose entity (QSPE) concept; a new participating interest definition that must be met for transfers of portions of financial assets to be eligible for sale accounting; clarifications and changes to the derecognition criteria for a transfer to be accounted for as a sale; and a change to the amount of recognized gain or loss on a transfer of financial assets accounted for as a sale when beneficial interests are received by the transferor. Additionally, the guidance requires extensive new disclosures regarding an entity's involvement in a transfer of financial assets. Finally, existing QSPEs (prior to the effective date of this guidance) must be evaluated for consolidation by reporting entities in accordance with the applicable consolidation guidance upon the elimination of this concept. We adopted this new guidance on January 1, 2010. The adoption of this guidance did not have a material impact on our financial statements. See Note 15 for additional information.

Consolidation of variable interest entities - In June 2009, the FASB issued accounting guidance on the consolidation of variable interest entities (VIEs). This new guidance revises previous guidance by eliminating the exemption for QSPEs, by establishing a new approach for determining who should consolidate a VIE and by changing when it is necessary to reassess who should consolidate a VIE. We adopted this new guidance on January 1, 2010. The adoption of this guidance resulted in the consolidation of QSPEs related to Cat Financial's asset-backed securitization program that were previously not recorded on our consolidated financial statements. The adoption of this guidance did not have a material impact on our financial statements. See Note 15 for additional information.

3. Stock-Based Compensation

Accounting for stock-based compensation requires that the cost resulting from all stock-based payments be recognized in the financial statements based on the grant date fair value of the award. Stock-based compensation primarily consists of stock-settled stock appreciation rights (SARs), restricted stock units (RSUs) and stock options. We recognized pretax stock-based compensation cost of \$42 million and \$32 million in the first quarter of 2010 and 2009, respectively.

The following table illustrates the type and fair value of the stock-based compensation awards granted during the first quarter of 2010 and 2009, respectively:

| | 2010 | | 2009 | |
|------------------|-----------|-------------------------|-----------|-------------------------|
| | # Granted | Fair Value Per Award | # Granted | Fair Value Per Award |
| SARs | 7,125,210 | \$ 22.31 | 6,260,647 | \$ 7.10 |
| RSUs | 1,711,771 | 53.35 | 2,185,674 | 20.22 |
| Stock options | 431,271 | 22.31 | 562,580 | 7.10 |

The stock price on the date of grant was \$57.85 and \$22.17 for 2010 and 2009, respectively.

The following table provides the assumptions used in determining the fair value of the stock-based awards for the three month periods ended March 31, 2010 and 2009, respectively:

Page 9

| | Grant Year | |
|-----------------------------------|------------|------------|
| | 2010 | 2009 |
| Weighted-average dividend yield | 2.32% | 3.07% |
| Weighted-average volatility | 36.4% | 36.0% |
| Range of volatilities | 35.2-51.8% | 35.8-61.0% |
| Range of risk-free interest rates | 0.32-3.61% | 0.17-2.99% |
| Weighted-average expected lives | 7 years | 8 years |

As of March 31, 2010, the total remaining unrecognized compensation cost related to nonvested stock-based compensation awards was \$312 million, which will be amortized over the weighted-average remaining requisite service periods of approximately 2.6 years.

4. Derivative Financial Instruments and Risk Management

Our earnings and cash flow are subject to fluctuations due to changes in foreign currency exchange rates, interest rates and commodity prices. In addition, the amount of Caterpillar

stock that can be repurchased under our stock repurchase program is impacted by movements in the price of the stock. Our Risk Management Policy (policy) allows for the use of derivative financial instruments to prudently manage foreign currency exchange rate, interest rate, commodity price and Caterpillar stock price exposures. Our policy specifies that derivatives are not to be used for speculative purposes. Derivatives that we use are primarily foreign currency forward and option contracts, interest rate swaps, commodity forward and option contracts, and stock repurchase contracts. Our derivative activities are subject to the management, direction and control of our senior financial officers. Risk management practices, including the use of financial derivative instruments, are presented to the Audit Committee of the Board of Directors at least annually.

All derivatives are recognized on the Consolidated Statement of Financial Position at their fair value. On the date the derivative contract is entered, we designate the derivative as (1) a hedge of the fair value of a recognized asset or liability (fair value hedge), (2) a hedge of a forecasted transaction or the variability of cash flow to be paid (cash flow hedge), or (3) an undesignated instrument. Changes in the fair value of a derivative that is qualified, designated and highly effective as a fair value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in current earnings. Changes in the fair value of a derivative that is qualified, designated and highly effective as a cash flow hedge are recorded in Accumulated other comprehensive income (loss) (AOCI) on the Consolidated Statement of Financial Position until they are reclassified to earnings in the same period or periods during which the hedged transaction affects earnings. Changes in the fair value of undesignated derivative instruments and the ineffective portion of designated derivative instruments are reported in current earnings. Cash flow from designated derivative financial instruments are classified within the same category as the item being hedged on the Consolidated Statement of Cash Flow. Cash flow from undesignated derivative financial instruments are included in the investing category on the Consolidated Statement of Cash Flow.

We formally document all relationships between hedging instruments and hedged items, as well as the risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value hedges to specific assets and liabilities on the Consolidated Statement of Financial Position and linking cash flow hedges to specific forecasted transactions or variability of cash flow.

We also formally assess, both at the hedge's inception and on an ongoing basis, whether the designated derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flow of hedged items. When a derivative is determined not to be highly effective as a hedge or the underlying hedged transaction is no longer probable, we discontinue hedge accounting prospectively, in accordance with the derecognition criteria for hedge accounting.

Foreign Currency Exchange Rate Risk

Foreign currency exchange rate movements create a degree of risk by affecting the U.S. dollar value of sales made and costs incurred in foreign currencies. Movements in foreign currency rates also affect our competitive position as these changes may affect business practices and/or pricing strategies of non-U.S.-based competitors. Additionally, we have balance sheet positions denominated in foreign currencies, thereby creating exposure to movements in exchange rates.

Our Machinery and Engines operations purchase, manufacture and sell products in many locations around the world. As we have a diversified revenue and cost base, we manage our future foreign currency cash flow exposure on a net basis. We use foreign currency forward and

option contracts to manage unmatched foreign currency cash inflow and outflow. Our objective is to minimize the risk of exchange rate movements that would reduce the U.S. dollar value of our foreign currency cash flow. Our policy allows for managing anticipated foreign currency cash flow for up to five years.

We generally designate as cash flow hedges at inception of the contract any Australian dollar, Brazilian real, British pound, Canadian dollar, Chinese yuan, euro, Japanese yen, Mexican peso, Singapore dollar or Swiss franc forward or option contracts that meet the requirements for hedge accounting and the maturity extends beyond the current quarter-end. Designation is performed on a specific exposure basis to support hedge accounting. The remainder of Machinery and Engines foreign currency contracts are undesignated, including any hedges designed to protect our competitive exposure. Periodically we also designate as fair value hedges specific euro forward contracts used to hedge firm commitments.

As of March 31, 2010, \$1 million of deferred net losses, net of tax, included in equity (Accumulated other comprehensive income (loss) in the Consolidated Statement of Financial Position), are expected to be reclassified to current earnings (Other income (expense) in the Consolidated Statement of Results of Operations) over the next twelve months when earnings are affected by the hedged transactions. The actual amount recorded in Other income (expense) will vary based on exchange rates at the time the hedged transactions impact earnings.

In managing foreign currency risk for our Financial Products operations, our objective is to minimize earnings volatility resulting from conversion and the remeasurement of net foreign currency balance sheet positions. Our policy allows the use of foreign currency forward and option contracts to offset the risk of currency mismatch between our receivables and debt. All such foreign currency forward and option contracts are undesignated.

Interest Rate Risk

Interest rate movements create a degree of risk by affecting the amount of our interest payments and the value of our fixed-rate debt. Our practice is to use interest rate derivatives to manage our exposure to interest rate changes and, in some cases, lower the cost of borrowed funds.

Machinery and Engines operations generally use fixed-rate debt as a source of funding. Our objective is to minimize the cost of borrowed funds. Our policy allows us to enter into fixed-to-floating interest rate swaps and forward rate agreements to meet that objective with the intent to designate as fair value hedges at inception of the contract all fixed-to-floating interest rate swaps. Designation as a hedge of the fair value of our fixed-rate debt is performed to support hedge accounting.

Financial Products operations have a match-funding policy that addresses interest rate risk by aligning the interest rate profile (fixed or floating rate) of Cat Financial's debt portfolio with the interest rate profile of their receivables portfolio within predetermined ranges on an ongoing basis. In connection with that policy, we use interest rate derivative instruments to modify the debt structure to match assets within the receivables portfolio. This matched funding reduces the volatility of margins between interest-bearing assets and interest-bearing liabilities, regardless of which direction interest rates move.

Our policy allows us to use fixed-to-floating, floating-to-fixed, and floating-to-floating interest rate swaps to meet the match-funding objective. We designate fixed-to-floating interest rate swaps as fair value hedges to protect debt against changes in fair value due to changes in the benchmark interest rate. We designate most floating-to-fixed interest rate swaps as cash flow hedges to protect against the variability of cash flows due to changes in the benchmark interest rate.

As of March 31, 2010, \$27 million of deferred net losses, net of tax, included in equity (Accumulated other comprehensive income (loss) in the Consolidated Statement of Financial Position), related to Financial Products floating-to-fixed interest rate swaps, are expected to be reclassified to current earnings (Interest expense of Financial Products in the Consolidated Statement of Results of Operations) over the next twelve months. The actual amount recorded in Interest expense of Financial Products will vary based on interest rates at the time the hedged transactions impact earnings.

We have, at certain times, liquidated fixed-to-floating and floating-to-fixed interest rate swaps at both Machinery and Engines and Financial Products. The gains or losses associated with these swaps at the time of liquidation are amortized into earnings over the original term of the underlying hedged item.

Commodity Price Risk

Commodity price movements create a degree of risk by affecting the price we must pay for certain raw material. Our policy is to use commodity forward and option contracts to manage the commodity risk and reduce the cost of purchased materials.

Our Machinery and Engines operations purchase aluminum, copper, lead and nickel embedded in the components we purchase from suppliers. Our suppliers pass on to us price changes in the commodity portion of the component cost. In addition, we are also subject to price changes on natural gas and diesel fuel purchased for operational use.

Our objective is to minimize volatility in the price of these commodities. Our policy allows us to enter into commodity forward and option contracts to lock in the purchase price of a portion of these commodities within a five-year horizon. All such commodity forward and option contracts are undesignated.

Page 11

The location and fair value of derivative instruments reported in the Consolidated Statement of Financial Position are as follows:

| (Millions of dollars) | | Asset (Liability) Fair Value | |
|----------------------------|---|------------------------------|-------------------|
| | Statement of Financial Position Location | March 31, 2010 | December 31, 2009 |
| Designated derivatives | | | |
| Foreign exchange contracts | | \$ 40 | \$ 27 |

Edgar Filing: CATERPILLAR INC - Form 10-Q

| | | | |
|----------------------------|---|--------|--------|
| Machinery and Engines | Receivables – trade and other | | |
| Machinery and Engines | Long-term receivables – trade and other | 45 | 125 |
| Machinery and Engines | Accrued expenses | (42) | (22) |
| Machinery and Engines | Other liabilities | (4) | (3) |
| Interest rate contracts | | | |
| Machinery and Engines | Receivables – trade and other | 1 | 1 |
| Machinery and Engines | Accrued expenses | (1) | (1) |
| Financial Products | Receivables – trade and other | 13 | 18 |
| Financial Products | Long-term receivables – trade and other | 162 | 127 |
| Financial Products | Accrued expenses | (67) | (100) |
| | | \$ 147 | \$ 172 |
| Undesignated derivatives | | | |
| Foreign exchange contracts | | | |
| Machinery and Engines | Receivables – trade and other | \$ 5 | \$ — |
| Machinery and Engines | Long-term receivables – trade and other | 74 | 66 |
| Machinery and Engines | Accrued expenses | (3) | — |
| Machinery and Engines | Other liabilities | (9) | (3) |
| Financial Products | Receivables – trade and other | 7 | 20 |
| Financial Products | Accrued expenses | (6) | (18) |
| Interest rate contracts | | | |
| Machinery and Engines | Accrued expenses | — | (7) |
| Financial Products | Receivables – trade and other | — | 1 |
| Financial Products | Long-term receivables – trade and other | 1 | 1 |
| Financial Products | Accrued expenses | (5) | (6) |
| Commodity contracts | | | |
| Machinery and Engines | Receivables – trade and other | 13 | 10 |
| | | \$ 77 | \$ 64 |

The effect of derivatives designated as hedging instruments on the Consolidated Statement of Results of Operations is as follows:

Fair Value Hedges

Edgar Filing: CATERPILLAR INC - Form 10-Q

(Millions of dollars)

| | | Three Months Ended March 31, 2010 | |
|-------------------------|------------------------|-----------------------------------|----------------|
| | | Gains (Losses) | Gains (Losses) |
| | | on Derivatives | on Borrowings |
| Interest rate contracts | Classification | | |
| Machinery and Engines | Other income (expense) | \$ 1 | \$ (1) |
| Financial Products | Other income (expense) | 53 | (51) |
| | | \$ 54 | \$ (52) |

| | | Three Months Ended March 31, 2009 | |
|-------------------------|------------------------|-----------------------------------|----------------|
| | | Gains (Losses) | Gains (Losses) |
| | | on Derivatives | on Borrowings |
| Interest rate contracts | Classification | | |
| Financial Products | Other income (expense) | \$ (60) | \$ 79 |
| | | \$ (60) | \$ 79 |

Page 12

Cash Flow Hedges
(Millions of dollars)

| | | Three Months Ended March 31, 2010 | | | |
|----------------------------|----------------|--|--|--|--|
| | | Recognized in AOCI (Effective Portion) | Classification of Gains (Losses) | Recognized in Earnings | |
| | | | | Reclassified from AOCI (Effective Portion) | Recognized in Earnings (Ineffective Portion) |
| Foreign exchange contracts | Classification | | | | |
| Machinery and Engines | AOCI | \$ (99) | Other income (expense) | \$ (8) | \$ 1 |
| Interest rate contracts | | | | | |
| Financial Products | AOCI | (6) | Interest expense of Financial Products | (17) | 1 |
| | | \$ (105) | | \$ (25) | \$ 2 |

| | | Three Months Ended March 31, 2009 | | | |
|----------------------------|----------------|--|----------------------------------|--|--|
| | | Recognized in AOCI (Effective Portion) | Classification of Gains (Losses) | Recognized in Earnings | |
| | | | | Reclassified from AOCI (Effective Portion) | Recognized in Earnings (Ineffective Portion) |
| Foreign exchange contracts | Classification | | | | |
| | AOCI | \$ 58 | | \$ 8 | \$ (6) |

| | | | | | |
|-------------------------|------|-------|--|---------|--------|
| Machinery and Engines | | | Other income (expense) | | |
| Interest rate contracts | | | | | |
| Machinery and Engines | AOCI | (29) | Other income (expense) | (1) | — |
| Financial Products | | | Interest expense of Financial Products | | 1 |
| | AOCI | (13) | | (20) | 1 |
| | | \$ 16 | | \$ (13) | \$ (5) |

1 The classification of the ineffective portion recognized in earnings is included in Other income (expense).

The effect of derivatives not designated as hedging instruments on the Consolidated Statement of Results of Operations is as follows:

(Millions of dollars)

| | Classification of Gains (Losses) | Three Months Ended March 31, 2010 |
|----------------------------|----------------------------------|-----------------------------------|
| Foreign exchange contracts | | |
| Machinery and Engines | Other income (expense) | \$ 11 |
| Financial Products | Other income (expense) | 23 |
| Interest rate contracts | | |
| Machinery and Engines | Other income (expense) | (2) |
| Financial Products | Other income (expense) | 1 |
| Commodity contracts | | |
| Machinery and Engines | Other income (expense) | 4 |
| | | \$ 37 |
| | | |
| | Classification of Gains (Losses) | Three Months Ended March 31, 2009 |
| Foreign exchange contracts | | |
| Machinery and Engines | Other income (expense) | \$ 21 |
| Financial Products | Other income (expense) | 15 |
| Interest rate contracts | | |
| Machinery and Engines | Other income (expense) | (2) |
| Financial Products | Other income (expense) | (3) |
| | | \$ 31 |

Stock Repurchase Risk

Payments for stock repurchase derivatives are accounted for as a reduction in stockholders' equity. In February 2007, the Board of Directors authorized a \$7.5 billion stock repurchase program, expiring on December 31, 2011. The amount of Caterpillar stock that can be repurchased under the authorization is impacted by movements in the price of the stock. In August 2007, the Board of Directors authorized the use of derivative contracts to reduce stock repurchase price volatility. There were no stock repurchase derivatives outstanding for the three months ended March 31, 2010 or 2009.

5. Inventories

Inventories (principally using the last-in, first-out (LIFO) method) are comprised of the following:

| (Millions of dollars) | March 31, 2010 | December 31, 2009 |
|-----------------------|-------------------|----------------------|
| Raw materials | \$ 2,116 | \$ 1,979 |
| Work-in-process | 795 | 656 |
| Finished goods | 3,840 | 3,465 |
| Supplies | 239 | 260 |
| Total inventories | \$ 6,990 | \$ 6,360 |

6. Investments in Unconsolidated Affiliated Companies

Combined financial information of the unconsolidated affiliated companies accounted for by the equity method (generally on a lag of 3 months or less) was as follows:

| Results of Operations of unconsolidated affiliated companies: (Millions of dollars) | Three Months Ended March 31, | |
|--|---------------------------------|--------|
| | 2010 | 2009 |
| Sales | \$ 162 | \$ 123 |
| Cost of sales | 120 | 91 |
| Gross profit | \$ 42 | \$ 32 |
| Profit (loss) | \$ (2) | \$ 2 |

| Financial Position of unconsolidated affiliated companies: (Millions of dollars) | March 31, 2010 | December 31, 2009 |
|---|-------------------|----------------------|
| Assets: | | |
| Current assets | \$ 320 | \$ 223 |
| Property, plant and equipment – net | 198 | 219 |
| Other assets | 8 | 5 |
| | 526 | 447 |
| Liabilities: | | |
| Current liabilities | 205 | 250 |
| Long-term debt due after one year | 92 | 41 |
| Other liabilities | 26 | 17 |
| | 323 | 308 |
| Equity | \$ 203 | \$ 139 |

Caterpillar's investments in unconsolidated affiliated companies:
(Millions of dollars)

| | | |
|--|--------|--------|
| Investments in equity method companies | \$ 98 | \$ 70 |
| Plus: Investments in cost method companies | 35 | 35 |
| Total investments in unconsolidated affiliated companies | \$ 133 | \$ 105 |

7. Intangible Assets and Goodwill

A. Intangible assets

Intangible assets are comprised of the following:

| | | | March 31, 2010 | | |
|-------------------------|---|-----------------------------|-----------------------------|----|-----|
| (Millions of dollars) | Weighted Amortizable Life (Years) | Gross Carrying Amount | Accumulated Amortization | | Net |
| Customer relationships | 17 | \$ 417 | \$ (82) | \$ | 335 |
| Intellectual property | 9 | 228 | (147) | | 81 |
| Other | 11 | 129 | (57) | | 72 |
| Total intangible assets | 14 | \$ 774 | \$ (286) | \$ | 488 |

| | | | December 31, 2009 | | |
|-------------------------|---|-----------------------------|-----------------------------|----|-----|
| (Millions of dollars) | Weighted Amortizable Life (Years) | Gross Carrying Amount | Accumulated Amortization | | Net |
| Customer relationships | 18 | \$ 396 | \$ (75) | \$ | 321 |
| Intellectual property | 10 | 211 | (143) | | 68 |
| Other | 11 | 130 | (54) | | 76 |
| Total intangible assets | 15 | \$ 737 | \$ (272) | \$ | 465 |

During the first quarter of 2010, we acquired finite-lived intangible assets of \$28 million due to the purchase of GE Transportation's Inspection Products business. During the first quarter of 2010, we also acquired finite-lived intangible assets of \$12 million due to the purchase of JCS Co. Ltd. See Note 19 for details on these business combinations.

Amortization expense for the three months ended March 31, 2010 and March 31, 2009 was \$15 million and \$18 million, respectively. Amortization expense related to intangible assets is expected to be:

| (Millions of dollars) | | | | | |
|-----------------------|-------|-------|-------|-------|------------|
| 2010 | 2011 | 2012 | 2013 | 2014 | Thereafter |
| \$ 63 | \$ 57 | \$ 50 | \$ 45 | \$ 42 | \$ 246 |

B. Goodwill

During the first quarter of 2010, we acquired net assets with related goodwill of \$14 million as part of the purchase of GE Transportation's Inspection Products business. During the first quarter of 2010, we also acquired net assets with related goodwill of \$8 million as part of the purchase of

JCS Co. Ltd. See Note 19 for details on the acquisition of these assets.

We test goodwill for impairment annually and whenever events or circumstances make it more likely than not that an impairment may have occurred. We perform our annual goodwill impairment test as of October 1 and monitor for interim triggering events on an ongoing basis. Goodwill is reviewed for impairment utilizing a two-step process. The first step requires us to compare the fair value of each reporting unit, which we primarily determine using an income approach based on the present value of discounted cash flows, to the respective carrying value, which includes goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is greater than the fair value, there is an indication that an impairment may exist and the second step is required. In step two, the implied fair value of goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss.

No goodwill was impaired or disposed of during the first quarter of 2010 or 2009. The change in goodwill during the first quarter of 2009 was due to foreign currency translation in the Cat Japan segment.

The changes in the carrying amount of the goodwill by reportable segment for the first quarter of 2010 were as follows:

Page 15

(Millions of dollars)

| | Balance at December 31, 2009 | Business combinations | Other adjustments ¹ | Balance at March 31, 2010 |
|--------------------------------|------------------------------------|--------------------------|-----------------------------------|------------------------------|
| Building Construction Products | \$ 4 | \$ — | \$ — | \$ 4 |
| Cat Japan | 256 | — | (7) | 249 |
| Core Components | — | 8 | — | 8 |
| Earthmoving | 43 | — | — | 43 |
| Electric Power | 203 | — | — | 203 |
| Excavation | 39 | — | — | 39 |
| Large Power Systems | 569 | — | — | 569 |
| Marine & Petroleum Power | 60 | — | — | 60 |
| Mining | 30 | — | 1 | 31 |
| All Other ² | 1,065 | 14 | (1) | 1,078 |
| Consolidated Total | \$ 2,269 | \$ 22 | \$ (7) | \$ 2,284 |

1 Other adjustments are comprised primarily of foreign currency translation.

2 Includes all other operating segments (See Note 14).

8. Available-For-Sale Securities

We have investments in certain debt and equity securities, primarily at Cat Insurance, that have been classified as available-for-sale and recorded at fair value based upon quoted market prices. These fair values are primarily included in Other assets in the Consolidated Statement of Financial Position. Unrealized gains and losses arising from the revaluation of available-for-sale securities are included, net of applicable deferred income taxes, in equity (Accumulated other comprehensive income (loss) in the Consolidated Statement of Financial Position). Realized gains and losses on sales of investments are generally determined using the FIFO (first-in, first-out) method for debt instruments and the specific identification method for equity securities. Realized gains and losses are included in Other income (expense) in the Consolidated Statement of Results of Operations.

Effective April 1, 2009, we adopted the new accounting and disclosure requirements regarding recognition and presentation of other-than-temporary impairments. See Note 2 for additional information.

| (Millions of dollars) | March 31, 2010 | | | December 31, 2009 | | |
|---|-----------------|--------------------------------------|-----------------|-------------------|--------------------------------------|-----------------|
| | Cost Basis | Unrealized Pretax Net Gains (Losses) | Fair Value | Cost Basis | Unrealized Pretax Net Gains (Losses) | Fair Value |
| Government debt | | | | | | |
| U.S. treasury bonds | \$ 14 | \$ — | \$ 14 | \$ 14 | \$ — | \$ 14 |
| Other U.S. and non-U.S. government bonds | 71 | — | 71 | 65 | — | 65 |
| Corporate bonds | | | | | | |
| Corporate bonds | 462 | 24 | 486 | 455 | 20 | 475 |
| Asset-backed securities | 144 | (5) | 139 | 141 | (7) | 134 |
| Mortgage-backed debt securities | | | | | | |
| U.S. governmental agency mortgage-backed securities | 276 | 15 | 291 | 295 | 13 | 308 |
| Residential mortgage-backed securities | 57 | (8) | 49 | 61 | (10) | 51 |
| Commercial mortgage-backed securities | 173 | (6) | 167 | 175 | (13) | 162 |
| Equity securities | | | | | | |
| Large capitalization value | 86 | 17 | 103 | 76 | 13 | 89 |
| Smaller company growth | 19 | 7 | 26 | 19 | 5 | 24 |
| Total | \$ 1,302 | \$ 44 | \$ 1,346 | \$ 1,301 | \$ 21 | \$ 1,322 |

During the three months ended March 31, 2009, we recognized pretax charges for other-than-temporary declines in the market values of equity securities in the Cat Insurance investment portfolios of \$11 million. These charges were accounted for as a realized loss and were included in Other income (expense) in the Consolidated Statement of Results of Operations. The cost basis of the impacted securities was adjusted to reflect these charges. During the three months ended March 31, 2010, there were no charges for other-than-temporary declines in the market value of securities.

Investments in an unrealized loss position that are not other-than-temporarily impaired:

| (Millions of dollars) | March 31, 2010 | | | | | |
|---|----------------------------------|-------------------|--------------------------------|-------------------|------------|-------------------|
| | Less than 12 months ¹ | | 12 months or more ¹ | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Government debt | | | | | | |
| U.S. treasury bonds | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Other U.S. and non-U.S. government bonds | 21 | — | 1 | — | 22 | — |
| Corporate bonds | | | | | | |
| Corporate bonds | 20 | — | 4 | — | 24 | — |
| Asset-backed securities | 2 | — | 46 | 9 | 48 | 9 |
| Mortgage-backed debt securities | | | | | | |
| U.S. governmental agency mortgage-backed securities | 1 | — | 3 | — | 4 | — |
| Residential mortgage-backed securities | — | — | 43 | 9 | 43 | 9 |
| Commercial mortgage-backed securities | — | — | 55 | 9 | 55 | 9 |
| Equity securities | | | | | | |
| Large capitalization value | 7 | — | 17 | 3 | 24 | 3 |
| Smaller company growth | 1 | — | 1 | — | 2 | — |
| Total | \$ 52 | \$ — | \$ 170 | \$ 30 | \$ 222 | \$ 30 |

¹ Indicates length of time that individual securities have been in a continuous unrealized loss position.

Investments in an unrealized loss position that are not other-than-temporarily impaired:

| (Millions of dollars) | December 31, 2009 | | | | | |
|--|----------------------------------|-------------------|--------------------------------|-------------------|------------|-------------------|
| | Less than 12 months ¹ | | 12 months or more ¹ | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Government debt | | | | | | |
| U.S. treasury bonds | \$ 4 | \$ — | \$ — | \$ — | \$ 4 | \$ — |
| Other U.S. and non-U.S. government bonds | 14 | — | 2 | — | 16 | — |
| Corporate bonds | | | | | | |
| Corporate bonds | 25 | — | 10 | 1 | 35 | 1 |

Edgar Filing: CATERPILLAR INC - Form 10-Q

| | | | | | | |
|---|-------|------|--------|-------|--------|-------|
| Asset-backed securities | 4 | 1 | 44 | 10 | 48 | 11 |
| Mortgage-backed debt securities | | | | | | |
| U.S. governmental agency mortgage-backed securities | — | — | 3 | — | 3 | — |
| Residential mortgage-backed securities | — | — | 49 | 10 | 49 | 10 |
| Commercial mortgage-backed securities | 24 | — | 73 | 14 | 97 | 14 |
| Equity securities | | | | | | |
| Large capitalization value | 2 | — | 23 | 3 | 25 | 3 |
| Smaller company growth | 1 | — | 2 | — | 3 | — |
| Total | \$ 74 | \$ 1 | \$ 206 | \$ 38 | \$ 280 | \$ 39 |

1 Indicates length of time that individual securities have been in a continuous unrealized loss position.

Government Debt. The unrealized losses on our investments in other U.S. and non-U.S. government bonds are the result of changes in interest rates since time of purchase. We do not intend to sell the investments and it is not likely that we will be required to sell these investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of March 31, 2010.

Corporate Bonds. The unrealized losses on our investments in corporate bonds and asset-backed securities relate primarily to an increase in credit-related yield spreads, risk aversion and heightened volatility in the financial markets since initial purchase. We do not intend to sell the investments and it is not likely that we will be required to sell the investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of March 31, 2010.

Page 17

Mortgage-Backed Debt Securities. The unrealized losses on our investments in mortgage-backed securities relate primarily to an increase in housing delinquencies and default rates, credit-related yield spreads, risk aversion and heightened volatility in the financial markets. Continued weakness and lack of liquidity in the commercial sector continue to impact valuations. We do not intend to sell the investments and it is not likely that we will be required to sell these investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of March 31, 2010.

Equity Securities. Cat Insurance maintains a well-diversified equity portfolio consisting of two specific mandates: large capitalization value stocks and smaller company growth stocks. Despite continued strengthening in equity returns, the remaining unrealized losses in both the large and smaller company portfolios can be attributed to the weak economic conditions over the last 12 to 18 months. In each case where unrealized losses exist, the respective company's management is taking corrective action to increase shareholder value. We do not consider these investments to be other-than-temporarily impaired as of

March 31, 2010.

The fair value of the available-for-sale debt securities at March 31, 2010, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay and creditors may have the right to call obligations.

| (Millions of dollars) | Fair Value |
|--|------------|
| Due in one year or less | \$ 55 |
| Due after one year through five years | \$ 420 |
| Due after five years through ten years | \$ 222 |
| Due after ten years | \$ 520 |

Proceeds from sale of available-for-sale securities during the three months ended March 31, 2010 and March 31, 2009 were \$45 million and \$87 million, respectively. There were no gross gains or gross losses for the three months ended March 31, 2010. Gross gains of \$1 million were included in current earnings for the three months ended March 31, 2009. Gross losses of \$7 million were included in current earnings for the three months ended March 31, 2009.

9. Postretirement Benefits

A. Pension and postretirement benefit costs

As discussed in Note 18, during 2009 voluntary and involuntary separation programs impacted employees participating in certain U.S. and non-U.S. pension and other postretirement benefit plans. Due to the significance of these events, certain plans were re-measured as follows:

U.S. Separation Programs – Plan re-measurements as of January 31, 2009, March 31, 2009 and December 31, 2009 resulted in net curtailment losses of \$127 million to pension and \$55 million to other postretirement benefit plans. Early retirement pension benefit costs of \$6 million were also recognized.

Non-U.S. Separation Programs – Certain plans were re-measured as of March 31, 2009 and December 31, 2009, resulting in pension settlement losses of \$34 million, special termination benefits of \$2 million to pension and curtailment losses of \$1 million to other postretirement benefit plans.

The \$225 million of curtailment, settlement and special termination benefit expense for 2009 associated with certain pension and other postretirement benefit plans was reported in Other operating (income) expense in the Consolidated Statement of Results of Operations. This includes \$201 million reported for the first quarter of 2009.

In March 2009, we amended our U.S. support and management other postretirement benefit plan. Beginning in 2010, certain retirees age 65 and older will enroll in individual health plans that work with Medicare and will no longer participate in a Caterpillar-sponsored group health plan. In addition, Caterpillar will fund a tax-advantaged Health Reimbursement Arrangement (HRA) to assist the retirees with medical expenses. The

plan amendment required a plan re-measurement as of March 31, 2009, which resulted in a decrease in our Liability for postretirement benefits of \$432 million and an increase in Accumulated other comprehensive income (loss) of \$272 million net of tax. The plan was further amended in December 2009 to define the HRA benefit that active employees will receive once they are retired and reach age 65. The plan was re-measured at year-end 2009 and the December amendment resulted in a decrease in our Liability for postretirement benefits of \$101 million and an increase in Accumulated other comprehensive income (loss) of \$64 million net of tax. These decreases will be amortized into earnings on a straight-line basis over approximately 7 years, the average remaining service period of active employees in the plan. The amendments reduced other postretirement benefits expense by approximately \$27 million for the three months ended March 31, 2010 and did not impact expense for the three months ended March 31, 2009.

Page 18

The re-measurements did not have a material impact on our benefit obligations, plan assets or funded status for the three months ended March 31, 2009. There were no re-measurements during the three months ended March 31, 2010.

In March 2010, the Patient Protection and Affordable Care Act (the PPACA) and the Health Care and Education Reconciliation Act of 2010 (H.R. 4872) which amends certain provisions of the PPACA were signed into law. As discussed in Note 13, the Medicare Part D retiree drug subsidies effectively become taxable beginning in 2013.

| (Millions of dollars) | U.S. Pension Benefits | | Non-U.S. Pension Benefits | | Other Postretirement Benefits | |
|--|-----------------------|--------|---------------------------|-------|-------------------------------|--------|
| | March 31, | | March 31, | | March 31, | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| For the three months ended: | | | | | | |
| Components of net periodic benefit cost: | | | | | | |
| Service cost | \$ 49 | \$ 49 | \$ 23 | \$ 24 | \$ 16 | \$ 18 |
| Interest cost | 166 | 170 | 42 | 36 | 61 | 74 |
| Expected return on plan assets | (191) | (198) | (49) | (43) | (23) | (32) |
| Amortization of: | | | | | | |
| Transition obligation (asset) | — | — | — | — | 1 | — |
| Prior service cost (credit) 1 | 7 | 7 | — | — | (14) | 1 |
| Net actuarial loss (gain) | 88 | 60 | 17 | 13 | 8 | 5 |
| Net periodic benefit cost | 119 | 88 | 33 | 30 | 49 | 66 |
| Curtailments, settlements and special termination benefits 2 | — | 130 | 4 | 9 | — | 62 |
| Total cost included in operating profit\$ | 119 | \$ 218 | \$ 37 | \$ 39 | \$ 49 | \$ 128 |

Weighted-average assumptions used to determine net cost:

| | | | | | | |
|--------------------------------|------|------|------|------|------|------|
| Discount rate | 5.7% | 6.2% | 4.8% | 4.5% | 5.6% | 6.1% |
| Expected return on plan assets | 8.5% | 8.5% | 7.0% | 6.6% | 8.5% | 8.5% |
| Rate of compensation increase | 4.5% | 4.5% | 4.2% | 3.7% | 4.4% | 4.4% |

1 Prior service costs for both pension and other postretirement benefits are generally amortized using the straight-line method over the average remaining service period to the full retirement eligibility date of employees expected to receive benefits from the plan amendment. For other postretirement benefit plans in

- which all or almost all of the plan's participants are fully eligible for benefits under the plan, prior service costs are amortized using the straight-line method over the remaining life expectancy of those participants.
- 2 Curtailments, settlements and special termination benefits were recognized in Other operating (income) expenses in the Consolidated Statement of Results of Operations.

We made \$248 million of contributions to our U.S. and non-U.S. pension plans during the three months ended March 31, 2010 and we currently anticipate additional contributions of approximately \$750 million during the remainder of the year, most of which are voluntary contributions.

B. Defined contribution benefit costs

Beginning in June 2009, we began funding our employer matching contribution for certain U.S. defined contribution plans in Caterpillar stock, held as treasury stock. For the three months ending March 31, 2010, we have made \$29 million (0.5 million shares) of matching contributions in Caterpillar stock.

Total company costs related to U.S. and non-U.S. defined contribution plans were as follows:

| (Millions of dollars) | Three Months Ended | |
|-----------------------|--------------------|-------|
| | March 31, | |
| | 2010 | 2009 |
| U.S. Plans | \$ 48 | \$ 39 |
| Non-U.S. Plans | 7 | 9 |
| | \$ 55 | \$ 48 |

10. Guarantees and Product Warranty

We have provided an indemnity to a third-party insurance company for potential losses related to performance bonds issued on behalf of Caterpillar dealers. The bonds are issued to insure governmental agencies against nonperformance by certain dealers. We also provided guarantees to a third party related to the performance of contractual obligations by certain Caterpillar dealers. The guarantees cover potential financial losses incurred by the third party resulting from the dealers' nonperformance.

We provide loan guarantees to third-party lenders for financing associated with machinery purchased by customers. These guarantees have varying terms and are secured by the machinery. In addition, Cat Financial participates in standby letters of credit issued to third parties on behalf of their customers. These standby letters of credit have varying terms and beneficiaries and are secured by customer assets.

Cat Financial has provided a limited indemnity to a third-party bank resulting from the assignment of certain leases to that bank. The indemnity is for the possibility that the insurers of these leases would become insolvent. The indemnity expires December 15, 2012 and is unsecured.

No loss has been experienced or is anticipated under any of these guarantees. At March 31, 2010 and December 31, 2009, the related liability was \$19 million and \$17 million, respectively. The maximum potential amount of future payments (undiscounted and without reduction for any amounts that may possibly be recovered under recourse or collateralized provisions) we could be required to make under the guarantees are as follows:

| (Millions of dollars) | March 31, 2010 | December 31, 2009 |
|-------------------------------------|-------------------|----------------------|
| Guarantees with Caterpillar dealers | \$ 313 | \$ 313 |
| Guarantees with customers | 177 | 193 |
| Limited indemnity | 20 | 20 |
| Guarantees – other | 54 | 64 |
| Total guarantees | \$ 564 | \$ 590 |

We provide guarantees to repurchase certain loans of Caterpillar dealers from a financial trust (Trust) that qualifies as a variable interest entity. The purpose of the Trust is to provide short-term working capital loans to Caterpillar dealers. This Trust issues commercial paper and uses the proceeds to fund its loan program. We have a loan purchase agreement with the Trust that obligates us to purchase certain loans that are not paid at maturity. We receive a fee for providing this guarantee, which provides a source of liquidity for the Trust. We determined that we are the primary beneficiary of the Trust as our guarantees result in Cat Financial having both the power to direct the activities that most significantly impact the Trust's economic performance and the obligation to absorb losses, and therefore we have consolidated the financial statements of the Trust. As of March 31, 2010 and December 31, 2009, the Trust's assets of \$254 million and \$231 million, respectively, are primarily comprised of loans to dealers and the Trust's liabilities of \$254 million and \$231 million, respectively are primarily comprised of commercial paper. No loss has been experienced or is anticipated under this loan purchase agreement. Our assets are not available to pay creditors of the Trust, except to the extent we may be obligated to perform under the guarantee, and assets of the Trust are not available to pay our creditors.

Our product warranty liability is determined by applying historical claim rate experience to the current field population and dealer inventory. Generally, historical claim rates are based on actual warranty experience for each product by machine model/engine size. Specific rates are developed for each product build month and are updated monthly based on actual warranty claim experience. The 2009 provision includes approximately \$181 million for change in estimates for pre-existing warranties due to higher than expected actual warranty claim experience.

| (Millions of dollars) | 2010 |
|--|----------|
| Warranty liability, January 1 | \$ 1,049 |
| Reduction in liability (payments) | (219) |
| Increase in liability (new warranties) | 111 |
| Warranty liability, March 31 | \$ 941 |

Edgar Filing: CATERPILLAR INC - Form 10-Q

| | |
|--|----------|
| Warranty liability, January 1 | \$ 1,201 |
| Reduction in liability (payments) | (1,032) |
| Increase in liability (new warranties) | 880 |
| Warranty liability, December 31 | \$ 1,049 |

11. Computations of Profit Per Share

| (Dollars in millions except per share data) | | Three Months Ended | |
|---|--|--------------------|-----------|
| | | March 31, | |
| | | 2010 | 2009 |
| I. | Profit (loss) for the period (A) ¹ : | \$ 233 | \$ (112) |
| II. | Determination of shares (in millions): | | |
| | Weighted-average number of common shares outstanding (B) | 626.4 | 602.1 |
| | Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price | 17.1 | — |
| | Average common shares outstanding for fully diluted computation (C) | 643.5 | 602.1 |
| III. | Profit (loss) per share of common stock: | | |
| | Assuming no dilution (A/B) | \$ 0.37 | \$ (0.19) |
| | Assuming full dilution (A/C) | \$ 0.36 | \$ (0.19) |

¹ Profit (loss) attributable to common stockholders.

SARs and stock options to purchase 25,891,566 common shares were outstanding for the three months ended March 31, 2010, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive. In 2009, the assumed exercise of stock-based compensation awards was not considered because the impact would be anti-dilutive.

12. Environmental, Legal and Tax Matters

The company is regulated by federal, state and international environmental laws governing our use, transport and disposal of substances and control of emissions. In addition to governing our manufacturing and other operations, these laws often impact the development of our products, including, but not limited to, required compliance with air emissions standards applicable to internal combustion engines. Compliance with these existing laws has not had a material impact on our capital expenditures, earnings or global competitive position.

We are engaged in remedial activities at a number of locations, often with other companies, pursuant to federal and state laws. When it is probable we will pay remedial costs at a site and those costs can be reasonably estimated, the costs are charged against our earnings. In formulating that estimate, we do not consider amounts expected to be recovered from insurance companies or others. The amount recorded for environmental remediation is not material and is

included in Accrued expenses in Consolidated Statement of Financial Position.

We cannot reasonably estimate costs at sites in the very early stages of remediation. Currently, we have a few sites in the very early stages of remediation, and there is no more than a remote chance that a material amount for remedial activities at any individual site, or at all sites in the aggregate, will be required.

We have disclosed certain individual legal proceedings in this filing. Additionally, we are involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance liability (including claimed asbestos and welding fumes exposure), contracts, employment issues or intellectual property rights. Although it is not possible to predict with certainty the outcome of these unresolved legal actions, we believe that these actions will not individually or in the aggregate have a material adverse effect on our consolidated results of operations, financial position or liquidity.

Page 21

On May 14, 2007, the U.S. Environmental Protection Agency (EPA) issued a Notice of Violation to Caterpillar Inc., alleging various violations of Clean Air Act Sections 203, 206 and 207. EPA claims that Caterpillar violated such sections by shipping engines and catalytic converter after-treatment devices separately, introducing into commerce a number of uncertified and/or misbuilt engines, and failing to timely report emissions-related defects. Caterpillar is currently engaging in negotiations with EPA to resolve these issues, but it is too early in the process to place precise estimates on the potential exposure to penalties. However, Caterpillar is cooperating with EPA and, based upon initial discussions, and although penalties could potentially exceed \$100,000, management does not believe that this issue will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

On February 8, 2009, an incident at Caterpillar's Joliet, Illinois facility resulted in the release of approximately 3,000 gallons of wastewater into the Des Plaines River. In coordination with state and federal authorities, appropriate remediation measures have been taken. On February 23, 2009, the Illinois Attorney General filed a Complaint in Will County Circuit Court containing seven counts of violations of state environmental laws and regulations. Each count seeks injunctive relief, as well as statutory penalties of \$50,000 per violation and \$10,000 per day of violation. In addition, on March 5, 2009, the EPA served Caterpillar with a Notice of Intent to file a Civil Administrative Action (notice), indicating the EPA's intent to seek civil penalties for violations of the Clean Water Act and Oil Pollution Act. On January 25, 2010, the EPA issued a revised notice seeking civil penalties in the amount of \$167,800, and Caterpillar responded to the revised notice and is engaged in follow up discussions with the EPA. On March 8, 2010, the Illinois Attorney General submitted a demand to Caterpillar seeking a \$100,000 civil penalty. At this time, we do not believe these proceedings will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

13. Income Taxes

The provision for income taxes in the first quarter of 2010 reflects an estimated annual effective tax rate of 30 percent, excluding the discrete charge discussed below, compared to a discrete period effective tax rate of 37.5 percent for first quarter 2009. The 2010 estimated annual tax rate is expected to be less than the U.S. tax rate of 35 percent primarily due to profits in tax jurisdictions with rates lower than the U.S. rate. The 2010 estimated annual tax rate is based on current tax law and therefore does not include the U.S. research and development tax credit and other benefits that have not been extended past 2009. A discrete calculation was used to report the 2009 first quarter tax benefit rather than an estimated annual tax rate as the estimated range of annual profit/(loss) before tax produced significant variability and made it difficult to reasonably estimate the 2009 annual effective tax rate.

The provision for income taxes for 2010 also includes a deferred tax charge of \$90 million due to the enactment of U.S. health care legislation effectively making government subsidies received for Medicare-equivalent prescription drug coverage taxable. Guidance on accounting for income taxes requires that the tax effects of changes in laws be reflected in the financial statements in the period in which the legislation is enacted regardless of the effective date. Deferred tax assets had previously been recorded based on the liability for other postretirement benefits without regard to the tax-free subsidy. As a result of the law change, deferred tax assets were reduced to reflect the expected future income tax on the subsidy. Beginning in 2013, a cash tax cost will be incurred when the subsidies received increase taxable income.

It is reasonably possible that changes in the valuation allowances against deferred tax assets of certain non-U.S. entities may occur in the next year.

14. Segment Information

A. Basis for segment information

Caterpillar is organized based on a decentralized structure that has established responsibilities to continually improve business focus and increase our ability to react quickly to changes in the global business cycle, customer needs and competitors' actions. Our current structure uses a matrix organization comprised of multiple profit and cost center divisions.

Our divisional structure and responsibilities are as follows:

- § Machine business divisions are profit centers primarily responsible for product management, development, marketing, sales and product support. Machine business divisions also have select manufacturing responsibilities. Inter-segment sales of components are a source of revenue for some of these divisions.
- § Engine business divisions are profit centers primarily responsible for product management, development, manufacturing, marketing, sales and product support. Inter-segment sales of engines and/or components are a source of revenue for some of these divisions.
- § Component business divisions are profit centers primarily responsible for product management, development, manufacturing, marketing, sales and product support for internal and external customers. Inter-segment sales of components are a source of revenue for these divisions.
- § Service business divisions are profit centers primarily responsible for various services and service-related products to customers including financial, logistics, remanufacturing and rail services. Inter-segment sales of services and service-related products are a source of revenue for some of these divisions.

- § Manufacturing services divisions are cost centers primarily responsible for the manufacture of products and/or components within the geographic regions of the Americas and EAME.
- § Corporate services divisions are cost centers primarily responsible for the performance of certain support functions globally (e.g., Finance, Human Resources, Information Technology, Legal and Purchasing) and to provide centralized services.
- § Regional distribution services divisions are cost centers primarily responsible for the total portfolio of business with each dealer, the dealer relationship, dealer development and ensuring the most efficient and effective distribution of machines, engines and parts.
- § Centers of excellence divisions are cost centers primarily responsible for Caterpillar's most critical/differentiating processes in the areas of Marketing and Product Support, Production and Product Development.

The segment information for 2009 has been retrospectively adjusted to conform to the 2010 presentation. Core Components, formerly included in the all other category, is now a reportable segment. The portion of postretirement benefit expense (\$89 million in the first quarter of 2009) that was allocated to Machinery and Engines business divisions based on budgeted external and inter-segment sales, is now a methodology difference between segment and external reporting.

Our measurement system is complex and is designed to evaluate performance and to drive continuous improvement. We have chosen to disclose financial results by our three principal lines of business (Machinery, Engines and Financial Products) in our Management's Discussion and Analysis rather than by reportable segment based on the following:

- § Our Machinery and Engines businesses are vertically integrated and there are a significant amount of inter-segment transactions that make information for individual segments less meaningful.
- § A significant amount of corporate and other costs (\$193 million for the three months ended March 31, 2010 and \$252 million for the three months ended March 31, 2009) are allocated to Machinery and Engines business divisions based on budgeted external and inter-segment sales. It would be difficult to provide meaningful information by reportable segment for these costs as the allocation method does not directly reflect the benefited segment and the allocation is done in total, not by financial statement line item. In addition, the budgeted amount is allocated to segments; any differences from budget are treated as a reconciling item between reportable segment and consolidated results.
- § As discussed below, there are various methodology differences between our segment reporting and U.S. GAAP. This results in numerous reconciling items between reportable segment and consolidated results.
- § We have twenty-three operating segments, of which twelve are reportable segments. Reporting financial information for this number of businesses, especially considering our level of vertical integration, would not be meaningful to our financial statement users.

In summary, due to Caterpillar's high level of integration and our concern that segment disclosures have limited value for our external readers, we are continuing to disclose financial results for our three principal lines of business (Machinery, Engines and Financial Products) in our Management's Discussion and Analysis beginning on page 36.

B. Description of segments

Profit center divisions meet the definition of "operating segments" specified in the accounting guidance on segment reporting; however, the cost center divisions do not. Following is a brief description of our twelve reportable segments and the business activities included in all other operating segments:

Building Construction Products: A machine business division primarily responsible for the product management, development, manufacture, marketing, sales and product support of light construction machines and select work tools.

Cat Japan: A business division primarily responsible for the development of small, medium and large hydraulic excavators, manufacturing of select machinery and components, marketing, sales and product support of machinery, engines and components in Japan. Inter-segment sales of machinery and components are a source of revenue for this division.

Core Components: A component business division primarily responsible for the product management, development, manufacture, marketing and product support of undercarriage, specialty products, hardened barstock components and ground engaging tools. Inter-segment sales of components are a source of revenue for this division.

Earthmoving: A machine business division primarily responsible for the product management, development, marketing, sales and product support of medium wheel loaders, medium track-type tractors, track-type loaders, motor graders and pipelayers. Also responsible for manufacturing of select machines in Asia.

Electric Power: An engine business division primarily responsible for the product management, development, manufacture, marketing, sales and product support of reciprocating engine powered generator sets as well as integrated systems used in the electric power generation industry.

Excavation: A machine business division primarily responsible for the product management, development, marketing, sales and product support of small, medium and large excavators, wheeled excavators and articulated trucks. Also responsible for manufacturing of select machines in Asia and articulated trucks.

Page 23

Large Power Systems: An engine business division primarily responsible for the product management, development, manufacture and product support of reciprocating engines supplied to Caterpillar machinery and the electric power, petroleum, marine and industrial industries. Also responsible for engine component manufacturing. Inter-segment sales of engines and components are a source of revenue for this division.

Logistics: A service business division primarily responsible for logistics services for Caterpillar and other companies.

Marine & Petroleum Power: An engine business division primarily responsible for the product management, development, marketing, sales and product support of reciprocating engines supplied to the marine and petroleum industries. Also responsible for manufacturing of certain

reciprocating engines for marine, petroleum and electric power applications.

Mining: A machine business division primarily responsible for the product management, development, marketing, sales and product support of large track-type tractors, large mining trucks, underground mining equipment and tunnel boring equipment. Also responsible for manufacturing of underground mining equipment and tunnel boring equipment. Inter-segment sales of components are a source of revenue for this division.

Turbines: An engine business division primarily responsible for the product management, development, manufacture, marketing, sales and product support of turbines and turbine-related services.

Financing & Insurance Services: Provides financing to customers and dealers for the purchase and lease of Caterpillar and other equipment, as well as some financing for Caterpillar sales to dealers. Financing plans include operating and finance leases, installment sale contracts, working capital loans and wholesale financing plans. The division also provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment.

All Other: Primarily includes activities such as: the product management, development, marketing, sales and product support of large wheel loaders, quarry and construction trucks, wheel tractor scrapers, wheel dozers, compactors and select work tools. Also responsible for manufacturing of select machines in Asia; the product management, development, manufacture, marketing, sales and product support of forestry products; the product management, development, manufacture, marketing, sales and product support of reciprocating engines used in industrial applications; the product management, development, manufacture, marketing, sales and product support of machinery and engine components, electronics and control systems; the product management, development, manufacture, remanufacture, maintenance and service of rail-related products and services; remanufacturing of Caterpillar engines and components and remanufacturing services for other companies; the product management, development, manufacture, marketing, sales and product support of paving products. Inter-segment sales are a source of revenue for some of these divisions. Results for All Other operating segments are included as reconciling items between reportable segments and consolidated external reporting.

C. Segment measurement and reconciliations

There are several methodology differences between our segment reporting and our external reporting. The following is a list of the more significant methodology differences:

§ Generally, liabilities are managed at the corporate level and are not included in segment operations. Segment accountable assets generally include inventories, receivables and property, plant and equipment.

§ Segment inventories and cost of sales are valued using a current cost methodology.

§ Currency exposures are generally managed at the corporate level and the effects of changes in exchange rates on results of operations within the year are not included in segment results. The net difference created in the translation of revenues and costs between exchange rates used for U.S. GAAP reporting and exchange rates used for segment reporting are recorded as a methodology difference.

§ Postretirement benefit expenses are split; segments are generally responsible for service and prior service costs, with the remaining elements of net periodic benefit cost included as a methodology difference.

§ Interest expense is not included in Machinery and Engines segment results.

§ Accountable profit is determined on a pretax basis.

Reconciling items are created based on accounting differences between segment reporting and our consolidated external reporting. Please refer to pages 26 to 28 for financial information regarding significant reconciling items. Most of our reconciling items are self-explanatory given the above explanations. For the reconciliation of profit (loss), we have grouped the reconciling items as follows:

§ Corporate costs: Certain corporate costs are allocated and included in the business division's accountable profit at budgeted levels. Any differences are treated as reconciling items. These costs are related to corporate requirements and strategies that are considered to be for the benefit of the entire organization.

Page 24

§ Redundancy costs: Redundancy costs include pension and other postretirement benefit plan curtailments, settlements and special termination benefits as well as employee separation charges. Most of these costs are reconciling items between accountable profit and consolidated profit before tax. Table Reconciliation of Redundancy Costs on page 27 has been included to illustrate how segment accountable profit would have been impacted by the redundancy costs. See Notes 9 and 18 for more information.

§ Methodology differences: See previous discussion of significant accounting differences between segment reporting and consolidated external reporting.

§ Timing: Timing differences in the recognition of costs between segment reporting and consolidated external reporting.

Reportable Segments
Three Months Ended March 31,
(Millions of dollars)

2010

| | External sales and revenues | Inter-segment sales & revenues | Total sales and revenues | Depreciation and amortization | Accountable profit (loss) | Accountable assets at Mar. 31 | Capital expenditures |
|-----------------------|-----------------------------|--------------------------------|--------------------------|-------------------------------|---------------------------|-------------------------------|----------------------|
| Building Construction | | | | | | | |
| Products | \$ 406 | \$ 12 | \$ 418 | \$ 8 | \$ (5) | \$ 702 | \$ 3 |
| Cat Japan | 314 | 370 | 684 | 52 | (38) | 2,496 | 34 |
| Core Components | 262 | 336 | 598 | 19 | 133 | 1,010 | 6 |
| Earthmoving | 909 | 34 | 943 | 25 | (53) | 2,393 | 24 |
| Electric Power | 467 | 1 | 468 | 6 | 6 | 733 | — |
| Excavation | 855 | 18 | 873 | 16 | (13) | 1,516 | 6 |
| Large Power Systems | 686 | 600 | 1,286 | 46 | 77 | 2,810 | 35 |
| Logistics | 177 | 351 | 528 | 26 | 128 | 810 | 7 |
| Marine & Petroleum | | | | | | | |
| Power | 483 | 16 | 499 | 6 | 59 | 795 | 6 |

Edgar Filing: CATERPILLAR INC - Form 10-Q

| | | | | | | | |
|--------------------------------|----------|----------|----------|--------|--------|-----------|--------|
| Mining | 677 | 48 | 725 | 15 | 86 | 1,299 | 5 |
| Turbines | 512 | — | 512 | 15 | 75 | 612 | 7 |
| Total Machinery & Engines | \$ 5,748 | \$ 1,786 | \$ 7,534 | \$ 234 | \$ 455 | \$ 15,176 | \$ 133 |
| Financing & Insurance Services | 739 | — | 739 | 183 | 106 | 31,026 | 174 |
| Total | \$ 6,487 | \$ 1,786 | \$ 8,273 | \$ 417 | \$ 561 | \$ 46,202 | \$ 307 |

| | 2009 | | | | | | |
|--------------------------------|-----------------------------|--------------------------------|--------------------------|-------------------------------|---------------------------|-------------------------------|----------------------|
| | External sales and revenues | Inter-segment sales & revenues | Total sales and revenues | Depreciation and amortization | Accountable profit (loss) | Accountable assets at Dec. 31 | Capital expenditures |
| Building Construction | | | | | | | |
| Products | \$ 280 | \$ 4 | \$ 284 | \$ 7 | \$ (60) | \$ 615 | \$ 2 |
| Cat Japan | 330 | 377 | 707 | 45 | (90) | 2,440 | 45 |
| Core Components | 217 | 270 | 487 | 18 | 51 | 955 | 10 |
| Earthmoving | 1,083 | 21 | 1,104 | 22 | (50) | 2,197 | 20 |
| Electric Power | 735 | 5 | 740 | 7 | 97 | 702 | 3 |
| Excavation | 703 | 26 | 729 | 15 | (94) | 1,325 | 9 |
| Large Power Systems | 553 | 1,094 | 1,647 | 47 | 95 | 2,703 | 15 |
| Logistics | 177 | 325 | 502 | 27 | 92 | 828 | 13 |
| Marine & Petroleum | | | | | | | |
| Power | 875 | 16 | 891 | 4 | 108 | 747 | 8 |
| Mining | 875 | 37 | 912 | 20 | 98 | 1,141 | 9 |
| Turbines | 811 | 3 | 814 | 15 | 182 | 734 | 9 |
| Total Machinery & Engines | \$ 6,639 | \$ 2,178 | \$ 8,817 | \$ 227 | \$ 429 | \$ 14,387 | \$ 143 |
| Financing & Insurance Services | 788 | — | 788 | 180 | 89 | 32,230 | 222 |
| Total | \$ 7,427 | \$ 2,178 | \$ 9,605 | \$ 407 | \$ 518 | \$ 46,617 | \$ 365 |

Page 25

Reconciliation of Sales and revenues:

(Millions of dollars)

| | Machinery and Engines | Financing & Insurance Services | Consolidating Adjustments | Consolidated Total |
|--|-----------------------|--------------------------------|---------------------------|--------------------|
| Three Months Ended March 31, 2010: | | | | |
| Total external sales and revenues from reportable segments | \$ 5,748 | \$ 739 | \$ — | \$ 6,487 |
| All other operating segments | 1,809 | — | — | 1,809 |
| Other | (6) | 7 | (59)1 | (58) |
| Total sales and revenues | \$ 7,551 | \$ 746 | \$ (59) | \$ 8,238 |

Three Months Ended March 31, 2009:

Edgar Filing: CATERPILLAR INC - Form 10-Q

| | | | | |
|--|----------|--------|---------|----------|
| Total external sales and revenues from reportable segments | \$ 6,639 | \$ 788 | \$ — | \$ 7,427 |
| All other operating segments | 1,876 | — | — | 1,876 |
| Other | (5) | 8 | (81)1 | (78) |
| Total sales and revenues | \$ 8,510 | \$ 796 | \$ (81) | \$ 9,225 |

1 Elimination of Financial Products revenues from Machinery and Engines.

Reconciliation of Consolidated profit (loss) before taxes:

| (Millions of dollars) | Machinery and Engines | Financing & Insurance Services | Consolidated Total |
|---|-----------------------|--------------------------------|--------------------|
| Three Months Ended March 31, 2010: | | | |
| Total accountable profit from reportable segments | \$ 455 | \$ 106 | \$ 561 |
| All other operating segments | 166 | — | 166 |
| Cost centers | 26 | — | 26 |
| Corporate costs | (139) | — | (139) |
| Timing | 32 | — | 32 |
| Redundancy costs | (2) | — | (2) |
| Methodology differences: | | | |
| Inventory/cost of sales | 14 | — | 14 |
| Postretirement benefit expense | (112) | — | (112) |
| Financing costs | (101) | — | (101) |
| Equity in profit of unconsolidated affiliated companies | 2 | — | 2 |
| Currency | 33 | — | 33 |
| Other methodology differences | (15) | 4 | (11) |
| Total profit (loss) before taxes | \$ 359 | \$ 110 | \$ 469 |
| Three Months Ended March 31, 2009: | | | |
| Total accountable profit from reportable segments | \$ 429 | \$ 89 | \$ 518 |
| All other operating segments | 4 | — | 4 |
| Cost centers | 29 | — | 29 |
| Corporate costs | 49 | — | 49 |
| Timing | (11) | — | (11) |
| Redundancy costs | (547) | (11) | (558) |
| Methodology differences: | | | |
| Inventory/cost of sales | (46) | — | (46) |
| Postretirement benefit expense | (73) | — | (73) |
| Financing costs | (101) | — | (101) |
| Equity in profit of unconsolidated affiliated companies | (1) | — | (1) |
| Currency | (14) | — | (14) |
| Other methodology differences | (9) | 1 | (8) |
| Total profit (loss) before taxes | \$ (291) | \$ 79 | \$ (212) |

Edgar Filing: CATERPILLAR INC - Form 10-Q

Reconciliation of Redundancy costs:

As noted above, redundancy costs are a reconciling item between Accountable profit (loss) and Consolidated profit (loss) before tax. Had we included these costs in the segments' results, costs would have been split as shown below.

| (Millions of dollars) | Accountable profit (loss) | Redundancy costs | Accountable profit (loss) with redundancy costs |
|------------------------------------|------------------------------|---------------------|---|
| Three Months Ended March 31, 2009: | | | |
| Building Construction | | | |
| Products | \$ (60) | \$ (38) | \$ (98) |
| Cat Japan | (90) | (3) | (93) |
| Core | | | |
| Components | 51 | (1) | 50 |
| Earthmoving | (50) | (55) | (105) |
| Electric Power | 97 | (21) | 76 |
| Excavation | (94) | (45) | (139) |
| Large Power | | | |
| Systems | 95 | (89) | 6 |
| Logistics | 92 | (28) | 64 |
| Marine & Petroleum | | | |
| Power | 108 | (10) | 98 |
| Mining | 98 | (50) | 48 |
| Turbines | 182 | — | 182 |
| Financing & Insurance | | | |
| Services | 89 | (11) | 78 |
| All other operating segments | 4 | (207) | (203) |
| Consolidated Total | \$ 522 | \$ (558) | \$ (36) |

Reconciliation of Assets:

| (Millions of dollars) | Machinery and Engines | Financing & Insurance Services | Consolidating Adjustments | Consolidated Total |
|---|--------------------------|--------------------------------------|------------------------------|-----------------------|
| March 31, 2010: | | | | |
| Total accountable assets from reportable segments | \$ 15,176 | \$ 31,026 | \$ — | \$ 46,202 |
| All other operating segments | 7,724 | — | — | 7,724 |
| Items not included in segment assets: | | | | |
| Cash and short-term investments | 1,683 | — | — | 1,683 |
| Intercompany receivables | 672 | — | (672) | — |
| Investment in Financial Products | 3,871 | — | (3,871) | — |
| Deferred income taxes and prepaids | 3,918 | — | (506) | 3,412 |
| Goodwill, intangible assets and other assets | 1,133 | — | — | 1,133 |
| Liabilities included in segment assets | 2,381 | — | — | 2,381 |
| Inventory methodology differences | (2,860) | — | — | (2,860) |

Edgar Filing: CATERPILLAR INC - Form 10-Q

| | | | | |
|--------------|-----------|-----------|------------|-----------|
| Other | 481 | (267) | (1,053) | (839) |
| Total assets | \$ 34,179 | \$ 30,759 | \$ (6,102) | \$ 58,836 |

December 31, 2009:

| | | | | |
|---|-----------|-----------|------------|-----------|
| Total accountable assets from reportable segments | \$ 14,387 | \$ 32,230 | \$ — | \$ 46,617 |
| All other operating segments | 7,356 | — | — | 7,356 |
| Items not included in segment assets: | | | | |
| Cash and short-term investments | 2,239 | — | — | 2,239 |
| Intercompany receivables | 106 | — | (106) | — |
| Investment in Financial Products | 4,514 | — | (4,514) | — |
| Deferred income taxes and prepaids | 4,131 | — | (460) | 3,671 |
| Goodwill, intangible assets and other assets | 1,364 | — | — | 1,364 |
| Liabilities included in segment assets | 2,270 | — | — | 2,270 |
| Inventory methodology differences | (2,735) | — | — | (2,735) |
| Other | 564 | (255) | (1,053) | (744) |
| Total assets | \$ 34,196 | \$ 31,975 | \$ (6,133) | \$ 60,038 |

Page 27

Reconciliations of Depreciation and amortization:

| (Millions of dollars) | Machinery and Engines | Financing & Insurance Services | Consolidating Adjustments | Consolidated Total |
|--|-----------------------|--------------------------------|---------------------------|--------------------|
| Three Months Ended March 31, 2010: | | | | |
| Total accountable depreciation and amortization from reportable segments | \$ 234 | \$ 183 | \$ — | \$ 417 |
| Items not included in segment depreciation and amortization: | | | | |
| All other operating segments | 105 | — | — | 105 |
| Cost centers | 37 | — | — | 37 |
| Other | (5) | — | — | (5) |
| Total depreciation and amortization | \$ 371 | \$ 183 | \$ — | \$ 554 |

Three Months Ended March 31, 2009:

| | | | | |
|--|--------|--------|------|--------|
| Total accountable depreciation and amortization from reportable segments | \$ 227 | \$ 180 | \$ — | \$ 407 |
| Items not included in segment depreciation and amortization: | | | | |
| All other operating segments | 95 | — | — | 95 |
| Cost centers | 40 | — | — | 40 |
| Other | (8) | — | — | (8) |
| Total depreciation and amortization | \$ 354 | \$ 180 | \$ — | \$ 534 |

Reconciliations of Capital expenditures:

| (Millions of dollars) | Machinery | Financing & | Consolidating | Consolidated |
|-----------------------|-----------|-------------|---------------|--------------|
|-----------------------|-----------|-------------|---------------|--------------|

Edgar Filing: CATERPILLAR INC - Form 10-Q

| | and Engines | Insurance Services | Adjustments | Total |
|---|----------------|-----------------------|-------------|--------|
| Three Months Ended March 31, 2010: | | | | |
| Total accountable capital expenditures from reportable segments | \$ 133 | \$ 174 | \$ — | \$ 307 |
| Items not included in segment capital expenditures: | | | | |
| All other operating segments | 51 | — | — | 51 |
| Cost centers | 19 | — | — | 19 |
| Other | — | — | (4) | (4) |
| Total capital expenditures | \$ 203 | \$ 174 | \$ (4) | \$ 373 |
| Three Months Ended March 31, 2009: | | | | |
| Total accountable capital expenditures from reportable segments | \$ 143 | \$ 222 | \$ — | \$ 365 |
| Items not included in segment capital expenditures: | | | | |
| All other operating segments | 47 | — | — | 47 |
| Cost centers | 34 | — | — | 34 |
| Other | — | — | (1) | (1) |
| Total capital expenditures | \$ 224 | \$ 222 | \$ (1) | \$ 445 |

15. Securitizations

Cat Financial transfers certain finance receivables relating to retail installment sale contracts and finance leases as part of their asset-backed securitization program. In addition, Cat Financial has sold interests in wholesale receivables to third-party commercial paper conduits. These transactions provide a source of liquidity and allow for better management of their balance sheet capacity.

Page 28

Securitized Retail Installment Sale Contracts and Finance Leases

Cat Financial periodically transfers certain finance receivables relating to retail installment sale contracts and finance leases to special purpose entities (SPEs) as part of their asset-backed securitization program. The SPEs have limited purposes and generally are only permitted to purchase the finance receivables, issue asset-backed securities and make payments on the securities. The SPEs only issue a single series of securities and generally are dissolved when those securities have been paid in full. The SPEs issue debt to pay for the finance receivables they acquire from Cat Financial. The primary source for repayment of the debt is the cash flows generated from the finance receivables owned by the SPEs. The assets of the SPEs are legally isolated and are not available to pay Cat Financial creditors. Cat Financial retains interests in the securitization transactions, including subordinated certificates issued by the SPEs, rights to cash reserves, and residual interests. For bankruptcy analysis purposes, Cat Financial has sold the finance receivables to the SPEs in a true sale and the SPEs are separate legal entities. The investors and the SPEs have no recourse to any of Cat Financial's other assets for failure of debtors to pay when due.

Edgar Filing: CATERPILLAR INC - Form 10-Q

In accordance with the new consolidation accounting guidance adopted on January 1, 2010, these SPEs were concluded to be VIEs. Cat Financial determined that they were the primary beneficiary based on their power to direct activities through their role as servicer and their obligation to absorb losses and right to receive benefits and therefore consolidated the entities using the carrying amounts of the SPEs' assets and liabilities.

The restricted assets (Receivables-finance, Long-term receivables-finance, Prepaid expenses and other current assets, and Other assets) of these consolidated SPEs totaled \$354 million at March 31, 2010. The liabilities (Accrued expenses, Long-term debt due within one year-Financial Products, and Other liabilities) of these consolidated SPEs totaled \$284 million at March 31, 2010.

Prior to January 1, 2010, the SPEs were considered to be QSPEs and thus not consolidated. Cat Financial's retained interests in the securitized assets were classified as available-for-sale securities and were included in Other assets in the Consolidated Statement of Financial Position at fair value. Cat Financial estimated fair value and cash flows using a valuation model and key assumptions for credit losses, prepayment rates and discount rates. These assumptions were based on Cat Financial's historical experience, market trends and anticipated performance relative to the particular assets securitized.

The fair value of the retained interests in all securitizations of retail finance receivables outstanding totaled \$102 million (cost basis of \$107 million) as of December 31, 2009. The fair value of the retained interests as of December 31, 2009 that have been in a continuous unrealized loss position for twelve months or longer totaled \$102 million (cost basis of \$107 million). Key assumptions used to determine the fair value of the retained interests as of December 31, 2009 were:

| (Millions of dollars) | December 31, 2009 |
|---|-------------------|
| Cash flow weighted-average discount rates on retained interests | 7.7% to 12.4% |
| Weighted-average maturity in months | 22 |
| Expected prepayment rate | 18.0% |
| Expected credit losses | 4.7% to 4.8% |

To estimate the impact on income due to changes to the key economic assumptions used to estimate the fair value of residual cash flows in retained interests from retail finance receivable securitizations, Cat Financial performed a sensitivity analysis of the fair value of the retained interests by applying a 10 percent and 20 percent adverse change to the individual assumptions. This estimate does not adjust for other variations that may occur should one of the assumptions actually change. Accordingly, no assurance can be given that actual results would be consistent with the results of their estimate. The effect of a variation in a particular assumption on the fair value of residual interest in securitization transactions was calculated without changing any other assumptions and changes in one factor may result in changes in another. Cat Financial's sensitivity analysis indicated that the impact of a 20 percent adverse change in individual assumptions used to calculate the fair value of all Cat Financial's retained interests as of December 31, 2009 would be \$11 million or less.

During the three months ended March 31, 2009, the assumptions used to determine the fair value of Cat Financial's retained interests in the securitization transactions were reviewed. The most significant change was an increase in the credit loss assumption due to the adverse economic conditions in the U.S. economy. This resulted in a \$22 million impairment charge

to the retained interests for the three months ended March 31, 2009. The impairment charge was recorded in Revenues of Financial Products on the Consolidated Statement of Results of Operations.

Cat Financial also retains servicing responsibilities and receives a servicing fee of approximately one percent of the remaining value of the finance receivables for their servicing responsibilities.

To maintain competitiveness in the capital markets and to have effective and efficient use of alternative funding sources, Cat Financial may elect to provide additional reserve support to these SPEs.

Page 29

Sales and Servicing of Trade Receivables

Our Machinery and Engines operations generate trade receivables from the sale of inventory to dealers and customers. Certain of these receivables are sold to Cat Financial.

During 2009, Cat Financial sold interests in a certain pool of trade receivables through a revolving structure to third-party commercial paper conduits, which are asset-backed commercial paper issuers that are special purpose entities (SPEs) of the sponsor bank and are not consolidated by Cat Financial. Cat Financial services the sold trade receivables and receives an annual servicing fee of approximately 0.5 percent of the average outstanding principal balance. Consolidated expenses of \$2 million related to the sale of trade receivables were recognized for the three months ended March 31, 2009 and are included in Other income (expense) in the Consolidated Statement of Results of Operations. As of March 31, 2010 and December 31, 2009, there were no trade receivables sold to the third-party commercial paper conduits.

The cash collections from this pool of receivables are first applied to satisfy any obligations of Cat Financial to the third-party commercial paper conduits. The third-party commercial paper conduits have no recourse to Cat Financial's assets, other than the remaining interest, for failure of debtors to pay when due.

Cash flows from sale of trade receivables:

| (Millions of dollars) | 2010 | Three Months Ended March 31, 2009 |
|---|-------|--------------------------------------|
| Cash proceeds from sales of receivables to the conduits | \$ — | \$ 393 |
| Cash flows received on the interests that continue to be held | 1,463 | 2,514 |

16. Redeemable Noncontrolling Interest – Caterpillar Japan Ltd.

On August 1, 2008, Shin Caterpillar Mitsubishi Ltd. (SCM) completed the first phase of a share redemption plan whereby SCM redeemed half of Mitsubishi Heavy Industries (MHI's) shares in SCM. This resulted in Caterpillar owning 67 percent of the outstanding shares of

SCM and MHI owning the remaining 33 percent. As part of the share redemption, SCM was renamed Caterpillar Japan Ltd. (Cat Japan). Both Cat Japan and MHI have options, exercisable beginning August 1, 2013, to require the redemption of the remaining shares owned by MHI, which if exercised, would make Caterpillar the sole owner of Cat Japan.

The remaining 33 percent of Cat Japan owned by MHI has been reported as redeemable noncontrolling interest and classified as mezzanine equity (temporary equity) in the Consolidated Statement of Financial Position. The redeemable noncontrolling interest is reported at its estimated redemption value. Any adjustment to the redemption value impacts Profit employed in the business, but does not impact Profit. If the fair value of the redeemable noncontrolling interest falls below the redemption value, profit available to common stockholders would be reduced by the difference between the redemption value and the fair value. This would result in lower profit in the profit per common share computation in that period. Reductions impacting the profit per common share computation may be partially or fully reversed in subsequent periods if the fair value of the redeemable noncontrolling interest increases relative to the redemption value. Such increases in profit per common share would be limited to cumulative prior reductions. During the first quarter of 2009, there was no change to the estimated redemption value. During the first quarter of 2010, the estimated redemption value decreased, resulting in an adjustment to the carrying value of the redeemable noncontrolling interest. Profit employed in the business increased by \$9 million due to this adjustment. As of March 31, 2010, the fair value of the redeemable noncontrolling interest remained greater than the estimated redemption value.

We estimate the fair value of the redeemable noncontrolling interest using a discounted five year forecasted cash flow with a year-five residual value. Based on our current expectations for Cat Japan, we expect the fair value of the redeemable noncontrolling interest to remain greater than the redemption value. However, if economic conditions deteriorate and Cat Japan's business forecast is negatively impacted, it is possible that the fair value of the redeemable noncontrolling interest may fall below the estimated redemption value. Should this occur, profit would be reduced in the profit per common share computation by the difference between the redemption value and the fair value. Lower long-term growth rates, reduced long-term profitability as well as changes in interest rates, costs, pricing, capital expenditures and general market conditions may reduce the fair value of the redeemable noncontrolling interest.

With the consolidation of Cat Japan's results of operations, 33 percent of Cat Japan's comprehensive income or loss is attributed to the redeemable noncontrolling interest, impacting its carrying value. Because the redeemable noncontrolling interest must be reported at its estimated future redemption value, the impact from attributing the comprehensive income or loss is offset by adjusting the carrying value to the redemption value. This adjustment impacts Profit employed in the business, but not Profit. For the three months ended March 31, 2010 and 2009, the carrying value had decreased by \$6 million and \$20 million, respectively, due to Cat Japan's comprehensive loss. This resulted in an offsetting adjustment of \$6 million and \$20 million, respectively, to increase the carrying value to the redemption value and a corresponding reduction to Profit employed in the business. As Cat Japan's functional currency is the Japanese yen, changes in exchange rates affect the reported amount of the redeemable noncontrolling interest. At March 31, 2010, the redeemable noncontrolling interest was \$452 million.

17. Fair Value Measurements

A. Fair value measurements

The guidance on fair value measurements defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. This guidance also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. In accordance with this guidance, fair value measurements are classified under the following hierarchy:

- § Level 1 – Quoted prices for identical instruments in active markets.

- § Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.

- § Level 3 – Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

When available, we use quoted market prices to determine fair value, and we classify such measurements within Level 1. In some cases where market prices are not available, we make use of observable market based inputs to calculate fair value, in which case the measurements are classified within Level 2. If quoted or observable market prices are not available, fair value is based upon internally developed models that use, where possible, current market-based parameters such as interest rates, yield curves and currency rates. These measurements are classified within Level 3.

Fair value measurements are classified according to the lowest level input or value-driver that is significant to the valuation. A measurement may therefore be classified within Level 3 even though there may be significant inputs that are readily observable.

The guidance on fair value measurements expanded the definition of fair value to include the consideration of nonperformance risk. Nonperformance risk refers to the risk that an obligation (either by a counterparty or Caterpillar) will not be fulfilled. For our financial assets traded in an active market (Level 1 and certain Level 2), the nonperformance risk is included in the market price. For certain other financial assets and liabilities (Level 2 and 3), our fair value calculations have been adjusted accordingly.

Available-for-sale securities

Our available-for-sale securities, primarily at Cat Insurance, include a mix of equity and debt instruments (see Note 8 for additional information). Fair values for our U.S. treasury bonds and equity securities are based upon valuations for identical instruments in active markets. Fair values for other government bonds, corporate bonds and mortgage-backed debt securities are based upon models that take into consideration such market-based factors as recent sales, risk-free yield curves and prices of similarly rated bonds.

Derivative financial instruments

The fair value of interest rate swap derivatives is primarily based on models that utilize the appropriate market-based forward swap curves and zero-coupon interest rates to determine discounted cash flows. The fair value of foreign currency and commodity forward and option contracts is based on a valuation model that discounts cash flows resulting from the differential between the contract price and the market-based forward rate.

Securitized retained interests

The fair value of securitized retained interests is based upon a valuation model that calculates the present value of future expected cash flows using key assumptions for credit losses, prepayment rates and discount rates. These assumptions are based on our historical experience, market trends and anticipated performance relative to the particular assets securitized.

Guarantees

The fair value of guarantees is based upon the premium we would require to issue the same guarantee in a stand-alone arms-length transaction with an unrelated party. If quoted or observable market prices are not available, fair value is based upon internally developed models that utilize current market-based assumptions.

Assets and liabilities measured at fair value, primarily related to Financial Products, included in our Consolidated Statement of Financial Position as of March 31, 2010 and December 31, 2009 are summarized below:

Page 31

| (Millions of dollars) | March 31, 2010 | | | Total Assets / Liabilities, at Fair Value |
|--|----------------|---------|---------|--|
| | Level 1 | Level 2 | Level 3 | |
| Assets | | | | |
| Available-for-sale securities | | | | |
| Government debt | | | | |
| U.S. treasury bonds | \$ 14 | \$ — | \$ — | \$ 14 |
| Other U.S. and non-U.S. government bonds | — | 71 | — | 71 |
| Corporate bonds | | | | |
| Corporate bonds | — | 486 | — | 486 |
| Asset-backed securities | — | 139 | — | 139 |
| Mortgage-backed debt securities | | | | |
| U.S. governmental agency mortgage-backed securities | — | 291 | — | 291 |
| Residential mortgage-backed securities | — | 49 | — | 49 |
| | — | 167 | — | 167 |

Edgar Filing: CATERPILLAR INC - Form 10-Q

Commercial mortgage-backed securities

| | | | | |
|---------------------------------------|--------|----------|------|----------|
| Equity securities | | | | |
| Large capitalization value | 103 | — | — | 103 |
| Smaller company growth | 26 | — | — | 26 |
| Total available-for-sale securities | 143 | 1,203 | — | 1,346 |
| Derivative financial instruments, net | — | 224 | — | 224 |
| Total Assets | \$ 143 | \$ 1,427 | \$ — | \$ 1,570 |

Liabilities

| | | | | |
|-------------------|------|------|-------|-------|
| Guarantees | \$ — | \$ — | \$ 19 | \$ 19 |
| Total Liabilities | \$ — | \$ — | \$ 19 | \$ 19 |

(Millions of dollars)

December 31, 2009

| | Level 1 | Level 2 | Level 3 | Total Assets / Liabilities, at Fair Value |
|---|---------|----------|---------|---|
| Assets | | | | |
| Available-for-sale securities | | | | |
| Government debt | | | | |
| U.S. treasury bonds | \$ 14 | \$ — | \$ — | \$ 14 |
| Other U.S. and non-U.S. government bonds | — | 65 | — | 65 |
| Corporate bonds | | | | |
| Corporate bonds | — | 475 | — | 475 |
| Asset-backed securities | — | 134 | — | 134 |
| Mortgage-backed debt securities | | | | |
| U.S. governmental agency mortgage-backed securities | — | 308 | — | 308 |
| Residential mortgage-backed securities | — | 51 | — | 51 |
| Commercial mortgage-backed securities | — | 162 | — | 162 |
| Equity securities | | | | |
| Large capitalization value | 89 | — | — | 89 |
| Smaller company growth | 24 | — | — | 24 |
| Total available-for-sale securities | 127 | 1,195 | — | 1,322 |
| Derivative financial instruments, net | — | 236 | — | 236 |
| Securitized retained interests | — | — | 102 | 102 |
| Total Assets | \$ 127 | \$ 1,431 | \$ 102 | \$ 1,660 |
| Liabilities | | | | |
| Guarantees | \$ — | \$ — | \$ 17 | \$ 17 |

| | | | | | | | | |
|-------------------|----|---|----|---|----|----|----|----|
| Total Liabilities | \$ | — | \$ | — | \$ | 17 | \$ | 17 |
|-------------------|----|---|----|---|----|----|----|----|

Page 32

Below are roll-forwards of assets and liabilities measured at fair value using Level 3 inputs for the three months ended March 31, 2010 and 2009. These instruments, primarily related to Cat Financial, were valued using pricing models that, in management's judgment, reflect the assumptions a marketplace participant would use.

| (Millions of dollars) | Securitized Retained Interests | Guarantees |
|---|--------------------------------------|------------|
| Balance at December 31, 2009 | \$ 102 | \$ 17 |
| Adjustment to adopt accounting for variable-interest entities | (102) | — |
| Issuance of guarantees | — | 2 |
| Balance at March 31, 2010 | \$ — | \$ 19 |
| Balance at December 31, 2008 | \$ 52 | \$ 14 |
| Gains or losses included in earnings (realized / unrealized) | (21) | — |
| Changes in Accumulated other comprehensive income (loss) | 7 | — |
| Purchases, issuances, and settlements | 6 | 1 |
| Balance at March 31, 2009 | \$ 44 | \$ 15 |

The amount of unrealized losses on securitized retained interests included in earnings for the three months ended March 31, 2009 related to assets still held at March 31, 2009 was \$21 million. These losses were reported in Revenues of Financial Products in the Consolidated Statement of Results of Operations.

In addition to the amounts above, we had impaired loans of \$255 million and \$208 million as of March 31, 2010 and December 31, 2009, respectively. A loan is considered impaired when management determines that collection of contractual amounts due is not probable. In these cases, an allowance for loan losses is established based primarily on the fair value of associated collateral. As the collateral's fair value is based on observable market prices and/or current appraised values, the impaired loans are classified as Level 2 measurements.

B. Fair values of financial instruments

In addition to the methods and assumptions we use to record the fair value of financial instruments as discussed in the Fair value measurements section above, we used the following methods and assumptions to estimate the fair value of our financial instruments.

Cash and short-term investments
Carrying amount approximated fair value.

Restricted cash and short-term investments

Carrying amount approximated fair value. Restricted cash and short-term investments are included in Prepaid expenses and other current assets in the Consolidated Statement of Financial Position.

Finance receivables

Fair value was estimated by discounting the future cash flows using current rates, representative of receivables with similar remaining maturities.

Wholesale inventory receivables

Fair value was estimated by discounting the future cash flows using current rates, representative of receivables with similar remaining maturities.

Short-term borrowings

Carrying amount approximated fair value.

Long-term debt

Fair value for Machinery and Engines fixed rate debt was estimated based on quoted market prices. For Financial Products, fixed and floating rate debt was estimated based on quoted market prices. Commercial paper carrying amounts approximated fair value. For deposit obligations, carrying value approximated fair value.

Please refer to the table below for the fair values of our financial instruments.

Page 33

Fair Values of Financial Instruments

| (Millions of dollars) Asset (liability) | March 31, 2010 | | December 31, 2009 | | Reference |
|--|--------------------|---------------|----------------------|---------------|-----------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | |
| Cash and short-term investments | \$ 3,538 | \$ 3,538 | \$ 4,867 | \$ 4,867 | |
| Restricted cash and short-term investments | 151 | 151 | 37 | 37 | |
| Available-for-sale securities | 1,346 | 1,346 | 1,322 | 1,322 | Note 8 |
| Finance receivables—net (excluding finance leases ¹) | 13,133 | 12,670 | 13,077 | 12,604 | |
| Wholesale inventory receivables—net (excluding finance leases ¹) | 532 | 508 | 660 | 628 | |
| Short-term borrowings | (3,580) | (3,580) | (4,083) | (4,083) | |
| Long-term debt (including amounts due within one year) | | | | | |

Edgar Filing: CATERPILLAR INC - Form 10-Q

| | | | | | | |
|--------------------------------|--------------------------|----------|----------|----------|----------|------------|
| | Machinery and Engines | (5,383) | (6,048) | (5,954) | (6,674) | |
| | Financial Products | (21,207) | (22,125) | (21,594) | (22,367) | |
| Foreign currency contracts—net | | 107 | 107 | 192 | 192 | Note 4 |
| Interest rate swaps—net | | 104 | 104 | 34 | 34 | Note 4 |
| Commodity contracts—net | | 13 | 13 | 10 | 10 | Note 4 |
| Securitized retained interests | | — | — | 102 | 102 | Note 15 |
| Guarantees | | (19) | (19) | (17) | (17) | Note 10 |

1 Total excluded items have a net carrying value at March 31, 2010 and December 31, 2009 of \$7,394 million and \$7,780 million, respectively.

18. Employee separation charges

In 2009, we reported employee separation charges of \$481 million in Other operating (income) expenses in the Consolidated Statement of Results of Operations related to various voluntary and involuntary separation programs. These programs were in response to a sharp decline in sales volume due to the global recession.

Our accounting for separations is dependent upon how the particular program is designed. For voluntary programs, eligible separation costs are recognized at the time of employee acceptance. For involuntary programs, eligible costs are recognized when management has approved the program, the affected employees have been properly identified and the costs are estimable.

The following table summarizes the 2009 separation charges and subsequent 2010 activity by geographic region:

| (Millions of dollars) | Machinery and Engines | | | | | Total |
|--|-----------------------|------------------|--------|-----------------|------------------------------------|---------|
| | North America | Latin America | EAME | Asia Pacific | Financial Products ¹ | |
| Liability balance at December 31, 2008 | \$ 4 | \$ 2 | \$ 5 | \$ — | \$ — | \$ 11 |
| 2009 Separation charges ² | \$ 323 | \$ 15 | \$ 102 | \$ 31 | \$ 10 | \$ 481 |
| 2009 Benefit payments and other adjustments | (313) | (17) | (78) | (25) | (10) | (443) |
| Liability balance at December 31, 2009 | \$ 14 | \$ — | \$ 29 | \$ 6 | \$ — | \$ 49 |
| 2010 Benefit payments and other adjustments | \$ (8) | \$ — | \$ (8) | \$ (6) | \$ — | \$ (22) |
| Liability balance at March 31, 2010 | \$ 6 | \$ — | \$ 21 | \$ — | \$ — | \$ 27 |

- 1 Includes \$8 million for North America and \$2 million for EAME.
- 2 Includes \$357 million recognized in the first quarter of 2009.

The remaining liability balances as of March 31, 2010 represent costs for employees that have either not yet separated from the Company or their full severance has not yet been paid. The majority of these remaining costs are expected to be paid during 2010.

In addition to the 2009 separation charges noted above, we reported \$225 million (\$201 million in the first quarter) of costs associated with certain pension and other postretirement benefit plans, which were also recognized in Other operating (income) expenses in the Consolidated Statement of Results of Operations. See Note 9 for additional information.

The majority of the separation charges, made up primarily of cash severance payments, and pension and other postretirement benefit costs noted above were not assigned to operating segments. They are included in the reconciliation of total accountable profit from reportable segments to total profit before taxes. See Note 14 for additional details surrounding this reconciliation.

Page 34

19. Business combinations

GE Transportation's Inspection Products Business

In March 2010, we acquired the Inspection Products business from GE Transportation's Intelligent Control Systems division for approximately \$45 million. The acquired business has operations located primarily in the United States, Germany and Italy that design, manufacture and sell hot wheel and hot box detectors, data acquisition systems, draggers and other related inspection products for the global freight and passenger rail industries. The acquisition supports our strategic initiative to expand the scope and product range of our rail signaling business and will provide a foundation for global expansion.

The transaction was financed with available cash. Tangible assets acquired of \$12 million and liabilities assumed of \$9 million were recorded at their fair values. Finite-lived intangible assets acquired of \$28 million related to customer relationships and intellectual property are being amortized on a straight-line basis over a weighted-average amortization period of approximately 13 years. Goodwill of \$14 million, approximately \$8 million of which is deductible for income tax purposes, represents the excess cost over the fair value of the net tangible and finite-lived intangible assets acquired. These values represent a preliminary allocation of the purchase price subject to finalization of post-closing procedures. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and are reported in the "All Other" category in Note 14. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

JCS Company, Ltd.

In March 2010, we acquired 100 percent of the equity in privately held JCS Company Ltd. (JCS) for approximately \$34 million, consisting of \$32 million paid at closing with an additional \$2 million post-closing adjustment to be paid during the second quarter 2010. Based in Pyongtaek, South Korea, JCS is a leading manufacturer of centrifugally cast metal face seals used in many of the idlers and rollers contained in our undercarriage components. JCS is also a large supplier of seals to external customers in Asia and presents the opportunity to expand our customer base. The purchase of this business provides Caterpillar access to proprietary technology and expertise which we will be able to replicate across our own seal production processes.

The transaction was financed with available cash. Tangible assets acquired of \$22 million and liabilities assumed of \$8 million were recorded at their fair values. Finite-lived intangible assets acquired of \$12 million related to intellectual property and customer relationships are being amortized on a straight-line basis over a weighted-average amortization period of approximately 9 years. Goodwill of \$8 million, non-deductible for income tax purposes, represents the excess of cost over the fair value of net tangible and finite-lived intangible assets acquired. These values represent a preliminary allocation of the purchase price subject to finalization of post-closing procedures. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and reported in the "Core Components" segment in Note 14. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

Page 35

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We reported a first-quarter 2010 profit of \$0.36 per share, up \$0.55 per share from a loss of \$0.19 per share in the first quarter of 2009. Excluding a tax charge of \$90 million related to the recently signed U.S. health care legislation, profit in the first quarter of 2010 was \$0.50 per share. The loss of \$0.19 per share in the first quarter of 2009 included \$558 million of employee redundancy costs. Excluding redundancy costs, profit in the first quarter of 2009 was \$0.39 per share. First-quarter sales and revenues of \$8.238 billion were down from \$9.225 billion in the first quarter of 2009.

Economic conditions are improving, particularly in the world's developing economies. Overall industry activity and orders are higher than in 2009, and as a result, we are ramping up production to meet increasing demand from customers. We are seeing increased order activity related to mining and energy, which should be positive for our U.S. exports as the year unfolds.

First-quarter 2010 profit was \$233 million compared with a loss of \$112 million in the first quarter of 2009. The improvement in profit was a result of lower manufacturing costs, the absence of redundancy costs and favorable price realization. The improvements were partially offset by the impact of lower sales volume and higher taxes, including the \$90 million charge related to the recently signed U.S. health care legislation.

Highlights for first quarter of 2010 include:

§ First-quarter sales and revenues of \$8.238 billion were 11 percent lower than the first quarter of 2009.

§ Machinery sales decreased 1 percent, Engines sales were down 28 percent, and Financial Products revenues declined 4 percent from a year ago.

§ Manufacturing costs were \$566 million favorable compared with the first quarter of 2009. Labor and overhead, warranty and material costs all improved.

§ First-quarter profit includes a \$90 million tax charge, or \$0.14 per share, related to the recently enacted U.S. health care legislation.

§ Redundancy costs were \$558 million before tax or \$0.58 per share in the first quarter of 2009.

§ Machinery and Engines operating cash flow was positive \$921 million in the first quarter of 2010 compared with negative \$320 million in the first quarter of 2009.

§ Machinery and Engines debt-to-capital ratio was 45.2 percent at the end of the first quarter of 2010, compared to 59.7 percent at the end of the first quarter of 2009, and 47.2 percent at year-end 2009.

Outlook

We have increased our outlook for 2010 by raising the sales and revenues range and profit expectations. For sales and revenues, the revised 2010 range is \$38 to \$42 billion. The revised 2010 profit outlook is a range of \$2.50 to \$3.25 per share.

One of the main factors contributing to our revised outlook is improving expectations for growth in Asia/Pacific and Latin America and the expected continued improvement in mining and energy globally.

We are increasing production schedules to meet the expected increases in sales demand throughout 2010. In order to achieve our revised sales and revenues range and profit expectations, we will need to maintain tight cost management, and efficiently deploy the Caterpillar Production System using 6 Sigma to ramp up production and continue preparations for Environmental Protection Agency (EPA) Tier 4 emission requirements.

Note:

- Glossary of terms is included on pages 42-44; first occurrence of terms shown in bold italics.
- Information on non-GAAP financial measures, including the treatment of the U.S. health care legislation tax charge and redundancy costs, is included on page 53.

The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between first quarter 2009 (at left) and first quarter 2010 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting sales and revenues appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Sales and revenues for the first quarter of 2010 were \$8.238 billion, down \$987 million, or 11 percent, from the first quarter of 2009. Engines sales volume was down \$978 million, and Machinery volume declined \$295 million. Price realization improved \$172 million, and currency had a positive impact on sales of \$142 million, primarily due to a stronger euro and Brazilian real. In addition, Financial Products revenues decreased \$28 million.

Our integrated service businesses tend to be more stable through the business cycle than new machines and engines. First-quarter sales and revenues for these businesses were higher compared to the prior period. Integrated service businesses represented about 47 percent of total company sales and revenues in the first quarter of 2010, up from about 40 percent in the first quarter of 2009.

Sales and Revenues by Geographic Region

| (Millions of dollars) | Total | % Change | North America | % Change | Latin America | % Change | EAME | % Change | Asia/Pacific | % Change |
|-----------------------|----------|----------|---------------|----------|---------------|----------|----------|----------|--------------|----------|
| First Quarter 2010 | | | | | | | | | | |
| Machinery | \$ 5,262 | (1) % | \$ 1,890 | (15) % | \$ 741 | 7 % | \$ 984 | (22) % | \$ 1,647 | 40 % |
| Engines ¹ | 2,289 | (28) % | 755 | (28) % | 196 | (26) % | 818 | (34) % | 520 | (15) % |
| Financial | | | | | | | | | | |
| Products ² | 687 | (4) % | 402 | (10) % | 73 | 35 % | 115 | (4) % | 97 | 1 % |
| | \$ 8,238 | (11) % | \$ 3,047 | (18) % | \$ 1,010 | —% | \$ 1,917 | (27) % | \$ 2,264 | 20 % |
| First Quarter 2009 | | | | | | | | | | |
| Machinery | \$ 5,342 | | \$ 2,216 | | \$ 690 | | \$ 1,258 | | \$ 1,178 | |
| Engines ¹ | 3,168 | | 1,053 | | 266 | | 1,235 | | 614 | |
| Financial | | | | | | | | | | |
| Products ² | 715 | | 445 | | 54 | | 120 | | 96 | |
| | \$ 9,225 | | \$ 3,714 | | \$ 1,010 | | \$ 2,613 | | \$ 1,888 | |

- 1 Does not include internal engines transfers of \$501 million and \$436 million in first quarter 2010 and 2009, respectively. Internal engines transfers are valued at prices comparable to those for unrelated parties.
- 2 Does not include internal revenues earned from Machinery and Engines of \$59 million and \$81 million in first quarter 2010 and 2009, respectively.

Machinery Sales - Sales were \$5.262 billion, a decrease of \$80 million, or 1 percent, from the first quarter of 2009.

§ Sales volume declined \$295 million.

§ Price realization increased \$115 million.

§ Currency increased sales by \$100 million.

§ Geographic mix between regions (included in price realization) was \$27 million unfavorable.

§ The volume decline was the smallest since the worldwide recession started in the fourth quarter of 2008. Year-over-year volume comparisons have steadily improved since third quarter 2009.

§ Dealer-reported inventories were about flat with year-end 2009. During the first quarter of 2009, dealers reduced inventories about \$300 million. Inventories in months of supply ended the quarter lower than last year and were below the historical average.

§ Most economies are in recovery, and activity in key industries generally showed improvement from a year earlier. However, the recovery in worldwide dealer-reported deliveries was not sufficiently advanced to show a gain against the year-earlier quarter.

§ Sales volume increased in the developing regions as a result of gains in Asia/Pacific. Most developing economies recovered quickly as both governments and central banks addressed deteriorating economies with effective policy changes.

§ Sales volume declined in the developed economies. Most of these economies were in recession by early 2008, and unprecedented economic policy changes have not yet led to rapid improvements in most key industries. As a result, deliveries to end users are recovering slowly.

North America – Sales decreased \$326 million, or 15 percent.

§ Sales volume decreased \$361 million.

§ Price realization increased \$34 million.

§ Currency increased sales by \$1 million.

§ Dealer inventories were about half of the year-earlier level. As a result, months of supply ended the quarter well below a year earlier and in line with the historical average.

§ Dealers reduced reported inventories during the first quarter of 2010, compared with increases during the first quarter of 2009. These changes in dealer inventories contributed to lower sales volume.

§ Dealers reported modest improvements in monthly delivery rates since September 2009; however, deliveries during the quarter were below year-earlier amounts. Some industries have shown improvement, especially in Canada, but long, severe declines in activity have left users cautious about increasing machine purchases.

§ The U.S. housing industry showed scattered signs of improvement with starts up 17 percent from a postwar low in 2009 and new home sales increased 6 percent. The Canadian housing industry rebounded vigorously, with starts up 48 percent from the first quarter of 2009.

§ U.S. nonresidential building contracting dropped 16 percent from a year earlier. Commercial and industrial contracting dropped 42 percent due to extended property price declines and low industrial capacity utilization.

§ Highway contracting was up 36 percent. Positives were increased funding from the U.S. government's recovery program and the extension of existing highway legislation through the end of this year.

§ Modest improvements in construction led to a 3-percent increase in U.S. nonmetals mining and quarry production. Canadian producers increased quarrying output 3 percent.

§ Metals prices were substantially higher than last year, causing U.S. metals mines to begin reversing last year's production cuts. However, production during the quarter was still down 4 percent.

§ Central Appalachian coal prices averaged almost \$59 per ton during the quarter, a price high enough to encourage more production. However, U.S. coal production declined 6 percent due to problems in securing new mine permits. In contrast, Canadian coal production grew 22 percent in the early months of the quarter.

Latin America – Sales increased \$51 million, or 7 percent.

§ Sales volume decreased \$26 million.

§ Price realization increased \$37 million.

§ Currency increased sales by \$40 million.

§ Dealers reported additions to their inventories this year, in contrast to a significant decline in the first quarter of 2009. This change, taken to prepare for a better economic environment, contributed positively to volume.

Page 38

§ Dealer-reported inventories ended the quarter well below last year in both dollars and months of supply. Months of supply were well below the historical average.

§ Despite improving economic conditions in the region, deliveries to end users declined compared to the first quarter of 2009. The decline was primarily in the mining industry as deliveries remained very strong during the first quarter of last year.

EAME – Sales decreased \$274 million, or 22 percent.

§ Sales volume declined \$291 million.

§ Price realization decreased \$23 million.

§ Currency increased sales by \$40 million.

§ Dealer-reported inventories remained about flat during both the first quarter of 2009 and the first quarter of 2010. However, dealer inventories in the first quarter of 2010 were about half the level of the first quarter of 2009. Months of supply remained slightly above the historical average.

§ Dealers in both Europe and Africa/Middle East reported lower deliveries to end users. The European economy has had a weak economic recovery, and South Africa accounted for most of the decline in Africa/Middle East.

§ The euro-zone, particularly Germany, accounted for most of the decline in European deliveries due to weakness in construction. Reported deliveries in the United Kingdom, where home prices increased, were almost even with last year.

§ The decline in South Africa resulted from sharp declines in construction, with nonresidential permits down 32 percent in the first two months of 2010. End-user demand in several oil producing countries improved in response to higher oil production, more drilling and an 80-percent increase in prices.

§ End-user demand in the Commonwealth of Independent States (CIS), as reported by dealers, increased. Contributing factors were higher metals prices and a 6-percent increase in Russian mine production. Regional oil production expanded 4 percent, and Russia increased natural gas output by 18 percent.

Asia/Pacific – Sales increased \$469 million, or 40 percent.

§ Sales volume increased \$356 million.

§ Price realization increased \$94 million.

§ Currency increased sales by \$19 million.

§ Dealers reported higher inventories compared with year-end 2009. In the first quarter of 2009, dealers reduced inventories. These changes in dealer inventories contributed to higher sales volume. Inventories were well below a year ago in both dollars and months of supply. Months of supply were below the historical average.

§ Asian economies, particularly China and India, were the quickest to recover from the worldwide recession. Better economic conditions enabled dealers to report higher deliveries to end users than the first quarter of 2009.

§ China accounted for most of the increase in sales as reported deliveries reached a record high. The government's stimulus program and a 26-percent increase in lending led to a 33-percent increase in both residential and nonresidential construction.

§ India's record-low interest rates contributed to industrial production rising nearly 16 percent, leading to a large increase in sales.

§ Sales increased slightly in Australia. Residential construction improved, and higher metals and coal prices caused mines to increase output.

Edgar Filing: CATERPILLAR INC - Form 10-Q

Engines Sales – Sales were \$2.289 billion, a decrease of \$879 million, or 28 percent, from the first quarter of 2009.

§ Sales volume decreased \$978 million.

§ Price realization increased \$57 million.

§ Currency increased sales by \$42 million.

§ Geographic mix between regions (included in price realization) was \$1 million favorable.

§ Dealer-reported inventories were down, and months of supply were flat, as dealer deliveries declined.

North America – Sales decreased \$298 million, or 28 percent.

§ Sales volume decreased \$313 million.

§ Price realization increased \$14 million.

§ Currency increased sales by \$1 million.

Page 39

§ Sales for petroleum applications decreased 54 percent primarily due to a decrease in sales of engines used for gas compression and drilling as well as lower turbine sales.

§ Sales for both reciprocating engines and turbines for electric power applications decreased 40 percent due to weak economic conditions.

§ Sales for industrial applications decreased 18 percent based on substantially lower demand in construction and agricultural applications.

Latin America – Sales decreased \$70 million, or 26 percent.

§ Sales volume decreased \$76 million.

§ Price realization increased \$2 million.

§ Currency increased sales by \$4 million.

§ Sales for petroleum applications decreased 48 percent due to lower turbine sales and a slowdown in demand for production power applications.

§ Sales of electric power applications increased 9 percent due to modest industry demand improvement compared with a very weak first quarter in 2009.

EAME – Sales decreased \$417 million, or 34 percent.

§ Sales volume decreased \$469 million.

§ Price realization increased \$21 million.

§ Currency increased sales by \$31 million.

§ Sales for electric power applications decreased 37 percent due to weak economic conditions, dealer efforts to reduce inventory and lower turbine sales.

§ Sales for petroleum applications decreased 43 percent primarily due to a slowdown in demand for engines used in production applications and land-based drilling as well as lower turbine sales.

§ Sales for marine applications decreased 31 percent due to weak economic conditions.

§ Sales for industrial applications decreased 15 percent due to lower demand in construction and agricultural applications.

Asia/Pacific – Sales decreased \$94 million, or 15 percent.

§ Sales volume decreased \$119 million.

§ Price realization increased \$19 million.

§ Currency increased sales by \$6 million.

§ Sales for petroleum applications decreased 20 percent primarily due to lower turbine sales.

§ Sales for electric power applications decreased 25 percent primarily due to reduced demand throughout the region and fewer projects in India, Australia and New Zealand.

§ Sales for marine applications decreased 16 percent due to weak industry demand, partially offset by strong sales for workboat and general cargo vessels.

§ Sales for industrial applications increased 60 percent primarily due to increased demand from Original Equipment Manufacturers (OEMs).

Financial Products Revenues - Revenues were \$687 million, a decrease of \$28 million, or 4 percent, from the first quarter of 2009.

§ Revenues decreased \$53 million due to a decrease in average earning assets, partially offset by an increase of \$16 million due to the favorable impact of higher interest rates on new and existing finance receivables.

§ Other revenues at Cat Financial increased \$6 million. The increase was due to the absence of a \$22 million write-down on retained interests related to the securitized asset portfolio in the first quarter of 2009, partially offset by a \$6 million unfavorable impact from returned and repossessed equipment and various other revenue items.

Page 40

OPERATING PROFIT (LOSS)

The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between first quarter 2009 (at left) and first quarter 2010 (at right). Items favorably impacting operating profit appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting operating profit appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees. The bar entitled Other/M&E Redundancy includes the operating profit impact of consolidating adjustments and Machinery and Engines other operating (income) expenses, which include Machinery and Engines redundancy costs.

Operating profit in the first quarter of 2010 was \$508 million compared to an operating loss of \$175 million in the first quarter of 2009. The improvement was primarily the result of lower manufacturing costs, absence of redundancy costs and better price realization. The improvements were partially offset by lower sales volume, which includes the impact of an unfavorable mix of products.

Manufacturing costs improved \$566 million primarily due to lower labor and overhead, warranty and material costs.

Currency had a \$38 million negative impact on operating profit as the negative impact on costs more than offset the benefit to sales.

Selling, general and administrative (SG&A) and research and development (R&D) expenses increased by \$29 million primarily due to provisions related to incentive pay, partially offset by the impact of cost-cutting measures over the past year.

Redundancy costs were \$558 million in the first quarter of 2009.

Operating Profit (Loss) by Principal Line of Business

| (Millions of dollars) | First Quarter 2010 | First Quarter 2009 | \$ Change | % Change |
|---|-----------------------|-----------------------|--------------|-------------|
| Machinery ¹ | \$ 194 | \$ (508) | \$ 702 | — |
| Engines ¹ | 264 | 297 | (33) | (11) % |
| Financial Products | 97 | 99 | (2) | (2) % |
| Consolidating Adjustments | (47) | (63) | 16 | — |
| Consolidated Operating Profit (Loss) | \$ 508 | \$ (175) | \$ 683 | — |

¹ Caterpillar operations are highly integrated; therefore, the company uses a number of allocations to determine lines of business operating profit for Machinery and Engines.

Operating Profit /Loss by Principal Line of Business

§ Machinery operating profit was \$194 million compared to an operating loss of \$508 million in the first quarter of 2009. Positive factors included lower manufacturing costs, the absence of 2009 redundancy costs of \$355 million and improved price realization. These improvements were partially offset by lower sales volume, including significantly unfavorable product mix.

Page 41

§ Engines operating profit of \$264 million was down \$33 million, or 11 percent, from the first quarter of 2009. Significantly lower sales volume was partially offset by the absence of 2009 redundancy costs of \$193 million, lower manufacturing costs and improved price realization.

§ Financial Products operating profit of \$97 million was down \$2 million from the first quarter of 2009. Negative factors included a \$25 million unfavorable impact from lower average earning assets and a \$10 million increase in the provision for credit losses at Cat Financial. Positive factors included the absence of a \$22 million write-down on retained interests related to the securitized asset portfolio in the first quarter of 2009 and a \$19 million favorable impact from increased net yield on average earning assets.

Other Profit/Loss Items

§ Interest expense excluding Financial Products increased \$1 million from the first quarter of 2009.

§ Other income/expense was income of \$63 million compared with income of \$64 million in the first quarter of 2009.

§ The benefit for income taxes in the first quarter of 2010 reflects an estimated annual effective tax rate of 30 percent, excluding the discrete charge discussed below, compared to a discrete period effective tax rate of 37.5 percent for first quarter 2009. The 2010 estimated annual tax rate is expected to be less than the U.S. tax rate of 35 percent primarily due to profits in tax jurisdictions with rates lower than the U.S. rate. The 2010 estimated annual tax rate is based on current tax law and therefore does not include the U.S. research and development tax credit and other benefits that have not been extended past 2009. A discrete calculation was used to report the 2009 first quarter tax benefit rather than an estimated annual tax rate as the estimated range of annual profit/(loss) before tax produced significant variability and made it difficult to reasonably estimate the 2009 annual effective tax rate.

The provision for income taxes for 2010 also includes a deferred tax charge of \$90 million due to the enactment of U.S. health care legislation effectively making government subsidies received for Medicare-equivalent prescription drug coverage taxable. Guidance on accounting for income taxes requires that the tax effects of changes in laws be reflected in the financial statements in the period in which the legislation is enacted regardless of the effective date. Deferred tax assets had previously been recorded based on the liability for other postretirement benefits without regard to the tax-free subsidy. As a result of the law change, deferred tax assets were reduced to reflect the expected future income tax on the subsidy. Beginning in 2013, a cash tax cost will be incurred when the subsidies received increase taxable income.

§ Equity in profit (loss) of unconsolidated affiliated companies was a loss of \$2 million compared with profit of \$1 million in the first quarter of 2009.

§ Profit (loss) attributable to noncontrolling interests negatively impacted profit by \$22 million from the first quarter of 2009, primarily due to improved financial performance of Caterpillar Japan Ltd. (Cat Japan). We own two-thirds of Cat Japan which means one-third of its profits or losses are attributable to our partner, Mitsubishi Heavy Industries (MHI). As Cat Japan's losses were less in the first quarter of 2010 than in the first quarter of 2009, a lower amount of losses was attributed to MHI and added back to profit of consolidated companies in the first quarter of 2010 than the first quarter of 2009.

GLOSSARY OF TERMS

1. Caterpillar Japan Ltd. (Cat Japan) – A Caterpillar subsidiary formerly known as Shin Caterpillar Mitsubishi Ltd. (SCM). SCM was a 50/50 joint venture between Caterpillar and Mitsubishi Heavy Industries Ltd. (MHI) until SCM redeemed one half of MHI's shares on August 1, 2008. Caterpillar now owns 67 percent of the renamed entity. We began consolidating Cat Japan in the fourth quarter of 2008.
2. Caterpillar Production System – The Caterpillar Production System is the common Order-to-Delivery process being implemented enterprise-wide to achieve our safety, quality, velocity, earnings and growth goals for 2010 and beyond.
3. Consolidating Adjustments – Eliminations of transactions between Machinery and Engines and Financial Products.
4. Currency – With respect to sales and revenues, currency represents the translation impact on sales resulting from changes in foreign currency exchange rates versus the U.S. dollar. With respect to operating profit, currency represents the net translation impact on sales and operating costs resulting from changes in foreign currency exchange rates versus the U.S. dollar. Currency includes the impact on sales and operating profit for the Machinery and Engines lines of business only; currency impacts on Financial Products revenues and operating profit are included in the Financial Products portions of the respective analyses. With respect to other income/expense, currency represents the effects of forward and option contracts entered into by the company to reduce the risk of fluctuations in exchange rates and the net effect of changes in foreign currency exchange rates on our foreign currency assets and liabilities for consolidated results.

Page 42

5. Debt-to-Capital Ratio – A key measure of financial strength used by both management and our credit rating agencies. The metric is a ratio of Machinery and Engines debt (short-term borrowings plus long-term debt) and redeemable noncontrolling interest to the sum of Machinery and Engines debt, redeemable noncontrolling interest and stockholders' equity.

6. EAME – Geographic region including Europe, Africa, the Middle East and the Commonwealth of Independent States (CIS).
7. Earning Assets – Assets consisting primarily of total finance receivables net of unearned income, plus equipment on operating leases, less accumulated depreciation at Cat Financial.
8. Engines – A principal line of business including the design, manufacture, marketing and sales of engines for Caterpillar machinery; electric power generation systems; locomotives; marine, petroleum, construction, industrial, agricultural and other applications and related parts. Also includes remanufacturing of Caterpillar engines and a variety of Caterpillar machinery and engine components and remanufacturing services for other companies. Reciprocating engines meet power needs ranging from 10 to 21,800 horsepower (8 to more than 16 000 kilowatts). Turbines range from 1,600 to 30,000 horsepower (1 200 to 22 000 kilowatts).
9. Financial Products – A principal line of business consisting primarily of Caterpillar Financial Services Corporation (Cat Financial), Caterpillar Insurance Holdings, Inc. (Cat Insurance) and their respective subsidiaries. Cat Financial provides a wide range of financing alternatives to customers and dealers for Caterpillar machinery and engines, Solar gas turbines as well as other equipment and marine vessels. Cat Financial also extends loans to customers and dealers. Cat Insurance provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment.
10. Integrated Service Businesses – A service business or a business containing an important service component. These businesses include, but are not limited to, aftermarket parts, Cat Financial, Cat Insurance, Cat Logistics, Cat Reman, Progress Rail, OEM Solutions and Solar Turbine Customer Services.
11. Latin America – Geographic region including Central and South American countries and Mexico.
12. Machinery – A principal line of business which includes the design, manufacture, marketing and sales of construction, mining and forestry machinery—track and wheel tractors, track and wheel loaders, pipelayers, motor graders, wheel tractor-scrappers, track and wheel excavators, backhoe loaders, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, skid steer loaders, underground mining equipment, tunnel boring equipment and related parts. Also includes logistics services for other companies and the design, manufacture, remanufacture, maintenance and services of rail-related products.
13. Machinery and Engines (M&E) – Due to the highly integrated nature of operations, it represents the aggregate total of the Machinery and Engines lines of business and includes primarily our manufacturing, marketing and parts distribution operations.
14. Machinery and Engines Other Operating (Income) Expenses – Comprised primarily of gains/losses on disposal of long-lived assets, long-lived asset impairment charges and employee redundancy costs.
15. Manufacturing Costs – Manufacturing costs exclude the impacts of currency and represent the volume-adjusted change for variable costs and the absolute dollar change for period manufacturing costs. Variable manufacturing costs are defined as having a direct relationship with the volume of production. This includes material costs, direct labor and other costs that vary directly with production volume such as freight, power to operate machines and supplies that are consumed in the manufacturing process. Period manufacturing costs support production but are defined as generally not having a direct relationship to short-term changes in volume. Examples include machinery and equipment repair, depreciation on manufacturing assets, facility support, procurement, factory scheduling, manufacturing planning and operations management.
- 16.

Price Realization – The impact of net price changes excluding currency and new product introductions. Consolidated price realization includes the impact of changes in the relative weighting of sales between geographic regions.

17. **Redundancy Costs** – Costs related to employment reduction including employee severance charges, pension and other postretirement benefit plan curtailments and settlements and health care and supplemental unemployment benefits.
18. **Sales Volume** – With respect to sales and revenues, sales volume represents the impact of changes in the quantities sold for machinery and engines as well as the incremental revenue impact of new product introductions. With respect to operating profit, sales volume represents the impact of changes in the quantities sold for machinery and engines combined with product mix—the net operating profit impact of changes in the relative weighting of machinery and engines sales with respect to total sales.

Page 43

19. **6 Sigma** – On a technical level, 6 Sigma represents a measure of variation that achieves 3.4 defects per million opportunities. At Caterpillar, 6 Sigma represents a much broader cultural philosophy to drive continuous improvement throughout the value chain. It is a fact-based, data-driven methodology that we are using to improve processes, enhance quality, cut costs, grow our business and deliver greater value to our customers through black belt-led project teams. At Caterpillar, 6 Sigma goes beyond mere process improvement—it has become the way we work as teams to process business information, solve problems and manage our business successfully.

LIQUIDITY AND CAPITAL RESOURCES

Sources of funds

We generate significant capital resources from operating activities, which are the primary source of funding for our Machinery and Engines operations. Funding for these businesses is also provided by commercial paper and long-term debt issuances. Financial Products operations are funded primarily from commercial paper, term debt issuances and collections from their existing portfolio. Throughout the first quarter of 2010, we continued to experience favorable liquidity conditions in both our Machinery and Engines and Financial Products operations. On a consolidated basis, we ended the first quarter of 2010 with \$3.5 billion of cash, a decrease of \$1.3 billion from year-end 2009. Our cash balances are held in numerous locations throughout the world. Most of the amounts held outside the U.S. could be repatriated to the U.S. but generally would be subject to incremental U.S. income taxes.

Consolidated operating cash flow for the first quarter of 2010 was \$551 million, down from \$895 million for the same period a year ago. Improving economic conditions in the first quarter of 2010 compared with recessionary conditions a year ago have resulted in significant changes in the components of operating cash flow from 2009 to 2010. Operating cash flow in the first quarter of 2010 benefited from profit of consolidated and affiliated companies of \$236 million and an increase in accounts payable, reflecting higher levels of material purchases for production ramp-up to meet increasing demand. Offsetting these items was an increase in inventory, also related to production ramp-up, and higher receivables. In the first quarter of 2009, a loss of consolidated and affiliated companies of \$131 million and a significant decrease in accounts payable had a negative impact on operating cash flow while the change in other working capital items was favorable primarily due to lower receivables and inventory. See further discussion of operating cash flow under Machinery and Engines and Financial Products.

Total debt as of March 31, 2010, was \$30.17 billion, a decrease of \$1.46 billion from year-end 2009. Debt related to Machinery and Engines decreased \$420 million in the first quarter of 2010. Debt related to Financial Products decreased \$1.04 billion reflecting declining portfolio balances at Cat Financial.

We have three global credit facilities with a syndicate of banks totaling \$6.99 billion (Credit Facility) available in the aggregate to both Caterpillar and Cat Financial to support their commercial paper programs in the event those programs become unavailable and for general liquidity purposes. Based on management's allocation decision, which can be revised from time to time, the portion of the Credit Facility available to Cat Financial as of March 31, 2010 was \$5.49 billion.

- The five-year facility of \$1.62 billion expires in September 2012.
- The five-year facility of \$2.98 billion expires in September 2011.
- The 364-day facility of \$2.39 billion expires in September 2010.

We also had a 364-day revolving credit facility with a syndicate of banks totaling \$1.37 billion, which expired in March 2010 and was jointly available to both Caterpillar and Cat Financial. We elected not to renew this facility.

At March 31, 2010, Caterpillar's consolidated net worth was \$13.39 billion, which was above the \$9.00 billion required under the Credit Facility. The consolidated net worth is defined as the consolidated stockholder's equity including preferred stock but excluding the pension and other post-retirement benefits balance within Accumulated other comprehensive income (loss).

At March 31, 2010, Cat Financial's covenant interest coverage ratio was 1.29 to 1. This is above the 1.15 to 1 minimum ratio of (1) profit excluding income taxes, interest expense and net gain/(loss) from interest rate derivatives to (2) interest expense calculated at the end of each calendar quarter for the rolling four quarter period then most recently ended.

In addition, at March 31, 2010, Cat Financial's covenant leverage ratio was 6.77 to 1. This is below the maximum ratio of debt to net worth of 10 to 1, calculated (1) on a monthly basis as the average of the leverage ratios determined on the last day of each of the six preceding calendar months and (2) at each December 31 required by the Credit Facility.

In the event Caterpillar or Cat Financial does not meet one or more of their respective financial covenants under the Credit Facility in the future (and are unable to obtain a consent or waiver), the bank group may terminate the commitments allocated to the party that does not meet its covenants. Additionally, in such event, certain of Cat Financial's other lenders under other loan agreements where similar financial covenants or cross default provisions are applicable, may, at their election, choose to pursue remedies under those loan agreements, including accelerating the repayment of outstanding borrowings. At March 31, 2010, there were no borrowings under the Credit Facility.

Our total credit commitments as of March 31, 2010 were:

Page 44

| (Millions of dollars) | Consolidated | Machinery and Engines | Financial Products |
|------------------------------|--------------|-----------------------|--------------------|
| Credit lines available: | | | |
| Global credit facilities | \$ 6,988 | \$ 1,500 | \$ 5,488 |
| Other external | 5,122 | 1,314 | 3,808 |
| Total credit lines available | 12,110 | 2,814 | 9,296 |

Edgar Filing: CATERPILLAR INC - Form 10-Q

| | | | |
|--|----------|----------|----------|
| Less: Global credit facilities supporting commercial paper | (2,165) | — | (2,165) |
| Less: Utilized credit | (2,517) | (508) | (2,009) |
| Available credit | \$ 7,428 | \$ 2,306 | \$ 5,122 |

Other consolidated credit lines with banks as of March 31, 2010 totaled \$5.12 billion. These credit lines, which may be eligible for renewal at various future dates or have no specified expiration date, are used primarily by our subsidiaries for local funding requirements. Caterpillar or Cat Financial may guarantee subsidiary borrowings under these lines.

In the event that Caterpillar or Cat Financial, or any of their debt securities, experiences a credit rating downgrade it would likely result in an increase in our borrowing costs and make access to certain credit markets more difficult. While we expect global economic conditions to continue to improve in 2010, in the event they deteriorate from current levels or access to debt markets becomes unavailable, our Machinery and Engines operations would rely on cash flow from operations, use of existing cash balances, borrowings from Cat Financial and access to our Credit Facility. Our Financial Products operations would rely on cash flow from its existing portfolio, utilization of existing cash balances, access to our Credit Facility and other credit line facilities held by Cat Financial and potential borrowings from Caterpillar. In addition, Caterpillar maintains a support agreement with Cat Financial, which requires Caterpillar to remain the sole owner of Cat Financial and may, under certain circumstances, require Caterpillar to make payments to Cat Financial should Cat Financial fail to maintain certain financial ratios.

Machinery and Engines

Net cash provided by operating activities was \$921 million in the first quarter of 2010 compared to cash used for operating activities of \$320 million in the first quarter of 2009. The change was primarily due to increased profit and a \$600 million dividend from Cat Financial in the first quarter of 2010. Profit of consolidated and affiliated companies in the first quarter of 2010 was \$234 million compared to a loss of consolidated and affiliated companies of \$135 million for the same period a year ago. Improving economic conditions in the first quarter of 2010 compared with recessionary conditions a year ago have resulted in significant changes in the components of working capital from 2009 to 2010. During the first quarter of 2010, we experienced increased demand and a production ramp-up, resulting in an increase in accounts payable and customer advances, which was more than offset by increases in inventory and receivables. In the first quarter of 2009, we were executing our strategic “trough” plans as demand and production were decreasing. This resulted in a decrease in accounts payable and accrued expenses, which was partially offset by decreases in inventory and receivables. Net cash used for investing activities in the first quarter of 2010 was \$840 million compared to \$216 million provided by investing activities for the same period in 2009. The change was due to loans to Financial Products in 2010, compared with net borrowings from Financial Products in 2009. Net cash used for financing activities in the first quarter of 2010 was \$632 million, primarily a result of payments on long-term debt. During the same period in 2009, net cash provided by financing activities was \$735 million, as proceeds from loans with Financial Products of \$1.47 billion were partially offset by reductions in external debt.

Our priorities for the use of cash are a strong financial position that helps protect our credit rating, capital to support growth, appropriately funded employee benefit plans, paying dividends and common stock repurchases with excess cash.

Strong financial position – A key measure of Machinery and Engines financial strength used by both management and our credit rating agencies is Machinery and Engines' debt-to-capital ratio. Debt-to-capital is defined as short-term borrowings, long-term debt due within one year, redeemable noncontrolling interest and long-term debt due after one year (debt) divided by the sum of debt (including redeemable noncontrolling interest) and stockholders' equity. Debt also includes borrowings from Financial Products. The debt-to-capital ratio for Machinery and Engines was 45.2 percent at March 31, 2010 compared to 47.2 percent at December 31, 2009, slightly above our target range of 35 to 45 percent. In addition to the debt-to-capital ratios, certain rating agencies have increased their focus on the extent to

which Caterpillar and Cat Financial have cash and cash equivalents and unused credit lines available to meet short-term debt requirements. Caterpillar and Cat Financial have been taking this focus into account when planning for liquidity needs. This focus has resulted in higher cash balances for Caterpillar and Cat Financial.

Capital to support growth – Capital expenditures during the first quarter of 2010 were \$203 million, a decrease of \$21 million compared to the first quarter of 2009. We expect capital expenditures to be about \$1.8 billion in 2010, up from \$1.3 billion in 2009.

Page 45

Appropriately funded employee benefit plans – We contributed \$248 million to our pension plans in the first quarter of 2010 and we anticipate additional contributions of approximately \$750 million during the remainder of the year. In addition, beginning in June 2009, the company began funding the 401(k) match with company stock. This equated to a contribution of \$29 million (0.5 million shares) for the first quarter of 2010.

Paying dividends – Dividends paid totaled \$262 million in the first quarter of 2010, representing 42 cents per share. Each quarter, our Board of Directors reviews the company's dividend and determines whether to increase, maintain or decrease the dividend for the applicable quarter. The Board evaluates the financial condition of the company and considers the economic outlook, corporate cash flow, the company's liquidity needs, and the health and stability of global credit markets to determine whether to maintain or change the quarterly dividend.

Common stock repurchases – Pursuant to the February 2007 Board-authorized stock repurchase program, which expires on December 31, 2011, \$3.8 billion of the \$7.5 billion authorized was spent through 2008. As a result of the global economic recession, our stock repurchase program has been temporarily suspended since the first quarter of 2009. Basic shares outstanding as of March 31, 2010 were 628 million.

Financial Products

Operating cash flow was \$156 million through the first quarter of 2010, compared with \$392 million for the same period a year ago. The decrease in operating cash flow was primarily related to the absence of cash proceeds from liquidated interest rate swaps. Net cash provided by investing activities was \$444 million through the first quarter of 2010, compared to \$26 million for the same period in 2009. This change is primarily the result of lower intercompany borrowings and lower additions to finance receivables at Cat Financial, partially offset by lower collections. Net cash used for financing activities was \$1.32 billion through the first quarter of 2010, compared to \$186 million for the same period in 2009, primarily due to a \$600 million dividend payment to Caterpillar Inc. and lower debt issuances.

During the first quarter, overall portfolio quality continued to reflect challenges associated with the global economic environment. At the end of the first quarter of 2010, past dues were 6.06 percent, which increased from 5.54 percent at the end of 2009. At the end of the first quarter of 2009, past dues were 5.44 percent. The increase in past dues from year end is primarily due to the seasonality impacts Cat Financial typically experiences when comparing year-end results to the first-quarter results. We expect gradual improvement in past dues during the remainder of 2010 as the global economy continues to improve.

Bad debt write-offs, net of recoveries, were \$46 million for the first quarter of 2010, down from \$86 million in the fourth quarter of 2009 and \$47 million in the first quarter of 2009. First-quarter 2010 annualized losses were 0.79 percent of the average retail portfolio compared to 0.74 percent for the first quarter of 2009. This result compares with the peak of 0.69 percent reached in the previous recession in 2001-2002 and reflects continued challenging economic conditions for our customers in certain regions, primarily in North America and to a lesser extent in Europe.

At the end of the first quarter of 2010, Cat Financial's allowance for credit losses was 1.74 percent of net finance receivables, increasing from 1.64 percent on December 31, 2009, and 1.50 percent at the end of the first quarter of 2009. As a result of new accounting guidance implemented during the first quarter, Cat Financial began consolidating securitized assets which had previously been off balance sheet. On January 1, 2010, the consolidation of these assets had the impact of increasing the allowance for credit losses by \$18 million and the total allowance as a percent of net finance receivables by 6 basis points. At the end of the first quarter of 2010, the allowance for credit losses totaled \$394 million compared with \$377 million on December 31, 2009, and \$382 million at the end of the first quarter of 2009. The increase of \$12 million in allowance for credit losses year-over-year reflected a \$54 million increase associated with the higher allowance rate, partially offset by a \$42 million decrease due to a reduction in the overall net finance receivable portfolio.

Cat Financial continued to experience favorable liquidity conditions in all key global funding markets during the first quarter of 2010. Commercial Paper (CP) market liquidity and pricing continued to be favorable, with CP outstanding totaling \$2.2 billion at quarter-end supported by a \$5.5 billion revolving credit facility. During the first quarter of 2010, Cat Financial issued JPY 10 billion, EUR 50 million and \$500 million in medium-term notes. Our first quarter 2010 CP, term debt issuance and year-to-date portfolio cash receipts have provided sufficient liquidity for operations. Cat Financial held a cash balance at the end of the first quarter of 2010 totaling \$1.8 billion.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts. The more significant estimates include: residual values for leased assets, fair values for goodwill impairment tests, impairment of available-for-sale securities, warranty liability, stock-based compensation, reserves for product liability and insurance losses, postretirement benefits, post-sale discounts, credit losses and income taxes. We have incorporated many years of data into the determination of each of these estimates and we have not historically experienced significant adjustments. These assumptions are reviewed at least annually with the Audit Committee of the Board of Directors. Following are the methods and assumptions used in determining our estimates and an indication of the risks inherent in each.

Page 46

Residual values for leased assets — The residual values for Cat Financial's leased assets, which are based upon the estimated wholesale market value of leased equipment at the time of the expiration of the lease, are based on a careful analysis of historical wholesale market sales prices, projected forward on a level trend line without consideration for inflation or possible future pricing action. At the inception of the lease, residual values are derived from consideration of the following critical factors: market size and demand, any known significant market/product trends, total expected hours of usage, machine configuration, application, location, model changes, quantities and past re-marketing experience, third-party residual guarantees and contractual customer purchase options. During the term of the leases, residual amounts are monitored. If estimated market values reflect a non-temporary impairment due to economic factors, obsolescence or other adverse circumstances, the residuals are adjusted to the lower estimated values by a charge to earnings. For equipment on operating leases, the charge is recognized through depreciation expense. For finance leases, it is recognized through a reduction of finance revenue.

Fair values for goodwill impairment tests — We test goodwill for impairment annually, at the reporting unit level, and whenever events or circumstances make it likely that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell all or a portion of a reporting unit. We perform our annual goodwill impairment test as of October 1 and monitor for interim triggering events on an ongoing basis.

Goodwill is reviewed for impairment utilizing a two-step process. The first step requires us to compare the fair value of each reporting unit to the respective carrying value, which includes goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is greater than the fair value, there is an indication that an impairment may exist and the second step is required. In step two, the implied fair value of the goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss.

The impairment test process requires valuation of the respective reporting unit, which we primarily determine using an income approach based on a discounted five year forecasted cash flow with a year-five residual value. The residual value is computed using the constant growth method, which values the forecasted cash flows in perpetuity. The income approach is supported by a reconciliation of our calculated fair value for Caterpillar to the company's market capitalization. The assumptions about future cash flows and growth rates are based on each reporting unit's long-term forecast and are subject to review and approval by senior management. The discount rate is based on our weighted average cost of capital, which we believe approximates the rate from a market participant's perspective. The estimated fair value could be impacted by changes in market conditions, interest rates, growth rates, tax rates, costs, pricing and capital expenditures.

A prolonged economic downturn resulting in lower long-term growth rates and reduced long-term profitability may reduce the fair value of our reporting units. Industry specific events or circumstances that have a negative impact to the valuation assumptions may also reduce the fair value of our reporting units. Should such events occur and it becomes more likely than not that a reporting unit's fair value has fallen below its carrying value, we will perform an interim goodwill impairment test(s), in addition to the annual impairment test. Future impairment tests may result in a goodwill impairment, depending on the outcome of both step one and step two of the impairment review process. A goodwill impairment would be reported as a non-cash charge to earnings.

Impairment of available-for-sale securities — Available-for-sale securities, primarily at Cat Insurance, are reviewed at least quarterly to identify fair values below cost which may indicate that a security is impaired and should be written down to fair value.

For debt securities, once a security's fair value is below cost we utilize data gathered by investment managers, external sources and internal research to monitor the performance of the security to determine whether an other-than-temporary impairment has occurred. These reviews, which include an analysis of whether it is more likely than not that we will be required to sell the security before its anticipated recovery, consist of both quantitative and qualitative analysis and require a degree of management judgment. Securities in a loss position are monitored and assessed at least quarterly based on severity of loss and may be deemed other-than-temporarily impaired at any time. Once a security's fair value has been twenty percent or more below its original cost for six consecutive months, the security will be other-than-temporarily impaired unless there are sufficient facts and circumstances supporting otherwise.

For equity securities in a loss position, determining whether the security is other-than-temporarily impaired requires an analysis of the securities' historical sector returns and volatility. This information is utilized to estimate the security's future fair value to assess whether the security has the ability to recover to its original cost over a reasonable period of time as follows:

- Historical annualized sector returns over a two-year period are analyzed to estimate the security's fair value over the next two years.
- The volatility factor for the security is applied to the sector historical returns to further estimate the fair value of the security over the next two years.

In the event the estimated future fair value is less than the original cost, qualitative factors are then considered in determining whether a security is other-than-temporarily impaired, which includes reviews of the following: significant changes in the regulatory, economic or technological environment of the investee, significant changes in the general market condition of either the geographic area or the industry in which the investee operates, and length of time and the extent to which the fair value has been less than cost. These qualitative factors are subjective and require a degree of management judgment.

Warranty liability — At the time a sale is recognized, we record estimated future warranty costs. The warranty liability is determined by applying historical claim rate experience to the current field population and dealer inventory. Generally, historical claim rates are based on actual warranty experience for each product by machine model/engine size. Specific rates are developed for each product build month and are updated monthly based on actual warranty claim experience. Warranty costs may differ from those estimated if actual claim rates are higher or lower than our historical rates.

Stock-based compensation — We use a lattice-based option-pricing model to calculate the fair value of our stock options and SARs. The calculation of the fair value of the awards using the lattice-based option-pricing model is affected by our stock price on the date of grant as well as assumptions regarding the following:

- Volatility is a measure of the amount by which the stock price is expected to fluctuate each year during the expected term of the award and is based on historical and current implied volatilities from traded options on Caterpillar stock. The implied volatilities from traded options are impacted by changes in market conditions. An increase in the volatility would result in an increase in our expense.
- The expected term represents the period of time that awards granted are expected to be outstanding and is an output of the lattice-based option-pricing model. In determining the expected term of the award, future exercise and forfeiture patterns are estimated from Caterpillar employee historical exercise behavior. These patterns are also affected by the vesting conditions of the award. Changes in the future exercise behavior of employees or in the vesting period of the award could result in a change in the expected term. An increase in the expected term would result in an increase to our expense.
- The weighted-average dividend yield is based on Caterpillar's historical dividend yields. As holders of stock-based awards do not receive dividend payments, this could result in employees retaining the award for a longer period of time if dividend yields decrease or exercising the award sooner if dividend yields increase. A decrease in the dividend yield would result in an increase in our expense.
 - The risk-free interest rate is based on the U.S. Treasury yield curve in effect at time of grant. As the risk-free interest rate increases, the expected term increases, resulting in an increase in our expense.

The fair value of our RSUs is determined by reducing the stock price on the date of grant by the present value of the estimated dividends to be paid during the vesting period. The estimated dividends are based on Caterpillar's weighted-average dividend yields. A decrease in the dividend yield would result in an increase in our expense.

Stock-based compensation expense recognized during the period is based on the value of the number of awards that are expected to vest. In determining the stock-based compensation expense to be recognized, a forfeiture rate is applied to the fair value of the award. This rate represents the number of awards that are expected to be forfeited prior to vesting and is based on Caterpillar employee historical behavior. Changes in the future behavior of employees could impact this rate. A decrease in this rate would result in an increase in our expense.

Product liability and insurance loss reserve — We determine these reserves based upon reported claims in process of settlement and actuarial estimates for losses incurred but not reported. Loss reserves, including incurred but not reported reserves, are based on estimates and ultimate settlements may vary significantly from such estimates due to

increased claims frequency or severity over historical levels.

Postretirement benefits — Primary actuarial assumptions were determined as follows:

- The U.S. expected long-term rate of return on plan assets is based on our estimate of long-term passive returns for equities and fixed income securities weighted by the allocation of our plan assets. Based on historical performance, we increase the passive returns due to our active management of the plan assets. A similar process is used to determine the rate for our non-U.S. pension plans. This rate is impacted by changes in general market conditions, but because it represents a long-term rate, it is not significantly impacted by short-term market swings. Changes in our allocation of plan assets would also impact this rate. For example, a shift to more fixed income securities would lower the rate. A decrease in the rate would increase our expense.
- The assumed discount rate is used to discount future benefit obligations back to today's dollars. The U.S. discount rate is based on a benefit cash flow-matching approach and represents the rate at which our benefit obligations could effectively be settled as of our measurement date, December 31. The benefit cash flow-matching approach involves analyzing Caterpillar's projected cash flows against a high quality bond yield curve, calculated using a wide population of corporate Aa bonds available on the measurement date. The very highest and lowest yielding bonds (top and bottom 10 percent are excluded from the analysis). A similar approach is used to determine the assumed discount rate for our most significant non-U.S. plans. This rate is sensitive to changes in interest rates. A decrease in the discount rate would increase our obligation and future expense.
- The expected rate of compensation increase is used to develop benefit obligations using projected pay at retirement. It represents average long-term salary increases. This rate is influenced by our long-term compensation policies. An increase in the rate would increase our obligation and expense.

Page 48

- The assumed health care trend rate represents the rate at which health care costs are assumed to increase and is based on historical and expected experience. Changes in our projections of future health care costs due to general economic conditions and those specific to health care (e.g., technology driven cost changes) will impact this trend rate. An increase in the trend rate would increase our obligation and expense.

Post-sale discount reserve — We provide discounts to dealers through merchandising programs. We have numerous programs that are designed to promote the sale of our products. The most common dealer programs provide a discount when the dealer sells a product to a targeted end user. The amount of accrued post-sale discounts was \$658 million and \$662 million as of March 31, 2010 and December 31, 2009 respectively. The reserve represents discounts that we expect to pay on previously sold units and is reviewed at least quarterly. The reserve is adjusted if discounts paid differ from those estimated. Historically, those adjustments have not been material.

Credit loss reserve — Management's ongoing evaluation of the adequacy of the allowance for credit losses considers both impaired and unimpaired finance receivables and takes into consideration past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of underlying collateral and current economic conditions. In estimating probable losses we review accounts that are past due, non-performing, in bankruptcy or otherwise identified as at risk for potential credit loss including accounts which have been modified. Accounts are identified as at risk for potential credit loss using information available about the customer, such as financial statements, news reports and published credit ratings as well as general information regarding industry trends and the general economic environment.

The allowance for credit losses attributable to specific accounts is based on the most probable source of repayment, which is normally the liquidation of collateral. In determining collateral value we estimate current fair value of collateral and factor in credit enhancements such as additional collateral and third-party guarantees. The allowance for credit losses attributable to the remaining accounts is a general allowance based upon the risk in the portfolio,

primarily using probabilities of default and an estimate of associated losses. In addition, qualitative factors not able to be fully captured in previous analysis including industry trends, macroeconomic factors and model imprecision are considered in the evaluation of the adequacy of the allowance for credit losses. These qualitative factors are subjective and require a degree of management judgment.

While management believes it has exercised prudent judgment and applied reasonable assumptions, there can be no assurance that in the future, changes in economic conditions or other factors would not cause changes in the financial health of our customers. If the financial health of our customer deteriorates, the timing and level of payments received could be impacted and therefore, could result in a change to our estimated losses.

Income tax reserve — We are subject to the income tax laws of the many jurisdictions in which we operate. These tax laws are complex, and the manner in which they apply to our facts is sometimes open to interpretation. In establishing the provision for income taxes, we must make judgments about the application of these inherently complex tax laws.

Despite our belief that our tax return positions are consistent with applicable tax laws, we believe that taxing authorities could challenge certain positions. Settlement of any challenge can result in no change, a complete disallowance, or some partial adjustment reached through negotiations or litigation. We record tax benefits for uncertain tax positions based upon management's evaluation of the information available at the reporting date. To be recognized in the financial statements, a tax benefit must be at least more likely than not of being sustained based on technical merits. The benefit for positions meeting the recognition threshold is measured as the largest benefit more likely than not of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Significant judgment is required in making these determinations and adjustments to unrecognized tax benefits may be necessary to reflect actual taxes payable upon settlement. Adjustments related to positions impacting the effective tax rate affect the provision for income taxes. Adjustments related to positions impacting the timing of deductions impact deferred tax assets and liabilities.

Our income tax positions and analysis are based on currently enacted tax law. Future changes in tax law could significantly impact the provision for income taxes, the amount of taxes payable, and the deferred tax asset and liability balances. Deferred tax assets generally represent tax benefits for tax deductions or credits available in future tax returns. Certain estimates and assumptions are required to determine whether it is more likely than not that all or some portion of the benefit of a deferred tax asset will not be realized. In making this assessment, management analyzes and estimates the impact of future taxable income, reversing temporary differences and available prudent and feasible tax planning strategies. Should a change in facts or circumstances lead to a change in judgment about the ultimate realizability of a deferred tax asset, we record or adjust the related valuation allowance in the period that the change in facts and circumstances occurs, along with a corresponding increase or decrease in the provision for income taxes.

A provision for U.S. income taxes has not been recorded on undistributed profits of our non-U.S. subsidiaries that we have determined to be indefinitely reinvested outside the U.S. If management intentions or U.S. tax law changes in the future, there may be a significant negative impact on the provision for income taxes in the period the change occurs.

EMPLOYMENT

Caterpillar's worldwide employment was 95,290 at the end of the first quarter of 2010. Employment declined by approximately 7,800 from the first quarter of 2009 as we took steps to bring our workforce in line with demand. Since year-end 2009, worldwide employment has increased approximately 1,500, primarily due to increases in production

volume. About 600 of the additional employees were in the United States and about 900 were outside the United States.

Employment needs are linked to business conditions and production volume. We have raised production schedules in most facilities, and we expect to increase employment in 2010 as a result. However, significant use of rolling plant shutdowns in 2009 will offset some of the need for additional employees.

The strength of recovery will vary significantly among product type, industry served and geography. Currently, we are seeing faster recovery in Asia/Pacific and Latin America. So, prospects for employment increases in 2010 are best for facilities in those regions. In addition, we expect to add employees at several facilities in the United States where a substantial portion of the production is exported.

OTHER MATTERS

Environmental and Legal Matters

The company is regulated by federal, state and international environmental laws governing our use, transport and disposal of substances and control of emissions. In addition to governing our manufacturing and other operations, these laws often impact the development of our products, including, but not limited to, required compliance with air emissions standards applicable to internal combustion engines. Compliance with these existing laws has not had a material impact on our capital expenditures, earnings or global competitive position.

We are engaged in remedial activities at a number of locations, often with other companies, pursuant to federal and state laws. When it is probable we will pay remedial costs at a site and those costs can be reasonably estimated, the costs are charged against our earnings. In formulating that estimate, we do not consider amounts expected to be recovered from insurance companies or others. The amount recorded for environmental remediation is not material and is included in Accrued expenses in Consolidated Statement of Financial Position.

We cannot reasonably estimate costs at sites in the very early stages of remediation. Currently, we have a few sites in the very early stages of remediation, and there is no more than a remote chance that a material amount for remedial activities at any individual site, or at all sites in the aggregate, will be required.

We have disclosed certain individual legal proceedings in this filing. Additionally, we are involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance liability (including claimed asbestos and welding fumes exposure), contracts, employment issues or intellectual property rights. Although it is not possible to predict with certainty the outcome of these unresolved legal actions, we believe that these actions will not individually or in the aggregate have a material adverse effect on our consolidated results of operations, financial position or liquidity.

On May 14, 2007, the U.S. Environmental Protection Agency (EPA) issued a Notice of Violation to Caterpillar Inc., alleging various violations of Clean Air Act Sections 203, 206 and 207. EPA claims that Caterpillar violated such sections by shipping engines and catalytic converter after-treatment devices separately, introducing into commerce a number of uncertified and/or misbuilt engines, and failing to timely report emissions-related defects. Caterpillar is currently engaging in negotiations with EPA to resolve these issues, but it is too early in the process to place precise estimates on the potential exposure to penalties. However, Caterpillar is cooperating with EPA and, based upon initial discussions, and although penalties could potentially exceed \$100,000, management does not believe that this issue will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

On February 8, 2009, an incident at Caterpillar's Joliet, Illinois facility resulted in the release of approximately 3,000 gallons of wastewater into the Des Plaines River. In coordination with state and federal authorities, appropriate remediation measures have been taken. On February 23, 2009, the Illinois Attorney General filed a Complaint in Will County Circuit Court containing seven counts of violations of state environmental laws and regulations. Each count seeks injunctive relief, as well as statutory penalties of \$50,000 per violation and \$10,000 per day of violation. In addition, on March 5, 2009, the EPA served Caterpillar with a Notice of Intent to file a Civil Administrative Action (notice), indicating the EPA's intent to seek civil penalties for violations of the Clean Water Act and Oil Pollution Act. On January 25, 2010, the EPA issued a revised notice seeking civil penalties in the amount of \$167,800, and Caterpillar responded to the revised notice and is engaged in follow up discussions with the EPA. On March 8, 2010, the Illinois Attorney General submitted a demand to Caterpillar seeking a \$100,000 civil penalty. At this time, we do not believe these proceedings will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

Page 50

Retirement Benefits

We recognized pension expense of \$156 million for the three months ended March 31, 2010, as compared to \$257 million for the three months ended March 31, 2009. The decrease in expense was the result of \$139 million of curtailment, settlement and special termination benefit costs due to voluntary and involuntary separation programs (discussed below) recognized for the three months ended March 31, 2009, partially offset by increased amortization of net actuarial losses due to significant asset losses in 2008 and lower discount rates at the end of 2009. Accounting guidance on retirement benefits requires companies to discount future benefit obligations back to today's dollars using a discount rate that is based on high-quality fixed-income investments. A decrease in the discount rate increases the pension benefit obligation, while an increase in the discount rate decreases the pension benefit obligation. This increase or decrease in the pension benefit obligation is recognized in Accumulated other comprehensive income (loss) and subsequently amortized into earnings as an actuarial gain or loss. The guidance also requires companies to use an expected long-term rate of asset return for computing current year pension expense. Differences between the actual and expected returns are also recognized in Accumulated other comprehensive income (loss) and subsequently amortized into earnings as actuarial gains and losses. As of March 31, 2010, total actuarial losses, recognized in Accumulated other comprehensive income (loss), related to pensions were \$6.22 billion. The majority of the actuarial losses are due to significant asset losses during 2008 in addition to losses resulting from other demographic and economic assumptions over the past several years.

Other postretirement benefit expense was \$49 million for the three months ended March 31, 2010, as compared to \$128 million for the three months ended March 31, 2009. The decrease in expense is due to curtailment losses of \$62 million recognized for the three months ended March 31, 2009 as a result of employee separation programs (discussed below) and the impact of amendments to our U.S. support and management other postretirement benefit plan (discussed below) on 2010 expense. Actuarial losses, recognized in Accumulated other comprehensive income (loss), for other postretirement benefit plans were \$651 million at March 31, 2010. These losses mainly reflect several years of declining discount rates and significant asset losses during 2008, partially offset by gains from lower than expected health care costs.

Actuarial losses for both pensions and other postretirement benefits will be impacted in future periods by actual asset returns, actual health care inflation, discount rate changes, actual demographic experience and other factors that impact these expenses. These losses, reported in Accumulated other comprehensive income (loss), will be amortized as a component of net periodic benefit cost on a straight-line basis over the average remaining service period of active employees expected to receive benefits under the benefit plans. At the end of 2009, the average remaining service period of active employees was 11 years for our U.S. pension plans, 11 years for our non-U.S. pension plans and 7

years for other postretirement benefit plans. We expect our amortization of net actuarial losses to increase approximately \$150 million in 2010 as compared to 2009, primarily due to significant asset losses in 2008 and a decrease in the discount rate during 2009.

First quarter 2009 voluntary and involuntary separation programs impacted employees participating in U.S. and non-U.S. pension and other postretirement benefit plans. Due to the significance of these events, certain plans were re-measured as of January 31 and March 31, 2009. U.S. separation programs resulted in curtailment losses of \$124 million to pension and \$61 million to other postretirement benefit plans. Special termination benefits of \$6 million were also recognized for a U.S. pension early retirement program. Non-U.S. separation programs resulted in settlement losses of \$9 million to pension and curtailment losses of \$1 million to other postretirement benefit plans.

In March 2009, we amended our U.S. support and management postretirement benefit plan. Beginning in 2010, certain retirees age 65 and older will no longer participate in a Caterpillar-sponsored group health plan. Instead, the retirees will enroll in individual health plans that work with Medicare, such as Medicare Advantage and Medicare Supplement plans. In addition, Caterpillar will fund a tax-advantaged Health Reimbursement Arrangement (HRA) to assist retirees with premiums and other qualified medical expenses. The plan amendment required a plan re-measurement as of March 31, 2009, which resulted in a decrease in our Liability for postretirement benefits of \$432 million and an increase in Accumulated other comprehensive income (loss) of \$272 million net of tax. The plan was further amended in December 2009 to define the HRA benefit that active employees will receive once they are retired and reach age 65. The plan was re-measured at year-end 2009 and the December amendment resulted in a decrease in our Liability for postretirement benefits of \$101 million and an increase in Accumulated other comprehensive income (loss) of \$64 million net of tax. These decreases will be amortized into earnings on a straight-line basis over approximately 7 years, the average remaining service period of active employees in the plan. The amendments reduced other postretirement benefits expense by approximately \$27 million for the three months ended March 31, 2010 and did not impact expense for the three months ended March 31, 2009.

In March 2010, the Patient Protection and Affordable Care Act (the PPACA) and the Health Care and Education Reconciliation Act of 2010 (H.R. 4872) which amends certain provisions of the PPACA were signed into law. The Medicare Part D retiree drug subsidies effectively become taxable beginning in 2013.

Page 51

We expect our total defined benefit expense to increase approximately \$150 million in 2010 as compared to 2009, excluding the impacts from the 2009 curtailment, settlement and special termination benefits discussed above. This increase in expense is primarily due to increased amortization of net actuarial losses due to significant asset losses in 2008 and a decrease in the discount rate during 2009, partially offset by an approximate \$110 million reduction in U.S. other postretirement benefits cost as a result of plan amendments.

We made \$248 million of contributions to our U.S. and non-U.S. pension plans during the three months ended March 31, 2010 and we currently anticipate additional contributions of approximately \$750 million during the remainder of the year, most of which are voluntary contributions. We believe we have adequate liquidity resources to fund both U.S. and non-U.S. plans.

Employee Separation Charges

In 2009, we reported employee separation charges of \$481 million in Other operating (income) expenses in the Consolidated Statement of Results of Operations related to various voluntary and involuntary separation programs. These programs were in response to a sharp decline in sales volume due to the global recession.

Our accounting for separations is dependent upon how the particular program is designed. For voluntary programs, eligible separation costs are recognized at the time of employee acceptance. For involuntary programs, eligible costs are recognized when management has approved the program, the affected employees have been properly identified and the costs are estimable.

The following table summarizes the 2009 separation charges and subsequent 2010 activity by geographic region:

| (Millions of dollars) | Machinery and Engines | | | | | Total |
|---|-----------------------|---------------|--------|--------------|---------------------------------|---------|
| | North America | Latin America | EAME | Asia Pacific | Financial Products ¹ | |
| Liability balance at December 31, 2008 | \$ 4 | \$ 2 | \$ 5 | \$ — | \$ — | \$ 11 |
| 2009 Separation charges ² | \$ 323 | \$ 15 | \$ 102 | \$ 31 | \$ 10 | \$ 481 |
| 2009 Benefit payments and other adjustments | (313) | (17) | (78) | (25) | (10) | (443) |
| Liability balance at December 31, 2009 | \$ 14 | \$ — | \$ 29 | \$ 6 | \$ — | \$ 49 |
| 2010 Benefit payments and other adjustments | \$ (8) | \$ — | \$ (8) | \$ (6) | \$ — | \$ (22) |
| Liability balance at March 31, 2010 | \$ 6 | \$ — | \$ 21 | \$ — | \$ — | \$ 27 |

1 Includes \$8 million for North America and \$2 million for EAME.

2 Includes \$357 million recognized in the first quarter of 2009.

The remaining liability balances as of March 31, 2010 represent costs for employees that have either not yet separated from the Company or their full severance has not yet been paid. The majority of these remaining costs are expected to be paid during 2010.

In addition to the 2009 separation charges noted above, we reported \$225 million (\$201 million in the first quarter) of costs associated with certain pension and other postretirement benefit plans, which were also recognized in Other operating (income) expenses in the Consolidated Statement of Results of Operations.

The majority of the separation charges, made up primarily of cash severance payments, and pension and other postretirement benefit costs noted above were not assigned to operating segments. They are included in the reconciliation of total accountable profit from reportable segments to total profit before taxes.

Order Backlog

The dollar amount of backlog believed to be firm was approximately \$12.7 billion at March 31, 2010 and \$9.6 billion at December 31, 2009. Of the total backlog, approximately \$2.3 billion at March 31, 2010 and \$2.5 billion at December 31, 2009 was not expected to be filled in the following twelve months. Our backlog is generally highest in the first and second quarters because of seasonal buying trends in our industry.

NON-GAAP FINANCIAL MEASURES

The following definitions are provided for “non-GAAP financial measures” in connection with Item 10(e) of Regulation S-K issued by the Securities and Exchange Commission. These non-GAAP financial measures have no standardized

meaning prescribed by U.S. GAAP and therefore are unlikely to be comparable to the calculation of similar measures for other companies. Management does not intend these items to be considered in isolation or substitutes for the related GAAP measures.

Page 52

Profit Per Share Excluding U.S. Health Care Legislation Tax Charge

During the first quarter of 2010, we recognized a \$90 million after-tax charge due to the enactment of U.S. health care legislation effectively making government subsidies received for Medicare-equivalent prescription drug coverage taxable. We believe it is important to separately quantify the profit-per-share impact of this charge in order for our first-quarter 2010 results to be meaningful to our readers. Reconciliation of profit per share excluding the U.S. Health Care Legislation Tax Charge to the most directly comparable GAAP measure, profit per share, is as follows:

| | First Quarter 2010 |
|--|-----------------------|
| Profit per share | \$ 0.36 |
| Per share impact of U.S. Health Care Legislation Tax Charge | \$ 0.14 |
| Profit per share excluding U.S. Health Care Legislation Tax Charge | \$ 0.50 |

Profit Per Share Excluding Redundancy Costs

During the first quarter of 2009, we incurred redundancy costs of \$558 million before tax related to employment reductions in response to the global recession. Full-year 2009 redundancy costs were \$706 million before tax. We believe it is important to separately quantify the profit-per-share impact of redundancy costs in order for our 2009 results to be meaningful to our readers. Reconciliation of profit per share excluding redundancy costs to the most directly comparable GAAP measure, profit per share, is as follows:

| | First Quarter 2009 | Full Year 2009 |
|---|-----------------------|-------------------|
| Profit per share | \$ (0.19) | \$ 1.43 |
| Per share redundancy costs | \$ 0.58 | \$ 0.75 |
| Profit per share excluding redundancy costs | \$ 0.39 | \$ 2.18 |

SUPPLEMENTAL CONSOLIDATING DATA

We are providing supplemental consolidating data for the purpose of additional analysis. The data has been grouped as follows:

Consolidated – Caterpillar Inc. and its subsidiaries.

Machinery and Engines – The Machinery and Engines data contained in the schedules on pages 54 to 59 are "non-GAAP financial measures" as defined by the Securities and Exchange Commission in Item 10(e) of Regulation S-K. These non-GAAP financial measures have no standardized meaning prescribed by U.S. GAAP, and therefore, are unlikely to be comparable with the calculation of similar measures for other companies. Management does not

intend these items to be considered in isolation or as a substitute for the related GAAP measures. Caterpillar defines Machinery and Engines as it is presented in the supplemental data as Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis. Machinery and Engines information relates to our design, manufacturing, marketing and parts distribution operations. Financial Products information relates to the financing to customers and dealers for the purchase and lease of Caterpillar and other equipment. The nature of these businesses is different especially with regard to the financial position and cash flow items. Caterpillar management utilizes this presentation internally to highlight these differences. We also believe this presentation will assist readers in understanding our business.

Financial Products – Our finance and insurance subsidiaries, primarily Cat Financial and Cat Insurance.

Consolidating Adjustments – Eliminations of transactions between Machinery and Engines and Financial Products.

Pages 54 to 59 reconcile Machinery and Engines with Financial Products on the Equity Basis to Caterpillar Inc. consolidated financial information.

Page 53

Caterpillar Inc.
Supplemental Data for Results of Operations
For The Three Months Ended March 31, 2010
(Unaudited)
(Millions of dollars)

| | Consolidated | Machinery and Engines ¹ | Financial Products | Supplemental Consolidating Data Consolidating Adjustments |
|---|--------------|---------------------------------------|-----------------------|---|
| Sales and revenues: | | | | |
| Sales of Machinery and Engines | \$ 7,551 | \$ 7,551 | \$ — | \$ — |
| Revenues of Financial Products | 687 | — | 746 | 2 (59) |
| Total sales and revenues | 8,238 | 7,551 | 746 | (59) |
| Operating costs: | | | | |
| Cost of goods sold | 5,894 | 5,894 | — | — |
| Selling, general and administrative expenses | 932 | 798 | 144 | 3 (10) |
| Research and development expenses | 402 | 402 | — | — |
| Interest expense of Financial Products | 233 | — | 234 | 4 (1) |
| Other operating (income) expenses | 269 | (1) | 271 | 3 (1) |
| Total operating costs | 7,730 | 7,093 | 649 | (12) |
| Operating profit (loss) | 508 | 458 | 97 | (47) |
| Interest expense excluding Financial Products | 102 | 122 | — | 4 (20) |

Edgar Filing: CATERPILLAR INC - Form 10-Q

| | | | | | |
|--|--------|--------|-------|---------|---|
| Other income (expense) | 63 | 23 | 13 | 27 | 5 |
| Consolidated profit (loss) before taxes | 469 | 359 | 110 | — | |
| Provision (benefit) for income taxes | 231 | 202 | 29 | — | |
| Profit (loss) of consolidated companies | 238 | 157 | 81 | — | |
| Equity in profit (loss) of unconsolidated affiliated companies | (2) | (2) | — | — | |
| Equity in profit of Financial Products' subsidiaries | — | 79 | — | (79) | 6 |
| Profit (loss) of consolidated and affiliated companies | 236 | 234 | 81 | (79) | |
| Less: Profit (loss) attributable to noncontrolling interests | 3 | 1 | 2 | — | |
| Profit (loss) 7 | \$ 233 | \$ 233 | \$ 79 | \$ (79) | |

1 Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

2 Elimination of Financial Products' revenues earned from Machinery and Engines.

3 Elimination of net expenses recorded by Machinery and Engines paid to Financial Products.

4 Elimination of interest expense recorded between Financial Products and Machinery and Engines.

5 Elimination of discount recorded by Machinery and Engines on receivables sold to Financial Products and of interest earned between Machinery and Engines and Financial Products.

6 Elimination of Financial Products' profit due to equity method of accounting.

7 Profit (loss) attributable to common stockholders.

Page 54

Caterpillar Inc.
Supplemental Data for Results of Operations
For The Three Months Ended March 31, 2009
(Unaudited)
(Millions of dollars)

| | Consolidated | Machinery and Engines ¹ | Financial Products | Supplemental Consolidating Data Consolidating Adjustments | |
|--------------------------------|--------------|------------------------------------|--------------------|--|---|
| Sales and revenues: | | | | | |
| Sales of Machinery and Engines | \$ 8,510 | \$ 8,510 | \$ — | \$ — | |
| Revenues of Financial Products | 715 | — | 796 | (81) | 2 |

Edgar Filing: CATERPILLAR INC - Form 10-Q

| | | | | | |
|--|----------|----------|-------|---------|---|
| Total sales and revenues | 9,225 | 8,510 | 796 | (81) | |
| Operating costs: | | | | | |
| Cost of goods sold | 7,027 | 7,027 | — | — | |
| Selling, general and administrative expenses | 882 | 760 | 125 | (3) | 3 |
| Research and development expenses | 388 | 388 | — | — | |
| Interest expense of Financial Products | 279 | — | 282 | (3) | 4 |
| Other operating (income) expenses | 824 | 546 | 290 | (12) | 3 |
| Total operating costs | 9,400 | 8,721 | 697 | (18) | |
| Operating profit (loss) | (175) | (211) | 99 | (63) | |
| Interest expense excluding Financial Products | 101 | 114 | — | (13) | 4 |
| Other income (expense) | 64 | 34 | (20) | 50 | 5 |
| Consolidated profit (loss) before taxes | (212) | (291) | 79 | — | |
| Provision (benefit) for income taxes | (80) | (99) | 19 | — | |
| Profit (loss) of consolidated companies | (132) | (192) | 60 | — | |
| Equity in profit (loss) of unconsolidated affiliated companies | 1 | 1 | — | — | |
| Equity in profit of Financial Products' subsidiaries | — | 56 | — | (56) | 6 |
| Profit (loss) of consolidated and affiliated companies | (131) | (135) | 60 | (56) | |
| Less: Profit (loss) attributable to noncontrolling interests | (19) | (23) | 4 | — | |
| Profit (loss) 7 | \$ (112) | \$ (112) | \$ 56 | \$ (56) | |

1 Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

2 Elimination of Financial Products' revenues earned from Machinery and Engines.

3 Elimination of net expenses recorded by Machinery and Engines paid to Financial Products.

4 Elimination of interest expense recorded between Financial Products and Machinery and Engines.

5 Elimination of discount recorded by Machinery and Engines on receivables sold to Financial Products and of interest earned between Machinery and Engines and Financial Products.

6 Elimination of Financial Products' profit due to equity method of accounting.

7 Profit (loss) attributable to common stockholders.

Caterpillar Inc.
Supplemental Data for Financial Position
At March 31, 2010
(Unaudited)
(Millions of dollars)

| | Supplemental Consolidating Data | | | |
|--|---------------------------------|----------------------------|-----------------------|------------------------------|
| | Consolidated | Machinery and Engines I | Financial Products | Consolidating Adjustments |
| Assets | | | | |
| Current assets: | | | | |
| Cash and short-term investments | \$ 3,538 | \$ 1,683 | \$ 1,855 | \$ — |
| Receivables – trade and other | 6,068 | 4,670 | 1,387 | 11 |
| Receivables – finance | 8,123 | — | 9,829 | (1,706) |
| Deferred and refundable income taxes | 1,153 | 1,038 | 115 | — |
| Prepaid expenses and other current assets | 540 | 327 | 226 | (13) |
| Inventories | 6,990 | 6,990 | — | — |
| Total current assets | 26,412 | 14,708 | 13,412 | (1,708) |
| Property, plant and equipment – net | 12,057 | 9,109 | 2,948 | — |
| Long-term receivables – trade and other | 722 | 296 | 214 | 212 |
| Long-term receivables – finance | 12,157 | — | 12,399 | (242) |
| Investments in unconsolidated affiliated companies | 133 | 125 | 8 | — |
| Investments in Financial Products subsidiaries | — | 3,871 | — | (3,871) |
| Noncurrent deferred and refundable income taxes | 2,558 | 2,981 | 70 | (493) |
| Intangible assets | 488 | 487 | 1 | — |
| Goodwill | 2,284 | 2,284 | — | — |
| Other assets | 2,025 | 318 | 1,707 | — |
| Total assets | \$ 58,836 | \$ 34,179 | \$ 30,759 | \$ (6,102) |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Short-term borrowings | \$ 3,580 | \$ 1,584 | \$ 3,596 | \$ (1,600) |
| Accounts payable | 3,431 | 3,335 | 186 | (90) |
| Accrued expenses | 3,216 | 2,032 | 1,197 | (13) |
| Accrued wages, salaries and employee benefits | 900 | 891 | 9 | — |
| Customer advances | 1,367 | 1,367 | — | — |

Edgar Filing: CATERPILLAR INC - Form 10-Q

| | | | | | |
|---|-----------|-----------|----------|------------|---|
| Other current liabilities | 881 | 811 | 91 | (21) | 6 |
| Long-term debt due within one year | 5,042 | 248 | 4,794 | — | |
| Total current liabilities | 18,417 | 10,268 | 9,873 | (1,724) | |
| Long-term debt due after one year | 21,548 | 5,169 | 16,413 | (34) | 7 |
| Liability for postemployment benefits | 7,281 | 7,281 | — | — | |
| Other liabilities | 2,116 | 1,987 | 602 | (473) | 6 |
| Total liabilities | 49,362 | 24,705 | 26,888 | (2,231) | |
| Commitments and contingencies | | | | | |
| Redeemable noncontrolling interest | 452 | 452 | — | — | |
| Stockholders' equity | | | | | |
| Common stock | 3,482 | 3,482 | 882 | (882) | 5 |
| Treasury stock | (10,595) | (10,595) | — | — | |
| Profit employed in the business | 19,941 | 19,941 | 2,755 | (2,755) | 5 |
| Accumulated other comprehensive income (loss) | (3,886) | (3,886) | 161 | (161) | 5 |
| Noncontrolling interests | 80 | 80 | 73 | (73) | 5 |
| Total stockholders' equity | 9,022 | 9,022 | 3,871 | (3,871) | |
| Total liabilities, redeemable noncontrolling interest and stockholders' equity | \$ 58,836 | \$ 34,179 | \$30,759 | \$ (6,102) | |

- 1 Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.
- 2 Elimination of receivables between Machinery and Engines and Financial Products.
- 3 Reclassification of Machinery and Engines' trade receivables purchased by Cat Financial and Cat Financial's wholesale inventory receivables.
- 4 Elimination of Machinery and Engines' insurance premiums that are prepaid to Financial Products.
- 5 Elimination of Financial Products' equity which is accounted for by Machinery and Engines on the equity basis.
- 6 Reclassification reflecting required netting of deferred tax assets / liabilities by taxing jurisdiction.
- 7 Elimination of debt between Machinery and Engines and Financial Products.
- 8 Elimination of payables between Machinery and Engines and Financial Products.
- 9 Elimination of prepaid insurance in Financial Products' accrued expenses.

Page 56

Caterpillar Inc.
Supplemental Data for Financial Position
At December 31, 2009
(Unaudited)
(Millions of dollars)

| | Supplemental Consolidating Data | | | |
|-----------------|---------------------------------|---------------------------------------|-----------------------|------------------------------|
| | Consolidated | Machinery and Engines ¹ | Financial Products | Consolidating Adjustments |
| Assets | | | | |
| Current assets: | | | | |

Edgar Filing: CATERPILLAR INC - Form 10-Q

| | | | | | |
|--|-----------|-----------|----------|------------|-----|
| Cash and short-term investments | \$ 4,867 | \$ 2,239 | \$ 2,628 | \$ — | |
| Receivables – trade and other | 5,611 | 3,705 | 1,464 | 442 | 2,3 |
| Receivables – finance | 8,301 | — | 9,872 | (1,571) | 3 |
| Deferred and refundable income taxes | 1,216 | 1,094 | 122 | — | |
| Prepaid expenses and other current assets | 434 | 385 | 75 | (26) | 4 |
| Inventories | 6,360 | 6,360 | — | — | |
| Total current assets | 26,789 | 13,783 | 14,161 | (1,155) | |
| Property, plant and equipment – net | 12,386 | 9,308 | 3,078 | — | |
| Long-term receivables – trade and other | 971 | 381 | 182 | 408 | 2,3 |
| Long-term receivables – finance | 12,279 | — | 12,717 | (438) | 3 |
| Investments in unconsolidated affiliated companies | 105 | 97 | 8 | — | |
| Investments in Financial Products subsidiaries | — | 4,514 | — | (4,514) | 5 |
| Noncurrent deferred and refundable income taxes | 2,714 | 3,083 | 65 | (434) | 6 |
| Intangible assets | 465 | 464 | 1 | — | |
| Goodwill | 2,269 | 2,269 | — | — | |
| Other assets | 2,060 | 297 | 1,763 | — | |
| Total assets | \$ 60,038 | \$ 34,196 | \$31,975 | \$ (6,133) | |
| Liabilities | | | | | |
| Current liabilities: | | | | | |
| Short-term borrowings | \$ 4,083 | \$ 1,433 | \$ 3,676 | \$ (1,026) | 7 |
| Accounts payable | 2,993 | 2,862 | 229 | (98) | 8 |
| Accrued expenses | 3,351 | 2,055 | 1,323 | (27) | 9 |
| Accrued wages, salaries and employee benefits | 797 | 790 | 7 | — | |
| Customer advances | 1,217 | 1,217 | — | — | |
| Dividends payable | 262 | 262 | — | — | |
| Other current liabilities | 888 | 808 | 101 | (21) | 6 |
| Long-term debt due within one year | 5,701 | 302 | 5,399 | — | |
| Total current liabilities | 19,292 | 9,729 | 10,735 | (1,172) | |
| Long-term debt due after one year | 21,847 | 5,687 | 16,195 | (35) | 7 |
| Liability for postemployment benefits | 7,420 | 7,420 | — | — | |
| Other liabilities | 2,179 | 2,060 | 531 | (412) | 6 |
| Total liabilities | 50,738 | 24,896 | 27,461 | (1,619) | |
| Commitments and contingencies | | | | | |
| Redeemable noncontrolling interest | 477 | 477 | — | — | |
| Stockholders' equity | | | | | |
| Common stock | 3,439 | 3,439 | 883 | (883) | 5 |
| Treasury stock | (10,646) | (10,646) | — | — | |
| Profit employed in the business | 19,711 | 19,711 | 3,282 | (3,282) | 5 |
| Accumulated other comprehensive income (loss) | (3,764) | (3,764) | 279 | (279) | 5 |
| Noncontrolling interests | 83 | 83 | 70 | (70) | 5 |

Edgar Filing: CATERPILLAR INC - Form 10-Q

| | | | | |
|--|-----------|-----------|----------|------------|
| Total stockholders' equity | 8,823 | 8,823 | 4,514 | (4,514) |
| Total liabilities, redeemable noncontrolling interest and stockholders' equity | \$ 60,038 | \$ 34,196 | \$31,975 | \$ (6,133) |

- 1 Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.
- 2 Elimination of receivables between Machinery and Engines and Financial Products.
- 3 Reclassification of Machinery and Engines' trade receivables purchased by Cat Financial and Cat Financial's wholesale inventory receivables.
- 4 Elimination of Machinery and Engines' insurance premiums that are prepaid to Financial Products.
- 5 Elimination of Financial Products' equity which is accounted for by Machinery and Engines on the equity basis.
- 6 Reclassification reflecting required netting of deferred tax assets / liabilities by taxing jurisdiction.
- 7 Elimination of debt between Machinery and Engines and Financial Products.
- 8 Elimination of payables between Machinery and Engines and Financial Products.
- 9 Elimination of prepaid insurance in Financial Products' accrued expenses.

Page 57

Caterpillar Inc.
Supplemental Data for Cash Flow
For The Three Months Ended March 31, 2010
(Unaudited)
(Millions of dollars)

| | Supplemental Consolidating Data | | | |
|--|---------------------------------|--|-----------------------|------------------------------|
| | Consolidated | Machinery and Engines ¹ | Financial Products | Consolidating Adjustments |
| Cash flow from operating activities: | | | | |
| Profit of consolidated and affiliated companies | \$ 236 | \$ 234 | \$ 81 | \$ (79) 2 |
| Adjustments for non-cash items: | | | | |
| Depreciation and amortization | 554 | 371 | 183 | — |
| Other | 94 | 117 | (57) | 34 4 |
| Financial Products' dividend in excess of profit | — | 521 | — | (521) 3 |
| Changes in assets and liabilities: | | | | |
| Receivables - trade and other | (373) | (430) | 31 | 26 4,5 |
| Inventories | (644) | (644) | — | — |
| Accounts payable | 533 | 527 | (9) | 15 4 |
| Accrued expenses | (65) | (16) | (63) | 14 4 |
| Customer advances | 140 | 140 | — | — |
| Other assets – net | 109 | 70 | (7) | 46 4 |
| Other liabilities – net | (33) | 31 | (3) | (61) 4 |
| Net cash provided by (used for) operating activities | 551 | 921 | 156 | (526) |
| Cash flow from investing activities: | | | | |

Edgar Filing: CATERPILLAR INC - Form 10-Q

| | | | | |
|---|----------|----------|----------|-----------|
| Capital expenditures - excluding equipment leased to others | (204) | (203) | (1) | — |
| Expenditures for equipment leased to others | (169) | — | (173) | 4 4 |
| Proceeds from disposals of property, plant and equipment | 353 | 17 | 336 | — |
| Additions to finance receivables | (1,757) | — | (4,816) | 3,059 5 |
| Collections of finance receivables | 1,956 | — | 5,093 | (3,137) 5 |
| Proceeds from sales of finance receivables | 2 | — | 2 | — |
| Net intercompany borrowings | — | (574) | (6) | 580 6 |
| Investments and acquisitions (net of cash acquired) | (103) | (103) | — | — |
| Proceeds from sale of available-for-sale securities | 45 | 1 | 44 | — |
| Investments in available-for-sale securities | (46) | — | (46) | — |
| Other – net | 33 | 22 | 11 | — |
| Net cash provided by (used for) investing activities | 110 | (840) | 444 | 506 |
| Cash flow from financing activities: | | | | |
| Dividends paid | (262) | (262) | (600) | 600 7 |
| Common stock issued, including treasury shares reissued | 26 | 26 | — | — |
| Excess tax benefit from stock-based compensation | 13 | 13 | — | — |
| Acquisitions of noncontrolling interests | (26) | (26) | — | — |
| Net intercompany borrowings | — | 6 | 574 | (580) 6 |
| Proceeds from debt issued (original maturities greater than three months) | 1,318 | 54 | 1,264 | — |
| Payments on debt (original maturities greater than three months) | (3,336) | (607) | (2,729) | — |
| Short-term borrowings – net (original maturities three months or less) | 331 | 164 | 167 | — |
| Net cash provided by (used for) financing activities | (1,936) | (632) | (1,324) | 20 |
| Effect of exchange rate changes on cash | (54) | (5) | (49) | — |
| Increase (decrease) in cash and short-term investments | (1,329) | (556) | (773) | — |
| Cash and short-term investments at beginning of period | 4,867 | 2,239 | 2,628 | — |
| Cash and short-term investments at end of period | \$ 3,538 | \$ 1,683 | \$ 1,855 | \$ — |

- 1 Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.
- 2 Elimination of Financial Products' profit after tax due to equity method of accounting.
- 3 Elimination of Financial Products' dividend to Machinery and Engines in excess of Financial Products' profit.
- 4 Elimination of non-cash adjustments and changes in assets and liabilities related to consolidated reporting.
- 5 Reclassification of Cat Financial's cash flow activity from investing to operating for receivables that arose from the sale of inventory.
- 6 Elimination of net proceeds and payments to/from Machinery and Engines and Financial Products.
- 7 Elimination of dividend from Financial Products to Machinery and Engines.

Caterpillar Inc.
Supplemental Data for Cash Flow
For The Three Months Ended March 31, 2009
(Unaudited)
(Millions of dollars)

| | Supplemental Consolidating Data | | | |
|---|---------------------------------|-------------------------------|-----------------------|------------------------------|
| | Consolidated | Machinery and Engines 1 | Financial Products | Consolidating Adjustments |
| Cash flow from operating activities: | | | | |
| Profit (loss) of consolidated and affiliated companies | \$ (131) | \$ (135) | \$ 60 | \$ (56) 2 |
| Adjustments for non-cash items: | | | | |
| Depreciation and amortization | 534 | 354 | 180 | — |
| Undistributed profit of Financial Products | — | (56) | — | 56 3 |
| Other | 106 | 193 | (92) | 5 4 |
| Changes in assets and liabilities: | | | | |
| Receivables - trade and other | 1,622 | 718 | 104 | 800 4,5 |
| Inventories | 764 | 764 | — | — |
| Accounts payable | (1,406) | (1,381) | (38) | 13 4 |
| Accrued expenses | (321) | (322) | — | 1 4 |
| Customer advances | (179) | (179) | — | — |
| Other assets – net | 48 | (143) | 170 | 21 4 |
| Other liabilities – net | (142) | (133) | 8 | (17) 4 |
| Net cash provided by (used for) operating activities | 895 | (320) | 392 | 823 |
| Cash flow from investing activities: | | | | |
| Capital expenditures - excluding equipment leased to others | (224) | (224) | — | — |
| Expenditures for equipment leased to others | (221) | — | (222) | 1 4 |
| Proceeds from disposals of property, plant and equipment | 208 | 24 | 184 | — |
| Additions to finance receivables | (1,789) | — | (5,795) | 4,006 5 |
| Collections of finance receivables | 2,450 | — | 6,887 | (4,437) 5 |
| Proceeds from sales of finance receivables | 27 | — | 420 | (393) 5 |
| Net intercompany borrowings | — | 401 | (1,465) | 1,064 6 |
| Proceeds from sale of available-for-sale securities | 87 | 2 | 85 | — |
| Investments in available-for-sale securities | (58) | (2) | (56) | — |
| Other – net | 23 | 15 | (12) | 20 7 |
| Net cash provided by (used for) investing activities | 503 | 216 | 26 | 261 |
| Cash flow from financing activities: | | | | |
| Dividends paid | (253) | (253) | — | — |
| Common stock issued, including treasury shares reissued | — | — | 20 | (20) 7 |
| Net intercompany borrowings | — | 1,465 | (401) | (1,064) 6 |

| | | | | |
|---|----------|----------|----------|---------|
| Proceeds from debt issued (original maturities greater than three months) | 4,818 | 121 | 4,697 | — |
| Payments on debt (original maturities greater than three months) | (3,321) | (205) | (3,116) | — |
| Short-term borrowings – net (original maturities three months or less) | (1,779) | (393) | (1,386) | — |
| Net cash provided by (used for) financing activities | (535) | 735 | (186) | (1,084) |
| Effect of exchange rate changes on cash | (33) | (30) | (3) | — |
| Increase (decrease) in cash and short-term investments | 830 | 601 | 229 | — |
| Cash and short-term investments at beginning of period | 2,736 | 1,517 | 1,219 | — |
| Cash and short-term investments at end of period | \$ 3,566 | \$ 2,118 | \$ 1,448 | \$ — |

- 1 Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.
- 2 Elimination of Financial Products' profit after tax due to equity method of accounting.
- 3 Elimination of non-cash adjustment for the undistributed earnings from Financial Products.
- 4 Elimination of non-cash adjustments and changes in assets and liabilities related to consolidated reporting.
- 5 Reclassification of Cat Financial's cash flow activity from investing to operating for receivables that arose from the sale of inventory.
- 6 Elimination of net proceeds and payments to/from Machinery and Engines and Financial Products.
- 7 Elimination of change in investment and common stock related to Financial Products.

Page 59

2010 Outlook

Economic Outlook

Worldwide economic conditions began to improve in mid-2009, and recent surveys and economic reports indicate the pace of recovery is accelerating. We expect that strong recovery in developing countries will lead to world economic growth of about 3.5 percent this year.

§ Key credit spreads are near normal and in ranges consistent with past recoveries. Loan surveys indicate banks in the major developed economies have begun, or are close to, easing tight credit standards.

§ Credit demand remains weak in developed economies because businesses have relied on cash flows to finance initial recoveries in investment or have not yet increased investments. Limited data suggest increased credit growth in developing economies; bank lending in Brazil and China has been increasing at double-digit percentage rates.

§ A few countries tightened economic policies but others further lowered interest rates. Overall, economic policies remain some of the most accommodative in history and should support stronger future growth.

Commodities

§

By the end of the first quarter, most metals prices were within 20 percent of their record highs. This recovery, occurring while industrial production in most countries was well below past peaks, indicates a need for the metals mining industry to increase production and capacity. We expect copper will average about \$3.25 per pound this year.

§ Most energy prices have recovered over the past year, and a stronger world economy should extend this recovery throughout 2010. We assume that West Texas intermediate crude oil will average almost \$85 per barrel this year, and Central Appalachian coal prices will average more than \$55 per ton. Both prices should encourage increased production.

Developing Economies

§ Developing economies should grow more than 6 percent this year, benefiting from growth-oriented economic policies, a recovery in world trade and favorable commodity prices.

§ Inflation in Asian developing economies appears high enough to concern central bankers in those countries. We expect many countries will tighten monetary policies this year but that interest rates will remain well below 2008 peaks. The Asia/Pacific regional economy should grow more than 7.5 percent this year.

§ China's loan growth has been above 20 percent, and property price increases reached 2-year highs. We anticipate the central bank will slow loan growth into a more normal 15- to 20-percent range as it becomes more confident the worldwide economic recovery is well established. Gradual tightening should allow economic growth in China to average 10.5 percent this year, which would be the fastest growth since 2007.

§ Major Latin American economies had 6-percent or higher growth rates in the fourth quarter of 2009, and early data suggest a strong start to 2010. While central banks likely will increase interest rates from record lows, the regional economy should grow at least 4 percent this year. Construction should increase even faster.

§ The economies of Africa/Middle East and the CIS should each grow about 4 percent this year, benefiting from higher metals and energy prices. In addition, much lower interest rates than a year earlier in South Africa, Turkey and Russia should boost construction.

§ We expect developing economies will be able to sustain rapid economic growth this year.

Developed Economies

§ Recoveries in developed economies started slowly, but recent data suggest growth should improve throughout 2010. However, we expect developed economies in total to grow slightly less than 2.5 percent, not enough to recoup output lost in 2009.

§ In the United States, recent data—manufacturing and nonmanufacturing surveys, retail sales and employment—suggest that U.S. economic activity is increasing. Our forecast is for 3.5 percent economic growth in the United States this year.

§ U.S. housing construction got off to a disappointing start this year; however, the supply of new homes, either under construction or awaiting sale, continues to shrink. Housing affordability is near a record high, and an expected recovery in employment should revive depressed household formations. We project housing starts should average close to 800,000 units this year.

§

U.S. nonresidential building construction should decline this year, but highway contracting is already rebounding and should be up in 2010. Most U.S. mining sectors are in recovery, and output should increase this year in response to favorable prices. However, difficulties in securing permits could hamper coal production.

Page 60

§ We expect the strengthening economy will prompt the U.S. Federal Reserve Bank to start withdrawing stimulus in the last half of the year. The Fed Funds rate is expected to end the year at 1 percent.

§ The euro-zone economy grew at a slow 0.9 percent rate in the last half of 2009, but recent surveys suggest modest strengthening. Our forecast is that the economy will grow close to 1.5 percent this year, one of the weakest performances in the world.

§ Even though inflation has been below target and unemployment is at a record high, we expect the European Central Bank will raise interest rates in the last half of 2010 in response to somewhat better economic growth. Its target rate is expected to increase by 75 basis points to 1.75 percent.

§ The Bank of Japan increased liquidity in the banking system, and banks eased credit standards. Industrial production increased 31 percent over the past year, recouping more than half of the loss sustained in the worldwide economic recession. We assume interest rates will remain near zero this year, and the Japanese economy will grow more than 2 percent.

§ Our major concern is that central banks in the developed economies will be premature in withdrawing stimulus, causing another downturn. However, with the year almost one-third finished and no significant actions yet taken, we view the risk of a downturn starting this year as low. In addition, high unemployment may limit central banks' decisions to tighten policies.

2010 Sales and Revenues Outlook

We are forecasting 2010 sales and revenues to be in a range of \$38 to \$42 billion. The previous range was an increase of 10 to 25 percent from 2009 (\$35.6 to \$40.5 billion). Improvement from the previous outlook is a result of improving expectations in Asia/Pacific and Latin America, for mining in most regions of the world and for turbines used in oil and gas and electric power applications.

Key elements of the outlook for 2010 include:

§ At the midpoint of the revised 2010 sales and revenues range, we expect little change in dealer inventories. In 2009, dealers reduced inventories of new Caterpillar machines and engines by nearly \$4 billion. The absence of this reduction will result in higher sales for Caterpillar in 2010.

§ Robust economic improvement in the developing economies of Asia/Pacific and Latin America is improving construction spending and increasing end-user demand for Machinery.

§ Growth in the world economy is driving improved demand for commodities. Higher demand coupled with favorable commodity prices should be positive for mining-related sales in 2010. Mining-related order activity has remained robust, and we expect to increase production and sales as the year progresses.

§ We expect that price realization will be positive by about 1 percent in 2010.

§ While Machinery sales are expected to increase in 2010, at the midpoint of the outlook range, Engines sales are expected to be about flat.

§ Based on order activity, expectations for turbine sales in 2010 have improved, and we are forecasting sales to be near the record levels of 2008 and 2009. Increasing orders by Latin American customers are the major reason for the improvement in 2010 expectations. While turbine sales for the year are expected to be near 2009 levels, the first quarter of 2010 was well below the first quarter of 2009. Production schedules are increasing, and turbine sales should increase throughout the year, particularly in the second half.

2010 Profit Outlook

Profit is expected to be in a range of \$2.50 to \$3.25 per share. The previous outlook expected profit of \$2.50 per share at the midpoint of the prior sales and revenues range.

Key positive elements of the profit outlook for 2010 include:

§ Higher sales volume.

§ Absence of 2009 employee redundancy costs of \$706 million, or about \$0.75 per share.

§ Material costs are expected to be favorable in 2010.

§ Improved operating efficiency—resulting from higher production volume and continuing improvement from the Caterpillar Production System with 6 Sigma.

§ We expect that price realization will be positive by about 1 percent in 2010.

§ Financial Products' profit before tax is expected to be about flat compared with 2009, as the impact of improving economic conditions is expected to be about offset by the impact of lower earning assets.

The key positive elements of the 2010 profit outlook are expected to be partially offset by:

Page 61

§ Higher income taxes. We are forecasting income taxes to be an expense of about 30 percent of profit before tax plus the \$90 million charge in the first quarter related to signing of the U.S. health care legislation.

§ Product mix is expected to be unfavorable. Product mix had a negative impact on profit in the first quarter, and we expect the impact will increase as new machine sales improve over the remainder of 2010.

§ R&D expense is expected to increase about 25 percent, primarily to support product development programs related to EPA Tier 4 emissions requirements.

§ Higher costs related to incentive compensation due to improving financial performance. The midpoint of the current profit outlook would result in about \$350 million of short-term incentive compensation in 2010.

§ We are not forecasting last in, first out (LIFO) inventory decrement benefits for 2010. LIFO decrement benefits in 2009 were \$300 million.

§ We do not expect the favorable impact of currency that was in 2009's other income/expense to recur in 2010.

§ Pension expense is expected to be higher in 2010.

§ Depreciation expense is expected to increase. Machinery and Engines capital expenditures are expected to be about \$1.8 billion in 2010, up from \$1.3 billion in 2009.

§ Diluted shares outstanding are expected to be higher than the 2009 full-year average. This is a result of stock contributed to the pension plan in the second quarter of 2009 as well as increased dilution related to the increase in the share price.

Forward-looking Statements

Certain statements in this release relate to future events and expectations and, as such, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to known and unknown factors that may cause actual results of Caterpillar Inc. to be different from those expressed or implied in the forward-looking statements. Words such as "believe," "estimate," "will be," "will," "would," "expect," "anticipate," "plan," "project," "intend," "could," "should" or other similar words or expressions often identify forward-looking statements. All statements other than statements of historical fact are forward-looking statements, including, without limitation, statements regarding our outlook, projections, forecasts or trend descriptions. These statements do not guarantee future performance, and Caterpillar does not undertake to update its forward-looking statements.

It is important to note that actual results of the company may differ materially from those described or implied in such forward-looking statements based on a number of factors, including, but not limited to: (i) economic volatility in the global economy generally and in capital and credit markets; (ii) Caterpillar's ability to generate cash from operations, secure external funding for operations and manage liquidity needs; (iii) adverse changes in the economic conditions of the industries or markets Caterpillar serves; (iv) government regulations or policies, including those affecting interest rates, liquidity, access to capital and government spending on infrastructure development; (v) commodity price increases and/or limited availability of raw materials and component products, including steel; (vi) compliance costs associated with environmental laws and regulations; (vii) Caterpillar's and Cat Financial's ability to maintain their respective credit ratings, material increases in either company's cost of borrowing or an inability of either company to access capital markets; (viii) financial condition and credit worthiness of Cat Financial's customers; (ix) material adverse changes in our customers' access to liquidity and capital; (x) market acceptance of Caterpillar's products and services; (xi) effects of changes in the competitive environment, which may include decreased market share, lack of acceptance of price increases, and/or negative changes to our geographic and product mix of sales; (xii) Caterpillar's ability to successfully implement Caterpillar Production System or other productivity initiatives; (xiii) international trade and investment policies, such as import quotas, capital controls or tariffs; (xiv) failure of Caterpillar or Cat Financial to comply with financial covenants in their respective credit facilities; (xv) adverse changes in sourcing practices for our dealers or original equipment manufacturers; (xvi) additional tax expense or exposure; (xvii) political and economic risks associated with our global operations, including changes in laws, regulations or government policies, currency restrictions, restrictions on repatriation of earnings, burdensome tariffs or quotas, national and international conflict, including terrorist acts and political and economic instability or civil unrest in the countries in which Caterpillar operates; (xviii) currency fluctuations, particularly increases and decreases in the U.S. dollar against other currencies; (xix) increased payment obligations under our pension plans; (xx) inability to successfully integrate and realize expected benefits from acquisitions; (xxi) significant legal proceedings, claims, lawsuits or investigations; (xxii) imposition of significant costs or restrictions due to the enactment and implementation of health care reform legislation and proposed financial regulation legislation; (xxiii) changes in accounting standards or adoption of new accounting standards; (xxiv) adverse effects of natural disasters; and (xxv) other factors described in more detail in "Item 1A – Risk Factors" in Part II of this Form 10-Q and in Part I of our Form 10-K filed with the SEC on February 19, 2010 for the year ended December 31, 2009. This filing is available on our website at www.cat.com/sec_filings.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information required by this Item is incorporated by reference from Note 4 – “Derivative Instruments and Hedging Activities” included in Part I, Item 1 and Management’s Discussion and Analysis included in Part I, Item 2 of this Form 10-Q.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

An evaluation was performed under the supervision and with the participation of the company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the company's disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on that evaluation, the company's management, including the CEO and CFO, concluded that the company's disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

Changes in internal control over financial reporting

During the first quarter 2010, there has been no change in the company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information required by this Item is incorporated by reference from Note 12 included in Part I, Item 1 of this Form 10-Q.

Item 1A. Risk Factors

In addition to the risk factors included in Item 1A of our Form 10-K filed with the SEC on February 19, 2010, for the fiscal year ended December 31, 2009, you should carefully consider the following risk in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the “Notes to Consolidated Statements.”

Financial Regulation Legislation

Financial regulation legislation, including proposed derivatives legislation, is currently under consideration by the U.S. Congress. The impact of the proposed legislation remains uncertain. Should any final legislation impose significant costs or restrictions on the company, including, without limitation, costs or restrictions on the Company's or Cat Financial’s use of derivatives, we could experience a material adverse effect on our results of operations and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

No shares were repurchased during the first quarter 2010.

Other Purchases of Equity Securities

| Period | Total Number of Shares Purchased ¹ | Average Price Paid per Share | Total Number of Shares Purchased Under the Program | Approximate Dollar Value of Shares that may yet be Purchased under the Program |
|---------------------|---|---------------------------------|--|--|
| January 1-31, 2010 | 4,776 | \$ 58.36 | NA | NA |
| February 1-28, 2010 | — | \$ — | NA | NA |
| March 1-31, 2010 | 368,208 | \$ 58.31 | NA | NA |
| Total | 372,984 | \$ 58.31 | | |

- 1 Represents shares delivered back to issuer for the payment of taxes resulting from the vesting of restricted stock units and the exercise of stock options by employees and Directors.

Page 63

Non-U.S. Employee Stock Purchase Plans

We have 30 employee stock purchase plans administered outside the United States for our non-U.S. employees. As of March 31, 2010, those plans had approximately 10,700 active participants in the aggregate. During the first quarter of 2010, approximately 193,000 shares of Caterpillar common stock or foreign denominated equivalents were distributed under the plans. Participants in some foreign plans have the option of receiving non-U.S. share certificates (foreign-denominated equivalents) in lieu of U.S. shares of Caterpillar common stock upon withdrawal from the plan. These equivalent certificates are tradable only on the local stock market and are included in our determination of shares outstanding.

Distributions of Caterpillar stock under the plans are exempt from registration under the Securities Act of 1933 (Act) pursuant to 17 CFR 230.903.

Item 6. Exhibits

- 3.1 Restated Certificate of Incorporation (incorporated by reference from Exhibit 3(i) to the Form 10-Q filed for the quarter ended March 31, 1998).
- 3.2 Bylaws amended and restated as of December 9, 2009 (incorporated by reference from Exhibit 3.2 to Form 8-K filed December 15, 2009).
- 4.1 Indenture dated as of May 1, 1987, between the Registrant and The First National Bank of Chicago, as Trustee (incorporated by reference from Exhibit 4.1 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).
- 4.2 First Supplemental Indenture, dated as of June 1, 1989, between Caterpillar Inc. and The First National Bank of Chicago, as Trustee (incorporated by reference from Exhibit 4.2 to Form S-3 (Registration No. 333-22041)

filed February 19, 1997).

- 4.3 Appointment of Citibank, N.A. as Successor Trustee, dated October 1, 1991, under the Indenture, as supplemented, dated as of May 1, 1987 (incorporated by reference from Exhibit 4.3 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).
- 4.4 Second Supplemental Indenture, dated as of May 15, 1992, between Caterpillar Inc. and Citibank, N.A., as Successor Trustee (incorporated by reference from Exhibit 4.4 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).
- 4.5 Third Supplemental Indenture, dated as of December 16, 1996, between Caterpillar Inc. and Citibank, N.A., as Successor Trustee (incorporated by reference from Exhibit 4.5 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).
- 4.6 Tri-Party Agreement, dated as of November 2, 2006, between Caterpillar Inc., Citibank, N.A. and U.S. Bank National Association appointing U.S. Bank as Successor Trustee under the Indenture dated as of May 1, 1987, as amended and supplemented (incorporated by reference from Exhibit 4.6 to the 2006 Form 10-K).

10.1 Terms Applicable to Awards of Restricted Stock Units.

- 11 Computations of Earnings per Share (included in Note 11 of this Form 10-Q filed for the quarter ended March 31, 2010).

31.1 Certification of James W. Owens, Chairman and Chief Executive Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of David B. Burritt, Vice President and Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of James W. Owens, Chairman and Chief Executive Officer of Caterpillar Inc. and David B. Burritt, Vice President and Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Edgar Filing: CATERPILLAR INC - Form 10-Q

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CATERPILLAR INC.

| | | |
|-------------|--|--|
| May 3, 2010 | /s/ James W. Owens (James W. Owens) | Chairman of the Board and Chief Executive Officer |
| May 3, 2010 | /s/ David B. Burritt (David B. Burritt) | Vice President and Chief Financial Officer |
| May 3, 2010 | /s/ Bradley M. Halverson (Bradley M. Halverson) | Controller |
| May 3, 2010 | /s/ James B. Buda (James B. Buda) | Vice President, General Counsel and Secretary |
| May 3, 2010 | /s/ Jananne A. Copeland (Jananne A. Copeland) | Chief Accounting Officer |