

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	X	Accelerated filer
Non-accelerated filer		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 [X]

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:

Page 7

(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)

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

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

Page 12

Cash Flow Hedges
(Millions of dollars)

	Classification	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					
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

	Classification	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	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, 2010	March 31, 2009	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 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