CATERPILLAR INC
Form 10-Q
July 31, 2009

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

# FORM 10-Q

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

For the quarterly period ended June 30, 2009

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 | 37-0602744 |
|---|---|
| (State or other jurisdiction of incorporation) | (IRS Employer I.D. No.) |
| 100 NE Adams Street, Peoria, Illinois | 61629 |
| (Address of principal executive offices) | (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 [ X ] 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 June 30, 2009, 621,293,542 shares of common stock of the registrant were outstanding.



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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | | Three Months Ended June 30, | | |
|---|---|---|---|---|
| | | 2009 | | 2008 |
| Sales and revenues: | | | | |
| Sales of Machinery and Engines | $ | 7,254 | $ | 12,797 |
| Revenues of Financial Products | | 721 | | 827 |
| Total sales and revenues | | 7,975 | | 13,624 |
| Operating costs: | | | | |
| Cost of goods sold | | 5,752 | | 10,036 |
| Selling, general and administrative expenses | | 914 | | 1,074 |
| Research and development expenses | | 351 | | 415 |
| Interest expense of Financial Products | | 272 | | 279 |
| Other operating (income) expenses | | 339 | | 295 |
| Total operating costs | | 7,628 | | 12,099 |
| Operating profit | | 347 | | 1,525 |
| Interest expense excluding Financial Products | | 109 | | 70 |
| Other income (expense) | | 163 | | 83 |
| Consolidated profit before taxes | | 401 | | 1,538 |
| Provision for income taxes | | 40 | | 434 |
| Profit of consolidated companies | | 361 | | 1,104 |
| Equity in profit (loss) of unconsolidated affiliated companies | | (1) | | 10 |
| Profit of consolidated and affiliated companies | | 360 | | 1,114 |
| Less: Profit (loss) attributable to noncontrolling interests | | (11) | | 8 |
| Profit 1 | $ | 371 | $ | 1,106 |
| Profit per common share | $ | 0.61 | $ | 1.80 |
| Profit per common share – diluted 2 | $ | 0.60 | $ | 1.74 |
| Weighted-average common shares outstanding (millions) | | | | |
| - Basic | | 611.8 | | 614.3 |
| - Diluted 2 | | 619.8 | | 635.5 |
| Cash dividends declared per common share | $ | 0.84 | $ | 0.78 |

1 Profit 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.



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

| | | Six Months Ended June 30, | | |
|---|---|---|---|---|
| | | 2009 | | 2008 |
| **Sales and revenues:** | | | | |
| Sales of Machinery and Engines | $ | 15,764 | $ | 23,776 |
| Revenues of Financial Products | | 1,436 | | 1,644 |
| Total sales and revenues | | 17,200 | | 25,420 |
| **Operating costs:** | | | | |
| Cost of goods sold | | 12,779 | | 18,645 |
| Selling, general and administrative expenses | | 1,796 | | 2,033 |
| Research and development expenses | | 739 | | 784 |
| Interest expense of Financial Products | | 551 | | 563 |
| Other operating (income) expenses | | 1,163 | | 577 |
| Total operating costs | | 17,028 | | 22,602 |
| Operating profit | | 172 | | 2,818 |
| Interest expense excluding Financial Products | | 210 | | 144 |
| Other income (expense) | | 227 | | 205 |
| Consolidated profit before taxes | | 189 | | 2,879 |
| Provision (benefit) for income taxes | | (40) | | 854 |
| Profit of consolidated companies | | 229 | | 2,025 |
| Equity in profit (loss) of unconsolidated affiliated companies | | — | | 21 |
| Profit of consolidated and affiliated companies | | 229 | | 2,046 |
| Less: Profit (loss) attributable to noncontrolling interests | | (30) | | 18 |
| Profit 1 | $ | 259 | $ | 2,028 |

| | | | | |
|---|---|---|---|---|
| Profit per common share | $ | 0.43 | $ | 3.29 |
| Profit per common share – diluted 2 | $ | 0.42 | $ | 3.18 |
| Weighted-average common shares outstanding (millions) | | | | |
| - Basic | | 607.6 | | 616.0 |
| - Diluted 2 | | 614.0 | | 637.0 |
| Cash dividends declared per common share | $ | 0.84 | $ | 0.78 |

1 Profit 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.



Caterpillar Inc.
Consolidated Statement of Financial Position
(Unaudited)
(Dollars in millions)

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and short-term investments | $ 3,991 | $ 2,736 |
| Receivables – trade and other | 6,534 | 9,397 |
| Receivables – finance | 8,110 | 8,731 |
| Deferred and refundable income taxes | 1,147 | 1,223 |
| Prepaid expenses and other current assets | 441 | 765 |
| Inventories | 7,160 | 8,781 |
| Total current assets | 27,383 | 31,633 |
| Property, plant and equipment – net | 12,226 | 12,524 |
| Long-term receivables – trade and other | 817 | 1,479 |
| Long-term receivables – finance | 13,488 | 14,264 |
| Investments in unconsolidated affiliated companies | 92 | 94 |
| Noncurrent deferred and refundable income taxes | 3,270 | 3,311 |
| Intangible assets | 485 | 511 |
| Goodwill | 2,264 | 2,261 |
| Other assets | 2,067 | 1,705 |
| Total assets | $ 62,092 | $ 67,782 |
| Liabilities | | |
| Current liabilities: | | |
| Short-term borrowings: | | |
| Machinery and Engines | $ 702 | $ 1,632 |
| Financial Products | 4,470 | 5,577 |
| Accounts payable | 2,682 | 4,827 |
| Accrued expenses | 3,611 | 4,121 |

| | | |
|---|---|---|
| Accrued wages, salaries and employee benefits | 795 | 1,242 |
| Customer advances | 1,546 | 1,898 |
| Dividends payable | 261 | 253 |
| Other current liabilities | 857 | 1,027 |
| Long-term debt due within one year: | | |
| Machinery and Engines | 472 | 456 |
| Financial Products | 4,094 | 5,036 |
| Total current liabilities | 19,490 | 26,069 |
| Long-term debt due after one year: | | |
| Machinery and Engines | 5,677 | 5,736 |
| Financial Products | 17,881 | 17,098 |
| Liability for postemployment benefits | 8,920 | 9,975 |
| Other liabilities | 2,268 | 2,190 |
| Total liabilities | 54,236 | 61,068 |
| Commitments and contingencies (Notes 10 and 12) | | |
| Redeemable noncontrolling interest | 481 | 524 |
| Stockholders' equity | | |
| Common stock of $1.00 par value: | | |
| Authorized shares: 900,000,000 | | |
| Issued shares: (6/30/09 and 12/31/08 – 814,894,624) at paid-in amount | 3,347 | 3,057 |
| Treasury stock (6/30/09 – 193,601,082; 12/31/08 – 213,367,983) at cost | (10,745) | (11,217) |
| Profit employed in the business | 19,579 | 19,826 |
| Accumulated other comprehensive income (loss) | (4,906) | (5,579) |
| Noncontrolling interests | 100 | 103 |
| Total stockholders' equity | 7,375 | 6,190 |
| Total liabilities, redeemable noncontrolling interest and stockholders' equity | $ 62,092 | $ 67,782 |

See accompanying notes to Consolidated Financial Statements.



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

| Six Months Ended June 30, 2008 | Common stock | Treasury stock | Profit employed in the business | Accumulated other comprehensive income (loss) 1 | Noncontrolling interests | Total | Comprehensive income (loss) |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2007 | $2,744 | $ (9,451) | $17,398 | $ (1,808) | $ 113 | $ 8,996 | |
| Adjustment to adopt measurement date provisions of FAS 158, net | — | — | (33) | 17 | — | (16) | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| of tax 2 | | | | | | | |
| Balance at January 1, 2008 | 2,744 | (9,451) | 17,365 | (1,791) | 113 | 8,980 | |
| Profit of consolidated and affiliated companies | — | — | 2,028 | — | 18 | 2,046 | $ 2,046 |
| Foreign currency translation, net of tax of $3 | — | — | — | 177 | (1) | 176 | 176 |
| Pension and other postretirement benefits | | | | | | | |
| Amortization of actuarial (gain) loss, net of tax of $41 | — | — | — | 76 | — | 76 | 76 |
| Amortization of transition (asset) obligation, net of tax of $0 | — | — | — | 1 | — | 1 | 1 |
| Derivative financial instruments | | | | | | | |
| Gains (losses) deferred, net of tax of $0 | — | — | — | 7 | — | 7 | 7 |
| (Gains) losses reclassified to earnings, net of tax of $26 | — | — | — | (45) | — | (45) | (45) |
| Retained interests | | | | | | | |
| Gains (losses) deferred, net of tax of $2 | — | — | — | (5) | — | (5) | (5) |
| (Gains) losses reclassified to earnings, net of tax of $1 | — | — | — | 2 | — | 2 | 2 |
| Available-for-sale securities | | | | | | | |
| Gains (losses) deferred, net of tax of $18 | — | — | — | (36) | — | (36) | (36) |
| (Gains) losses reclassified to earnings, net of tax of $0 | — | — | — | (1) | — | (1) | (1) |
| Change in ownership for noncontrolling interests | — | — | — | — | (17) | (17) | — |
| Dividends declared | — | — | (475) | — | — | (475) | — |
| Common shares issued from treasury stock for stock-based compensation: 4,123,074 | 5 | 111 | — | — | — | 116 | — |
| Stock-based compensation expense | 107 | — | — | — | — | 107 | — |
| | 51 | — | — | — | — | 51 | — |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Tax benefits from stock-based compensation | | | | | | | |
| Shares repurchased: 19,393,026 | — | (1,390) | — | — | — | (1,390) | — |
| Stock repurchase derivative contracts | (10) | — | — | — | — | (10) | — |
| Balance at June 30, 2008 | $2,897 | $(10,730) | $18,918 | $(1,615) | $ 113 | $ 9,583 | $ 2,221 |

(Continued)



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

| Six Months Ended June 30, 2009 | Common stock | Treasury stock | Profit employed in the business | Accumulated other comprehensive income (loss) | Noncontrolling interests | Total | Comprehensive income (loss) |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2008 | $3,057 | $(11,217) | $19,826 | $(5,579) | $ 103 | $6,190 | |
| Profit of consolidated and affiliated companies | — | — | 259 | — | (30) | 229 | $ 229 |
| Foreign currency translation, net of tax of $16 | — | — | — | 166 | 1 | 167 | 167 |
| Pension and other postretirement benefits | | | | | | | |
| Current year actuarial gain (loss), net of tax of $80 3 | — | — | — | 55 | — | 55 | 55 |
| Amortization of actuarial (gain) loss, net of tax of $54 | — | — | — | 95 | 2 | 97 | 97 |
| Current year prior service cost, net of tax of $197 3 | — | — | — | 236 | — | 236 | 236 |
| Amortization of prior service cost, net of tax of $1 | — | — | — | 2 | — | 2 | 2 |
| Amortization of transition (asset) obligation, net of tax of $0 | — | — | — | 1 | — | 1 | 1 |
| Derivative financial instruments | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Gains (losses) deferred, net of tax of $57 | — | — | — | 92 | — | 92 | 92 |
| (Gains) losses reclassified to earnings, net of tax of $12 | — | — | — | (15) | — | (15) | (15) |
| Retained interests | | | | | | | |
| Gains (losses) deferred, net of tax of $12 4 | — | — | — | (22) | — | (22) | (22) |
| (Gains) losses reclassified to earnings, net of tax of $10 | — | — | — | 18 | — | 18 | 18 |
| Available-for-sale securities | | | | | | | |
| Gains (losses) deferred, net of tax of $14 | — | — | — | 26 | — | 26 | 26 |
| (Gains) losses reclassified to earnings, net of tax of $10 | — | — | — | 19 | — | 19 | 19 |
| Change in ownership for noncontrolling interests | — | — | — | — | (6) | (6) | — |
| Dividends declared | — | — | (513) | — | — | (513) | — |
| Common shares issued from treasury stock for stock-based compensation: 1,286,806 | (6) | 37 | — | — | — | 31 | — |
| Common shares issued from treasury stock for benefit plans: 18,480,095 5 | 224 | 435 | — | — | — | 659 | — |
| Stock-based compensation expense | 74 | — | — | — | — | 74 | — |
| Tax benefits from stock-based compensation | (2) | — | — | — | — | (2) | — |
| Cat Japan share redemption 6 | — | — | 7 | — | 30 | 37 | — |
| Balance at June 30, 2009 | $3,347 | $(10,745) | $19,579 | $(4,906) | $ 100 | $7,375 | $ 905 |

1 Pension and other postretirement benefits include net adjustments for Cat Japan, while they were an unconsolidated affiliate, of ($6) million for the six months ended June 30, 2008. The ending balance was ($58) million at June 30, 2008.

2 Adjustments to profit employed in the business and pension and other postretirement benefits were net of tax of ($17) million and $9 million, respectively. See Note 2 for additional information.

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

4 Includes noncredit component of other-than-temporary impairment losses on securitized retained interest of ($10) million, net of tax of $5 million, for the six months ended June 30, 2009. See

Note 16 for additional information.

5 See Note 9 regarding shares issued for benefit plans.

6 See Note 15 regarding the Cat Japan share redemption.

See accompanying notes to Consolidated Financial Statements.



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Caterpillar Inc.
Consolidated Statement of Cash Flow
(Unaudited)
(Millions of dollars)

| | Six Months Ended June 30, | |
|---|---|---|
| | 2009 | 2008 |
| Cash flow from operating activities: | | |
| Profit of consolidated and affiliated companies | $ 229 | $ 2,046 |
| Adjustments for non-cash items: | | |
| Depreciation and amortization | 1,072 | 952 |
| Other | 59 | 184 |
| Changes in assets and liabilities: | | |
| Receivables – trade and other | 3,133 | (1,137) |
| Inventories | 1,631 | (1,009) |
| Accounts payable and accrued expenses | (2,717) | 1,023 |
| Customer advances | (338) | 210 |
| Other assets – net | 168 | (93) |
| Other liabilities – net | (434) | (271) |
| Net cash provided by (used for) operating activities | 2,803 | 1,905 |
| | | |
| Cash flow from investing activities: | | |
| Capital expenditures – excluding equipment leased to others | (443) | (814) |
| Expenditures for equipment leased to others | (441) | (699) |
| Proceeds from disposals of property, plant and equipment | 454 | 449 |
| Additions to finance receivables | (3,800) | (7,099) |
| Collections of finance receivables | 5,119 | 4,748 |
| Proceeds from sales of finance receivables | 93 | 696 |
| Investments and acquisitions (net of cash acquired) | — | (111) |
| Proceeds from sale of available-for-sale securities | 170 | 173 |
| Investments in available-for-sale securities | (251) | (230) |
| Other – net | (53) | 56 |
| Net cash provided by (used for) investing activities | 848 | (2,831) |
| | | |
| Cash flow from financing activities: | | |
| Dividends paid | (505) | (444) |
| Common stock issued, including treasury shares reissued | 31 | 116 |
| Payment for stock repurchase derivative contracts | — | (38) |
| Treasury shares purchased | — | (1,362) |
| Excess tax benefit from stock-based compensation | 2 | 53 |
| Acquisition of noncontrolling interests | (6) | — |

| | | | | |
|---|---|---|---|---|
| Proceeds from debt issued (original maturities greater than three months): | | | | |
| – Machinery and Engines | | 872 | | 110 |
| – Financial Products | | 8,157 | | 9,048 |
| Payments on debt (original maturities greater than three months): | | | | |
| – Machinery and Engines | | (915) | | (133) |
| – Financial Products | | (6,655) | | (6,397) |
| Short-term borrowings – net (original maturities three months or less) | | (3,365) | | (393) |
| Net cash provided by (used for) financing activities | | (2,384) | | 560 |
| Effect of exchange rate changes on cash | | (12) | | 26 |
| Increase (decrease) in cash and short-term investments | | 1,255 | | (340) |
| | | | | |
| Cash and short-term investments at beginning of period | | 2,736 | | 1,122 |
| Cash and short-term investments at end of period | $ | 3,991 | $ | 782 |

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.

Non-cash activities:

During 2009, we contributed 18.4 million shares of company stock with a fair value of $659 million to our U.S. benefit plans. See Note 9 for further discussion.

See accompanying notes to Consolidated Financial Statements.



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 and six month periods ended June 30, 2009 and 2008, (b) the consolidated financial position at June 30, 2009 and December 31, 2008, (c) the consolidated changes in stockholders' equity for the six month periods ended June 30, 2009 and 2008, and (d) the consolidated statement of cash flow for the six month periods ended June 30, 2009 and 2008. 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, 2008, as

supplemented by the Company's current report on Form 8-K filed on May 14, 2009 (2008 Form 10-K) to reflect certain retrospective adjustments relating to the adoption of SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51," and the change in our reportable segments as discussed in Note 13.

Comprehensive income (loss) is comprised of Profit of consolidated and affiliated companies, as well as adjustments for foreign currency translation, derivative instruments designated as cash flow hedges, available-for-sale securities, pension and other postretirement benefits and retained interests. Total Comprehensive income for the three months ended June 30, 2009 and 2008 was $791 million and $1,208 million, respectively. Total Comprehensive income for the six months ended June 30, 2009 and 2008 was $905 million and $2,221 million, respectively.

The December 31, 2008 financial position data included herein is derived from the audited consolidated financial statements included in the 2008 Form 10-K but does not include all disclosures required by U.S. GAAP.

We have performed a review of subsequent events through July 31, 2009, the date the financial statements were issued, and concluded there were no events or transactions occurring during this period that required recognition or disclosure in our financial statements.

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-scrapers, 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; on-highway vehicles and 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 21,700 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.



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2. New Accounting Pronouncements

SFAS 157 – In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157 (SFAS 157), "Fair Value Measurements." SFAS 157 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, the Statement expands disclosures about fair value measurements. In February 2008, the FASB issued final Staff Positions that (1) deferred the effective date of this Statement for one year for certain nonfinancial assets and nonfinancial liabilities (see below) and (2) removed certain leasing transactions from the scope of the Statement. We applied this new accounting standard to all other fair value measurements effective January 1, 2008. The adoption of SFAS 157 did not have a material impact on our financial statements. See Note 14 for additional information.

FSP 157-2 – In February 2008, the FASB issued FASB Staff Position on Statement 157, "Effective Date of FASB Statement No. 157" (FSP 157-2). FSP 157-2 delayed the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed on a recurring basis, to fiscal years beginning after November 15, 2008. Our significant nonfinancial assets and liabilities include those initially measured at fair value in a business combination and goodwill tested annually for impairment. We adopted this new accounting standard on January 1, 2009. The adoption of FSP 157-2 did not have a material impact on our financial statements.

FSP 157-3 – In October 2008, the FASB issued FASB Staff Position on Statement 157, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" (FSP 157-3). FSP 157-3 clarifies how SFAS 157 should be applied when valuing securities in markets that are not active by illustrating key considerations in determining fair value. It also reaffirms the notion of fair value as the exit price as of the measurement date. FSP 157-3 was effective upon issuance, which included periods for which financial statements have not yet been issued. We adopted this new accounting standard on July 1, 2008. The adoption of FSP 157-3 did not have a material impact on our financial statements.

SFAS 158 – In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 (SFAS 158), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS 158 requires recognition of the overfunded or underfunded status of pension and other

postretirement benefit plans on the balance sheet. Also, the measurement date – the date at which the benefit obligation and plan assets are measured – is required to be the company's fiscal year-end. We adopted the balance sheet recognition provisions at December 31, 2006, and adopted the year-end measurement date effective January 1, 2008 using the "one measurement" approach. Under the one measurement approach, net periodic benefit cost for the period between any early measurement date and the end of the fiscal year that the measurement provisions are applied are allocated proportionately between amounts to be recognized as an adjustment of retained earnings and net periodic benefit cost for the fiscal year. Previously, we used a November 30th measurement date for our U.S. pension and other postretirement benefit plans and September 30th for our non-U.S. plans. The following summarizes the effect of adopting the year-end measurement date provisions as of January 1, 2008. See Note 9 for additional information.

| Adoption of SFAS 158 year-end measurement date | January 1, 2008 Prior to SFAS 158 Adjustment | SFAS 158 Adjustment | January 1, 2008 Post SFAS 158 Adjustment |
|---|---|---|---|
| (Millions of dollars) | | | |
| Noncurrent deferred and refundable income taxes | $ 1,553 | $ 8 | $ 1,561 |
| Liability for postemployment benefits | 5,059 | 24 | 5,083 |
| Accumulated other comprehensive income | (1,808) | 17 | (1,791) |
| Profit employed in the business | 17,398 | (33) | 17,365 |

SFAS 159 – In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (SFAS 159), "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of SFAS No. 115." SFAS 159 creates a fair value option under which an entity may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities on a contract by contract basis, with changes in fair values recognized in earnings as these changes occur. We adopted this new accounting standard on January 1, 2008. We have not elected to measure any financial assets or financial liabilities at fair value which were not previously required to be measured at fair value. Therefore, the adoption of SFAS 159 did not have a material impact on our financial statements.



SFAS 141R and SFAS 160 – In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007) (SFAS 141R), "Business Combinations," and No. 160 (SFAS 160), "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." SFAS 141R requires the acquiring entity in a business combination to recognize the assets acquired and liabilities assumed. Further, SFAS 141R also changes the accounting for acquired in-process research and development assets, contingent consideration, partial acquisitions and transaction costs. Under SFAS 160, 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 will be treated as equity transactions. We adopted these new accounting standards on January 1, 2009. As required, SFAS 160 was adopted through retrospective application, and all prior

period information has been adjusted accordingly. The adoption of SFAS 141R and SFAS 160 did not have a material impact on our financial statements.

SFAS 161 – In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 (SFAS 161), "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133." SFAS 161 expands disclosures for derivative instruments by requiring entities to disclose the fair value of derivative instruments and their gains or losses in tabular format. SFAS 161 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 accounting standard on January 1, 2009. The adoption of SFAS 161 did not have a material impact on our financial statements. See Note 4 for additional information.

SFAS 162 – In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162 (SFAS 162), "The Hierarchy of Generally Accepted Accounting Principles." SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. SFAS 162 was effective November 13, 2008 and is superseded by Statement of Financial Accounting Standards No. 168 (SFAS 168), "The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162." See below for additional information on SFAS 168.

SFAS 163 – In May 2008, the FASB issued Statement of Financial Accounting Standards No. 163 (SFAS 163), "Accounting for Financial Guarantee Insurance Contracts – an interpretation of FASB Statement No. 60." SFAS 163 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. It also requires disclosure about (1) the risk-management activities used by an insurance enterprise to evaluate credit deterioration in its insured financial obligations and (2) the insurance enterprise's surveillance or watch list. We adopted this new accounting standard on January 1, 2009. The adoption of SFAS 163 did not have a material impact on our financial statements.

FSP FAS 140-4 and FIN 46R-8 – In December 2008, the FASB issued FASB Staff Position on Statement 140 and FIN 46R, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities" (FSP FAS 140-4 and FIN 46R-8). This FSP expands the disclosure requirements in SFAS 140 and FIN 46R by requiring additional information about companies' involvement with variable interest entities (VIEs) and their continuing involvement with transferred financial assets. This new accounting standard was adopted for our financial statements for the annual period ending December 31, 2008. The adoption of FSP FAS 140-4 and FIN 46R-8 did not have a material impact on our financial statements.

FSP FAS 132R-1 – In December 2008, the FASB issued FASB Staff Position on Statement 132R, "Employers' Disclosures about Postretirement Benefit Plan Assets" (FSP FAS 132R-1). This FSP expands the disclosure set forth in SFAS 132R 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, the FSP requires an employer to disclose information about the valuation of plan assets similar to that required under SFAS 157. We will adopt this new accounting standard for our financial statements for the annual period ending December 31, 2009. We do not expect the adoption of FSP FAS 132R-1 to have a material impact on our financial statements.

FSP EITF 99-20-1 – In January 2009, the FASB issued FASB Staff Position on EITF Issue No. 99-20, "Amendments to the Impairment Guidance of EITF Issue No. 99-20" (FSP EITF 99-20-1). FSP EITF 99-20-1 aligns the impairment guidance in EITF Issue No. 99-20 with that in Statement of Financial Accounting Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities." It changes how companies determine whether an other-than-temporary impairment exists for certain beneficial interests by allowing management to exercise more judgment. This new accounting standard was adopted for our financial statements for the annual period ending December 31, 2008. The adoption of FSP EITF 99-20-1 did not have a material impact on our financial statements.

FSP FAS 107-1 and APB 28-1 – In April 2009, the FASB issued FASB Staff Position on FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" (FSP FAS 107-1 and APB 28-1). This FSP requires that the fair value disclosures required by SFAS 107 "Disclosures about Fair Value of Financial Instruments" be included for interim reporting periods. We adopted this new accounting standard on April 1, 2009. The adoption of FSP FAS 107-1 and APB 28-1 did not have a material impact on our financial statements. See Note 14 for additional information.



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FSP FAS 115-2 and FAS 124-2 – In April 2009, the FASB issued FASB Staff Position on FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (FSP FAS 115-2 and FAS 124-2). This FSP amends the 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 company meets the criteria for impairment, the impairment charges related to credit losses would be recognized in earnings, while non-credit losses would be reflected in other comprehensive income. Additionally, it requires a more detailed, risk-oriented breakdown of major security types and related information currently required by SFAS 115. We adopted this new accounting standard on April 1, 2009. The adoption of FSP FAS 115-2 and FAS 124-2 did not have a material impact on our financial statements. See Notes 8 and 16 for additional information.

FSP FAS 157-4 – In April 2009, the FASB issued FASB Staff Position on FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (FSP FAS 157-4). FSP FAS 157-4 provides guidance on determining when the trading volume and activity for an asset or liability has significantly decreased, which may indicate an inactive market, and on measuring the fair value of an asset or liability in inactive markets. We adopted this new accounting standard on April 1, 2009. The adoption of FSP FAS 157-4 did not have a material impact on our financial statements.

FSP FAS 141R-1 – In April 2009, the FASB issued FASB Staff Position on FAS 141R-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" (FSP FAS 141R-1). FSP FAS 141R-1 requires that an acquirer recognize at fair value, at the acquisition date, an asset acquired or a liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of the asset or liability can be determined during the measurement period. We adopted this new accounting

standard on January 1, 2009. The adoption of FSP FAS 141R-1 did not have a material impact on our financial statements.

SFAS 165 – In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165 (SFAS 165), “Subsequent Events.” SFAS 165 establishes the general 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 accounting standard was adopted for our financial statements for the quarterly period ending June 30, 2009. The adoption of SFAS 165 did not have a material impact on our financial statements. See Note 1A for additional information.

SFAS 166 – In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166 (SFAS 166), “Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140.” SFAS 166 amends SFAS 140 by including: 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 standard required extensive new disclosures regarding an entity’s involvement in a transfer of financial assets. Finally, existing QSPEs (prior to the effective date of SFAS 166) must be evaluated for consolidation by reporting entities in accordance with the applicable consolidation guidance upon the elimination of this concept. We will adopt this new accounting standard effective January 1, 2010. We are currently reviewing the impact of SFAS 166 on our financial statements and expect to complete this evaluation in 2009.

SFAS 167 – In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167 (SFAS 167), “Amendments to FASB Interpretation No. 46R.” SFAS 167 revises FIN 46R by eliminating the exemption for qualifying special purpose entities, by establishing a new approach for determining who should consolidate a variable-interest entity and by changing when it is necessary to reassess who should consolidate a variable-interest entity. We will adopt this new accounting standard effective January 1, 2010. We are currently reviewing the impact of SFAS 167 on our financial statements and expect to complete this evaluation in 2009.

SFAS 168 – In June 2009, the FASB issued SFAS 168, “The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162.” SFAS 168 establishes the FASB Accounting Standards CodificationTM (Codification) as the source of authoritative U.S. GAAP to be applied by nongovernmental entities. While not intended to change U.S. GAAP, the Codification significantly changes the way in which the accounting literature is organized. We will adopt this new accounting standard for our financial statements for the quarterly period ending September 30, 2009. We do not expect the adoption of SFAS 168 to have a material impact on our financial statements.

3. Stock-Based Compensation

Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (SFAS 123R), 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 in the amount of $41 million and $74 million for the three and six months ended June 30, 2009, respectively; and $70 million and $107 million for the three and six months ended June 30, 2008, respectively.



The following table illustrates the type and fair market value of the stock-based compensation awards granted during the six month periods ended June 30, 2009 and 2008, respectively:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | # Granted | Fair Value Per Award | # Granted | Fair Value Per Award |
| SARs | 6,260,647 | $ 7.10 | 4,476,095 | $ 22.32 |
| RSUs | 2,185,674 | 20.22 | 1,511,523 | 69.17 |
| Stock options | 562,580 | 7.10 | 410,506 | 22.32 |

The stock price on the date of grant was $22.17 and $73.20 for 2009 and 2008, respectively.

The following table provides the assumptions used in determining the fair value of the stock-based awards for the six month periods ended June 30, 2009 and 2008, respectively:

| | Grant Year | |
|---|---|---|
| | 2009 | 2008 |
| Weighted-average dividend yield | 3.07% | 1.89% |
| Weighted-average volatility | 36.02% | 27.14% |
| Range of volatilities | 35.75-61.02% | 27.13-28.99% |
| Range of risk-free interest rates | 0.17-2.99% | 1.60-3.64% |
| Weighted-average expected lives | 8 years | 8 years |

As of June 30, 2009, the total remaining unrecognized compensation cost related to nonvested stock-based compensation awards was $153 million, which will be amortized over the weighted-average remaining requisite service periods of approximately 2.0 years.

Our long-standing practices and policies specify all stock-based compensation awards are approved by the Compensation Committee (the Committee) of the Board of Directors on the date of grant. The stock-based award approval process specifies the number of awards granted, the terms of the award and the grant date. The same terms and conditions are consistently applied to all employee grants, including Officers. The Committee approves all individual Officer grants. The number of stock-based compensation awards included in an individual's award is determined based on the methodology approved by the Committee. In 2007, under the terms of the Caterpillar Inc. 2006 Long-Term Incentive Plan (approved by stockholders in June of 2006), the Committee approved the exercise price methodology to be the closing price of the Company stock on the date of grant.

4. Derivative Instruments and Hedging Activities

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 and commodity forward and option 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 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 (AOCI) in 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.



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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 Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities."

We adopted SFAS 161 as of January 1, 2009. See Note 2 for additional information.

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 currency, 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, New Zealand 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. We also designate as fair value hedges specific euro forward contracts used to hedge firm commitments.

As of June 30, 2009, $87 million of deferred net gains, 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 on-going

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 match-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 June 30, 2009, $47 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.

We have, at certain times, liquidated fixed-to-floating and floating-to-fixed 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 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 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. Gains of $1 million were recorded in current earnings for the three and six months ended June 30, 2009. There were no contracts outstanding for the six months ended June 30, 2008.

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

| (Millions of dollars) | June 30, 2009 | |
|---|---|---|
| | | Asset (Liability) |

| | | Consolidated Statement of Financial Position Location | Fair Value |
|---|---|---|---|
| Designated derivatives | | | |
| Foreign exchange contracts | | | |
| | Machinery and Engines | Receivables – trade and other | $ 150 |
| | Machinery and Engines | Long-term receivables – trade and other | 182 |
| | Machinery and Engines | Accrued expenses | (24) |
| Interest rate contracts | | | |
| | Financial Products | Receivables – trade and other | 14 |
| | Financial Products | Long-term receivables – trade and other | 139 |
| | Financial Products | Accrued expenses | (148) |
| | | | $ 313 |
| Undesignated derivatives | | | |
| Foreign exchange contracts | | | |
| | Machinery and Engines | Receivables – trade and other | $ 21 |
| | Machinery and Engines | Long-term receivables – trade and other | 60 |
| | Machinery and Engines | Accrued expenses | (5) |
| | Financial Products | Receivables – trade and other | 16 |
| | Financial Products | Accrued expenses | (52) |
| Interest rate contracts | | | |
| | Machinery and Engines | Accrued expenses | (5) |
| | Financial Products | Receivables – trade and other | 3 |
| | Financial Products | Long-term receivables – trade and other | 3 |
| | Financial Products | Accrued expenses | (13) |
| Commodity contracts | | | |
| | Machinery and Engines | Receivables – trade and other | 1 |
| | | | $ 29 |



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

Fair Value Hedges
(Millions of dollars)

| | Three Months Ended June 30, 2009 | | Six Months Ended June 30, 2009 | |
|---|---|---|---|---|
| Classification | Gains (Losses) on Derivatives | Gains (Losses) on Borrowings | Gains (Losses) on Derivatives | Gains (Losses) on Borrowings |

| | | | | | |
|---|---|---|---|---|---|
| Interest rate contracts | | | | | |
| Financial Products | Other income (expense) | $ (160) | $ 155 | $ (220) | $ 234 |
| | | $ (160) | $ 155 | $ (220) | $ 234 |

Cash Flow Hedges
(Millions of dollars)

| | Three Months Ended June 30, 2009 | | | | |
|---|---|---|---|---|---|
| | | | | Recognized in Earnings | |
| | Classification | Recognized in AOCI (Effective Portion) | Classification of Gains (Losses) | Reclassified from AOCI (Effective Portion) | Recognized in Earnings (Ineffective Portion) |
| Foreign exchange contracts | | | | | |
| Machinery and Engines | AOCI | $ 138 | Other income (expense) | $ 63 | $ 3 |
| Interest rate contracts | | | | | |
| Machinery and Engines | AOCI | — | Other income (expense) | (1) | — |
| Financial Products | AOCI | (5) | Interest expense of Financial Products | (22) | 4 [1] |
| | | $ 133 | | $ 40 | $ 7 |

| | Six Months Ended June 30, 2009 | | | | |
|---|---|---|---|---|---|
| | | | | Recognized in Earnings | |
| | Classification | Recognized in AOCI (Effective Portion) | Classification of Gains (Losses) | Reclassified from AOCI (Effective Portion) | Recognized in Earnings (Ineffective Portion) |
| Foreign exchange contracts | | | | | |
| Machinery and Engines | AOCI | $ 196 | Other income (expense) | $ 71 | $ (3) |
| Interest rate contracts | | | | | |
| Machinery and Engines | AOCI | (29) | Other income (expense) | (2) | — |
| Financial Products | AOCI | (18) | Interest expense of Financial Products | (42) | 5 [1] |
| | | $ 149 | | $ 27 | $ 2 |

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 Statement of Results of Operations is as follows:

| (Millions of dollars) | | Classification of Gains or (Losses) | Three Months Ended June 30, 2009 | Six Months Ended June 30, 2009 |
|---|---|---|---|---|
| Foreign exchange contracts | | | | |
| | Machinery and Engines | Other income (expense) | $ 4 | $ 25 |
| | Financial Products | Other income (expense) | (81) | (66) |
| Interest rate contracts | | | | |
| | Machinery and Engines | Other income (expense) | — | (2) |
| | Financial Products | Other income (expense) | 4 | 1 |
| Commodity contracts | | | | |
| | Machinery and Engines | Other income (expense) | 1 | 1 |
| | | | $ (72) | $ (41) |

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.



In connection with our stock repurchase program, we entered into capped call transactions ("call") with a major bank for an aggregate 6.0 million shares. Through March 31, 2008, we paid the bank $94 million for the establishment of the calls (of which $38 million was paid in the first quarter 2008 for 2.5 million shares), which was accounted for as a reduction to stockholders' equity. A call permits us to reduce share repurchase price volatility by providing a floor and cap on the price at which the 6.0 million shares can be repurchased. The floor, cap and strike prices for the calls were based upon the average purchase price paid by the bank to purchase our common stock to hedge these transactions. Each call matured and was exercisable within one year after the call was established. If we exercised a call, we could elect to settle the transaction with the bank by physical settlement (paying cash and receiving shares), cash settlement (receiving a net amount of cash) or net share settlement (receiving a net amount of shares).

During the six months ended June 30, 2008, $100 million of cash was used to repurchase 1.8 million shares pursuant to calls exercised under this program. Premiums previously paid associated with these calls were $28 million. All outstanding calls under this program expired in 2008.

5. Inventories

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

| (Millions of dollars) | June 30, 2009 | December 31, 2008 |
|---|---|---|
| Raw materials | $ 2,300 | $ 2,678 |
| Work-in-process | 959 | 1,508 |
| Finished goods | 3,641 | 4,316 |
| Supplies | 260 | 279 |
| Total inventories | $ 7,160 | $ 8,781 |

Inventory quantities have been reduced during the six months ended June 30, 2009. This reduction resulted in a liquidation of LIFO inventory layers carried at lower costs prevailing in prior years as compared with current costs. The effect of this reduction of inventory that is not expected to be replaced by the end of 2009 decreased Cost of goods sold in the Consolidated Results of Operations by approximately $110 million and increased Profit by approximately $85 million or $0.14 per share for the three and six months ended June 30, 2009. Additional LIFO liquidations may occur during the second half of 2009.

6. Investments in Unconsolidated Affiliated Companies

Our investments in affiliated companies accounted for by the equity method have historically consisted primarily of a 50 percent interest in Shin Caterpillar Mitsubishi Ltd. (SCM) located in Japan. On August 1, 2008, SCM redeemed half of Mitsubishi Heavy Industries Ltd.'s (MHI's) shares in SCM. As a result, Caterpillar now owns 67 percent of the renamed entity, Caterpillar Japan Ltd. (Cat Japan) and consolidates its financial statements. In February 2008, we sold our 23 percent equity investment in A.S.V. Inc. (ASV) resulting in a $60 million pretax gain. Accordingly, the June 30, 2009 and December 31, 2008 financial position and equity investment amounts noted below do not include ASV or Cat Japan.

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

Results of Operations of unconsolidated affiliated companies:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (Millions of dollars) | 2009 | 2008 | 2009 | 2008 |
| Sales | $ 144 | $ 1,083 | $ 267 | $ 2,171 |
| Cost of sales | 110 | 901 | 201 | 1,801 |
| Gross profit | $ 34 | $ 182 | $ 66 | $ 370 |
| | | | | |
| Profit (loss) | $ (10) | $ 20 | $ (8) | $ 37 |



Sales from SCM to Caterpillar for the three months ended June 30, 2008 of $553 million and for the six months ended June 30, 2008 of $995 million are included in the affiliated company

sales. In addition, SCM purchases of Caterpillar products were $66 million for the three months ended June 30, 2008 and $139 million for the six months ended June 30, 2008.

| Financial Position of unconsolidated affiliated companies: (Millions of dollars) | | | June 30, 2009 | | December 31, 2008 |
|---|---|---|---|---|---|
| Assets: | | | | | |
| | Current assets | $ | 211 | $ | 209 |
| | Property, plant and equipment – net | | 227 | | 227 |
| | Other assets | | 11 | | 26 |
| | | | 449 | | 462 |
| Liabilities: | | | | | |
| | Current liabilities | | 260 | | 173 |
| | Long-term debt due after one year | | 40 | | 110 |
| | Other liabilities | | 17 | | 35 |
| | | | 317 | | 318 |
| Ownership | | $ | 132 | $ | 144 |

| Caterpillar's investments in unconsolidated affiliated companies: (Millions of dollars) | | | | | |
|---|---|---|---|---|---|
| | Investments in equity method companies | $ | 66 | $ | 66 |
| | Plus: Investments in cost method companies | | 26 | | 28 |
| | Total investments in unconsolidated affiliated companies | $ | 92 | $ | 94 |

7. Intangible Assets and Goodwill

A. Intangible assets

Intangible assets are comprised of the following:

| (Dollars in millions) | Weighted Amortizable Life (Years) | | June 30, 2009 | | December 31, 2008 |
|---|---|---|---|---|---|
| Customer relationships | 18 | $ | 401 | $ | 397 |
| Intellectual property | 10 | | 210 | | 211 |
| Other | 11 | | 114 | | 112 |
| Total finite-lived intangible assets – gross | 15 | | 725 | | 720 |
| Less: Accumulated amortization | | | (240) | | (209) |
| Intangible assets – net | | $ | 485 | $ | 511 |

Amortization expense for the three and six months ended June 30, 2009 was $13 million and $31 million, respectively. Amortization expense for the three and six months ended June 30, 2008 was $12 million and $32 million, respectively. Amortization expense related to intangible assets is expected to be:

(Millions of dollars)

| 2009 | 2010 | 2011 | 2012 | 2013 | Thereafter |
|---|---|---|---|---|---|
| $ 62 | $ 58 | $ 50 | $ 42 | $ 37 | $ 267 |

B. Goodwill

Annually on October 1, we test goodwill for impairment in accordance with Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets." Goodwill is tested for impairment between annual tests whenever events or circumstances make it more likely than not that an impairment may have occurred.

No goodwill was impaired or disposed of during the first half of 2009 or 2008. The carrying amount of the goodwill by reportable segment as of June 30, 2009 and December 31, 2008 was as follows:



| (Millions of dollars) | | June 30, 2009 | | December 31, 2008 |
|---|---|---|---|---|
| Building Construction Products | $ | 26 | $ | 26 |
| Cat Japan 1 | | 232 | | 233 |
| Earthmoving | | 43 | | 43 |
| Excavation | | 39 | | 39 |
| Electric Power | | 203 | | 203 |
| Large Power Systems | | 569 | | 569 |
| Marine & Petroleum Power | | 60 | | 60 |
| Mining 1 | | 28 | | 27 |
| All Other 1,2 | | 1,064 | | 1,061 |
| Total | $ | 2,264 | $ | 2,261 |

1 Change from December 31, 2008 due to foreign currency translation.
2 Includes all other operating segments (See Note 13).

As discussed in Note 13, our reportable segments were changed in the first quarter 2009. As a result of these changes, goodwill of $43 million, $39 million and $28 million was reallocated to the newly formed Earthmoving, Excavation and Mining reportable segments, respectively. The goodwill was reallocated primarily from the former reportable segments of EAME Operations, Heavy Construction & Mining and Infrastructure Development. Additionally, goodwill of $22 million was reallocated to Building Construction Products from the All Other category, while goodwill of $478 million was reallocated to the All Other category from the former Industrial Power Systems reportable segment. The newly formed Cat Japan reportable segment with goodwill of $232 million was previously included in the All Other category.

8. Available-For-Sale Securities

Financial Products, primarily Cat Insurance, has investments in certain debt and equity securities that have been classified as available-for-sale in accordance with Statement of Financial Accounting Standards No. 115 (SFAS 115), “Accounting for Certain Investments in Debt and Equity Securities” and recorded at fair value based upon quoted market prices. These fair values are 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 accounting and disclosure requirements of FSP FAS 115-2 and FAS 124-2. See Note 2 for additional information.

| | June 30, 2009 | | | December 31, 2008 | | |
|---|---|---|---|---|---|---|
| (Millions of dollars) | 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 | $ 1 | $ 15 |
| Other U.S. and non-U.S. government bonds | 57 | — | 57 | 15 | (1) | 14 |
| Corporate bonds | | | | | | |
| Corporate bonds | 430 | (1) | 429 | 343 | (22) | 321 |
| Asset-backed securities | 158 | (17) | 141 | 165 | (27) | 138 |
| Mortgage-backed debt securities | | | | | | |
| U.S. governmental agency mortgage-backed securities | 310 | 10 | 320 | 319 | 5 | 324 |
| Residential mortgage-backed securities | 70 | (16) | 54 | 79 | (19) | 60 |
| Commercial mortgage-backed securities | 182 | (33) | 149 | 176 | (47) | 129 |
| Equity securities | | | | | | |
| Large capitalization value | 90 | 2 | 92 | 126 | (13) | 113 |
| Smaller company growth | 19 | 2 | 21 | 20 | (2) | 18 |
| Total | $ 1,330 | $ (53) | $ 1,277 | $ 1,257 | $ (125) | $ 1,132 |



In first quarter 2009, we recognized pretax charges in accordance with the application of SFAS 115 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 June 30, 2009 and the three and six months ended June 30, 2008, 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:

| | June 30, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months 1 | | 12 months or more 1 | | Total | |
| (Millions of dollars) | 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 | 3 | — | 8 | — | 11 | — |
| Corporate bonds | | | | | | |
| Corporate bonds | 67 | 1 | 79 | 9 | 146 | 10 |
| Asset-backed securities | 9 | 2 | 51 | 16 | 60 | 18 |
| Mortgage-backed debt securities | | | | | | |
| U.S. governmental agency mortgage-backed securities | 2 | — | 5 | — | 7 | — |
| Residential mortgage-backed securities | — | — | 54 | 16 | 54 | 16 |
| Commercial mortgage-backed securities | 24 | 2 | 107 | 32 | 131 | 34 |
| Equity securities | | | | | | |
| Large capitalization value | 33 | 5 | 9 | 3 | 42 | 8 |
| Smaller company growth | 3 | 1 | 1 | — | 4 | 1 |
| Total | $ 145 | $ 11 | $ 314 | $ 76 | $ 459 | $ 87 |

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:

| | December 31, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months 1 | | 12 months or more 1 | | Total | |
| (Millions of dollars) | 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 | — | — | 8 | 1 | 8 | 1 |
| Corporate bonds | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Corporate bonds | 176 | 18 | 33 | 5 | 209 | 23 |
| Asset-backed securities | 101 | 16 | 30 | 11 | 131 | 27 |
| Mortgage-backed debt securities | | | | | | |
| U.S. governmental agency mortgage-backed securities | 7 | — | 19 | 1 | 26 | 1 |
| Residential mortgage-backed securities | 32 | 6 | 27 | 14 | 59 | 20 |
| Commercial mortgage-backed securities | 71 | 15 | 59 | 32 | 130 | 47 |
| Equity securities | | | | | | |
| Large capitalization value | 60 | 13 | 5 | 2 | 65 | 15 |
| Smaller company growth | 7 | 2 | — | — | 7 | 2 |
| Total | $ 454 | $ 70 | $ 181 | $ 66 | $ 635 | $ 136 |

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 U.S. Treasury bonds and 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 the investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily-impaired as of June 30, 2009.



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 June 30, 2009.

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 continues to impact valuations. 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 June 30, 2009.

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 stronger equity returns in the second quarter of 2009, the unrealized losses as of

December 2008 in both the large capitalization value and smaller company growth portfolios can be attributed to weak equity markets and general 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 June 30, 2009.

The fair value of the available-for-sale debt securities at June 30, 2009, 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 | $ 27 |
| Due after one year through five years | $ 392 |
| Due after five years through ten years | $ 224 |
| Due after ten years | $ 521 |

Proceeds from sales of investments in debt and equity securities during the three and six months ended June 30, 2009 were $83 million and $170 million, respectively. Proceeds from sales of investments in debt and equity securities during the three and six months ended June 30, 2008 were $69 million and $173 million, respectively. Gross gains of $1 million and gross losses of $7 million were included in current earnings for the six months ended June 30, 2009. Gross gains of $3 million and $11 million, and gross losses of $3 million and $9 million were included in current earnings for the three and six months ended June 30, 2008, respectively.

9. Postretirement Benefits

A. Pension and postretirement benefit plan costs

As discussed in Note 17, first quarter 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 of January 31, 2009 and March 31, 2009 as follows:

U.S. Voluntary Separation Program – Plan re-measurements as of January 31, 2009 resulted in curtailment losses to the U.S. support and management pension and other postretirement benefit plans of $80 million and $45 million, respectively.

Other U.S. Separation Programs – Certain plans were re-measured as of March 31, 2009, resulting in net curtailment losses of $44 million to pension and $16 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, resulting in settlement losses of $9 million to pension and curtailment losses of $1 million to other postretirement benefit plans.

In March 2009, we amended our U.S. support and management 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 Account (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 of $272 million after-tax. The decrease will be amortized into earnings on a straight-line basis over approximately 7 years, the average remaining service period of active employees impacted by the plan changes. The amendment reduced other postretirement benefits expense by approximately $20 million during the second quarter 2009.

The re-measurements did not have a material impact on our benefit obligations, plan assets or funded status.

| (Millions of dollars) | U.S. Pension Benefits June 30, | | Non-U.S. Pension Benefits June 30, | | Other Postretirement Benefits June 30, | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| For the three months ended: | | | | | | |
| Components of net periodic benefit cost: | | | | | | |
| Service cost | $ 43 | $ 50 | $ 20 | $ 21 | $ 18 | $ 21 |
| Interest cost | 172 | 157 | 34 | 39 | 69 | 77 |
| Expected return on plan assets | (193) | (221) | (43) | (50) | (27) | (35) |
| Amortization of: | | | | | | |
| Net asset existing at adoption of SFAS 87/106 | — | — | — | — | 1 | 1 |
| Prior service cost /(credit) 1 | 7 | 8 | — | 1 | (14) | (9) |
| Net actuarial loss /(gain) | 63 | 34 | 9 | 8 | 5 | 16 |
| Total cost included in operating profit | $ 92 | $ 28 | $ 20 | $ 19 | $ 52 | $ 71 |

| (Millions of dollars) | June 30, | | June 30, | | June 30, | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| For the six months ended: | | | | | | |
| Components of net periodic benefit cost: | | | | | | |
| Service cost | $ 92 | $ 100 | $ 44 | $ 42 | $ 36 | $ 43 |
| Interest cost | 342 | 314 | 70 | 78 | 143 | 154 |
| Expected return on plan assets | (391) | (441) | (86) | (100) | (59) | (69) |
| Amortization of: | | | | | | |
| Net asset existing at adoption of SFAS 87/106 | — | — | — | — | 1 | 1 |
| Prior service cost /(credit) 1 | 14 | 16 | — | 2 | (13) | (18) |
| Net actuarial loss /(gain) | 123 | 67 | 22 | 16 | 10 | 32 |
| Net period benefit cost | 180 | 56 | 50 | 38 | 118 | 143 |
| Curtailments, settlements and special termination benefits 2 | 130 | — | 9 | — | 62 | — |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total cost included in operating profit | $ 310 | $ 56 | $ 59 | $ 38 | $ 180 | $ 143 |
| Weighted-average assumptions used to determine net cost: | | | | | | |
| Discount rate | 6.3% | 5.8% | 4.6% | 5.3% | 6.2% | 5.8% |
| Expected return on plan assets | 8.5% | 9.0% | 6.6% | 7.6% | 8.5% | 9.0% |
| Rate of compensation increase | 4.5% | 4.5% | 3.7% | 4.0% | 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 $953 million of contributions to our U.S. and non-U.S. pension plans during the six months ended June 30, 2009, including a voluntary contribution to our U.S. plans of 18.2 million shares ($650 million) in Caterpillar stock, held as treasury stock. We currently anticipate additional cash contributions of approximately $50 million during the remainder of the year.



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As discussed in Note 2, we adopted the year-end measurement date provisions of SFAS 158 as of January 1, 2008.

B. Defined contribution benefit plan 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. As of June 30, 2009, we have made $9 million of matching contributions in Caterpillar stock.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (Millions of dollars) | 2009 | 2008 | 2009 | 2008 |
| U.S. Plans | $ 55 | $ 36 | $ 94 | $ 83 |
| Non-U.S. Plans | 6 | 9 | 15 | 17 |
| | $ 61 | $ 45 | $ 109 | $ 100 |

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 Caterpillar dealers.

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 for $23 million 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 the guarantees noted above. At June 30, 2009 and December 31, 2008, the related liability was $15 million and $14 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) | June 30, 2009 | December 31, 2008 |
|---|---|---|
| Guarantees with Caterpillar dealers | $ 93 | $ 100 |
| Guarantees with customers | 185 | 136 |
| Limited indemnity | 23 | 25 |
| Guarantees – other | 64 | 43 |
| Total guarantees | $ 365 | $ 304 |

We provide guarantees to repurchase certain loans of Caterpillar dealers from a financial trust (“Trust”) that qualifies as a variable interest entity under FIN 46R, “Consolidation of Variable Interest Entities – An Interpretation of ARB No. 51 (Revised 2003).” 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. At December 31, 2008, we determined that we were the primary beneficiary of the Trust as our guarantee would require us to absorb a majority of the entity’s expected losses, and therefore consolidated the financial position of the Trust in the Consolidated Statement of Financial Position. As of June 30, 2009, the Trust’s assets of $409 million are primarily comprised of loans to dealers and the liabilities of $409 million 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. For the six months ended June 30, 2009, the liability related to pre-existing warranties increased $197 million based on higher than expected actual warranty claim experience.

| (Millions of dollars) | 2009 |
|---|---|
| Warranty liability, January 1 | $ 1,201 |
| Reduction in liability (payments) | (562) |
| Changes in estimates for pre-existing warranties | 197 |
| Increase in liability (new warranties) | 368 |
| Warranty liability, June 30 | $ 1,204 |

| (Millions of dollars) | 2008 |
|---|---|
| Warranty liability, January 1 | $ 1,045 |
| Reduction in liability (payments) | (1,074) |
| Increase in liability (new warranties) | 1,230 |
| Warranty liability, December 31 | $ 1,201 |

11. Computations of Profit Per Share

| | | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| (Dollars in millions except per share data) | | 2009 | 2008 | 2009 | 2008 |
| I. | Profit for the period (A) 1: | $ 371 | $ 1,106 | $ 259 | $ 2,028 |
| II. | Determination of shares (in millions): | | | | |
| | Weighted-average number of common shares outstanding (B) | 611.8 | 614.3 | 607.6 | 616.0 |
| | Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price | 8.0 | 21.2 | 6.4 | 21.0 |
| | Average common shares outstanding for fully diluted computation (C) | 619.8 | 635.5 | 614.0 | 637.0 |
| III. | Profit per share of common stock: | | | | |
| | Assuming no dilution (A/B) | $ 0.61 | $ 1.80 | $ 0.43 | $ 3.29 |
| | Assuming full dilution (A/C) | $ 0.60 | $ 1.74 | $ 0.42 | $ 3.18 |

1 Profit attributable to common stockholders.

For the three and six months ended June 30, 2009, there were outstanding SARs and stock options to purchase 29,040,001 and 41,376,879 common shares, respectively, but were not included in the computation of diluted earnings per share because the effect would have been

antidilutive. SARs and stock options to purchase 4,871,995 common shares were outstanding for both the three and six months ended June 30, 2008, which were antidilutive.

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 the Consolidated Statement of Financial Position.



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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.

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, 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, the U.S. EPA served Caterpillar with a Notice of Intent to file a Civil Administrative Action, indicating EPA's intent to seek civil penalties for violations of the Clean Water Act and Oil Pollution Act. The Notice of Intent seeks up to $16,000 per day

of violation. Neither the Complaint nor the Notice of Intent quantifies the total number of violations or total number of days during which violations are alleged to have occurred. At this time, we do not believe these proceedings will have a material impact on our consolidated results of operations, financial position or liquidity.

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.

The provision for income taxes in the first six months of 2009 reflects a discrete period effective tax rate of negative 20.5 percent compared to an estimated annual tax rate of 31.3 percent for the first six months of 2008, excluding discrete benefits of $47 million in the first six months of 2008. A discrete calculation was used to report the tax provision for the first six months of 2009 rather than an estimated annual tax rate as the estimated range of annual profit before tax produces significant variability and makes it difficult to reasonably estimate the annual effective tax rate. The negative tax rate for the first six months of 2009 results from a $40 million tax benefit on profit before tax of $189 million and was driven primarily by a favorable geographic mix of profits and losses from a tax perspective and the net favorable impact of U.S. permanent differences and credits including the research and development tax credit.

If global recessionary conditions continue, it is reasonably possible that increases in valuation allowances against deferred tax assets of certain non-U.S. entities may be required in the next twelve months.

We anticipate the U.S. appeals process for tax years 1995 to 1999, primarily related to foreign sales corporation commissions, foreign tax credit calculations and research and development credits, will be completed in 2009. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

13. 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.

In the first quarter of 2009, our organizational responsibilities were changed significantly to align the machine product, manufacturing and marketing organizations. The new divisional structure and revised set of 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. These activities were previously included within product and component divisions, manufacturing divisions and machinery marketing divisions. Inter-segment sales of components may also be a source of revenue for 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 may also be a source of revenue for these divisions.
- § Component business divisions are profit centers primarily responsible for product management, development, manufacturing, marketing and product support for internal and external customers. Some of these activities were previously included within product and manufacturing divisions. 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. Previously manufacturing divisions were profit centers with inter-segment sales of components, machines and/or engines to product divisions as the primary sources of revenue.
- § 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. Previously these functions were primarily performed by machinery marketing divisions.
- § 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. Previously these organizations were considered service divisions.

The segment information for 2008 has been retrospectively adjusted to conform to the 2009 presentation.

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 ($374 million and $745 million for the three and six months ended June 30, 2009, respectively, and $418 million and $687 million for the three and six months ended June 30, 2008, respectively) 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-two operating segments, of which eleven 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 based on SFAS 131, “Disclosures about Segments of an Enterprise and Related Information” has 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 43.

B. Description of segments

Profit center divisions meet the SFAS 131 definition of “operating segments”; however, the cost center divisions do not. Following is a brief description of our eleven reportable segments and the business activities included in all other operating segments:

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

Earthmoving: A machine business division primarily responsible for 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 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 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.

Large Power Systems: An engine business division primarily responsible for product management, development, manufacture and product support of reciprocating engines supplied to Caterpillar machinery and the electric power, on-highway vehicle, petroleum, marine and industrial industries. Also responsible for engine component manufacturing and the marketing and sales of on-highway vehicle engines.

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 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 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.

Turbines: An engine business division primarily responsible for 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 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. Results for All Other operating segments are included as reconciling items between reportable segments and consolidated, external reporting.

C. Segment measurement and reconciliations

Effective the first quarter of 2009, we made the following changes to our segment reporting methodology:

§ Machine business divisions include actual manufacturing costs and assets from manufacturing service divisions. Previously these costs were valued on a manufacturing fee or transfer price basis and manufacturing assets were included in manufacturing divisions.

§ Business divisions receive actual costs and assets from corporate services divisions, regional distribution services divisions and centers of excellence. Previously these costs were either charged to or excluded from profit center accountable profit while assets were included in service divisions. Costs for regional distribution services divisions and Marketing and Product Support Center of Excellence are allocated to business divisions based on budgeted external and inter-segment sales.

§ The majority of other income and expense items are excluded from segment results. Previously they had been included.

§ Certain corporate and other costs are allocated and included in the business division's accountable profit at budgeted levels. Any differences from budget are treated as reconciling items. Previously all these costs were excluded from accountable profit. The allocation is based on budgeted external and inter-segment sales and costs are not assigned to individual financial statement line items.



§ Interest expense is not included in Machinery and Engines segment results. Previously interest expense was imputed (i.e, charged) to profit centers based on their level of accountable assets.

§ Certain corporate assets are allocated and included in the business division's assets. Previously they were reconciling items between segment and consolidated reporting.

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 benefits are split; service and prior service costs are included in segment results based on plan participation. The remaining elements of net periodic benefit costs (at budget levels) are allocated to business divisions based on budgeted external and inter-segment sales (as part of the corporate cost allocation). Any differences from budget for the remaining elements are treated as reconciling items.

§ 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 29 to 35 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. Previously all these costs were excluded from accountable profit. These costs are related to corporate requirements and strategies that are considered to be for the benefit of the entire organization.

§ 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 32 has been included to illustrate how segment accountable profit would have been impacted by the redundancy costs. See Notes 9 and 17 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 June 30,
(Millions of dollars)

| 2009 | External sales and revenues | Inter-segment sales and revenues | Total sales and revenues | Depreciation and amortization | Accountable profit (loss) | Accountable assets at June 30 | Capital expenditures |
|---|---|---|---|---|---|---|---|
| Building Construction Products | $ 260 | $ 7 | $ 267 | $ 9 | $ (57) | $ 815 | $ 5 |
| Cat Japan | 308 | 105 | 413 | 29 | (75) | 2,810 | 13 |
| Earthmoving | 665 | 20 | 685 | 23 | (92) | 2,012 | 26 |
| Electric Power | 584 | 5 | 589 | 6 | 37 | 823 | 4 |
| Excavation | 489 | 11 | 500 | 15 | (108) | 1,241 | 9 |
| Large Power Systems | 523 | 829 | 1,352 | 47 | 23 | 2,760 | 21 |
| Logistics | 170 | 303 | 473 | 27 | 107 | 849 | 6 |
| Marine & Petroleum Power | 728 | 13 | 741 | 4 | 69 | 784 | 17 |
| Mining | 797 | 31 | 828 | 20 | 129 | 1,200 | 11 |
| Turbines | 829 | 4 | 833 | 15 | 212 | 796 | 10 |
| Total Machinery & Engines | $ 5,353 | $ 1,328 | $ 6,681 | $ 195 | $ 245 | $ 14,090 | $ 122 |
| Financing & Insurance Services | 772 | (1) | 771 | 182 | 144 | 29,321 | 218 |
| Total | $ 6,125 | $ 1,327 | $ 7,452 | $ 377 | $ 389 | $ 43,411 | $ 340 |

| 2008 | External sales and revenues | Inter-segment sales and revenues | Total sales and revenues | Depreciation and amortization | Accountable profit (loss) | Accountable assets at Dec. 31 | Capital expenditures |
|---|---|---|---|---|---|---|---|
| Building Construction Products | $ 937 | $ 14 | $ 951 | $ 8 | $ (11) | $ 878 | $ 13 |
| Cat Japan | — | — | — | — | — | 3,165 | — |
| Earthmoving | 2,069 | 39 | 2,108 | 21 | 163 | 2,477 | 50 |
| Electric Power | 891 | 6 | 897 | 5 | 69 | 1,068 | 8 |
| Excavation | 1,660 | 34 | 1,694 | 12 | 58 | 1,646 | 27 |
| Large Power Systems | 905 | 1,342 | 2,247 | 46 | 171 | 3,055 | 76 |
| Logistics | 227 | 411 | 638 | 26 | 112 | 971 | 24 |
| Marine & Petroleum Power | 977 | 22 | 999 | 4 | 109 | 758 | 12 |
| Mining | 1,079 | 55 | 1,134 | 15 | 163 | 1,339 | 13 |
| Turbines | 971 | 1 | 972 | 13 | 212 | 943 | 23 |
| Total Machinery & Engines | $ 9,716 | $ 1,924 | $ 11,640 | $ 150 | $ 1,046 | $ 16,300 | $ 246 |
| Financing & Insurance Services | 829 | — | 829 | 190 | 190 | 32,900 | 411 |
| Total | $ 10,545 | $ 1,924 | $ 12,469 | $ 340 | $ 1,236 | $ 49,200 | $ 657 |

Reportable Segments
Six Months Ended June 30,

(Millions of dollars)

| 2009 | External sales and revenues | Inter-segment sales and revenues | Total sales and revenues | Depreciation and amortization | Accountable profit (loss) | Accountable assets at June 30 | Capital expenditures |
|---|---|---|---|---|---|---|---|
| Building Construction Products | $ 573 | $ 11 | $ 584 | $ 17 | $ (133) | $ 815 | $ 8 |
| Cat Japan | 638 | 482 | 1,120 | 74 | (165) | 2,810 | 58 |
| Earthmoving | 1,748 | 41 | 1,789 | 45 | (164) | 2,012 | 46 |
| Electric Power | 1,319 | 10 | 1,329 | 13 | 127 | 823 | 7 |
| Excavation | 1,192 | 37 | 1,229 | 30 | (216) | 1,241 | 18 |
| Large Power Systems | 1,076 | 1,923 | 2,999 | 94 | 103 | 2,760 | 36 |
| Logistics | 347 | 628 | 975 | 54 | 196 | 849 | 19 |
| Marine & Petroleum Power | 1,603 | 29 | 1,632 | 8 | 168 | 784 | 25 |
| Mining | 1,672 | 68 | 1,740 | 40 | 222 | 1,200 | 20 |
| Turbines | 1,640 | 7 | 1,647 | 30 | 390 | 796 | 19 |
| Total Machinery & Engines | $ 11,808 | $ 3,236 | $ 15,044 | $ 405 | $ 528 | $ 14,090 | $ 256 |
| Financing & Insurance Services | 1,595 | — | 1,595 | 362 | 233 | 29,321 | 443 |
| Total | $ 13,403 | $ 3,236 | $ 16,639 | $ 767 | $ 761 | $ 43,411 | $ 699 |



| 2008 | External sales and revenues | Inter-segment sales and revenues | Total sales and revenues | Depreciation and amortization | Accountable profit (loss) | Accountable assets at Dec. 31 | Capital expenditures |
|---|---|---|---|---|---|---|---|
| Building Construction Products | $ 1,795 | $ 31 | $ 1,826 | $ 17 | $ — | $ 878 | $ 21 |
| Cat Japan | — | — | — | — | — | 3,165 | — |
| Earthmoving | 3,831 | 76 | 3,907 | 40 | 313 | 2,477 | 90 |
| Electric Power | 1,606 | 10 | 1,616 | 11 | 114 | 1,068 | 15 |
| Excavation | 3,152 | 56 | 3,208 | 25 | 106 | 1,646 | 42 |
| Large Power Systems | 1,730 | 2,485 | 4,215 | 89 | 371 | 3,055 | 164 |
| Logistics | 447 | 770 | 1,217 | 59 | 220 | 971 | 32 |
| Marine & Petroleum Power | 1,795 | 33 | 1,828 | 7 | 176 | 758 | 25 |
| Mining | 1,975 | 100 | 2,075 | 22 | 299 | 1,339 | 24 |
| Turbines | 1,573 | 4 | 1,577 | 26 | 300 | 943 | 32 |
| Total Machinery & Engines | $ 17,904 | $ 3,565 | $ 21,469 | $ 296 | $ 1,899 | $ 16,300 | $ 445 |
| Financing & Insurance Services | 1,808 | — | 1,808 | 379 | 402 | 32,900 | 720 |
| Total | $ 19,712 | $ 3,565 | $ 23,277 | $ 675 | $ 2,301 | $ 49,200 | $ 1,165 |

Reconciliation of Sales and revenues:
(Millions of dollars)

| | Machinery and Engines | Financing & Insurance Services | Consolidating Adjustments | Consolidated Total |
|---|---|---|---|---|
| Three Months Ended June 30, 2009: | | | | |
| Total external sales and revenues from reportable segments | $ 5,353 | $ 772 | $ — | $ 6,125 |
| All other operating segments | 1,921 | — | — | 1,921 |
| Other | (20) | 42 | (93) [1] | (71) |
| Total sales and revenues | $ 7,254 | $ 814 | $ (93) | $ 7,975 |
| Three Months Ended June 30, 2008: | | | | |
| Total external sales and revenues from reportable segments | $ 9,716 | $ 829 | $ — | $ 10,545 |
| All other operating segments | 3,174 | — | — | 3,174 |
| Other | (93) | 81 | (83) [1] | (95) |
| Total sales and revenues | $ 12,797 | $ 910 | $ (83) | $ 13,624 |

1 Elimination of Financial Products revenues from Machinery and Engines.

Reconciliation of Sales and revenues:
(Millions of dollars)

| | Machinery and Engines | Financing & Insurance Services | Consolidating Adjustments | Consolidated Total |
|---|---|---|---|---|
| Six Months Ended June 30, 2009: | | | | |
| Total external sales and revenues from reportable segments | $ 11,808 | $ 1,595 | $ — | $ 13,403 |
| All other operating segments | 3,947 | — | — | 3,947 |
| Other | 9 | 15 | (174) [1] | (150) |
| Total sales and revenues | $ 15,764 | $ 1,610 | $ (174) | $ 17,200 |
| Six Months Ended June 30, 2008: | | | | |
| Total external sales and revenues from reportable segments | $ 17,904 | $ 1,808 | $ — | $ 19,712 |
| All other operating segments | 5,908 | — | — | 5,908 |
| Other | (36) | 14 | (178) [1] | (200) |
| Total sales and revenues | $ 23,776 | $ 1,822 | $ (178) | $ 25,420 |

1 Elimination of Financial Products revenues from Machinery and Engines.



---

Reconciliation of Consolidated profit before taxes:
(Millions of dollars)

| | Machinery and | Financing & Insurance | Consolidated Total |
|---|---|---|---|

| | Engines | Services | |
|---|---|---|---|
| Three Months Ended June 30, 2009: | | | |
| Total accountable profit from reportable segments | $ 245 | $ 144 | $ 389 |
| All other operating segments | 9 | — | 9 |
| Cost centers | (17) | — | (17) |
| Corporate costs | 35 | — | 35 |
| Timing | 9 | — | 9 |
| Redundancy costs | (70) | — | (70) |
| Methodology differences: | | | |
| Inventory/cost of sales | 1 | — | 1 |
| Postretirement benefit expense | 9 | — | 9 |
| Financing costs | (146) | — | (146) |
| Equity in profit of unconsolidated affiliated companies | 1 | — | 1 |
| Currency | 154 | — | 154 |
| Other methodology differences | 31 | (4) | 27 |
| Total profit before taxes | $ 261 | $ 140 | $ 401 |
| | | | |
| Three Months Ended June 30, 2008: | | | |
| Total accountable profit from reportable segments | $ 1,046 | $ 190 | $ 1,236 |
| All other operating segments | 429 | — | 429 |
| Cost centers | 71 | — | 71 |
| Corporate costs | (102) | — | (102) |
| Timing | 3 | — | 3 |
| Methodology differences: | | | |
| Inventory/cost of sales | (23) | — | (23) |
| Postretirement benefit expense | 55 | — | 55 |
| Financing costs | (70) | — | (70) |
| Equity in profit of unconsolidated affiliated companies | (10) | — | (10) |
| Currency | (24) | — | (24) |
| Other methodology differences | (28) | 1 | (27) |
| Total profit before taxes | $ 1,347 | $ 191 | $ 1,538 |

Reconciliation of Consolidated profit before taxes:

| (Millions of dollars) | Machinery and Engines | Financing & Insurance Services | Consolidated Total |
|---|---|---|---|
| Six Months Ended June 30, 2009: | | | |
| Total accountable profit from reportable segments | $ 528 | $ 233 | $ 761 |
| All other operating segments | 44 | — | 44 |
| Cost centers | 12 | — | 12 |
| Corporate costs | 137 | — | 137 |
| Timing | (2) | — | (2) |
| Redundancy costs | (617) | (11) | (628) |
| Methodology differences: | | | |
| Inventory/cost of sales | (45) | — | (45) |
| Postretirement benefit expense | 25 | — | 25 |
| Financing costs | (288) | — | (288) |

| | | | |
|---|---|---|---|
| Equity in profit of unconsolidated affiliated companies | — | — | — |
| Currency | 140 | — | 140 |
| Other methodology differences | 36 | (3) | 33 |
| Total profit before taxes | $ (30) | $ 219 | $ 189 |



| | Machinery and Engines | Financing & Insurance Services | Consolidated Total |
|---|---|---|---|
| Six Months Ended June 30, 2008: | | | |
| Total accountable profit from reportable segments | $ 1,899 | $ 402 | $ 2,301 |
| All other operating segments | 840 | — | 840 |
| Cost centers | 26 | — | 26 |
| Corporate costs | (91) | — | (91) |
| Timing | 1 | — | 1 |
| Methodology differences: | | | |
| Inventory/cost of sales | 6 | — | 6 |
| Postretirement benefit expense | 32 | — | 32 |
| Financing costs | (143) | — | (143) |
| Equity in profit of unconsolidated affiliated companies | (21) | — | (21) |
| Currency | (44) | — | (44) |
| Other methodology differences | (31) | 3 | (28) |
| Total profit before taxes | $ 2,474 | $ 405 | $ 2,879 |

Reconciliation of Redundancy costs:

As noted above, redundancy costs are a reconciling item between Accountable profit (loss) and Consolidated profit (loss) before tax. For the three and six months ended June 30, 2009, $15 million of redundancy costs were charged to operating segments. Had we included the remaining redundancy 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 June 30, 2009: | | | |
| Building Construction Products | $ (57) | $ (1) | $ (58) |
| Cat Japan | (75) | — | (75) |
| Earthmoving | (92) | (34) | (126) |
| Electric Power | 37 | (1) | 36 |
| Excavation | (108) | (15) | (123) |
| Large Power Systems | 23 | — | 23 |
| Logistics | 107 | (1) | 106 |

| | | | |
|---|---|---|---|
| Marine & Petroleum Power | 69 | — | 69 |
| Mining | 129 | (3) | 126 |
| Turbines | 212 | — | 212 |
| Financing & Insurance Services | 144 | — | 144 |
| All other operating segments | 9 | (15) | (6) |
| Consolidated Total | $ 398 | $ (70) | $ 328 |
| | | | |
| Six Months Ended June 30, 2009: | | | |
| Building Construction Products | $ (133) | $ (40) | $ (173) |
| Cat Japan | (165) | (3) | (168) |
| Earthmoving | (164) | (89) | (253) |
| Electric Power | 127 | (22) | 105 |
| Excavation | (216) | (60) | (276) |
| Large Power Systems | 103 | (89) | 14 |
| Logistics | 196 | (29) | 167 |
| Marine & Petroleum Power | 168 | (10) | 158 |
| Mining | 222 | (53) | 169 |
| Turbines | 390 | — | 390 |
| Financing & Insurance Services | 233 | (11) | 222 |
| All other operating segments | 44 | (222) | (178) |
| Consolidated Total | $ 805 | $ (628) | $ 177 |



Reconciliation of Assets:

| (Millions of dollars) | Machinery and Engines | Financing & Insurance Services | Consolidating Adjustments | Consolidated Total |
|---|---|---|---|---|
| June 30, 2009: | | | | |
| Total accountable assets from reportable segments | $ 14,090 | $ 29,321 | $ — | $ 43,411 |
| All other operating segments | 8,538 | — | — | 8,538 |
| Items not included in segment assets: | | | | |
| Cash and short-term investments | 1,675 | 2,316 | — | 3,991 |
| Intercompany receivables | 99 | 1,051 | (1,150) | — |
| Investment in Financial Products | 4,175 | — | (4,175) | — |
| Deferred income taxes and prepaids | 4,631 | 160 | (451) | 4,340 |
| Intangible assets and other assets | 1,186 | 235 | — | 1,421 |
| Liabilities included in segment assets | 2,608 | — | — | 2,608 |
| Inventory methodology differences | (2,887) | — | — | (2,887) |
| Other | 776 | (106) | — | 670 |
| Total assets | $ 34,891 | $ 32,977 | $ (5,776) | $ 62,092 |
| | | | | |
| December 31, 2008: | | | | |
| Total accountable assets from reportable segments | $ 16,300 | $ 32,900 | $ — | $ 49,200 |
| All other operating segments | 9,245 | — | — | 9,245 |
| Items not included in segment assets: | | | | |

| | | | | |
|---|---|---|---|---|
| Cash and short-term investments | 1,517 | 1,219 | — | 2,736 |
| Intercompany receivables | 540 | 76 | (616) | — |
| Investment in Financial Products | 3,788 | — | (3,788) | — |
| Deferred income taxes and prepaids | 4,759 | 244 | (474) | 4,529 |
| Intangible assets and other assets | 1,224 | 29 | — | 1,253 |
| Liabilities included in segment assets | 2,967 | — | — | 2,967 |
| Inventory methodology differences | (2,747) | — | — | (2,747) |
| Other | 686 | (87) | — | 599 |
| Total assets | $ 38,279 | $ 34,381 | $ (4,878) | $ 67,782 |

Reconciliation of Depreciation and amortization:

| (Millions of dollars) | Machinery and Engines | Financing & Insurance Services | Consolidating Adjustments | Consolidated Total |
|---|---|---|---|---|
| Three Months Ended June 30, 2009: | | | | |
| Total accountable depreciation and amortization from reportable segments | $ 195 | $ 182 | $ — | $ 377 |
| Items not included in segment depreciation and amortization: | | | | |
| All other operating segments | 119 | — | — | 119 |
| Cost centers | 46 | — | — | 46 |
| Other | (4) | — | — | (4) |
| Total depreciation and amortization | $ 356 | $ 182 | $ — | $ 538 |
| Three Months Ended June 30, 2008: | | | | |
| Total accountable depreciation and amortization from reportable segments | $ 150 | $ 190 | $ — | $ 340 |
| Items not included in segment depreciation and amortization: | | | | |
| All other operating segments | 101 | — | — | 101 |
| Cost centers | 42 | — | — | 42 |
| Other | (3) | — | — | (3) |
| Total depreciation and amortization | $ 290 | $ 190 | $ — | $ 480 |



Reconciliation of Depreciation and amortization:

| (Millions of dollars) | Machinery and Engines | Financing & Insurance Services | Consolidating Adjustments | Consolidated Total |
|---|---|---|---|---|
| Six Months Ended June 30, 2009: | | | | |
| Total accountable depreciation and amortization from reportable segments | $ 405 | $ 362 | $ — | $ 767 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Items not included in segment depreciation and amortization: | | | | | | | | |
| All other operating segments | | 229 | | — | | — | | 229 |
| Cost centers | | 86 | | — | | — | | 86 |
| Other | | (10) | | — | | — | | (10) |
| Total depreciation and amortization | $ | 710 | $ | 362 | $ | — | $ | 1,072 |
| | | | | | | | | |
| Six Months Ended June 30, 2008: | | | | | | | | |
| Total accountable depreciation and amortization from reportable segments | $ | 296 | $ | 379 | $ | — | $ | 675 |
| Items not included in segment depreciation and amortization: | | | | | | | | |
| All other operating segments | | 201 | | — | | — | | 201 |
| Cost centers | | 84 | | — | | — | | 84 |
| Other | | (8) | | — | | — | | (8) |
| Total depreciation and amortization | $ | 573 | $ | 379 | $ | — | $ | 952 |

Reconciliation of Capital expenditures:

| (Millions of dollars) | | Machinery and Engines | | Financing & Insurance Services | | Consolidating Adjustments | | Consolidated Total |
|---|---|---|---|---|---|---|---|---|
| Three Months Ended June 30, 2009: | | | | | | | | |
| Total accountable capital expenditures from reportable segments | $ | 122 | $ | 218 | $ | — | $ | 340 |
| Items not included in segment capital expenditures: | | | | | | | | |
| All other operating segments | | 76 | | — | | — | | 76 |
| Cost centers | | 20 | | — | | — | | 20 |
| Other | | — | | 3 | | — | | 3 |
| Total capital expenditures | $ | 218 | $ | 221 | $ | — | $ | 439 |
| | | | | | | | | |
| Three Months Ended June 30, 2008: | | | | | | | | |
| Total accountable capital expenditures from reportable segments | $ | 246 | $ | 411 | $ | — | $ | 657 |
| Items not included in segment capital expenditures: | | | | | | | | |
| All other operating segments | | 167 | | — | | — | | 167 |
| Cost centers | | 52 | | — | | — | | 52 |
| Other | | (1) | | 3 | | (10) | | (8) |
| Total capital expenditures | $ | 464 | $ | 414 | $ | (10) | $ | 868 |



Reconciliation of Capital expenditures:

| (Millions of dollars) | Machinery and Engines | Financing & Insurance Services | Consolidating Adjustments | Consolidated Total |
|---|---|---|---|---|

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Six Months Ended June 30, 2009: | | | | | | | | |
| Total accountable capital expenditures from reportable segments | $ | 256 | $ | 443 | $ | — | $ | 699 |
| Items not included in segment capital expenditures: | | | | | | | | |
| All other operating segments | | 133 | | — | | — | | 133 |
| Cost centers | | 55 | | — | | — | | 55 |
| Other | | (2) | | — | | (1) | | (3) |
| Total capital expenditures | $ | 442 | $ | 443 | $ | (1) | $ | 884 |
| | | | | | | | | |
| Six Months Ended June 30, 2008: | | | | | | | | |
| Total accountable capital expenditures from reportable segments | $ | 445 | $ | 720 | $ | — | $ | 1,165 |
| Items not included in segment capital expenditures: | | | | | | | | |
| All other operating segments | | 275 | | — | | — | | 275 |
| Cost centers | | 86 | | — | | — | | 86 |
| Other | | (2) | | — | | (11) | | (13) |
| Total capital expenditures | $ | 804 | $ | 720 | $ | (11) | $ | 1,513 |

14. Fair Value Disclosures

A. Fair value measurements

We adopted SFAS 157, "Fair Value Measurements" as of January 1, 2008. See Note 2 for additional information. SFAS 157 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. SFAS 157 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 SFAS 157, 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.

SFAS 157 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.

We adopted FSP FAS 157-4 as of April 1, 2009. See Note 2 for additional information.



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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 June 30, 2009 and December 31, 2008 are summarized below:

| (Millions of dollars) | June 30, 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 | — | 57 | — | 57 |
| Corporate bonds | | | | |
| Corporate bonds | — | 429 | — | 429 |
| Asset-backed securities | — | 141 | — | 141 |
| Mortgage-backed debt securities | | | | |
| U.S. governmental agency mortgage-backed securities | — | 320 | — | 320 |
| Residential mortgage-backed securities | — | 54 | — | 54 |
| Commercial mortgage-backed securities | — | 149 | — | 149 |
| Equity securities | | | | |
| Large capitalization value | 92 | — | — | 92 |
| Smaller company growth | 21 | — | — | 21 |
| Total available-for-sale securities | 127 | 1,150 | — | 1,277 |
| Derivative financial instruments, net | — | 342 | — | 342 |
| Securitized retained interests | — | — | 104 | 104 |
| Total Assets | $ 127 | $ 1,492 | $ 104 | $ 1,723 |
| Liabilities | | | | |
| Guarantees | $ — | $ — | $ 15 | $ 15 |
| Total Liabilities | $ — | $ — | $ 15 | $ 15 |



| (Millions of dollars) | December 31, 2008 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Assets / Liabilities, at Fair Value |
| Assets | | | | |
| Available-for-sale securities | $ 140 | $ 992 | $ — | $ 1,132 |
| Derivative financial instruments, net | — | 625 | — | 625 |
| Securitized retained interests | — | — | 52 | 52 |
| Total Assets | $ 140 | $ 1,617 | $ 52 | $ 1,809 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Liabilities | | | | | | | | |
| Guarantees | $ | — | $ | — | $ | 14 | $ | 14 |
| Total Liabilities | $ | — | $ | — | $ | 14 | $ | 14 |

Below are roll-forwards of assets and liabilities measured at fair value using Level 3 inputs for the six months ended June 30, 2009 and 2008. These instruments, primarily related to Cat Financial, were valued using pricing models that, in management's judgment, reflect the assumptions a marketplace participant would use.

| (Millions of dollars) | Securitized Retained Interests | Guarantees |
|---|---|---|
| Balance at December 31, 2008 | $ 52 | $ 14 |
| Gains or losses included in earnings (realized and unrealized) | (28) | — |
| Changes in Accumulated other comprehensive income (loss) | (6) | — |
| Purchases, issuances and settlements | 86 | 1 |
| Balance at June 30, 2009 | $ 104 | $ 15 |

| (Millions of dollars) | Securitized Retained Interests | Guarantees |
|---|---|---|
| Balance at December 31, 2007 | $ 49 | $ 12 |
| Gains or losses included in earnings (realized and unrealized) | (2) | — |
| Changes in Accumulated other comprehensive income (loss) | (4) | — |
| Purchases, issuances and settlements | 41 | 2 |
| Balance at June 30, 2008 | $ 84 | $ 14 |

The amount of unrealized losses on securitized retained interests included in earnings for the six months ended June 30, 2009 related to assets still held at June 30, 2009 was $28 million. The amount of unrealized losses on securitized retained interests included in earnings for the six months ended June 30, 2008 related to assets still held at June 30, 2008 was $1 million. These losses were reported in Revenues of Financial Products in the Consolidated Statement of Results of Operations.

In addition to the amounts above, we had impaired loans of $137 million and $108 million as of June 30, 2009 and December 31, 2008, respectively. A loan is considered impaired when management determines that collection of contractual amounts due is not probable. In these cases, an allowance for loan losses is established based primarily on the fair value of associated collateral. As the collateral's fair value is based on observable market prices and/or current appraised values, the impaired loans are classified as Level 2 measurements.

B. Fair values of financial instruments

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

following methods and assumptions to estimate the fair value of our financial instruments as required by SFAS 107, "Disclosures about Fair Values of Financial Instruments."

Effective April 1, 2009, we adopted the disclosure requirements of FSP FAS 107-1 and APB 28-1. See Note 2 for additional information.



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

Available-for-sale securities
Fair value for available-for-sale securities was estimated based on quoted market prices.

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

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

Short-term borrowings
Carrying amount approximated fair value.

Long-term debt
Fair value for Machinery and Engines and Financial Products fixed rate debt was estimated based on quoted market prices. For Financial Products, floating rate notes and commercial paper carrying amounts were considered a reasonable estimate of fair value. For deposit obligations, carrying value approximated fair value.

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

Fair Values of Financial Instruments

| | June 30, 2009 | | December 31, 2008 | | |
|---|---|---|---|---|---|
| (Millions of dollars) | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Reference |
| Asset (liability) | | | | | |
| Cash and short-term investments | $ 3,991 | $ 3,991 | $ 2,736 | $ 2,736 | |
| Available-for-sale securities | 1,277 | 1,277 | 1,132 | 1,132 | Note 8 |
| Finance receivables—net (excluding finance leases1) | 13,632 | 13,043 | 14,367 | 13,483 | |
| Wholesale inventory receivables—net (excluding finance leases1) | 917 | 874 | 1,232 | 1,154 | |

| | | | | | |
|---|---|---|---|---|---|
| Short-term borrowings | (5,172) | (5,172) | (7,209) | (7,209) | |
| Long-term debt (including amounts due within one year) | | | | | |
| Machinery and Engines | (6,149) | (6,499) | (6,192) | (6,290) | |
| Financial Products | (21,975) | (21,978) | (22,134) | (21,259) | |
| Foreign currency contracts | 348 | 348 | 254 | 254 | Note 4 |
| Interest rate swaps | (7) | (7) | 371 | 371 | Note 4 |
| Commodity contracts | 1 | 1 | — | — | Note 4 |
| Securitized retained interests | 104 | 104 | 52 | 52 | Note 16 |
| Guarantees | (15) | (15) | (14) | (14) | Note 10 |

1 Total excluded items have a net carrying value at June 30, 2009 and December 31, 2008 of $8,285 million and $8,951 million, respectively.

15. 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 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 after five years, 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 second quarter of 2009, 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 $37 million due to this adjustment. As of June 30, 2009, the fair value of the redeemable noncontrolling interest remained greater than the 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. If worldwide economic conditions deteriorate further and Cat Japan's business forecast is negatively impacted, it is reasonably possible that the fair value of the redeemable noncontrolling interest may fall below the estimated redemption value in the near term. 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 six months ended June 30, 2009, the carrying value had decreased by $30 million due to Cat Japan's comprehensive loss. This resulted in an offsetting $30 million adjustment 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 June 30, 2009, the redeemable noncontrolling interest was $481 million.

16. Securitizations

Cat Financial sells 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 Cat Financial's balance sheet capacity.

Securitized Retail Installment Sale Contracts and Finance Leases

Cat Financial periodically sells 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, typically trusts, are considered to be qualifying special-purpose entities (QSPEs) and thus, in accordance with SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," (SFAS 140) are not consolidated. The QSPEs 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 QSPEs. The assets of the QSPEs are legally isolated and are not available to pay the creditors of Cat Financial or any other of their affiliates. For bankruptcy analysis purposes, Cat Financial has sold the finance receivables to the QSPEs in a true sale and the QSPEs are separate legal entities. The investors and the securitization trusts have no recourse to any of Cat Financial's other assets for failure of debtors to pay when due.

Cat Financial retains interests in the retail finance receivables that are sold through their asset-backed securitization program. Retained interests include subordinated certificates, an interest in future cash flows (excess) and reserve accounts. Retained interests in securitized assets are classified as available-for-sale securities and are included in Other assets in the Consolidated Statement of Financial Position at fair value in accordance with SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities." Cat Financial estimates fair value and cash flows using a valuation model and key assumptions for credit losses, prepayment rates and discount rates. These assumptions are based on historical experience, market trends and anticipated performance relative to the particular assets securitized. Cat Financial periodically evaluates for impairment in accordance with FSP FAS 115-2 and FAS 124-2 (See Note 2 for additional information) and recognizes the credit component of an other-than-temporary impairment in Profit and the noncredit component in Accumulated other comprehensive income (loss) for those retained interests in which Cat Financial does not intend to sell and it is not likely that they will be required to sell prior to recovery.



During the second quarter of 2008, Cat Financial sold certain finance receivables relating to retail installment sale contracts and finance leases to a SPE as part of Cat Financial’s asset-backed securitization program. Net cash proceeds received were $600 million and a net gain of $12 million was recorded in Revenues of Financial Products on the Consolidated Statement of Results of Operations at the time of sale and was based on the estimated fair value of the assets sold and retained and liabilities incurred, net of transaction costs. Retained interests included subordinated certificates with an initial fair value of $27 million, an interest in future cash flows (excess) with an initial fair value of $8 million and a reserve account with an initial fair value of $9 million. Significant assumptions used to estimate the fair value of the retained interests included a 7.2 percent discount rate, a weighted-average prepayment rate of 14.5 percent and expected credit losses of 1.55 percent.

To maintain competitiveness in the capital markets and to have effective and efficient use of alternative funding sources, Cat Financial may from time to time provide additional reserve support to previously issued asset-backed securitizations. During the second quarter of 2009, Cat Financial deposited $80 million into supplemental reserve accounts for the securitization transactions to maintain the credit ratings assigned to the transactions, as loss experiences have been higher than anticipated primarily due to the adverse economic conditions in the U.S. This resulted in an increase in Cat Financial’s retained interests. Prior to executing the deposits, written consent was obtained from the third-party beneficial interest holders of the securitization transactions. The QSPE conditions were reviewed and the trusts continue to maintain QSPE status.

The fair value of the retained interests in all securitizations of retail finance receivables outstanding totaled $104 million (cost basis of $119 million) and $52 million (cost basis of $61 million) as of June 30, 2009 and December 31, 2008, respectively. The fair value of the retained interests as of June 30, 2009 that has been in a continuous unrealized loss position for twelve months or longer totaled $59 million (cost basis of $68 million). As of December 31, 2008 there were no retained interests in a continuous unrealized loss position for twelve months or longer. Key assumptions used to determine the fair value of the retained interests as of such dates were:

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| Cash flow weighted-average discount rates on retained interests | 8.7% to 16.0% | 16.7% to 23.3% |
| Weighted-average maturity in months | 24 | 28 |
| Expected prepayment rate | 17.0% | 19.0% |
| Expected credit losses | 1.9% to 4.8% | 1.7% to 3.1% |

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 performs 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 the 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 retained interests as of June 30, 2009 and December 31, 2008 would be $10 million or less and $8 million or less, respectively.

During 2009 and 2008, the assumptions used to determine the expected cash flows for Cat Financial's securitization transactions were revised, which resulted in other-than-temporary impairments. The impairments recognized in earnings was primarily driven by an increase in the credit loss assumption due to the continuing adverse economic conditions in the U.S. The noncredit related component recorded in Accumulated other comprehensive income (loss) was primarily driven by changes in discount rates.

| (Millions of dollars) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Total other-than-temporary impairment losses | $ 24 | $ 7 | $ 46 | $ 7 |
| Portion of losses recognized in Accumulated other comprehensive income (loss) before taxes | (15) | — | (15) | — |
| Net impairment losses recognized in earnings 1 | $ 9 | $ 7 | $ 31 | $ 7 |

1 Recorded in Revenues of Financial Products on the Consolidated Statement of Results of Operations

The following table presents a rollforward of the balance of the credit-related impairment losses on Cat Financial's securitized retained interests for which a portion of the other-than-temporary impairment was recognized in Accumulated other comprehensive income (loss):

| (Millions of dollars) | Three Months Ended June 30, 2009 |
|---|---|
| Cumulative credit loss as of April 1, 2009 | $ — |
| Credit losses for which an other-than-temporary impairment was previously recognized | 8 |
| Cumulative credit loss as of June 30, 2009 | $ 8 |

Cat Financial also retained servicing responsibilities and received a servicing fee of approximately one percent of the remaining value of the finance receivables.

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.

Cat Financial has sold interests in a certain pool of trade receivables through a revolving structure to third-party commercial paper conduits, asset-backed commercial paper issuers that are SPEs of the sponsor bank and are not consolidated by Cat Financial. In accordance with SFAS 140, the transfers to the conduits are accounted for as sales. Cat Financial services the sold trade receivables and receives an annual servicing fee of approximately 0.5% of the average outstanding principal balance. Consolidated expenses of $2 million related to the sale of trade receivables were recognized for each of the three months ended June 30, 2009 and 2008, and $4 million and $5 million for the six months ended June 30, 2009 and 2008, respectively. These expenses are included in Other income (expense) in the Consolidated Statement of Results of Operations. As of June 30, 2009 and December 31, 2008, the outstanding principal balance of the sold trade receivables was $200 million and $240 million, respectively.

Cat Financial's remaining interest in that pool of trade receivables as of June 30, 2009 and December 31, 2008 of $617 million and $1,432 million, respectively, is included in Receivables-trade and other in the Consolidated Statement of Financial Position. The carrying amount approximated fair value due to the short-term nature of these receivables.

The cash collections from these receivables held by Cat Financial, including those attributable to the third-party conduits, are first applied to satisfy any obligations of Cat Financial to the third-party conduits. The third-party 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) | Six Months Ended June 30, 2009 | 2008 |
|---|---|---|
| Cash proceeds from sales of receivables to the conduits | $ 791 | $ 775 |
| Servicing fees received | 1 | 1 |
| Cash flows received on the interests that continue to be held | 4,496 | 5,621 |

17. Employee separation charges

During the fourth quarter 2008, we recognized employee separation charges of $30 million in Other operating (income) expenses in the Consolidated Statement of Results of Operations related to various voluntary and involuntary separation programs. These programs, impacting 3,085 production and support and management employees worldwide, were in response to a sharp decline in sales volume due to the global recession.

During the first quarter 2009, continued cost reduction efforts in various locations around the world resulted in additional separation charges of $357 million, recognized in Other operating (income) expenses in the Consolidated Statement of Results of Operations, related to the following separation programs:

U.S. Voluntary Separation Program - During December 2008, we announced a voluntary separation program for certain support and management employees based in the United States. Eligible employees had until January 12, 2009 to sign up for the program, and generally until January 31, 2009 to make a final decision. Participating employees received severance pay based on current salary level and years of service. During first quarter 2009, 2,213 employees accepted the program, the majority of which separated from Caterpillar by March 31, 2009.



Other U.S. Separation Programs - During the first quarter 2009, we initiated plans to reduce U.S. based production and support and management positions through a variety of programs. For support and management employees, these included involuntary separation programs. For production employees, these included both voluntary and involuntary separation programs. During the first quarter 2009, 6,870 employees accepted or were subject to these programs.

Non-U.S. Separation Programs - During the first quarter 2009, we initiated several other separation programs outside the U.S. These programs, designed specific to the laws and regulations of the individual countries, represent voluntary and involuntary plans for production and support and management employees. During the first quarter 2009, 3,957 employees accepted or were subject to the various programs.

During the second quarter 2009, on-going cost reduction efforts worldwide resulted in additional separation charges of $85 million, recognized in Other operating (income) expenses in the Consolidated Statement of Results of Operations. These efforts, impacting production and support and management positions, related to new and previously initiated U.S. and non-U.S. voluntary and involuntary separation programs. During the second quarter 2009, 1,820 employees accepted or were subject to these programs.

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

The following table summarizes the separation charges in the fourth quarter 2008 and first and second quarter 2009 by geographic region:

| | Machinery and Engines | | | | | |
|---|---|---|---|---|---|---|
| (Millions of dollars) | North America | EAME | Latin America | Asia/ Pacific | Financial Products | Total |
| Q4 2008 Separation charges | $ 4 | $ 17 | $ 9 | $ — | $ — | $ 30 |
| Q4 2008 Benefit payments and other adjustments | — | (12) | (7) | — | — | (19) |
| Liability balance at December 31, 2008 | $ 4 | $ 5 | $ 2 | $ — | $ — | $ 11 |
| | | | | | | |
| Q1 2009 Separation charges | $ 304 | $ 24 | $ 9 | $ 9 | $ 11 | $ 357 |
| Q1 2009 Benefit payments and other adjustments | (205) | (22) | (9) | (6) | (7) | (249) |
| Liability balance at March 31, 2009 | $ 103 | $ 7 | $ 2 | $ 3 | $ 4 | $ 119 |
| | | | | | | |
| Q2 2009 Separation charges | $ 7 | $ 68 | $ 3 | $ 7 | $ — | $ 85 |
| Q2 2009 Benefit payments and other adjustments | (59) | (13) | (4) | (9) | (2) | (87) |
| Liability balance at June 30, 2009 | $ 51 | $ 62 | $ 1 | $ 1 | $ 2 | $ 117 |

The remaining balances as of June 30, 2009 represent costs for employees that have either not yet separated from the Company or their full severance has not yet been paid. The majority of these remaining costs will be paid by the end of 2009.

The following table summarizes the number of employees that accepted or were subject to the programs:

| | Second Quarter 2009 | First Quarter 2009 | Full Year 2008 |
|---|---|---|---|
| Impacted employees at beginning of period | 5,796 | 1,505 | — |
| Impacted employees during the period | 1,820 | 13,040 | 3,085 |
| Employee separations during the period | (7,096) | (8,749) | (1,580) |
| Impacted employees remaining at the end of period | 520 | 5,796 | 1,505 |

The majority of the employees that accepted or were subject to the programs but that were still employed as of June 30, 2009 will be separated by the end of the third quarter 2009.

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

The majority of the separation charges, made up primarily of cash severance payments, and pension and other postretirement benefit costs noted above were not assigned to operating segments. They are included in the reconciliation of total accountable profit from reportable segments to total profit before taxes. See Note 13 for additional details surrounding this reconciliation.

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

Overview

We reported a second-quarter 2009 profit of $0.60 per share, down $1.14 per share from the second quarter of 2008. Excluding redundancy costs, profit was $0.72 per share. Redundancy costs related to reducing employment were $85 million before tax or $0.12 per share in the quarter. Sales and revenues of $7.975 billion were down 41 percent from $13.624 billion in the second quarter 2008.

Our profit this quarter, despite the sharp decline in sales, is a tribute to Team Caterpillar’s response to this severe global recession and the continued deployment of our economic trough strategy. There is still a great deal of economic uncertainty in the world, but we are seeing signs of stabilization that we hope will set the foundation for an eventual recovery. Credit markets have improved significantly. Fiscal policy and monetary stimulus have been introduced around the world, and we are seeing signs, particularly in China, that they are beginning to work. In addition, we have seen many key commodity prices increase from their lows in the first quarter, and they are holding in a range that is usually positive for investment.

With our dedicated employees, strong dealer network and supply base, great lineup of products and the increasing impact of integrated service businesses, we are more confident than ever that we will strengthen our industry leadership as we work through this recession.

The second-quarter profit of $371 million was down $735 million from $1.106 billion in the second quarter of 2008. The decline was largely a result of lower sales volume and $85 million of redundancy costs. These negative impacts were partially offset by lower Selling, General and Administrative (SG&A) and Research and Development (R&D) expenses, favorable price realization, LIFO inventory decrement benefits and a lower tax rate.

In addition to profit, we are highly focused on delivering positive cash flow in 2009 and are committed to our $3 billion inventory reduction goal for the year. Utilizing the Caterpillar Production System (CPS) with 6 Sigma, the company reduced inventory in the second quarter by more than $800 million, and through the first half of the year inventory has declined by more than $1.6 billion.

In addition to our ability to generate solid profits in this economic climate, we are pleased with our work to generate positive cash flow and maintain considerable financial strength during this challenging period.

Outlook

We are updating our outlook for 2009 by tightening the sales and revenues range and improving profit expectations. For sales and revenues, the range has been tightened to $32 billion to $36 billion. The 2009 profit outlook is a range of $0.40 to $1.50 per share including redundancy costs of about $0.75 per share. Excluding redundancy costs, profit is forecast to be between $1.15 and $2.25 per share.

We are now halfway through one of the most challenging years in the company’s history. Our 2009 sales have been hurt by weak end-user demand and significant reductions in dealer inventory. In fact, dealers have reduced their machine inventories by about $1.5 billion through the first half of the year and could reach close to $3 billion by year-end. As tough as this year has been, the improved profit outlook is a tangible sign of what happens when the entire team is pulling in the same direction and deploying the trough strategy we put in place over the past four

years. We are very pleased with the way our people have stepped up and responded to this extraordinary period of economic turmoil.

Note:

- Information on non-GAAP financial measures, including the treatment of redundancy costs in the second quarter and in the outlook, is included on page 67.
- Glossary of terms is included on pages 55-57; first occurrence of terms shown in bold italics.



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Consolidated Results of Operations

THREE MONTHS ENDED JUNE 30, 2009 COMPARED WITH THREE MONTHS ENDED JUNE 30, 2008

SALES AND REVENUES

The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between second quarter 2008 (at left) and second quarter 2009 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting sales and revenues appear as downward stair steps with dollar amounts reflected in parentheses above each bar. The bar entitled Machinery Volume includes the impact of consolidation of Caterpillar Japan Ltd. (Cat Japan) sales. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Sales and revenues for second quarter 2009 were $7.975 billion, down $5.649 billion, or 41 percent, from second quarter 2008. Machinery sales volume was down $4.183 billion, and Engines sales volume declined $1.394 billion. Price realization improved $259 million, and currency had a negative impact on sales of $225 million, primarily due to a weaker euro and British pound. In addition, Financial Products revenues decreased $106 million.

Our integrated service businesses tend to be more stable through the business cycle than new machines and engines. Although volume declined for these businesses during the second quarter, it was much less than the decline in sales and revenues for the company in total. Integrated service businesses represented more than 45 percent of total company sales and revenues in the second quarter of 2009.

Sales and Revenues by Geographic Region

| (Millions of dollars) | Total | % Change | North America | % Change | EAME | % Change | Asia/ Pacific | % Change | Latin America | % Change |
|---|---|---|---|---|---|---|---|---|---|---|
| Second Quarter 2009 | | | | | | | | | | |
| Machinery | $ 4,338 | (49)% | $ 1,730 | (51)% | $ 1,010 | (61)% | $ 1,061 | (25)% | $ 537 | (47)% |
| Engines 1 | 2,916 | (32)% | 1,020 | (30)% | 1,090 | (36)% | 551 | (26)% | 255 | (31)% |
| Financial Products 2 | 721 | (13)% | 431 | (15)% | 124 | (21)% | 91 | 11% | 75 | (9)% |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | $ 7,975 | (41)% | $ 3,181 | (42)% | $ 2,224 | (50)% | $ 1,703 | (24)% | $ 867 | (41)% |
| Second Quarter 2008 | | | | | | | | | | |
| Machinery | $ 8,530 | | $ 3,511 | | $ 2,593 | | $ 1,414 | | $ 1,012 | |
| Engines 1 | 4,267 | | 1,458 | | 1,693 | | 745 | | 371 | |
| Financial Products 2 | 827 | | 506 | | 157 | | 82 | | 82 | |
| | $ 13,624 | | $ 5,475 | | $ 4,443 | | $ 2,241 | | $ 1,465 | |

1 Does not include internal engines transfers of $319 million and $748 million in second quarter 2009 and 2008, respectively. Internal engines transfers are valued at prices comparable to those for unrelated parties.

2 Does not include internal revenues earned from Machinery and Engines of $93 million and $83 million in second quarter 2009 and 2008, respectively.



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Machinery Sales - Sales of $4.338 billion decreased $4.192 billion, or 49 percent, from second quarter 2008.

§ Excluding the consolidation of Cat Japan, sales volume decreased $4.473 billion.

§ Price realization increased $100 million.

§ Currency decreased sales by $109 million.

§ Geographic mix between regions (included in price realization) was $28 million unfavorable.

§ The consolidation of Cat Japan added $290 million to sales.

§ Over the past three quarters, dealers reported declines in deliveries to end users at rates unprecedented in the more than 30 years of available data. Nearly all countries and all industries were impacted.

§ Some signs of moderation appeared late in the quarter, especially in the developing economies. However, the multi-quarter declines in activity mean that year-over-year comparisons show large percentage decreases in all regions.

§ Dealers responded to steep declines in their business by sharply reducing inventories. They reported reductions in the quarter of almost $1.2 billion, which also contributed to lower sales volume. However, inventories in months of supply were higher than a year ago in all regions.

§ Home prices declined in North America and Europe, and banks generally tightened qualifications for home mortgages. As a result, housing construction declined. Nonresidential construction also declined in both regions.

§ Sales volume decreased in the developing regions of Africa/Middle East, the Commonwealth of Independent States (CIS), Asia/Pacific and Latin America, although the percentage declines were usually not as severe as in the developed economies.

North America – Sales decreased $1.781 billion, or 51 percent.

- Sales volume decreased $1.821 billion.
- Price realization increased $41 million.
- Currency decreased sales by $1 million.

- Severe recessions in both the United States and Canada caused most industries that use our equipment to reduce purchases drastically. Dealers also reported lower inventories, which contributed to the volume decline.
- U.S. housing starts were 47 percent lower than a year earlier. Factors depressing construction included high inventories of unsold homes, lower selling prices and continued stringent standards for mortgage qualification.
- Orders for nonresidential building construction were down almost 40 percent. Problems were rising vacancy rates, tight lending standards and lower commercial property prices.
- Contracts for infrastructure-related construction dropped 15 percent. Highway construction contracts were about even with a year earlier, reflecting improvement late in the quarter.
- Sharp declines in construction caused nonmetals mining and quarry production to drop 20 percent. The industry continued to reduce capacity during the quarter, and the usage of remaining capacity dropped to a record-low rate.
- Metals prices were 44 percent lower than second quarter 2008, and metals mining production dropped 14 percent.
- Coal production declined 8 percent, and prices were much lower. Electric utilities cut production, and exports were down more than 50 percent.
- Crude oil prices fell 52 percent, prompting oil companies in Canada to reduce nonconventional oil extraction development, which includes tar sands, by 31 percent.

EAME – Sales decreased $1.583 billion, or 61 percent.

- Sales volume decreased $1.531 billion.
- Price realization increased $27 million.
- Currency decreased sales by $79 million.

- The steep drop in sales volume resulted from the deep recession in Europe, collapses in most CIS economies, and a less favorable environment for energy and mining industries in Africa/Middle East. Dealers reported much lower deliveries in most countries and across most industries.
- Dealers responded to reduced deliveries by cutting inventories well below a year earlier; however, months of supply increased.

- The housing industry remained depressed in most European countries. Permits for new construction in the early months of this year declined 7 percent in Germany, 15 percent in France and 64 percent in Spain. U.K. housing orders were down 38 percent in the second quarter. Home prices declined in many European countries, and euro-zone banks continued to tighten lending standards for home purchases.

- Nonresidential building construction also contracted. Negative factors included stringent standards for new loans, reduced bank lending and a sharp drop in capacity utilization. Infrastructure construction increased slightly.

- In Africa/Middle East, dealer efforts to reduce inventories were the most important reason for lower sales volume. Other contributors were a 10-percent decrease in oil production, a 14-percent drop in South African construction permits and a severe decline in Turkish industrial production from a year earlier.

- Sales volume in the CIS dropped more than 80 percent due to sharp reductions in economic activity. Russian interest rates were higher than a year earlier, and the money supply declined. As a result, industrial production was down 15 percent, and construction was down 20 percent. Ukrainian industrial production declined more than 30 percent.

Asia/Pacific – Sales decreased $353 million, or 25 percent.

- Excluding the consolidation of Cat Japan, sales volume decreased $676 million.
  - Price realization increased $41 million.
  - Currency decreased sales by $8 million.
- The consolidation of Cat Japan added $290 million to sales.

- Economies throughout the region were weaker than a year earlier, causing dealers to report lower deliveries to end users. In response, dealers aggressively drew down their inventories, which was the most significant cause of lower sales volume. Reported dealer inventories increased in months of supply.

- In China, growth in industrial production slowed from 16 percent last year to 8 percent this year, and exports dropped 25 percent. Building starts declined 10 percent. Although comparisons against a year earlier are negative, economic activity improved during the quarter.

- The Australian economy slowed in response to a long period of high interest rates. Approvals for housing construction declined 23 percent, and those for nonresidential construction fell 50 percent.

- The Reserve Bank of India maintained tight economic policies through most of last year, causing industrial production growth to slow.

- The Japanese economy suffered from a 41-percent decline in exports and a sharp reduction in business investment. Housing orders dropped 53 percent, and commercial building starts fell 41 percent.

Latin America – Sales decreased $475 million, or 47 percent.

- Sales volume decreased $473 million.

- Price realization increased $19 million.
- Currency decreased sales by $21 million.

- Dealers reported reductions in inventories, accounting for much of the decline in sales volume. However, inventory in months of supply increased from a low year-earlier level.
- Economies in the region weakened due to declining exports and tight economic policies through much of last year. Industrial production declined 9 percent in Mexico, 13 percent in Brazil and 15 percent in both Chile and Colombia.
- Construction sectors deteriorated in most countries, and lower commodity prices and sharp declines in industrial production throughout the world hurt the important mining industry. Mining output declined 13 percent in Brazil and nearly 2 percent in Chile, depressing our sales of machines used in mining.

Engines Sales - Sales of $2.916 billion decreased $1.351 billion, or 32 percent, from second quarter 2008.

- Sales volume decreased $1.394 billion.
- Price realization increased $159 million.
- Currency decreased sales by $116 million.



- Geographic mix between regions (included in price realization) was $10 million unfavorable.
- Dealer-reported inventories were up, and months of supply increased, as dealer deliveries decreased.

North America – Sales decreased $438 million, or 30 percent.

- Sales volume decreased $526 million.
- Price realization increased $89 million.
- Currency decreased sales by $1 million.

- Sales for petroleum applications decreased 18 percent primarily due to a decrease in turbine sales, partially offset by slightly increased sales into petroleum engine applications for gas compression and drilling.
- Sales for industrial applications decreased 54 percent based on substantially lower demand in construction and agricultural applications due to economic uncertainty and tight credit conditions.
- Sales for electric power applications were about the same as the second quarter of 2008.

EAME – Sales decreased $603 million, or 36 percent.

- § Sales volume decreased $547 million.
- § Price realization increased $42 million.
- § Currency decreased sales by $98 million.

§ Sales for electric power applications decreased 47 percent due to weak economic conditions and reduced availability of credit combined with dealers beginning to work down inventory to align with the reduced demand.

§ Sales for industrial applications decreased 48 percent based on significantly lower demand in construction and agricultural applications due to weak economic conditions and reduced availability of credit.

§ Sales for petroleum applications decreased 14 percent primarily due to a slowdown in engines and turbines used in offshore drill rigs and production applications.

§ Sales for marine applications decreased 25 percent due to weak economic conditions, partially offset by increased demand for engines used in general cargo, container and offshore applications due to increased availability.

Asia/Pacific – Sales decreased $194 million, or 26 percent.

- § Sales volume decreased $206 million.
- § Price realization increased $27 million.
- § Currency decreased sales by $15 million.

§ Sales for petroleum applications decreased 38 percent primarily due to a slowdown in Chinese land-based drill activity. Deliveries to Asian shipyards for deep offshore drilling rigs remained strong, about the same as the second quarter of 2008.

§ Sales of electric power engines decreased 26 percent due to cancelled and delayed projects in China and India.

§ Sales for industrial applications decreased 41 percent due to significantly lower demand in construction and mining support applications.

§ Sales for marine applications increased 23 percent, with strong demand for workboat and general cargo vessels.

Latin America – Sales decreased $116 million, or 31 percent.

- § Sales volume decreased $125 million.
- § Price realization increased $11 million.
- § Currency decreased sales by $2 million.

§ Sales for on-highway truck applications decreased 84 percent as a result of the decision to exit the on-highway truck business.

§ Sales for petroleum applications decreased 22 percent due to a slowdown in land-based drill rig and production applications.

§ Sales of electric power engines decreased 36 percent due to worsening economic conditions and reduced availability of credit.



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Financial Product Revenues - Revenues of $721 million decreased $106 million, or 13 percent, from second quarter 2008.

§ A decrease of $55 million was due to a $39 million impact of lower interest rates on new and existing finance receivables and a decrease in average earning assets of $16 million.

§ Other revenues at Cat Financial decreased $33 million. The decrease was primarily due to a $17 million impact from returned or repossessed equipment and the absence of a $12 million gain related to the sale of receivables in the second quarter of 2008.

OPERATING PROFIT

The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between second quarter 2008 (at left) and second quarter 2009 (at right). Items favorably impacting operating profit appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting operating profit appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees. The bar entitled Other/M&E Redundancy includes the operating profit impact of consolidating adjustments, consolidation of Cat Japan and Machinery and Engines other operating expenses which include Machinery and Engines redundancy costs.

The second-quarter operating profit was $347 million compared to an operating profit of $1.525 billion in the second quarter of 2008. Lower sales volume was the primary reason for the decline. Sales volume includes the impact of a favorable mix of products for both Machinery and Engines.

Manufacturing costs decreased $85 million. Significant inventory reduction has resulted in $110 million ($0.14 per share) of LIFO inventory decrement benefits. Excluding decrement benefits, manufacturing costs increased $25 million.

SG&A and R&D expenses declined $291 million as a result of significant cost-cutting measures.

Currency had an $89 million favorable impact on operating profit as the benefit to costs more than offset the negative impact on sales.

Redundancy costs were $85 million, and the consolidation of Cat Japan unfavorably impacted operating profit by approximately $80 million.



Operating Profit by Principal Line of Business

| (Millions of dollars) | Second Quarter 2009 | Second Quarter 2008 | $ Change | % Change |
|---|---|---|---|---|
| Machinery 1 | $ (252) | $ 719 | $ (971) | (135) % |
| Engines 1 | 555 | 711 | (156) | (22) % |
| Financial Products | 127 | 166 | (39) | (23) % |
| Consolidating Adjustments | (83) | (71) | (12) | |
| Consolidated Operating Profit | $ 347 | $ 1,525 | $ (1,178) | (77) % |

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

Operating Profit by Principal Line of Business

§ Machinery operating loss was $252 million compared to an operating profit of $719 million in the second quarter of 2008. Sharply lower sales volume, losses at Cat Japan and $74 million of redundancy costs were partially offset by lower SG&A and R&D expenses, improved price realization and LIFO inventory decrement benefits.

§ Engines operating profit of $555 million was down $156 million, or 22 percent, from the second quarter 2008. Significantly lower sales volume and $11 million of redundancy costs were partially offset by improved price realization and lower SG&A expenses. Although total engines operating profit declined from the second quarter 2008, operating profit for turbines was about the same and was a significantly higher proportion of total engines operating profit.

§ Financial Products operating profit of $127 million was down $39 million, or 23 percent, from the second quarter 2008. The decrease was primarily attributable to a $28 million impact from decreased net yield on average earning assets, a $17 million unfavorable impact from returned or repossessed equipment, the absence of a $12 million gain related to the sale of receivables in the second quarter of 2008 and a $7 million unfavorable impact from lower average earning assets, partially offset by a $27 million decrease in SG&A expenses.

Other Profit/Loss Items

§ Interest expense excluding Financial Products increased $39 million as a result of higher debt. We have intentionally held more cash than usual as a result of capital market volatility.

§ Other income/(expense) was income of $163 million compared with income of $83 million in second quarter 2008. The improvement was primarily related to a favorable currency impact of $93 million.

§ The provision for income taxes in the second quarter reflects an actual (discrete period) effective tax rate of 10 percent compared to an estimated annual tax rate of 31.3 percent for second quarter 2008 excluding discrete benefits of $47 million in the second quarter 2008. The decrease is primarily attributable to a more favorable geographic mix of profits and losses from a tax perspective along with a larger percentage benefit from U.S. permanent differences and credits including the research and development tax credit. We are currently unable to reliably

estimate the 2009 annual effective tax rate and are recording taxes on an actual basis. This approach results in more volatility in the quarterly effective tax rate, particularly with the reduced overall profit levels.

§ Equity in profit/(loss) of unconsolidated affiliated companies was a loss of $1 million compared with income of $10 million in the second quarter 2008. The decrease is primarily related to the absence of equity profit after the consolidation of Cat Japan.

§ Profit (loss) attributable to noncontrolling interests (formerly minority interest) favorably impacted earnings $19 million from second quarter 2008, primarily due to adding back 33 percent of Cat Japan's losses attributable to Mitsubishi Heavy Industries.

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SIX MONTHS ENDED JUNE 30, 2009 COMPARED WITH SIX MONTHS ENDED JUNE 30, 2008

SALES AND REVENUES

The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between June YTD 2008 (at left) and June YTD 2009 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting sales and revenues appear as downward stair steps with dollar amounts reflected in parentheses above each bar. The bar entitled Machinery Volume includes the impact of consolidation of Caterpillar Japan Ltd. (Cat Japan) sales. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Sales and revenues for the six months ended June 30, 2009 were $17.200 billion, down $8.220 billion, or 32 percent, from the six months ended June 30, 2008. Machinery sales volume was down $6.342 billion, and Engines volume declined $1.648 billion. Price realization improved $484 million, and currency had a negative impact on sales of $506 million, primarily due to a weaker euro and British pound. In addition, Financial Products revenues decreased $208 million.

Our integrated service businesses tend to be more stable through the business cycle than new machines and engines. Although volume declined for these businesses during the first six months of 2009, it was much less than the decline in sales and revenues for the company in total. Integrated service businesses represented about 43 percent of total company sales and revenues in the first half of 2009.

Sales and Revenues by Geographic Region

| (Millions of dollars) | Total | % Change | North America | % Change | EAME | % Change | Asia/ Pacific | % Change | Latin America | % Change |
|---|---|---|---|---|---|---|---|---|---|---|
| Six months ended June 30, 2009 | | | | | | | | | | |
| Machinery | $ 9,680 | (40) % | $ 3,946 | (41) % | $2,268 | (54) % | $2,239 | (15) % | $1,227 | (33) % |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Engines 1 | 6,084 | (21) % | 2,073 | (22) % | 2,325 | (23) % | 1,165 | (11) % | 521 | (26) % |
| Financial Products 2 | 1,436 | (13) % | 876 | (14) % | 244 | (18) % | 187 | 14 % | 129 | (21) % |
| | $17,200 | (32) % | $ 6,895 | (34) % | $4,837 | (41) % | $3,591 | (12) % | $1,877 | (30) % |
| Six months ended June 30, 2008 | | | | | | | | | | |
| Machinery | $16,078 | | $ 6,691 | | $4,937 | | $2,620 | | $1,830 | |
| Engines 1 | 7,698 | | 2,666 | | 3,024 | | 1,304 | | 704 | |
| Financial Products 2 | 1,644 | | 1,020 | | 296 | | 164 | | 164 | |
| | $25,420 | | $10,377 | | $8,257 | | $4,088 | | $2,698 | |

1 Does not include internal engines transfers of $755 million and $1.438 billion in the six months ended June 30, 2009 and 2008, respectively. Internal engines transfers are valued at prices comparable to those for unrelated parties.

2 Does not include internal revenues earned from Machinery and Engines of $174 million and $178 million in the six months ended June 30, 2009 and 2008, respectively.



Machinery Sales - Sales of $9.680 billion decreased $6.398 billion, or 40 percent, from the six months ended June 30, 2008.

§ Excluding the consolidation of Cat Japan, sales volume decreased $6.923 billion.

§ Price realization increased $191 million.

§ Currency decreased sales by $247 million.

§ Geographic mix between regions (included in price realization) was $30 million unfavorable.

§ The consolidation of Cat Japan added $581 million to sales.

§ The worldwide recession, while appearing to moderate late in the second quarter, resulted in record declines in sales volume from the second-quarter 2008 peak.

§ Dealers in all regions responded to much lower customer demand by reducing inventories. They reported reductions of almost $1.5 billion in the first half, in contrast to inventory builds a year earlier. That change accounted for roughly one-third of the decline in sales volume. Inventories declined in dollars but months of supply increased.

§ The largest volume declines occurred in the developed economies since both North America and Europe experienced their worst postwar recessions. Housing construction fell due to lower home prices, stringent standards on qualifying for home loans and rising unemployment.

§

Nonresidential building construction weakened due to low utilization rates, tight credit conditions and poor business profitability. Governments announced measures to support infrastructure construction early this year but the time needed to implement projects meant few benefits occurred in the first half.

§ Sales volume decreased in the developing regions of Africa/Middle East, CIS, Asia/Pacific and Latin America; however, percent declines were less severe than in the developed economies. Dealer reports indicated inventory reductions accounted for the largest part of these declines. In addition, credit difficulties and the drop in commodity prices late last year caused some disruptions in both mining and infrastructure projects.

North America – Sales decreased $2.745 billion, or 41 percent.