

CATERPILLAR INC
Form 10-Q
November 04, 2011
[Table of Contents](#)

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 September 30, 2011

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 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 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

At September 30, 2011, 646,620,369 shares of common stock of the registrant were outstanding.

Table of Contents

Table of Contents

Part I. Financial Information

<u>Item 1.</u>	<u>Financial Statements</u>	3
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	50
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	86
<u>Item 4.</u>	<u>Controls and Procedures</u>	86

Part II. Other Information

<u>Item 1.</u>	<u>Legal Proceedings</u>	87
Item 1A.	Risk Factors	*
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	87
Item 3.	Defaults Upon Senior Securities	*
Item 4.	Removed and Reserved	*
Item 5.	Other Information	*
<u>Item 6.</u>	<u>Exhibits</u>	88

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

Table of Contents**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 September 30,	
	2011	2010
Sales and revenues:		
Sales of Machinery and Power Systems	\$15,023	\$10,452
Revenues of Financial Products	693	682
Total sales and revenues	15,716	11,134
Operating costs:		
Cost of goods sold	11,455	7,752
Selling, general and administrative expenses	1,360	1,148
Research and development expenses	584	510
Interest expense of Financial Products	211	227
Other operating (income) expenses	347	310
Total operating costs	13,957	9,947
Operating profit (loss)	1,759	1,187
Interest expense excluding Financial Products	112	85
Other income (expense)	(13)	1
Consolidated profit (loss) before taxes	1,634	1,103
Provision (benefit) for income taxes	474	295
Profit (loss) of consolidated companies	1,160	808
Equity in profit (loss) of unconsolidated affiliated companies	(6)	(7)
Profit (loss) of consolidated and affiliated companies	1,154	801
Less: Profit (loss) attributable to noncontrolling interests	13	9
Profit (loss) 1	\$1,141	\$792
Profit (loss) per common share	\$1.76	\$1.25

Profit (loss) per common share - diluted¹	\$1.71	\$1.22
Weighted-average common shares outstanding (millions)		
- Basic	646.6	632.6
- Diluted ²	666.0	651.6
Cash dividends declared per common share	\$	\$

1 Profit (loss) attributable to common stockholders.

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

See accompanying notes to Consolidated Financial Statements.

Table of Contents

Caterpillar Inc.

Consolidated Statement of Results of Operations

(Unaudited)

(Dollars in millions except per share data)

	Nine Months Ended September 30,	
	2011	2010
Sales and revenues:		
Sales of Machinery and Power Systems	\$40,835	\$27,726
Revenues of Financial Products	2,060	2,055
Total sales and revenues	42,895	29,781
Operating costs:		
Cost of goods sold	30,815	21,018
Selling, general and administrative expenses	3,716	3,139
Research and development expenses	1,693	1,362
Interest expense of Financial Products	623	694
Other operating (income) expenses	855	896
Total operating costs	37,702	27,109
Operating profit (loss)	5,193	2,672
Interest expense excluding Financial Products	289	268
Other income (expense)	(157)	114
Consolidated profit (loss) before taxes	4,747	2,518
Provision (benefit) for income taxes	1,304	735
Profit (loss) of consolidated companies	3,443	1,783
Equity in profit (loss) of unconsolidated affiliated companies	(24)	(13)
Profit (loss) of consolidated and affiliated companies	3,419	1,770
Less: Profit (loss) attributable to noncontrolling interests	38	38
Profit (loss) 1	\$3,381	\$1,732
Profit (loss) per common share	\$5.25	\$2.75
Profit (loss) per common share diluted²	\$5.08	\$2.68
Weighted-average common shares outstanding (millions)		
- Basic	644.3	629.6
- Diluted ²	666.1	647.0
Cash dividends declared per common share	\$0.90	\$0.86

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- 1 Profit (loss) attributable to common stockholders.
- 2 Diluted by assumed exercise of stock-based compensation awards using the treasury stock method.

See accompanying notes to Consolidated Financial Statements.

Table of Contents

Caterpillar Inc.

Consolidated Statement of Financial Position

(Unaudited)

(Dollars in millions)

	September 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and short-term investments	\$3,229	\$3,592
Receivables—trade and other	9,386	8,494
Receivables—finance	7,920	8,298
Deferred and refundable income taxes	1,122	931
Prepaid expenses and other current assets	795	908
Inventories	14,412	9,587
Total current assets	36,864	31,810
Property, plant and equipment—net	13,397	12,539
Long-term receivables—trade and other	1,283	793
Long-term receivables—finance	11,445	11,264
Investments in unconsolidated affiliated companies	121	164
Noncurrent deferred and refundable income taxes	806	2,493
Intangible assets	4,529	805
Goodwill	7,778	2,614
Other assets	1,544	1,538
Total assets	\$77,767	\$64,020
Liabilities		
Current liabilities:		
Short-term borrowings:		
Machinery and Power Systems	\$366	\$204
Financial Products	3,548	3,852
Accounts payable	7,524	5,856
Accrued expenses	3,186	2,880
Accrued wages, salaries and employee benefits	2,062	1,670
Customer advances	2,745	1,831
Dividends payable		281
Other current liabilities	2,193	1,521
Long-term debt due within one year:		
Machinery and Power Systems	72	495
Financial Products	3,522	3,430
Total current liabilities	25,218	22,020
Long-term debt due after one year:		
Machinery and Power Systems	8,903	4,505
Financial Products	17,878	15,932
Liability for postemployment benefits	7,494	7,584
Other liabilities	3,570	2,654
Total liabilities	63,063	52,695
Commitments and contingencies (Notes 10 and 12)		
Redeemable noncontrolling interest	491	461
Stockholders' equity		
Common stock of \$1.00 par value:		
Authorized shares: 2,000,000,000	4,229	3,888

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Issued shares: (9/30/11 and 12/31/10 814,894,624) at paid-in amount		
Treasury stock (9/30/11 168,274,255 shares; 12/31/10 176,071,910 shares) at cost	(10,299)	(10,397)
Profit employed in the business	24,251	21,384
Accumulated other comprehensive income (loss)	(4,019)	(4,051)
Noncontrolling interests	51	40
Total stockholders equity	14,213	10,864
Total liabilities, redeemable noncontrolling interest and stockholders equity	\$77,767	\$64,020

See accompanying notes to Consolidated Financial Statements.

Table of Contents**Caterpillar Inc.****Consolidated Statement of Changes in Stockholders Equity****(Unaudited)****(Dollars in millions)**

	Common stock	Treasury stock	Profit employed in the business	Accumulated other comprehensive income (loss)	Noncontrolling interests	Total	Comprehensive income (loss)
<u>Nine Months Ended September 30, 2010</u>							
Balance at December 31, 2009	\$3,439	\$(10,646)	\$19,711	\$(3,764)	\$83	\$8,823	
Adjustment to adopt consolidation of variable interest entities ¹			(6)	3		(3)	
Balance at January 1, 2010	\$3,439	\$(10,646)	\$19,705	\$(3,761)	\$83	\$8,820	
Profit (loss) of consolidated and affiliated companies			1,732		38	1,770	\$1,770
Foreign currency translation, net of tax of \$51				(40)	14	(26)	(26)
Pension and other postretirement benefits							
Current year actuarial gain (loss), net of tax of \$5003				(857)		(857)	(857)
Amortization of actuarial (gain) loss, net of tax of \$121				218	3	221	221
Current year prior service (cost) credit, net of tax of \$13				(1)		(1)	(1)
Amortization of prior service (credit) cost, net of tax of \$9				(11)		(11)	(11)
Amortization of transition (asset) obligation, net of tax of \$0				1		1	1
Derivative financial instruments							
Gains (losses) deferred, net of tax of \$15				(29)		(29)	(29)
(Gains) losses reclassified to earnings, net of tax of \$16				32		32	32
Available-for-sale securities							
Gains (losses) deferred, net of tax of \$23				35		35	35
(Gains) losses reclassified to earnings, net of tax of \$0				1		1	1
Change in ownership from noncontrolling interests	(68)				(66)	(134)	
Dividends declared			(542)			(542)	
Common shares issued from treasury stock for stock-based compensation: 8,502,582	37	156				193	
Common shares issued from treasury stock for benefit plans: 1,447,5004	66	27				93	
Stock-based compensation expense	196					196	
Net excess tax benefits from stock-based compensation	87					87	
Cat Japan share redemption ²			60		(34)	26	
Balance at September 30, 2010	\$3,757	\$(10,463)	\$20,955	\$(4,412)	\$38	\$9,875	\$1,136
<u>Nine Months Ended September 30, 2011</u>							
Balance at December 31, 2010	\$3,888	\$(10,397)	\$21,384	\$(4,051)	\$40	\$10,864	
Profit (loss) of consolidated and affiliated companies			3,381		38	3,419	3,419
Foreign currency translation, net of tax of \$15				(244)	32	(212)	(212)

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Pension and other postretirement benefits								
Amortization of actuarial (gain) loss, net of tax of \$158			300		(1)	299		299
Amortization of prior service (credit) cost, net of tax of \$9			(15)			(15)		(15)
Amortization of transition (asset) obligation, net of tax of \$1			1			1		1
Derivative financial instruments								
Gains (losses) deferred, net of tax of \$15			24			24		24
(Gains) losses reclassified to earnings, net of tax of \$14			(21)			(21)		(21)
Available-for-sale securities								
Gains (losses) deferred, net of tax of \$8			(11)			(11)		(11)
(Gains) losses reclassified to earnings, net of tax of \$0			(2)			(2)		(2)
Change in ownership from noncontrolling interests					4	4		
Dividends declared		(581)				(581)		
Distribution to noncontrolling interests					(3)	(3)		
Common shares issued from treasury stock for stock-based compensation: 7,797,655	12	98				110		
Stock-based compensation expense	163					163		
Net excess tax benefits from stock-based compensation	166					166		
Cat Japan share redemption ²			67		(59)	8		
Balance at September 30, 2011	\$4,229	\$(10,299)	\$24,251	\$(4,019)		\$51	\$14,213	\$3,482

- 1 See Note 15 for additional information.
- 2 See Note 16 regarding the Cat Japan share redemption.
- 3 Changes in amounts due to plan re-measurements. See Note 9 for additional information.
- 4 See Note 9 regarding shares issued for benefit plans.

See accompanying notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2011	2010
Cash flow from operating activities:		
Profit (loss) of consolidated and affiliated companies	\$3,419	\$1,770
Adjustments for non-cash items:		
Depreciation and amortization	1,832	1,681
Other	558	345
Changes in assets and liabilities, net of acquisitions and divestitures:		
Receivables - trade and other	(254)	(1,337)
Inventories	(2,716)	(2,086)
Accounts payable	1,308	1,966
Accrued expenses	134	7
Accrued wages, salaries and employee benefits	275	647
Customer advances	333	183
Other assets - net	(74)	131
Other liabilities - net	700	(360)
Net cash provided by (used for) operating activities	5,515	2,947
Cash flow from investing activities:		
Capital expenditures - excluding equipment leased to others	(1,515)	(957)
Expenditures for equipment leased to others	(984)	(708)
Proceeds from disposals of leased assets and property, plant and equipment	922	1,101
Additions to finance receivables	(7,091)	(6,121)
Collections of finance receivables	6,503	6,424
Proceeds from sale of finance receivables	106	13
Investments and acquisitions (net of cash acquired)	(7,413)	(1,111)
Proceeds from sale of businesses and investments (net of cash sold)	21	
Proceeds from sale of available-for-sale securities	180	141
Investments in available-for-sale securities	(216)	(129)
Other - net	37	130
Net cash provided by (used for) investing activities	(9,450)	(1,217)
Cash flow from financing activities:		
Dividends paid	(862)	(804)
Distribution to noncontrolling interests	(3)	
Common stock issued, including treasury shares reissued	110	193
Excess tax benefit from stock-based compensation	169	89
Acquisitions of noncontrolling interests		(132)
Proceeds from debt issued (original maturities greater than three months):		
Machinery and Power Systems	4,544	190
Financial Products	8,703	5,738
Payments on debt (original maturities greater than three months):		
Machinery and Power Systems	(2,203)	(1,185)
Financial Products	(6,080)	(8,031)
Short-term borrowings - net (original maturities three months or less)	(766)	(330)
Net cash provided by (used for) financing activities	3,612	(4,272)
Effect of exchange rate changes on cash	(40)	(60)

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Increase (decrease) in cash and short-term investments	(363)	(2,602)
Cash and short-term investments at beginning of period	3,592	4,867
Cash and short-term investments at end of period	\$3,229	\$2,265

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

See accompanying notes to Consolidated Financial Statements.

Table of Contents

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 nine month periods ended September 30, 2011 and 2010, (b) the consolidated financial position at September 30, 2011 and December 31, 2010, (c) the consolidated changes in stockholders' equity for the nine month periods ended September 30, 2011 and 2010, and (d) the consolidated statement of cash flow for the nine month periods ended September 30, 2011 and 2010. 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, 2010, as supplemented by the Company's current report on Form 8-K filed on May 23, 2011 (2010 Form 10-K) to reflect the change in our reportable segments as discussed in Note 14.

The Company revised previously reported cash flows from operating and investing activities for the nine month period ended September 30, 2010 to adjust for the impact of accrued but unpaid capital expenditures. Cash provided by operating activities increased from the amount previously reported by \$115 million for the nine month period ended September 30, 2010, and cash flow from investing activities decreased by the same amount. Management has concluded that the impact was not material to the nine month period.

The December 31, 2010 financial position data included herein is derived from the audited consolidated financial statements included in the 2010 Form 10-K but does not include all disclosures required by U.S. GAAP.

B. Nature of Operations

Information in our financial statements and related commentary are presented in the following categories:

Machinery and Power Systems Represents the aggregate total of Construction Industries, Resource Industries, Power Systems, and All Other segments and related corporate items and eliminations.

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Financial Products Primarily includes the company's Financial Products Segment. This category includes Caterpillar Financial Services Corporation (Cat Financial), Caterpillar Insurance Holdings Inc. (Cat Insurance) and their respective subsidiaries.

As discussed in Note 14 Segment Information, during the first quarter of 2011, we revised our reportable segments in line with the changes to our organizational structure that were announced during 2010. The 2010 financial information has been retrospectively adjusted to conform to the 2011 presentation.

C. Accumulated Other Comprehensive Income (Loss)

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

(Millions of dollars)	September 30, 2011	September 30, 2010
Foreign currency translation	\$307	\$564
Pension and other postretirement benefits	(4,409)	(5,089)
Derivative financial instruments	48	63
Available-for-sale securities	35	50
Total accumulated other comprehensive income (loss)	\$(4,019)	\$(4,412)

Table of Contents

2. New Accounting Guidance

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

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

Consolidation of variable interest entities - In June 2009, the FASB issued accounting guidance on the consolidation of VIEs. This new guidance revises previous guidance by eliminating the exemption for qualifying special purpose entities, by establishing a new approach for determining who should consolidate a VIE and by changing when it is necessary to reassess who should consolidate a VIE. We adopted this new guidance on January 1, 2010. The adoption of this guidance resulted in the consolidation of QSPEs related to Cat Financial's asset-backed securitization program that were previously not recorded on our consolidated financial statements. The restricted assets (Receivables-finance, Long-term receivables-finance, Prepaid expenses and other current assets, and Other assets) of the consolidated QSPEs totaled \$324 million at January 1, 2010. The liabilities (Accrued expenses, Long-term debt due within one year-Financial Products and Long-term debt due after one year-Financial Products) of the consolidated QSPEs totaled \$327 million at January 1, 2010. See Note 15 for additional information.

Disclosures about the credit quality of financing receivables and the allowance for credit losses - In July 2010, the FASB issued accounting guidance on disclosures about the credit quality of financing receivables and the allowance for credit losses. The guidance expands disclosures for the allowance for credit losses and financing receivables by requiring entities to disclose information at disaggregated levels. It also requires disclosure of credit quality indicators, past due information and modifications of financing receivables. Also, in April 2011, the FASB issued guidance clarifying when a restructuring of a receivable should be considered a troubled debt restructuring by providing additional guidance for determining whether the creditor has granted a concession and whether the debtor is experiencing financial difficulties. For end of period balances, the new disclosures were effective December 31, 2010 and did not have a material impact on our financial statements. For activity during a reporting period, the disclosures were effective January 1, 2011 and did not have a material impact on our financial statements. The disclosures related to modifications of financing receivables, as well as the guidance clarifying when a restructured receivable should be considered a troubled debt restructuring were effective July 1, 2011 and did not have a material impact on our financial statements. See Note 15 for additional information.

Presentation of comprehensive income In June 2011, the FASB issued accounting guidance on the presentation of comprehensive income. The guidance provides two options for presenting net income and other comprehensive income. The total of comprehensive income, the components of net income, and the components of other comprehensive income may be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance will be effective January 1, 2012 and we do not expect the

adoption to have a material impact on our financial statements.

3. Stock-Based Compensation

Accounting for stock-based compensation requires that the cost resulting from all stock-based payments be recognized in the financial statements based on the grant date fair value of the award. Stock-based compensation primarily consists of stock-settled stock appreciation rights (SARs), restricted stock units (RSUs) and stock options. We recognized pretax stock-based compensation cost in the amount of \$52 million and \$163 million for the three and nine months ended September 30, 2011, respectively; and \$58 million and \$196 million for the three and nine months ended September 30, 2010, respectively.

Table of Contents

The following table illustrates the type and fair value of the stock-based compensation awards granted during the nine month periods ended September 30, 2011 and 2010, respectively:

	2011		2010	
	# Granted	Fair Value Per Award	# Granted	Fair Value Per Award
SARs	2,722,689	\$36.73	7,125,210	\$22.31
RSUs	1,082,032	97.51	1,711,771	53.35
Stock options	237,906	36.73	431,271	22.31

The stock price on the date of grant was \$102.13 and \$57.85 for 2011 and 2010, respectively.

The following table provides the assumptions used in determining the fair value of the stock-based awards for the nine month periods ended September 30, 2011 and 2010, respectively:

	Grant Year	
	2011	2010
Weighted-average dividend yield	2.22%	2.32%
Weighted-average volatility	32.7%	36.4%
Range of volatilities	20.9-45.4%	35.2-51.8%
Range of risk-free interest rates	0.25-3.51%	0.32-3.61%
Weighted-average expected lives	8 years	7 years

As of September 30, 2011, the total remaining unrecognized compensation cost related to nonvested stock-based compensation awards was \$184 million, which will be amortized over the weighted-average remaining requisite service periods of approximately 2.0 years.

4. Derivative Financial Instruments and Risk Management

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

All derivatives are recognized on the Consolidated Statement of Financial Position at their fair value. On the date the derivative contract is entered into, 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

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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 recognized asset or liability that is attributable to the hedged risk, are recorded in current earnings. Changes in the fair value of a derivative that is qualified, designated and highly effective as a cash flow hedge are recorded in Accumulated other comprehensive income (loss) (AOCI) on the Consolidated Statement of Financial Position until they are reclassified to earnings in the same period or periods during which the hedged transaction affects earnings. Changes in the fair value of undesignated derivative instruments and the ineffective portion of designated derivative instruments are reported in current earnings. Cash flow from designated derivative financial instruments is classified within the same category as the item being hedged on the Consolidated Statement of Cash Flow. Cash flow from undesignated derivative financial instruments is included in the investing category on the Consolidated Statement of Cash Flow.

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

Table of Contents

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

Foreign Currency Exchange Rate Risk

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

Our Machinery and Power Systems 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, Indian rupee, Japanese yen, Mexican peso, Singapore dollar or Swiss franc forward or option contracts that meet the requirements for hedge accounting and the maturity extends beyond the current quarter-end. Designation is performed on a specific exposure basis to support hedge accounting. The remainder of Machinery and Power Systems foreign currency contracts are undesignated, including any hedges designed to protect our competitive exposure. Periodically we also designate as fair value hedges specific euro forward contracts used to hedge firm commitments.

As of September 30, 2011, \$34 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

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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.

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

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

Table of Contents

As of September 30, 2011, \$5 million of deferred net losses, net of tax, included in equity (Accumulated other comprehensive income (loss) in the Consolidated Statement of Financial Position), related to Financial Products floating-to-fixed interest rate swaps, are expected to be reclassified to current earnings (Interest expense of Financial Products in the Consolidated Statement of Results of Operations) over the next twelve months. The actual amount recorded in Interest expense of Financial Products will vary based on interest rates at the time the hedged transactions impact earnings.

We have, at certain times, liquidated fixed-to-floating and floating-to-fixed interest rate swaps at both Machinery and Power Systems 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 previously designated hedged item.

In anticipation of issuing debt to finance our acquisition of Bucyrus International, Inc., we entered into interest rate swaps to manage our exposure to interest rate changes. For the nine months ended September 30, 2011, we recognized a net loss of \$149 million in connection with these swaps, which was included in Other income (expense) in the Consolidated Statement of Results of Operations. The contracts were liquidated in conjunction with our issuance of senior notes in May 2011, therefore, there were no gains or losses for the three months ended September 30, 2011. These contracts were not designated as hedging instruments, and therefore, did not receive hedge accounting treatment.

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 Power Systems operations purchase base and precious metals embedded in the components we purchase from suppliers. Our suppliers pass on a share of the price changes in the commodity portion of the component cost. In addition, we are subject to price changes on energy products such as natural gas and diesel fuel purchased for operational use.

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

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

(Millions of dollars)

	Statement of Financial Position Location	Asset (Liability) Fair Value	
		September 30, 2011	December 31, 2010
Designated derivatives			
Foreign exchange contracts			
Machinery and Power Systems	Receivables trade and other	\$65	\$65

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Machinery and Power Systems	Long-term receivables trade and other	57	52
Machinery and Power Systems	Accrued expenses	(58)	(66)
Machinery and Power Systems	Other liabilities	(4)	(1)
Interest rate contracts			
Machinery and Power Systems	Receivables trade and other		1
Financial Products	Receivables trade and other	11	14
Financial Products	Long-term receivables trade and other	258	197
Financial Products	Accrued expenses	(7)	(18)
		\$322	\$244
Undesignated derivatives			
Foreign exchange contracts			
Machinery and Power Systems	Receivables trade and other	\$81	\$120
Machinery and Power Systems	Long-term receivables trade and other	1	
Machinery and Power Systems	Accrued expenses	(31)	(46)
Machinery and Power Systems	Other liabilities	(90)	(58)
Financial Products	Receivables trade and other	13	6
Financial Products	Accrued expenses	(20)	(9)
Interest rate contracts			
Machinery and Power Systems	Accrued expenses		(6)
Financial Products	Accrued expenses	(1)	(1)
Commodity contracts			
Machinery and Power Systems	Receivables trade and other	3	17
Machinery and Power Systems	Accrued expenses	(17)	
		\$(61)	\$23

Table of Contents

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

Fair Value Hedges

(Millions of dollars)

Classification	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011		
	Gains (Losses) on Derivatives	Gains (Losses) on Borrowings	Gains (Losses) on Derivatives	Gains (Losses) on Borrowings	
Interest rate contracts Machinery and Power Systems	Other income (expense)	\$	\$	\$(1)	\$1
Financial Products	Other income (expense)	70	(77)	59	(65)
		\$70	\$(77)	\$58	\$(64)

Classification	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010		
	Gains (Losses) on Derivatives	Gains (Losses) on Borrowings	Gains (Losses) on Derivatives	Gains (Losses) on Borrowings	
Interest rate contracts Financial Products	Other income (expense)	\$63	\$(61)	\$204	\$(195)
		\$63	\$(61)	\$204	\$(195)

Table of Contents**Cash Flow Hedges**

(Millions of dollars)

	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)	Three Months Ended September 30, 2011 Recognized in Earnings		
		Classification of Gains (Losses)	Amount of Gains (Losses) Reclassified from AOCI (Effective Portion)	Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts				
Machinery and Power Systems	\$62	Other income (expense)	\$43	\$
Interest rate contracts				
Machinery and Power Systems		Other income (expense)	(1)	
Financial Products	(4)	Interest expense of Financial Products	(3)	(2)1
	\$58		\$39	\$(2)

	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)	Three Months Ended September 30, 2010 Recognized in Earnings		
		Classification of Gains (Losses)	Amount of Gains (Losses) Reclassified from AOCI (Effective Portion)	Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts				
Machinery and Power Systems	\$37	Other income (expense)	\$15	\$1
Interest rate contracts				
Machinery and Power Systems		Other income (expense)	(1)	
Financial Products	(2)	Interest expense of Financial Products	(10)	(2)1
	\$35		\$4	\$(1)

	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)	Nine Months Ended September 30, 2011 Recognized in Earnings		
		Classification of Gains (Losses)	Amount of Gains (Losses) Reclassified from AOCI (Effective Portion)	Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts				
Machinery and Power Systems	\$44	Other income (expense)	\$52	\$
Interest rate contracts				
Machinery and Power Systems		Other income (expense)	(2)	
Financial Products	(5)	Interest expense of Financial Products	(15)	(1)1
	\$39		\$35	\$(1)

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Nine Months Ended September 30, 2010

Recognized in Earnings

	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)	Classification of Gains (Losses)	Amount of Gains (Losses) Reclassified from AOCI (Effective Portion)	Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts				
Machinery and Power Systems	\$(36)	Other income (expense)	\$(4)	\$1
Interest rate contracts				
Machinery and Power Systems		Other income (expense)	(2)	
Financial Products	(8)	Interest expense of Financial Products	(42)	(1)1
	\$(44)		\$(48)	\$

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

Table of Contents

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

(Millions of dollars)			
	Classification of Gains (Losses)	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Foreign exchange contracts			
Machinery and Power Systems	Other income (expense)	\$ (1)	\$ 46
Financial Products	Other income (expense)	(10)	(12)
Interest rate contracts			
Machinery and Power Systems	Other income (expense)		(149)
Commodity contracts			
Machinery and Power Systems	Other income (expense)	(23)	(21)
		\$(34)	\$(136)
	Classification of Gains (Losses)	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Foreign exchange contracts			
Machinery and Power Systems	Other income (expense)	\$ (21)	\$ (14)
Financial Products	Other income (expense)	12	23
Interest rate contracts			
Machinery and Power Systems	Other income (expense)		(2)
Financial Products	Other income (expense)	2	3
Commodity contracts			
Machinery and Power Systems	Other income (expense)	10	7
		\$ 3	\$ 17

Stock Repurchase Risk

Payments for stock repurchase derivatives are accounted for as a reduction in stockholders' equity. In February 2007, the Board of Directors authorized a \$7.5 billion stock repurchase program, expiring on December 31, 2011. The amount of Caterpillar stock that can be repurchased under the authorization is impacted by movements in the price of the stock. In August 2007, the Board of Directors authorized the use of derivative contracts to reduce stock repurchase price volatility. There were no stock repurchase derivatives outstanding for the three and nine months ended September 30, 2011 or 2010.

5. Inventories

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

(Millions of dollars)	September 30, 2011	December 31, 2010
Raw materials	\$3,649	\$2,766

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Work-in-process	3,020	1,483
Finished goods	7,474	5,098
Supplies	269	240
Total inventories	\$14,412	\$9,587

During the third quarter of 2011, we acquired \$2,305 million of inventory (valued using the first-in, first-out (FIFO) method) as a result of the acquisition of Bucyrus International, Inc. See Note 18 for details on this business combination.

Table of Contents**6. Investments in Unconsolidated Affiliated Companies**

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

Results of Operations of unconsolidated affiliated companies: (Millions of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Sales	\$302	\$216	\$741	\$580
Cost of sales	257	171	616	445
Gross profit	\$45	\$45	\$125	\$135
Profit (loss)	\$(12)	\$(10)	\$(46)	\$(12)

Financial Position of unconsolidated affiliated companies:

(Millions of dollars)	September 30, 2011	December 31, 2010
Assets:		
Current assets	\$310	\$414
Property, plant and equipment net	172	196
Other assets	7	39
	489	649
Liabilities:		
Current liabilities	202	274
Long-term debt due after one year	74	72
Other liabilities	12	40
	288	386
Equity	\$201	\$263

<p>1 The decrease is due to the sale of our ownership in NC2 Global LLC (NC2), which occurred on September 29, 2011.</p>
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Caterpillar's investments in unconsolidated affiliated companies:	September 30, 2011	December 31, 2010
(Millions of dollars)		
Investments in equity method companies	\$99	\$135
Plus: Investments in cost method companies	22	29
Total investments in unconsolidated affiliated companies	\$121	\$164

Table of Contents

7. **Intangible Assets and Goodwill**

A. Intangible assets

Intangible assets are comprised of the following:

			September 30, 2011	
(Millions of dollars)	Weighted Amortizable Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	15	\$2,929	\$(173)	\$2,756
Intellectual property	12	1,775	(208)	1,567
Other	11	277	(89)	188
Total finite-lived intangible assets	14	4,981	(470)	4,511
Indefinite-lived intangible assets - In-process research & development		18		18
Total intangible assets		\$4,999	\$(470)	\$4,529

			December 31, 2010	
(Millions of dollars)	Weighted Amortizable Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	17	\$630	\$(108)	\$522
Intellectual property	9	306	(166)	140
Other	13	197	(72)	125
Total finite-lived intangible assets	14	1,133	(346)	787
Indefinite-lived intangible assets - In-process research & development		18		18
Total intangible assets		\$1,151	\$(346)	\$805

During the third quarter of 2011, we acquired finite-lived intangible assets aggregating \$3,941 million due to purchases of Bucyrus International, Inc. and Pyroban Group Ltd. See Note 18 for details on these business combinations.

Amortization expense for the three and nine months ended September 30, 2011 was \$91 million and \$135 million, respectively. Amortization expense for the three and nine months ended September 30, 2010 was \$20 million and \$52 million, respectively. Amortization expense related to intangible assets is expected to be:

(Millions of dollars)					
2011	2012	2013	2014	2015	Thereafter
\$229	\$376	\$368	\$365	\$360	\$2,966

B. Goodwill

During the third quarter of 2011, we recorded goodwill of \$5,286 million related to the acquisitions of Bucyrus International, Inc. and Pyroban Group Ltd. See Note 18 for details on these business combinations.

We test goodwill for impairment annually and whenever events or circumstances make it more likely than not that an impairment may have occurred. We perform our annual goodwill impairment test as of October 1 and monitor for interim triggering events on an ongoing basis. Goodwill is reviewed for impairment utilizing a two-step process. The first step requires us to compare the fair value of each reporting unit, which we primarily determine using an income approach based on the present value of discounted cash flows, to the respective carrying value, which includes goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is greater than the fair value, there is an indication that an impairment may exist and the second step is required. Additionally, if the carrying amount of a reporting unit is zero or negative, the second step of the goodwill impairment test is also required if an analysis of qualitative factors indicates it more likely than not that a goodwill impairment exists. In step two, the implied fair value of goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss. No goodwill was impaired during the three and nine months ended September 30, 2011 or 2010.

Table of Contents

As discussed in Note 14 Segment Information, during the first quarter of 2011, we revised our reportable segments in line with the changes to our organizational structure that were announced during 2010. Our reporting units did not change as a result of the changes to our reportable segments.

The changes in the carrying amount of the goodwill by reportable segment for the nine months ended September 30, 2011 were as follows:

(Millions of dollars)

	Construction Industries	Resource Industries	Power Systems	Other	Consolidated Total
Balance at December 31, 2010	\$357	\$51	\$2,077	\$129	\$2,614
Business acquisitions ¹		5,263	23		5,286
Business divestitures ²				(12)	(12)
Other adjustments ³	24	(133)	(1)		(110)
Balance at September 30, 2011	\$381	\$5,181	\$2,099	\$117	\$7,778

1 Purchase of Bucyrus International, Inc. and Pyroban Group Ltd. See Note 18 for additional details.

2 Sale of Carter Machinery. See Note 18 for additional details.

3 Other adjustments are comprised primarily of foreign currency translation.

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8. Available-For-Sale Securities

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

(Millions of dollars)	September 30, 2011			December 31, 2010		
	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value
Government debt						
U.S. treasury bonds	\$10	\$	\$10	\$12	\$	\$12
Other U.S. and non-U.S. government bonds	72	2	74	76	1	77

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Corporate bonds						
Corporate bonds	526	30	556	481	30	511
Asset-backed securities	117	(1)	116	136		136
Mortgage-backed debt securities						
U.S. governmental agency mortgage-backed securities	274	16	290	258	15	273
Residential mortgage-backed securities	36	(4)	32	43	(3)	40
Commercial mortgage-backed securities	156	1	157	164	4	168
Equity securities						
Large capitalization value	116	6	122	100	22	122
Smaller company growth	21	6	27	23	8	31
Total	\$1,328	\$56	\$1,384	\$1,293	\$77	\$1,370

During the three and nine months ended September 30, 2011, charges for other-than-temporary declines in the market value of securities were \$4 million. During the three and nine months ended September 30, 2010, charges for other-than-temporary declines in the market value of securities were \$1 million and \$2 million, respectively. These charges were accounted for as realized losses 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.

Table of Contents**Investments in an unrealized loss position that are not other-than-temporarily impaired:**

(Millions of dollars)	September 30, 2011					
	Less than 12 months ¹		12 months or more ¹		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds						
Corporate bonds	\$65	\$1	\$	\$	\$65	\$1
Asset-backed securities			17	5	17	5
Mortgage-backed debt securities						
Residential mortgage-backed securities			18	4	18	4
Commercial mortgage-backed securities	14	2	7	2	21	4
Equity securities						
Large capitalization value	49	9	5	1	54	10
Small company growth	5	1			5	1
Total	\$133	\$13	\$47	\$12	\$180	\$25

	December 31, 2010					
	Less than 12 months ¹		12 months or more ¹		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds						
Asset-backed securities	\$19	\$	\$19	\$4	\$38	\$4
Mortgage-backed debt securities						
Residential mortgage-backed securities	2		25	4	27	4
Commercial mortgage-backed securities	3		14	1	17	1
Equity securities						
Large capitalization value	14	1	12	2	26	3
Total	\$38	\$1	\$70	\$11	\$108	\$12

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

Corporate Bonds. The unrealized losses on our investments in corporate bonds and asset-backed securities relate primarily to changes in interest rates and credit-related yield spreads 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 September 30, 2011.

Mortgage-Backed Debt Securities. The unrealized losses on our investments in mortgage-backed securities and mortgage-related asset-backed securities relate primarily to the continuation of elevated housing delinquencies and default rates, risk aversion and credit-related yield spreads since time of purchase. We do not intend to sell the investments and it is not likely that we will be required to sell these investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of September 30, 2011.

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Equity Securities. Cat Insurance maintains a well-diversified equity portfolio consisting of two specific mandates: large capitalization value stocks and smaller company growth stocks. U.S. equity valuations were notably lower for the three months ended September 30, 2011 due to concerns over Europe's debt crisis and a potential global slowdown. In each case where unrealized losses exist, we believe the respective company's management is taking corrective action in order to increase shareholder value. We do not consider these investments to be other-than-temporarily impaired as of September 30, 2011.

The fair value of the available-for-sale debt securities at September 30, 2011, 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.

Table of Contents

(Millions of dollars)	<u>Fair Value</u>
Due in one year or less	\$78
Due after one year through five years	\$465
Due after five years through ten years	\$211
Due after ten years	\$481

Sales of Securities

(Millions of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Proceeds from the sale of available-for-sale securities	\$58	\$51	\$180	\$141
Gross gains from the sale of available-for-sale securities	\$1	\$	\$3	\$1
Gross losses from the sale of available-for-sale securities	\$	\$	\$1	\$

9. Postretirement Benefits**A. Pension and postretirement benefit costs**

As announced in August 2010, on January 1, 2011, our retirement benefits for U.S. support and management employees began transitioning from defined benefit pension plans to defined contribution plans. The transition date was determined for each employee based upon age and years of service or proximity to retirement. Pension benefit accruals were frozen for certain employees on December 31, 2010, and will freeze for remaining employees on December 31, 2019. As of these dates employees will move to the new retirement benefit that will provide a frozen pension benefit and a 401(k) plan that will include a matching contribution and a new annual employer contribution. The plan change required a re-measurement as of August 31, 2010, which resulted in an increase in our Liability for postemployment benefits of \$1.32 billion and a decrease in Accumulated other comprehensive income (loss) of \$831 million net of tax. The increase in the liability was due to a decline in the discount rate and lower than expected asset returns at the re-measurement date. Curtailment expense of \$28 million was also recognized for the three and nine months ended September 30, 2010 as a result of the plan change.

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

Table of Contents

(Millions of dollars)	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	September 30, 2011	2010	September 30, 2011	2010	September 30, 2011	2010
For the three months ended:						
Components of net periodic benefit cost:						
Service cost	\$41	\$53	\$28	\$23	\$21	\$17
Interest cost	164	162	45	42	64	62
Expected return on plan assets	(200)	(193)	(50)	(50)	(18)	(24)
Amortization of:						
Transition obligation (asset)					1	
Prior service cost (credit) 1	5	6	1	1	(14)	(14)
Net actuarial loss (gain)	112	96	18	17	27	9
Net periodic benefit cost	122	124	42	33	81	50
Curtailements, settlements and special termination benefits 2		28		9		
Total cost included in operating profit	\$122	\$152	\$42	\$42	\$81	\$50
For the nine months ended:						
Components of net periodic benefit cost:						
Service cost	\$118	\$150	\$83	\$69	\$62	\$50
Interest cost	488	495	132	124	190	184
Expected return on plan assets	(598)	(574)	(150)	(148)	(53)	(70)
Amortization of:						
Transition obligation (asset)					2	1
Prior service cost (credit) 1	15	20	2	1	(41)	(41)
Net actuarial loss (gain)	338	271	54	51	81	25
Net periodic benefit cost	361	362	121	97	241	149
Curtailements, settlements and special termination benefits 2		28	9	17		
Total cost included in operating profit	\$361	\$390	\$130	\$114	\$241	\$149
Weighted-average assumptions used to determine net cost:						
Discount rate	5.1%	5.6%	4.6%	4.8%	5.0%	5.6%
Expected return on plan assets	8.5%	8.5%	7.1%	7.0%	8.5%	8.5%
Rate of compensation increase	4.5%	4.5%	4.2%	4.2%	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 Curtailements, settlements and special termination benefits were recognized in Other operating (income) expenses in the Consolidated Statement of Results of Operations.

We made \$105 million and \$340 million of contributions to our U.S. and non-U.S. pension plans during the three and nine months ended September 30, 2011, respectively. We currently anticipate full-year 2011 contributions of approximately \$440 million. We made \$409 million and \$957 million of contributions to our U.S. and non-U.S. pension plans during the three and nine months ended September 30, 2010,

respectively.

B. Defined contribution benefit costs

From June 2009 to October 2010, we funded our employer matching contribution for certain U.S. defined contribution plans in Caterpillar stock, held as treasury stock. For the three and nine months ended September 30, 2010, we made \$31 million (0.5 million shares) and \$93 million (1.5 million shares) of matching contributions in Caterpillar stock, respectively.

On January 1, 2011, matching contributions to our U.S. 401(k) plan changed for certain employees that are still accruing benefits under a defined benefit pension plan. Matching contributions changed from 100% of employee contributions to the plan up to six percent of their compensation to 50% of employee contributions up to six percent of compensation. For employees whose defined benefit pension accruals were frozen as of December 31, 2010, we began providing a new annual employer contribution in 2011, which ranges from three to five percent of compensation, depending on years of service and age.

Table of Contents

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

(Millions of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
U.S. Plans	\$3	\$77	\$135	\$160
Non-U.S. Plans	14	8	40	24
	\$17	\$85	\$175	\$184

10. Guarantees and Product Warranty

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

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

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

No loss has been experienced or is anticipated under any of these guarantees. At September 30, 2011 and December 31, 2010, the related liability was \$7 million and \$10 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)	September 30, 2011	December 31, 2010
Guarantees with Caterpillar dealers	\$149	\$185
Guarantees with customers	155	170
Limited indemnity	12	17
Guarantees other	29	48
Total guarantees	\$345	\$420

Cat Financial provides guarantees to repurchase certain loans of Caterpillar dealers from a special-purpose corporation (SPC) that qualifies as a variable interest entity. The purpose of the SPC is to provide short-term working capital loans to Caterpillar dealers. This SPC issues commercial paper and uses the proceeds to fund its loan program. Cat Financial has a loan purchase agreement with the SPC that obligates Cat

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Financial to purchase certain loans that are not paid at maturity. Cat Financial receives a fee for providing this guarantee, which provides a source of liquidity for the SPC. Cat Financial is the primary beneficiary of the SPC as our guarantees result in Cat Financial having both the power to direct the activities that most significantly impact the SPC's economic performance and the obligation to absorb losses, and therefore Cat Financial has consolidated the financial statements of the SPC. As of September 30, 2011 and December 31, 2010, the SPC's assets of \$579 million and \$365 million, respectively, are primarily comprised of loans to dealers and the SPC's liabilities of \$579 million and \$365 million, respectively are primarily comprised of commercial paper. No loss has been experienced or is anticipated under this loan purchase agreement. Cat Financial's assets are not available to pay creditors of the SPC, except to the extent Cat Financial may be obligated to perform under the guarantee, and assets of the SPC are not available to pay Cat Financial's creditors.

Table of Contents

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. During the third quarter of 2011, the increase in liability (new warranties) included approximately \$177 million due to the purchase of Bucyrus.

(Millions of dollars)	2011
Warranty liability, January 1	\$1,035
Reduction in liability (payments)	(673)
Increase in liability (new warranties)	933
Warranty liability, September 30	\$1,295

(Millions of dollars)	2010
Warranty liability, January 1	\$1,049
Reduction in liability (payments)	(855)
Increase in liability (new warranties)	841
Warranty liability, December 31	\$1,035

11. Computations of Profit Per Share

(Dollars in millions except per share data)		Three Months Ended		Nine Months Ended	
		September 30,		September 30,	
		2011	2010	2011	2010
I.	Profit (loss) for the period (A)1:	\$1,141	\$792	\$3,381	\$1,732
II.	Determination of shares (in millions):				
	Weighted-average number of common shares outstanding (B)	646.6	632.6	644.3	629.6
	Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price	19.4	19.0	21.8	17.4
	Average common shares outstanding for fully diluted computation (C) 2	666.0	651.6	666.1	647.0
III.	Profit (loss) per share of common stock:				
	Assuming no dilution (A/B)	\$1.76	\$1.25	\$5.25	\$2.75
	Assuming full dilution (A/C) 2	\$1.71	\$1.22	\$5.08	\$2.68

1 Profit (loss) attributable to common stockholders.

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

SARs and stock options to purchase 2,904,815 common shares were outstanding for both the three and nine months ended September 30, 2011, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive. For the three and nine months ended September 30, 2010, there were outstanding SARs and stock options to purchase 4,853,298 and 21,652,360 common shares, respectively, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

12. Environmental and Legal Matters

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

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

Table of Contents

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

We have disclosed certain individual legal proceedings in this filing. Additionally, we are involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance liability (including claimed asbestos and welding fumes exposure), contracts, employment issues, environmental matters or intellectual property rights. The aggregate range of reasonably possible losses in excess of accrued liabilities, if any, associated with these unresolved legal actions is not material. In some cases, we cannot reasonably estimate a range of loss because there is insufficient information regarding the matter. However, there is no more than a remote chance that any liability arising from these matters would be material. Although it is not possible to predict with certainty the outcome of these unresolved legal actions, we believe that these actions will not individually or in the aggregate have a material adverse effect on our consolidated results of operations, financial position or liquidity.

On May 14, 2007, the U.S. Environmental Protection Agency (EPA) issued a Notice of Violation to Caterpillar Inc., alleging various violations of Clean Air Act Sections 203, 206 and 207. EPA claims that Caterpillar violated such sections by shipping engines and catalytic converter after-treatment devices separately, introducing into commerce a number of uncertified and/or misbuilt engines, and failing to timely report emissions-related defects. On July 9, 2010, the Department of Justice issued a penalty demand to Caterpillar seeking a civil penalty of \$3.2 million and implementation of injunctive relief involving expanded use of certain technologies. On July 28, 2011, EPA and the U.S. Department of Justice filed and lodged a civil complaint and consent decree with the U.S. District Court for the District of Columbia (Court) regarding the matter. Caterpillar has agreed to the terms of the consent decree, which require payment of a civil penalty of \$2.55 million, retirement of a small number of emissions credits and expanded defect-related reporting. On September 7, 2011, the Court entered the consent decree, making it effective on that date, and Caterpillar has paid the penalty due to the United States in accordance with the decree terms. Under the terms of the consent decree, and subject to a settlement agreement, \$510,000 of the stipulated \$2.55 million penalty will be paid to the California Air Resources Board relating to engines covered by the consent decree that were placed into service in California.

On February 8, 2009, an incident at Caterpillar's Joliet, Illinois facility resulted in the release of approximately 3,000 gallons of wastewater into the Des Plaines River. In coordination with state and federal authorities, appropriate remediation measures have been taken. On February 23, 2009, the Illinois Attorney General filed a Complaint in Will County Circuit Court containing seven counts of violations of state environmental laws and regulations. Caterpillar settled this matter with the State of Illinois in 2010, resolving all allegations in the Complaint. This settlement does not have a material adverse impact on our consolidated results of operations, financial position, or liquidity. In addition, on March 5, 2009, the EPA served Caterpillar with a Notice of Intent to file a Civil Administrative Action (notice), indicating the EPA's intent to seek civil penalties for alleged violations of the Clean Water Act and Oil Pollution Act. On January 25, 2010, the EPA issued a revised notice seeking civil penalties in the amount of \$167,800. Caterpillar settled this matter with the EPA on July 12, 2011, resolving all allegations in the notice. This settlement did not have a material adverse impact on our consolidated results of operations, financial position or liquidity.

In May 2010, an incident at Caterpillar's Gosselies, Belgium facility resulted in the release of wastewater into the Perupont River. In coordination with local authorities, appropriate remediation measures have been taken. In January 2011, Caterpillar learned that the public prosecutor for the Belgian administrative district of Charleroi had referred the matter to an examining magistrate of the civil court of Charleroi for further investigation. Caterpillar is cooperating with the Belgian authorities on this investigation. At this time, it is unlikely that penalties will be assessed, and any penalties are unlikely to exceed \$100,000. Management does not believe this matter will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

13. Income Taxes

The provision for income taxes reflects an estimated annual effective tax rate of 29 percent for the first nine months of 2011 compared to 28 percent for the first nine months of 2010, excluding the discrete items discussed below. The 2011 estimated annual effective tax rate of 29 percent is higher than the comparable full-year 2010 rate of 25 percent primarily due to an expected change in our geographic mix of profits from a tax perspective.

Table of Contents

The provision for income taxes for 2011 also includes a benefit of \$113 million due to planned repatriation of non-U.S. earnings with available foreign tax credits in excess of the U.S. tax liability on the dividend offset by a \$41 million increase in prior year unrecognized tax benefits. The 2010 provision for income taxes included a charge of \$90 million due to the enactment of U.S. healthcare legislation, effectively making government subsidies received for Medicare equivalent prescription drug coverage taxable, offset by a \$34 million benefit related to the recognition of refund claims for prior tax years and a \$26 million benefit for the release of a valuation allowance.

It is reasonably possible that changes in the amount of valuation allowances against deferred tax assets of certain non-U.S. entities may be required in the next twelve months.

14. Segment Information

A. Basis for segment information

In the first quarter of 2011, we implemented revised internal financial measurements in line with changes to our organizational structure that were announced during 2010. Our previous structure used a matrix organization comprised of multiple profit and cost center divisions. There were twenty-five operating segments, twelve of which were reportable segments. These segments were led by vice-presidents that were managed by Caterpillar's Executive Office (comprised of our CEO and Group Presidents), which served as our Chief Operating Decision Maker. As part of the strategy revision, Group Presidents were given accountability for a related set of end-to-end businesses that they manage, a significant change for the company. The CEO allocates resources and manages performance at the Group President level. As such, the CEO now serves as our Chief Operating Decision Maker and operating segments are primarily based on the Group President reporting structure.

Three of our operating segments, Construction Industries, Resource Industries and Power Systems, are led by Group Presidents. One operating segment, Financial Products, is led by a Group President who has responsibility for Corporate Services. Corporate Services is a cost center primarily responsible for the performance of certain support functions globally and to provide centralized services; it does not meet the definition of an operating segment. One Group President leads three smaller operating segments that are included in All Other operating segments.

The segment information for 2010 has been retrospectively adjusted to conform to the 2011 presentation.

B. Description of segments

We have seven operating segments, of which four are reportable segments. Following is a brief description of our reportable segments and the business activities included in all other operating segments:

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Construction Industries: A segment primarily responsible for supporting customers using machinery in infrastructure and building construction applications. Responsibilities include business strategy, product design, product management and development, manufacturing, marketing, sales and product support. The product portfolio includes backhoe loaders, small wheel loaders, small track-type tractors, skid steer loaders, multi-terrain loaders, mini excavators, compact wheel loaders, select work tools, small, medium and large track excavators, wheel excavators, medium wheel loaders, medium track-type tractors, track-type loaders, motor graders, pipelayers and related parts. In addition, Construction Industries has responsibility for Power Systems and components in Japan and an integrated manufacturing cost center that supports Machinery and Power Systems businesses. Inter-segment sales are a source of revenue for this segment.

Resource Industries: A segment primarily responsible for supporting customers using machinery in mining and quarrying applications. Responsibilities include business strategy, product design, product management and development, manufacturing, marketing and sales and product support. The product portfolio includes large track-type tractors, large mining trucks, underground mining equipment, tunnel boring equipment, large wheel loaders, quarry and construction trucks, articulated trucks, wheel tractor scrapers, wheel dozers, compactors, select work tools, forestry products, paving products, machinery components and electronics and control systems. In addition, Resource Industries manages areas that provide services to other parts of the company, including integrated manufacturing, research and development and coordination of the Caterpillar Production System. On July 8, 2011, the acquisition of Bucyrus was completed. This added the responsibility for business strategy, product design, product management and development, manufacturing, marketing and sales and product support for electric rope shovels, draglines, hydraulic shovels, drills, highwall miners and large electric drive mining trucks to Resource Industries. In addition, Bucyrus acquisition costs impacting operating profit are included in this segment. Inter-segment sales are a source of revenue for this segment.

Table of Contents

Power Systems: A segment primarily responsible for supporting customers using reciprocating engines, turbines and related parts across industries serving electric power, industrial, petroleum and marine applications as well as rail-related businesses. Responsibilities include business strategy, product design, product management and development, manufacturing, marketing, sales and product support of reciprocating engine powered generator sets, integrated systems used in the electric power generation industry, reciprocating engines and integrated systems and solutions for the marine and petroleum industries; reciprocating engines supplied to the industrial industry as well as Caterpillar machinery; the business strategy, product design, product management and development, manufacturing, marketing, sales and product support of turbines and turbine related services; the business strategy, product design, product management and development, manufacturing, remanufacturing, maintenance, marketing, sales, leasing and service of diesel-electric locomotives and components and other rail-related products and services. Inter-segment sales are a source of revenue for this segment.

Financial Products Segment: 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 remanufacturing of Cat engines and components and remanufacturing services for other companies as well as the business strategy, product management, development, manufacturing, marketing and product support of undercarriage, specialty products, hardened bar stock components and ground engaging tools primarily for Caterpillar products; logistics services for Caterpillar and other companies; the product management, development, marketing, sales and product support of on-highway vocational trucks for North America (U.S. & Canada only); distribution services responsible for dealer development and administration, dealer portfolio management and ensuring the most efficient and effective distribution of machines, engines and parts; and the 50/50 joint venture with Navistar (NC2) until it became a wholly owned subsidiary of Navistar effective September 29, 2011. Inter-segment sales are a source of revenue for this segment. Results for All Other operating segments are included as reconciling items between reportable segments and consolidated external reporting.

C. Segment measurement and reconciliations

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

- Machinery and Power Systems segment net assets generally include inventories, receivables, property, plant and equipment, goodwill, intangibles and accounts payable. Liabilities other than accounts payable are generally managed at the corporate level and are not included in segment operations. Financial Products Segment assets generally include all categories of assets.
- Segment inventories and cost of sales are valued using a current cost methodology.
- Goodwill is amortized using a fixed amount based on a twenty year useful life. This methodology difference only impacts segment assets; no goodwill amortization expense is included in segment profit.

- The present value of future lease payments for certain Machinery and Power Systems operating leases is included in segment assets. The estimated financing component of the lease payments is excluded.
- Currency exposures for Machinery and Power Systems 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 profit. The net difference created in the translation of revenues and costs between exchange rates used for U.S. GAAP reporting and exchange rates used for segment reporting are recorded as a methodology difference.
- Postretirement benefit expenses are split; segments are generally responsible for service and prior service costs, with the remaining elements of net periodic benefit cost included as a methodology difference.
- Machinery and Power Systems segment profit is determined on a pretax basis and excludes interest expense, gains and losses on interest rate swaps and other income/expense items. Financial Products Segment profit is determined on a pretax basis and includes other income/expense items.

Table of Contents

Reconciling items are created based on accounting differences between segment reporting and our consolidated external reporting. Please refer to pages 29 to 34 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:** These costs are related to corporate requirements and strategies that are considered to be for the benefit of the entire organization.
- **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.

Table of Contents**Reportable Segments**

Three Months Ended September 30,

(Millions of dollars)

	2011						
	External sales and revenues	Inter-segment sales & revenues	Total sales and revenues	Depreciation and amortization	Segment profit	Segment assets at Sept. 30	Capital expenditures
Construction Industries	\$4,900	\$162	\$5,062	\$136	\$496	\$7,390	\$234
Resource Industries	4,599	290	4,889	155	745	14,903	159
Power Systems	5,075	600	5,675	133	794	8,216	279
Machinery and Power Systems	\$14,574	\$1,052	\$15,626	\$424	\$2,035	\$30,509	\$672
Financial Products Segment	757		757	177	145	31,116	311
Total	\$15,331	\$1,052	\$16,383	\$601	\$2,180	\$61,625	\$983

	2010						
	External sales and revenues	Inter-segment sales & revenues	Total sales and revenues	Depreciation and amortization	Segment profit	Segment assets at Dec. 31	Capital expenditures
Construction Industries	\$3,466	\$179	\$3,645	\$123	\$246	\$6,927	\$124
Resource Industries	2,262	206	2,468	70	538	3,892	68
Power Systems	4,196	485	4,681	132	694	8,321	92
Machinery and Power Systems	\$9,924	\$870	\$10,794	\$325	\$1,478	\$19,140	\$284
Financial Products Segment	737		737	175	108	30,346	290
Total	\$10,661	\$870	\$11,531	\$500	\$1,586	\$49,486	\$574

Reportable Segments

Nine Months Ended September 30,

(Millions of dollars)

	2011						
	External sales and revenues	Inter-segment sales & revenues	Total sales and revenues	Depreciation and amortization	Segment profit	Segment assets at Sept. 30	Capital expenditures
Construction Industries	\$14,312	\$433	\$14,745	\$382	\$1,522	\$7,390	\$471
Resource Industries	10,573	848	11,421	298	2,337	14,903	320
Power Systems	14,442	1,695	16,137	398	2,230	8,216	496
Machinery and Power Systems	\$39,327	\$2,976	\$42,303	\$1,078	\$6,089	\$30,509	\$1,287
Financial Products Segment	2,251		2,251	535	453	31,116	830

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Total	\$41,578	\$2,976	\$44,554	\$1,613	\$6,542	\$61,625	\$2,117
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2010

	External sales and revenues	Inter-segment sales & revenues	Total sales and revenues	Depreciation and amortization	Segment profit	Segment assets at Dec. 31	Capital expenditures
Construction Industries	\$9,469	\$481	\$9,950	\$377	\$496	\$6,927	\$288
Resource Industries	5,860	552	6,412	210	1,183	3,892	139
Power Systems	10,873	1,129	12,002	358	1,580	8,321	274
Machinery and Power Systems	\$26,202	\$2,162	\$28,364	\$945	\$3,259	\$19,140	\$701
Financial Products Segment	2,220		2,220	538	324	30,346	677
Total	\$28,422	\$2,162	\$30,584	\$1,483	\$3,583	\$49,486	\$1,378

Table of Contents**Reconciliation of Sales and revenues:**
(Millions of dollars)

	Machinery and Power Systems	Financial Products	Consolidating Adjustments	Consolidated Total
<u>Three Months Ended September 30, 2011:</u>				
Total external sales and revenues from reportable segments	\$14,574	\$757	\$	\$15,331
All other operating segments	461			461
Other	(12)	17	(81)1	(76)
Total sales and revenues	\$15,023	\$774	\$(81)	\$15,716
<u>Three Months Ended September 30, 2010:</u>				
Total external sales and revenues from reportable segments	\$9,924	\$737	\$	\$10,661
All other operating segments	550			550
Other	(22)	12	(67)1	(77)
Total sales and revenues	\$10,452	\$749	\$(67)	\$11,134

1 Elimination of Financial Products revenues from Machinery and Power Systems.

Reconciliation of Sales and revenues:
(Millions of dollars)

	Machinery and Power Systems	Financial Products	Consolidating Adjustments	Consolidated Total
<u>Nine Months Ended September 30, 2011:</u>				
Total external sales and revenues from reportable segments	\$39,327	\$2,251	\$	\$41,578
All other operating segments	1,525			1,525
Other	(17)	40	(231)1	(208)
Total sales and revenues	\$40,835	\$2,291	\$(231)	\$42,895
<u>Nine Months Ended September 30, 2010:</u>				
Total external sales and revenues from reportable segments	\$26,202	\$2,220	\$	\$28,422
All other operating segments	1,573			1,573
Other	(49)	28	(193)1	(214)
Total sales and revenues	\$27,726	\$2,248	\$(193)	\$29,781

1 Elimination of Financial Products revenues from Machinery and Power Systems.

Table of Contents**Reconciliation of Consolidated profit (loss) before taxes:**

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidated Total
<u>Three Months Ended September 30, 2011:</u>			
Total profit from reportable segments	\$2,035	\$145	\$2,180
All other operating segments	234		234
Cost centers	30		30
Corporate costs	(332)		(332)
Timing	12		12
Methodology differences:			
Inventory/cost of sales	(21)		(21)
Postretirement benefit expense	(110)		(110)
Financing costs	(116)		(116)
Equity in profit of unconsolidated affiliated companies	6		6
Currency	(188)		(188)
Other income/expense methodology differences	(54)		(54)
Other methodology differences	(7)		(7)
Total profit (loss) before taxes	\$1,489	\$145	\$1,634
<u>Three Months Ended September 30, 2010:</u>			
Total profit from reportable segments	\$1,478	\$108	\$1,586
All other operating segments	200		200
Cost centers	(3)		(3)
Corporate costs	(238)		(238)
Timing	(97)		(97)
Methodology differences:			
Postretirement benefit expense	(224)		(224)
Financing costs	(79)		(79)
Equity in profit of unconsolidated affiliated companies	7		7
Currency	(22)		(22)
Interest rate swaps	(1)		(1)
Other income/expense methodology differences	(29)		(29)
Other methodology differences	1	2	3
Total profit (loss) before taxes	\$993	\$110	\$1,103

Table of Contents**Reconciliation of Consolidated profit (loss) before taxes:**

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidated Total
<u>Nine Months Ended September 30, 2011:</u>			
Total profit from reportable segments	\$6,089	\$453	\$6,542
All other operating segments	601		601
Cost centers	28		28
Corporate costs	(900)		(900)
Timing	(157)		(157)
Methodology differences:			
Inventory/cost of sales	1		1
Postretirement benefit expense	(468)		(468)
Financing costs	(294)		(294)
Equity in profit of unconsolidated affiliated companies	24		24
Currency	(263)		(263)
Interest rate swaps	(149)		(149)
Other income/expense methodology differences	(210)		(210)
Other methodology differences	(11)	3	(8)
Total profit (loss) before taxes	\$4,291	\$456	\$4,747
<u>Nine Months Ended September 30, 2010:</u>			
Total profit from reportable segments	\$3,259	\$324	\$3,583
All other operating segments	580		580
Cost centers	(8)		(8)
Corporate costs	(708)		(708)
Timing	(209)		(209)
Methodology differences:			
Inventory/cost of sales	38		38
Postretirement benefit expense	(467)		(467)
Financing costs	(248)		(248)
Equity in profit of unconsolidated affiliated companies	13		13
Currency	23		23
Interest rate swaps	(3)		(3)
Other income/expense methodology differences	(79)		(79)
Other methodology differences	(2)	5	3
Total profit (loss) before taxes	\$2,189	\$329	\$2,518

Table of Contents**Reconciliation of Assets:**

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidating Adjustments	Consolidated Total
<u>September 30, 2011:</u>				
Total assets from reportable segments	\$30,509	\$31,116	\$	\$61,625
All other operating segments	2,010			2,010
Items not included in segment assets:				
Cash and short-term investments	1,649			1,649
Intercompany receivables	69		(69)	
Investment in Financial Products	3,965		(3,965)	
Deferred income taxes	2,262		(485)	1,777
Goodwill, intangible assets and other assets	1,635			1,635
Operating lease methodology difference	(514)			(514)
Liabilities included in segment assets	11,450			11,450
Inventory methodology differences	(2,633)			(2,633)
Other	1,103	(220)	(115)	768
Total assets	\$51,505	\$30,896	\$(4,634)	\$77,767
<u>December 31, 2010:</u>				
Total assets from reportable segments	\$19,140	\$30,346	\$	\$49,486
All other operating segments	2,472			2,472
Items not included in segment assets:				
Cash and short-term investments	1,825			1,825
Intercompany receivables	618		(618)	
Investment in Financial Products	4,275		(4,275)	
Deferred income taxes	3,745		(519)	3,226
Goodwill, intangible assets and other assets	1,511			1,511
Operating lease methodology difference	(567)			(567)
Liabilities included in segment assets	8,758			8,758
Inventory methodology differences	(2,913)			(2,913)
Other	627	(233)	(172)	222
Total assets	\$39,491	\$30,113	\$(5,584)	\$64,020

Reconciliations of Depreciation and amortization:

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidating Adjustments	Consolidated Total
<u>Three Months Ended September 30, 2011:</u>				
Total depreciation and amortization from reportable segments	\$424	\$177	\$	\$601
Items not included in segment depreciation and amortization:				
All other operating segments	42			42
Cost centers	26			26
Other	(15)	4		(11)
Total depreciation and amortization	\$477	\$181	\$	\$658
<u>Three Months Ended September 30, 2010:</u>				
Total depreciation and amortization from reportable segments	\$325	\$175	\$	\$500
Items not included in segment depreciation and amortization:				
All other operating segments	48			48
Cost centers	23			23
Other	(8)	2		(6)
Total depreciation and amortization from reportable segments	\$388	\$177	\$	\$565

Table of Contents**Reconciliations of Depreciation and amortization:**

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidating Adjustments	Consolidated Total
<u>Nine Months Ended September 30, 2011:</u>				
Total depreciation and amortization from reportable segments	\$1,078	\$535	\$	\$1,613
Items not included in segment depreciation and amortization:				
All other operating segments	128			128
Cost centers	74			74
Other	7	10		17
Total depreciation and amortization	\$1,287	\$545	\$	\$1,832
<u>Nine Months Ended September 30, 2010:</u>				
Total depreciation and amortization from reportable segments	\$945	\$538	\$	\$1,483
Items not included in segment depreciation and amortization:				
All other operating segments	144			144
Cost centers	72			72
Other	(23)	5		(18)
Total depreciation and amortization	\$1,138	\$543	\$	\$1,681

Reconciliations of Capital expenditures:

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidating Adjustments	Consolidated Total
<u>Three Months Ended September 30, 2011:</u>				
Total capital expenditures from reportable segments	\$672	\$311	\$	\$983
Items not included in segment capital expenditures:				
All other operating segments	84			84
Cost centers	31			31
Timing	(89)			(89)
Other	(88)	92	(18)	(14)
Total capital expenditures	\$610	\$403	\$(18)	\$995
<u>Three Months Ended September 30, 2010:</u>				
Total capital expenditures from reportable segments	\$284	\$290	\$	\$574
Items not included in segment capital expenditures:				
All other operating segments	115			115
Cost centers	24			24
Timing	(53)			(53)
Other	(6)	7	(20)	(19)
Total capital expenditures	\$364	\$297	\$(20)	\$641

Table of Contents**Reconciliations of Capital expenditures:**

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidating Adjustments	Consolidated Total
<u>Nine Months Ended September 30, 2011:</u>				
Total capital expenditures from reportable segments	\$1,287	\$830	\$	\$2,117
Items not included in segment capital expenditures:				
All other operating segments	173			173
Cost centers	72			72
Timing	151			151
Other	(98)	147	(63)	(14)
Total capital expenditures	\$1,585	\$977	\$(63)	\$2,499
<u>Nine Months Ended September 30, 2010:</u>				
Total capital expenditures from reportable segments	\$701	\$677	\$	\$1,378
Items not included in segment capital expenditures:				
All other operating segments	170			170
Cost centers	48			48
Timing	115			115
Other	(10)	18	(54)	(46)
Total capital expenditures	\$1,024	\$695	\$(54)	\$1,665

15. Cat Financial Financing Activities**A. Credit quality of financing receivables and allowance for credit losses**

Cat Financial adopted the accounting guidance on disclosures about the credit quality of financing receivables and the allowance for credit losses as of December 31, 2010. See Note 2 for additional information. This guidance requires information to be disclosed at disaggregated levels, defined as portfolio segments and classes.

Cat Financial applies a systematic methodology to determine the allowance for credit losses for finance receivables. Based upon Cat Financial's analysis of credit losses and risk factors, portfolio segments are as follows:

- Customer - Finance receivables with the customer.
- Dealer - Finance receivables with Caterpillar dealers.

Cat Financial further evaluates portfolio segments by the class of finance receivables, which is defined as a level of information (below a portfolio segment) in which the finance receivables have the same initial measurement attribute and a similar method for assessing and monitoring credit risk. Typically, Cat Financial's finance receivables within a geographic area have similar credit risk profiles and methods for assessing and monitoring credit risk. Cat Financial's classes, which align with management reporting, are as follows:

- North America - Finance receivables originated in the United States or Canada.

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- Europe - Finance receivables originated in Europe, Africa, Middle East and the Commonwealth of Independent States.
- Asia Pacific - Finance receivables originated in Australia, New Zealand, China, Japan, South Korea and Southeast Asia, as well as large mining customers worldwide.
- Latin America - Finance receivables originated in Central and South American countries and Mexico.
- Global Power Finance - Finance receivables related to marine vessels with Caterpillar engines worldwide and Caterpillar electrical power generation, gas compression and co-generation systems and non-Caterpillar equipment that is powered by these systems worldwide.

Impaired loans and finance leases

For all classes, a loan or finance lease is considered impaired, based on current information and events, if it is probable that Cat Financial will be unable to collect all amounts due according to the contractual terms of the loan or finance lease. Loans and finance leases reviewed for impairment include loans and finance leases that are past due, non-performing or in bankruptcy. Recognition of income is suspended and the loan or finance lease is placed on non-accrual status when management determines that collection of future income is not probable (generally after 120 days past due). Accrual is resumed, and previously suspended income is recognized, when the loan or finance lease becomes contractually current

Table of Contents

and/or collection doubts are removed. Cash receipts on impaired loans or finance leases are recorded against the receivable and then to any unrecognized income.

There were no impaired loans or finance leases as of September 30, 2011 and December 31, 2010, for the Dealer portfolio segment. The average recorded investment for impaired loans and finance leases for the Dealer portfolio segment was \$16 million and \$25 million, respectively, for the three and nine months ended September 30, 2010, all of which was in the Europe finance receivable class.

Individually impaired loans and finance leases for customers were as follows:

(Millions of dollars)	As of September 30, 2011			As of December 31, 2010		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
<u>Impaired Loans and Finance Leases</u>						
<u>With No Allowance Recorded¹</u>						
Customer						
North America	\$84	\$82	\$	\$87	\$87	\$
Europe	4	3		6	4	
Asia Pacific	14	13		13	13	
Latin America	8	8		3	3	
Global Power Finance	196	196		174	174	
Total	\$306	\$302	\$	\$283	\$281	\$
<u>Impaired Loans and Finance Leases</u>						
<u>With An Allowance Recorded</u>						
Customer						
North America	\$110	\$105	\$25	\$191	\$185	\$44
Europe	39	35	13	62	57	15
Asia Pacific	21	21	4	27	27	7
Latin America	24	24	5	44	43	9
Global Power Finance	104	103	18	34	33	4
Total	\$298	\$288	\$65	\$358	\$345	\$79
<u>Total Impaired Loans and Finance</u>						
<u>Leases</u>						
Customer						
North America	\$194	\$187	\$25	\$278	\$272	\$44
Europe	43	38	13	68	61	15
Asia Pacific	35	34	4	40	40	7
Latin America	32	32	5	47	46	9
Global Power Finance	300	299	18	208	207	4
Total	\$604	\$590	\$65	\$641	\$626	\$79

1 No related allowance for credit losses due to sufficient collateral value.

Table of Contents

(Millions of dollars)	Three Months Ended September 30, 2011		Three Months Ended September 30, 2010	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<u>Impaired Loans and Finance</u>				
<u>Leases With No Allowance</u>				
<u>Recorded¹</u>				
Customer				
North America	\$92	\$1	\$43	\$1
Europe	5		4	
Asia Pacific	13	1	7	1
Latin America	12		4	
Global Power Finance	231		113	
Total	\$353	\$2	\$171	\$2
<u>Impaired Loans and Finance</u>				
<u>Leases With An Allowance</u>				
<u>Recorded</u>				
Customer				
North America	\$125	\$	\$270	\$2
Europe	44	1	84	1
Asia Pacific	18		41	
Latin America	40		37	1
Global Power Finance	126		10	
Total	\$353	\$1	\$442	\$4
<u>Total Impaired Loans and</u>				
<u>Finance Leases</u>				
Customer				
North America	\$217	\$1	\$313	\$3
Europe	49	1	88	1
Asia Pacific	31	1	48	1
Latin America	52		41	1
Global Power Finance	357		123	
Total	\$706	\$3	\$613	\$6

1 No related allowance for credit losses due to sufficient collateral value.

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Table of Contents

(Millions of dollars)	Nine Months Ended September 30, 2011		Nine Months Ended September 30, 2010	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<u>Impaired Loans and Finance Leases With No Allowance Recorded¹</u>				
Customer				
North America	\$93	\$3	\$29	\$1
Europe	6		7	
Asia Pacific	13	1	7	1
Latin America	8		4	
Global Power Finance	223	1	74	
Total	\$343	\$5	\$121	\$2
<u>Impaired Loans and Finance Leases With An Allowance Recorded</u>				
Customer				
North America	\$160	\$4	\$292	\$9
Europe	53	2	90	3
Asia Pacific	21	1	44	2
Latin America	44	2	34	2
Global Power Finance	79		13	
Total	\$357	\$9	\$473	\$16
<u>Total Impaired Loans and Finance Leases</u>				
Customer				
North America	\$253	\$7	\$321	\$10
Europe	59	2	97	3
Asia Pacific	34	2	51	3
Latin America	52	2	38	2
Global Power Finance	302	1	87	
Total	\$700	\$14	\$594	\$18

1 No related allowance for credit losses due to sufficient collateral value.

Non-accrual and past due loans and finance leases

For all classes, Cat Financial considers a loan or finance lease past due if any portion of a contractual payment is due and unpaid for more than 30 days. Recognition of income is suspended and the loan or finance lease is placed on non-accrual status when management determines that collection of future income is not probable (generally after 120 days past due). Accrual is resumed, and previously suspended income is recognized, when the loan or finance lease becomes contractually current and/or collection doubts are removed.

As of September 30, 2011 and December 31, 2010, there were no loans or finance leases on non-accrual status for the Dealer portfolio segment.

The investment in customer loans and finance leases on non-accrual status was as follows:

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(Millions of dollars)

	September 30, 2011	December 31, 2010
Customer		
North America	\$149	\$217
Europe	112	89
Asia Pacific	39	31
Latin America	116	139
Global Power Finance	211	163
Total	\$627	\$639

Table of Contents

Past due loans and finance leases were as follows:

(Millions of dollars)

	September 30, 2011						
	31-60	61-90	91+	Total Past Due	Current	Total Finance Receivables	91+ Still Accruing
Customer							
North America	\$89	\$31	\$138	\$258	\$5,214	\$5,472	\$13
Europe	31	18	113	162	2,142	2,304	10
Asia Pacific	59	23	53	135	4,028	4,163	16
Latin America	45	17	104	166	2,267	2,433	
Global Power Finance	52	16	111	179	2,739	2,918	10
Dealer							
North America					1,735	1,735	
Europe					64	64	
Asia Pacific					155	155	
Latin America					478	478	
Total	\$276	\$105	\$519	\$900	\$18,822	\$19,722	\$49

(Millions of dollars)

	December 31, 2010						
	31-60	61-90	91+	Total Past Due	Current	Total Finance Receivables	91+ Still Accruing
Customer							
North America	\$139	\$44	\$228	\$411	\$6,037	\$6,448	\$27
Europe	27	12	106	145	2,365	2,510	26
Asia Pacific	63	17	37	117	3,412	3,529	12
Latin America	44	16	144	204	2,222	2,426	1
Global Power Finance	18	17	54	89	2,978	3,067	25
Dealer							
North America					1,291	1,291	
Europe					41	41	
Asia Pacific					151	151	
Latin America					457	457	
Global Power Finance					3	3	
Total	\$291	\$106	\$569	\$966	\$18,957	\$19,923	\$91

Table of Contents**Allowance for credit loss activity**

In estimating the allowance for credit losses, Cat Financial reviews loans and finance leases that are past due, non-performing or in bankruptcy.

(Millions of dollars)

	September 30, 2011		
	Customer	Dealer	Total
Allowance for Credit Losses:			
Balance at beginning of year	\$357	\$5	\$362
Provision for credit losses	119	1	120
Receivables written off	(159)		(159)
Recoveries on receivables previously written off	39		39
Adjustment due to sale of receivables	(1)		(1)
Foreign currency translation adjustment	(2)		(2)
Balance at end of period	\$353	\$6	\$359
Allowance for Credit Losses:			
Individually evaluated for impairment	\$65	\$	\$65
Collectively evaluated for impairment	288	6	294
Ending Balance	\$353	\$6	\$359
Recorded Investment in Finance Receivables:			
Individually evaluated for impairment	\$604	\$	\$604
Collectively evaluated for impairment	16,686	2,432	19,118
Ending Balance	\$17,290	\$2,432	\$19,722

(Millions of dollars)

	December 31, 2010		
	Customer	Dealer	Total
Allowance for Credit Losses:			
Balance at beginning of year			\$376
Provision for credit losses			205
Receivables written off			(288)
Recoveries on receivables previously written off			51
Adjustment to adopt consolidation of variable-interest entities			18
Balance at end of year			\$362
Allowance for Credit Losses:			
Individually evaluated for impairment	\$79	\$	\$79
Collectively evaluated for impairment	278	5	283
Ending Balance	\$357	\$5	\$362
Recorded Investment in Finance Receivables:			
Individually evaluated for impairment	\$641	\$	\$641
Collectively evaluated for impairment	17,339	1,943	19,282
Ending Balance	\$17,980	\$1,943	\$19,923

Credit quality of finance receivables

The credit quality of finance receivables is reviewed on a monthly basis. Credit quality indicators include performing and non-performing. Non-performing is defined as finance receivables currently over 120 days past due and/or on non-accrual status or in bankruptcy. Finance receivables not meeting the criteria listed above are considered performing. Non-performing receivables have the highest probability for credit loss. The allowance for credit losses attributable to non-performing receivables is based on the most probable source of repayment, which is normally the liquidation of collateral. In determining collateral value, Cat Financial estimates the current fair market value of the collateral and

considers credit enhancements such as additional collateral and third-party guarantees.

Table of Contents

The recorded investment in performing and non-performing finance receivables was as follows:

(Millions of dollars)

	September 30, 2011			December 31, 2010		
	Customer	Dealer	Total	Customer	Dealer	Total
Performing						
North America	\$5,323	\$1,735	\$7,058	\$6,231	\$1,291	\$7,522
Europe	2,192	64	2,256	2,421	41	2,462
Asia Pacific	4,124	155	4,279	3,498	151	3,649
Latin America	2,317	478	2,795	2,287	457	2,744
Global Power Finance	2,707		2,707	2,904	3	2,907
Total Performing	\$16,663	\$2,432	\$19,095	\$17,341	\$1,943	\$19,284
Non-Performing						
North America	\$149	\$	\$149	\$217	\$	\$217
Europe	112		112	89		89
Asia Pacific	39		39	31		31
Latin America	116		116	139		139
Global Power Finance	211		211	163		163
Total Non-Performing	\$627	\$	\$627	\$639	\$	\$639
Performing & Non-Performing						
North America	\$5,472	\$1,735	\$7,207	\$6,448	\$1,291	\$7,739
Europe	2,304	64	2,368	2,510	41	2,551
Asia Pacific	4,163	155	4,318	3,529	151	3,680
Latin America	2,433	478	2,911	2,426	457	2,883
Global Power Finance	2,918		2,918	3,067	3	3,070
Total	\$17,290	\$2,432	\$19,722	\$17,980	\$1,943	\$19,923

Troubled Debt Restructurings

A restructuring of a loan or finance lease receivable constitutes a troubled debt restructuring (TDR) when the lender grants a concession it would not otherwise consider to a borrower experiencing financial difficulties. Concessions granted may include extended contract maturities, inclusion of interest only periods, below market interest rates, and extended skip payment periods.

TDRs are reviewed along with other receivables as part of management's ongoing evaluation of the adequacy of the allowance for credit losses. The allowance for credit losses attributable to TDRs is based on the most probable source of repayment, which is normally the liquidation of collateral. In determining collateral value, Cat Financial estimates the current fair market value of the collateral and factors in credit enhancements such as additional collateral and third-party guarantees.

There were no loans or finance lease receivables modified as TDRs during the three or nine months ended September 30, 2011 for the Dealer portfolio segment.

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Loan and finance lease receivables modified as TDRs during the three and nine months ended September 30, 2011, were as follows:

Table of Contents

(Dollars in millions)

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
	Pre-TDR	
Number	Outstanding	
of	Recorded	
Contracts	Investment	