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



**FORM 10-Q**

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number: 1-768**

**CATERPILLAR INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation)  
  
**100 NE Adams Street, Peoria, Illinois**  
(Address of principal executive offices)

**37-0602744**  
(IRS Employer I.D. No.)  
  
**61629**  
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

At June 30, 2012, 653,268,696 shares of common stock of the registrant were outstanding.

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**Part I. FINANCIAL INFORMATION**
**Item 1. Financial Statements**

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

|                                                                      | <b>Three Months Ended<br/>June 30,</b> |                 |
|----------------------------------------------------------------------|----------------------------------------|-----------------|
|                                                                      | <b>2012</b>                            | <b>2011</b>     |
| <b>Sales and revenues:</b>                                           |                                        |                 |
| Sales of Machinery and Power Systems .....                           | \$ 16,684                              | \$ 13,535       |
| Revenues of Financial Products .....                                 | 690                                    | 695             |
| Total sales and revenues .....                                       | 17,374                                 | 14,230          |
| <b>Operating costs:</b>                                              |                                        |                 |
| Cost of goods sold .....                                             | 12,280                                 | 10,303          |
| Selling, general and administrative expenses .....                   | 1,517                                  | 1,257           |
| Research and development expenses .....                              | 632                                    | 584             |
| Interest expense of Financial Products .....                         | 198                                    | 209             |
| Other operating (income) expenses .....                              | 131                                    | 276             |
| Total operating costs .....                                          | 14,758                                 | 12,629          |
| <b>Operating profit</b> .....                                        | 2,616                                  | 1,601           |
| Interest expense excluding Financial Products .....                  | 110                                    | 90              |
| Other income (expense) .....                                         | 70                                     | (161)           |
| <b>Consolidated profit before taxes</b> .....                        | 2,576                                  | 1,350           |
| Provision for income taxes .....                                     | 872                                    | 318             |
| Profit of consolidated companies .....                               | 1,704                                  | 1,032           |
| Equity in profit (loss) of unconsolidated affiliated companies ..... | 5                                      | (10)            |
| <b>Profit of consolidated and affiliated companies</b> .....         | 1,709                                  | 1,022           |
| Less: Profit attributable to noncontrolling interests .....          | 10                                     | 7               |
| <b>Profit</b> <sup>1</sup> .....                                     | <u>\$ 1,699</u>                        | <u>\$ 1,015</u> |
| <b>Profit per common share</b> .....                                 | \$ 2.60                                | \$ 1.57         |
| <b>Profit per common share — diluted</b> <sup>2</sup> .....          | \$ 2.54                                | \$ 1.52         |
| <b>Weighted-average common shares outstanding (millions)</b>         |                                        |                 |
| — Basic .....                                                        | 652.9                                  | 645.5           |
| — Diluted <sup>2</sup> .....                                         | 669.6                                  | 667.2           |
| <b>Cash dividends declared per common share</b> .....                | \$ 0.98                                | \$ 0.90         |

<sup>1</sup> Profit attributable to common stockholders.

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

See accompanying notes to Consolidated Financial Statements.

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**Caterpillar Inc.**  
**Consolidated Statement of Comprehensive Income**  
**(Unaudited)**  
**(Dollars in millions)**

|                                                                                                           | <b>Three Months Ended<br/>June 30,</b> |                 |
|-----------------------------------------------------------------------------------------------------------|----------------------------------------|-----------------|
|                                                                                                           | <b>2012</b>                            | <b>2011</b>     |
| Profit of consolidated and affiliated companies .....                                                     | \$ 1,709                               | \$ 1,022        |
| Other comprehensive income (loss), net of tax:                                                            |                                        |                 |
| Foreign currency translation, net of tax (expense)/benefit of: 2012 - (\$33); 2011 - \$21 .....           | (339)                                  | 97              |
| Pension and other postretirement benefits:                                                                |                                        |                 |
| Current year actuarial gain (loss), net of tax (expense)/benefit of: 2012 - (\$2); 2011 - \$0 .....       | 5                                      | —               |
| Amortization of actuarial (gain) loss, net of tax (expense)/benefit of: 2012 - (\$60); 2011 - (\$59)..... | 113                                    | 108             |
| Amortization of prior service (credit) cost, net of tax (expense)/benefit of: 2012 - \$4; 2011 - \$3..... | (7)                                    | (5)             |
| Derivative financial instruments:                                                                         |                                        |                 |
| Gains (losses) deferred, net of tax (expense)/benefit of: 2012 - \$0; 2011 - \$16 .....                   | (2)                                    | (30)            |
| (Gains) losses reclassified to earnings, net of tax (expense)/benefit of: 2012 - (\$2); 2011 - (\$5)..... | 3                                      | 11              |
| Available-for-sale securities:                                                                            |                                        |                 |
| Gains (losses) deferred, net of tax (expense)/benefit of: 2012 - \$4; 2011 - (\$2) .....                  | (5)                                    | 4               |
| (Gains) losses reclassified to earnings, net of tax (expense)/benefit of: 2012 - \$0; 2011 - \$0 .....    | —                                      | (1)             |
| Total other comprehensive income (loss), net of tax .....                                                 | <u>(232)</u>                           | <u>184</u>      |
| Comprehensive income .....                                                                                | 1,477                                  | 1,206           |
| Less: comprehensive income attributable to the noncontrolling interests .....                             | (2)                                    | (11)            |
| Comprehensive income attributable to the company .....                                                    | <u>\$ 1,475</u>                        | <u>\$ 1,195</u> |

**See accompanying notes to Consolidated Financial Statements.**

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

|                                                                     | <b>Six Months Ended<br/>June 30,</b> |             |
|---------------------------------------------------------------------|--------------------------------------|-------------|
|                                                                     | <b>2012</b>                          | <b>2011</b> |
| <b>Sales and revenues:</b>                                          |                                      |             |
| Sales of Machinery and Power Systems.....                           | \$ 31,972                            | \$ 25,812   |
| Revenues of Financial Products .....                                | 1,383                                | 1,367       |
| Total sales and revenues .....                                      | 33,355                               | 27,179      |
| <b>Operating costs:</b>                                             |                                      |             |
| Cost of goods sold .....                                            | 23,517                               | 19,360      |
| Selling, general and administrative expenses.....                   | 2,857                                | 2,356       |
| Research and development expenses.....                              | 1,219                                | 1,109       |
| Interest expense of Financial Products .....                        | 402                                  | 412         |
| Other operating (income) expenses .....                             | 421                                  | 508         |
| Total operating costs.....                                          | 28,416                               | 23,745      |
| <b>Operating profit</b> .....                                       | 4,939                                | 3,434       |
| Interest expense excluding Financial Products.....                  | 223                                  | 177         |
| Other income (expense).....                                         | 158                                  | (144)       |
| <b>Consolidated profit before taxes</b> .....                       | 4,874                                | 3,113       |
| Provision for income taxes .....                                    | 1,561                                | 830         |
| Profit of consolidated companies .....                              | 3,313                                | 2,283       |
| Equity in profit (loss) of unconsolidated affiliated companies..... | 7                                    | (18)        |
| <b>Profit of consolidated and affiliated companies</b> .....        | 3,320                                | 2,265       |
| Less: Profit attributable to noncontrolling interests .....         | 35                                   | 25          |
| <b>Profit</b> <sup>1</sup> .....                                    | \$ 3,285                             | \$ 2,240    |
| <b>Profit per common share</b> .....                                | \$ 5.04                              | \$ 3.48     |
| <b>Profit per common share — diluted</b> <sup>2</sup> .....         | \$ 4.90                              | \$ 3.36     |
| <b>Weighted-average common shares outstanding (millions)</b>        |                                      |             |
| – Basic.....                                                        | 651.3                                | 643.3       |
| – Diluted <sup>2</sup> .....                                        | 669.9                                | 666.0       |
| <b>Cash dividends declared per common share</b> .....               | \$ 0.98                              | \$ 0.90     |

<sup>1</sup> Profit attributable to common stockholders.

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

See accompanying notes to Consolidated Financial Statements.

**Caterpillar Inc.**  
**Consolidated Statement of Comprehensive Income**  
**(Unaudited)**  
**(Dollars in millions)**

|                                                                                                              | <b>Six Months Ended<br/>June 30,</b> |                 |
|--------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------|
|                                                                                                              | <b>2012</b>                          | <b>2011</b>     |
| Profit of consolidated and affiliated companies .....                                                        | \$ 3,320                             | \$ 2,265        |
| Other comprehensive income (loss), net of tax:                                                               |                                      |                 |
| Foreign currency translation, net of tax (expense)/benefit of: 2012 - (\$16); 2011 - \$84 .....              | (158)                                | 322             |
| Pension and other postretirement benefits:                                                                   |                                      |                 |
| Current year actuarial gain (loss), net of tax (expense)/benefit of: 2012 - (\$8); 2011 - \$0 .....          | 15                                   | —               |
| Amortization of actuarial (gain) loss, net of tax (expense)/benefit of: 2012 - (\$120); 2011 - (\$112) ..... | 226                                  | 207             |
| Current year prior service credit (cost), net of tax (expense)/benefit of: 2012 - \$2; 2011 - \$0 .....      | (3)                                  | —               |
| Amortization of prior service (credit) cost, net of tax (expense)/benefit of: 2012 - \$8; 2011 - \$6 .....   | (15)                                 | (10)            |
| Amortization of transition (asset) obligation, net of tax (expense)/benefit of: 2012 - \$0; 2011 - \$0 ..... | 1                                    | 1               |
| Derivative financial instruments:                                                                            |                                      |                 |
| Gains (losses) deferred, net of tax (expense)/benefit of: 2012 - \$16; 2011 - \$6 .....                      | (28)                                 | (13)            |
| (Gains) losses reclassified to earnings, net of tax (expense)/benefit of: 2012 - (\$1); 2011 - \$0 .....     | 1                                    | 4               |
| Available-for-sale securities:                                                                               |                                      |                 |
| Gains (losses) deferred, net of tax (expense)/benefit of: 2012 - (\$5); 2011 - (\$5) .....                   | 16                                   | 9               |
| (Gains) losses reclassified to earnings, net of tax (expense)/benefit of: 2012 - \$0; 2011 - \$0 .....       | (2)                                  | (1)             |
| Total other comprehensive income (loss), net of tax .....                                                    | <u>53</u>                            | <u>519</u>      |
| Comprehensive income .....                                                                                   | 3,373                                | 2,784           |
| Less: comprehensive income attributable to the noncontrolling interests .....                                | (17)                                 | (37)            |
| Comprehensive income attributable to the company .....                                                       | <u>\$ 3,356</u>                      | <u>\$ 2,747</u> |

**See accompanying notes to Consolidated Financial Statements.**

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

|                                                                                             | June 30,<br>2012 | December 31,<br>2011 |
|---------------------------------------------------------------------------------------------|------------------|----------------------|
| <b>Assets</b>                                                                               |                  |                      |
| Current assets:                                                                             |                  |                      |
| Cash and short-term investments .....                                                       | \$ 5,103         | \$ 3,057             |
| Receivables – trade and other .....                                                         | 10,443           | 10,285               |
| Receivables – finance .....                                                                 | 8,383            | 7,668                |
| Deferred and refundable income taxes .....                                                  | 1,685            | 1,580                |
| Prepaid expenses and other current assets .....                                             | 1,336            | 994                  |
| Inventories .....                                                                           | 17,344           | 14,544               |
| <b>Total current assets</b> .....                                                           | <b>44,294</b>    | <b>38,128</b>        |
| Property, plant and equipment – net .....                                                   | 14,928           | 14,395               |
| Long-term receivables – trade and other .....                                               | 803              | 1,130                |
| Long-term receivables – finance .....                                                       | 12,955           | 11,948               |
| Investments in unconsolidated affiliated companies .....                                    | 124              | 133                  |
| Noncurrent deferred and refundable income taxes .....                                       | 2,032            | 2,157                |
| Intangible assets .....                                                                     | 4,236            | 4,368                |
| Goodwill .....                                                                              | 7,320            | 7,080                |
| Other assets .....                                                                          | 2,146            | 2,107                |
| <b>Total assets</b> .....                                                                   | <b>\$ 88,838</b> | <b>\$ 81,446</b>     |
| <b>Liabilities</b>                                                                          |                  |                      |
| Current liabilities:                                                                        |                  |                      |
| Short-term borrowings:                                                                      |                  |                      |
| Machinery and Power Systems .....                                                           | \$ 592           | \$ 93                |
| Financial Products .....                                                                    | 4,455            | 3,895                |
| Accounts payable .....                                                                      | 8,470            | 8,161                |
| Accrued expenses .....                                                                      | 3,532            | 3,386                |
| Accrued wages, salaries and employee benefits .....                                         | 1,628            | 2,410                |
| Customer advances .....                                                                     | 3,132            | 2,691                |
| Dividends payable .....                                                                     | 339              | 298                  |
| Other current liabilities .....                                                             | 2,117            | 1,967                |
| Long-term debt due within one year:                                                         |                  |                      |
| Machinery and Power Systems .....                                                           | 1,269            | 558                  |
| Financial Products .....                                                                    | 5,739            | 5,102                |
| <b>Total current liabilities</b> .....                                                      | <b>31,273</b>    | <b>28,561</b>        |
| Long-term debt due after one year:                                                          |                  |                      |
| Machinery and Power Systems .....                                                           | 9,169            | 8,415                |
| Financial Products .....                                                                    | 18,092           | 16,529               |
| Liability for postemployment benefits .....                                                 | 10,626           | 10,956               |
| Other liabilities .....                                                                     | 3,697            | 3,583                |
| <b>Total liabilities</b> .....                                                              | <b>72,857</b>    | <b>68,044</b>        |
| <b>Commitments and contingencies (Notes 10 and 12)</b>                                      |                  |                      |
| <b>Redeemable noncontrolling interest</b> .....                                             | —                | 473                  |
| <b>Stockholders' equity</b>                                                                 |                  |                      |
| Common stock of \$1.00 par value:                                                           |                  |                      |
| Authorized shares: 2,000,000,000                                                            |                  |                      |
| Issued shares: (6/30/12 and 12/31/11 – 814,894,624) at paid-in amount .....                 | 4,373            | 4,273                |
| Treasury stock (6/30/12 – 161,625,928 shares; 12/31/11 – 167,361,280 shares) at cost .....  | (10,139)         | (10,281)             |
| Profit employed in the business .....                                                       | 27,842           | 25,219               |
| Accumulated other comprehensive income (loss) .....                                         | (6,150)          | (6,328)              |
| Noncontrolling interests .....                                                              | 55               | 46                   |
| <b>Total stockholders' equity</b> .....                                                     | <b>15,981</b>    | <b>12,929</b>        |
| <b>Total liabilities, redeemable noncontrolling interest and stockholders' equity</b> ..... | <b>\$ 88,838</b> | <b>\$ 81,446</b>     |

See accompanying notes to Consolidated Financial Statements.

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

|                                                                                           | Common<br>stock | Treasury<br>stock  | Profit<br>employed<br>in the<br>business | Accumulated<br>other<br>comprehensive<br>income (loss) | Noncontrolling<br>interests | Total            |
|-------------------------------------------------------------------------------------------|-----------------|--------------------|------------------------------------------|--------------------------------------------------------|-----------------------------|------------------|
| <b>Six Months Ended June 30, 2011</b>                                                     |                 |                    |                                          |                                                        |                             |                  |
| <b>Balance at December 31, 2010</b> .....                                                 | \$ 3,888        | \$ (10,397)        | \$ 21,384                                | \$ (4,051)                                             | \$ 40                       | \$ 10,864        |
| Profit of consolidated and affiliated companies .....                                     | —               | —                  | 2,240                                    | —                                                      | 25                          | 2,265            |
| Foreign currency translation, net of tax .....                                            | —               | —                  | —                                        | 312                                                    | 10                          | 322              |
| Pension and other postretirement benefits, net of tax .....                               | —               | —                  | —                                        | 196                                                    | 2                           | 198              |
| Derivative financial instruments, net of tax .....                                        | —               | —                  | —                                        | (9)                                                    | —                           | (9)              |
| Available-for-sale securities, net of tax .....                                           | —               | —                  | —                                        | 8                                                      | —                           | 8                |
| Dividends declared .....                                                                  | —               | —                  | (581)                                    | —                                                      | —                           | (581)            |
| Distribution to noncontrolling interests .....                                            | —               | —                  | —                                        | —                                                      | (2)                         | (2)              |
| Common shares issued from treasury stock for stock-based<br>compensation: 7,243,608 ..... | 10              | 86                 | —                                        | —                                                      | —                           | 96               |
| Stock-based compensation expense .....                                                    | 111             | —                  | —                                        | —                                                      | —                           | 111              |
| Net excess tax benefits from stock-based compensation .....                               | 156             | —                  | —                                        | —                                                      | —                           | 156              |
| Cat Japan share redemption <sup>1</sup> .....                                             | —               | —                  | 38                                       | —                                                      | (30)                        | 8                |
| <b>Balance at June 30, 2011</b> .....                                                     | <b>\$ 4,165</b> | <b>\$ (10,311)</b> | <b>\$ 23,081</b>                         | <b>\$ (3,544)</b>                                      | <b>\$ 45</b>                | <b>\$ 13,436</b> |
| <b>Six Months Ended June 30, 2012</b>                                                     |                 |                    |                                          |                                                        |                             |                  |
| <b>Balance at December 31, 2011</b> .....                                                 | \$ 4,273        | \$ (10,281)        | \$ 25,219                                | \$ (6,328)                                             | \$ 46                       | \$ 12,929        |
| Profit of consolidated and affiliated companies .....                                     | —               | —                  | 3,285                                    | —                                                      | 35                          | 3,320            |
| Foreign currency translation, net of tax .....                                            | —               | —                  | —                                        | (134)                                                  | (24)                        | (158)            |
| Pension and other postretirement benefits, net of tax .....                               | —               | —                  | —                                        | 219                                                    | 5                           | 224              |
| Derivative financial instruments, net of tax .....                                        | —               | —                  | —                                        | (27)                                                   | —                           | (27)             |
| Available-for-sale securities, net of tax .....                                           | —               | —                  | —                                        | 13                                                     | 1                           | 14               |
| Change in ownership from noncontrolling interests .....                                   | —               | —                  | —                                        | —                                                      | 7                           | 7                |
| Dividends declared .....                                                                  | —               | —                  | (639)                                    | —                                                      | —                           | (639)            |
| Distribution to noncontrolling interests .....                                            | —               | —                  | —                                        | —                                                      | (5)                         | (5)              |
| Common shares issued from treasury stock for stock-based<br>compensation: 5,735,352 ..... | (117)           | 142                | —                                        | —                                                      | —                           | 25               |
| Stock-based compensation expense .....                                                    | 135             | —                  | —                                        | —                                                      | —                           | 135              |
| Net excess tax benefits from stock-based compensation .....                               | 156             | —                  | —                                        | —                                                      | —                           | 156              |
| Cat Japan share redemption <sup>1</sup> .....                                             | (74)            | —                  | (23)                                     | 107                                                    | (10)                        | —                |
| <b>Balance at June 30, 2012</b> .....                                                     | <b>\$ 4,373</b> | <b>\$ (10,139)</b> | <b>\$ 27,842</b>                         | <b>\$ (6,150)</b>                                      | <b>\$ 55</b>                | <b>\$ 15,981</b> |

<sup>1</sup> See Notes 1 and 16 regarding the Cat Japan share redemption.

See accompanying notes to Consolidated Financial Statements.

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

|                                                                                  | <b>Six Months Ended<br/>June 30,</b> |                  |
|----------------------------------------------------------------------------------|--------------------------------------|------------------|
|                                                                                  | <b>2012</b>                          | <b>2011</b>      |
| <b>Cash flow from operating activities:</b>                                      |                                      |                  |
| Profit of consolidated and affiliated companies .....                            | \$ 3,320                             | \$ 2,265         |
| Adjustments for non-cash items:                                                  |                                      |                  |
| Depreciation and amortization .....                                              | 1,350                                | 1,174            |
| Other .....                                                                      | (59)                                 | 337              |
| Changes in assets and liabilities, net of acquisitions and divestitures:         |                                      |                  |
| Receivables – trade and other .....                                              | 37                                   | 45               |
| Inventories .....                                                                | (2,939)                              | (1,850)          |
| Accounts payable .....                                                           | 299                                  | 1,056            |
| Accrued expenses .....                                                           | 115                                  | (41)             |
| Accrued wages, salaries and employee benefits .....                              | (753)                                | (91)             |
| Customer advances .....                                                          | 434                                  | 14               |
| Other assets – net .....                                                         | 63                                   | 28               |
| Other liabilities – net .....                                                    | 140                                  | 357              |
| Net cash provided by (used for) operating activities .....                       | <u>2,007</u>                         | <u>3,294</u>     |
| <b>Cash flow from investing activities:</b>                                      |                                      |                  |
| Capital expenditures – excluding equipment leased to others .....                | (1,508)                              | (924)            |
| Expenditures for equipment leased to others .....                                | (787)                                | (580)            |
| Proceeds from disposals of leased assets and property, plant and equipment ..... | 543                                  | 621              |
| Additions to finance receivables .....                                           | (5,942)                              | (4,294)          |
| Collections of finance receivables .....                                         | 4,298                                | 3,981            |
| Proceeds from sale of finance receivables .....                                  | 85                                   | 104              |
| Investments and acquisitions (net of cash acquired) .....                        | (517)                                | (68)             |
| Proceeds from sale of businesses and investments (net of cash sold) .....        | 308                                  | 21               |
| Proceeds from sale of available-for-sale securities .....                        | 177                                  | 122              |
| Investments in available-for-sale securities .....                               | (199)                                | (131)            |
| Other – net .....                                                                | 38                                   | (38)             |
| Net cash provided by (used for) investing activities .....                       | <u>(3,504)</u>                       | <u>(1,186)</u>   |
| <b>Cash flow from financing activities:</b>                                      |                                      |                  |
| Dividends paid .....                                                             | (598)                                | (565)            |
| Distribution to noncontrolling interests .....                                   | (5)                                  | (2)              |
| Common stock issued, including treasury shares reissued .....                    | 25                                   | 96               |
| Excess tax benefit from stock-based compensation .....                           | 156                                  | 159              |
| Acquisitions of redeemable noncontrolling interests .....                        | (444)                                | —                |
| Proceeds from debt issued (original maturities greater than three months):       |                                      |                  |
| Machinery and Power Systems .....                                                | 1,662                                | 4,530            |
| Financial Products .....                                                         | 7,357                                | 5,799            |
| Payments on debt (original maturities greater than three months):                |                                      |                  |
| Machinery and Power Systems .....                                                | (211)                                | (487)            |
| Financial Products .....                                                         | (4,822)                              | (4,638)          |
| Short-term borrowings – net (original maturities three months or less) .....     | 552                                  | 36               |
| Net cash provided by (used for) financing activities .....                       | <u>3,672</u>                         | <u>4,928</u>     |
| Effect of exchange rate changes on cash .....                                    | (129)                                | 87               |
| <b>Increase (decrease) in cash and short-term investments .....</b>              | <b>2,046</b>                         | <b>7,123</b>     |
| Cash and short-term investments at beginning of period .....                     | 3,057                                | 3,592            |
| Cash and short-term investments at end of period .....                           | <u>\$ 5,103</u>                      | <u>\$ 10,715</u> |

*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.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### 1. A. Basis of Presentation

In the opinion of management, the accompanying financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of (a) the consolidated results of operations for the three and six month periods ended June 30, 2012 and 2011, (b) the consolidated comprehensive income for the three and six month periods ended June 30, 2012 and 2011, (c) the consolidated financial position at June 30, 2012 and December 31, 2011, (d) the consolidated changes in stockholders' equity for the six month periods ended June 30, 2012 and 2011, and (e) the consolidated cash flow for the six month periods ended June 30, 2012 and 2011. 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, 2011 (2011 Form 10-K).

The December 31, 2011 financial position data included herein is derived from the audited consolidated financial statements included in the 2011 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.

**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.

### C. Accumulated Other Comprehensive Income (Loss)

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

| (Millions of dollars)                                    | June 30,<br>2012               | June 30,<br>2011  |
|----------------------------------------------------------|--------------------------------|-------------------|
| Foreign currency translation .....                       | \$ 239                         | \$ 863            |
| Pension and other postretirement benefits .....          | (6,410)                        | (4,499)           |
| Derivative financial instruments .....                   | (37)                           | 36                |
| Available-for-sale securities.....                       | 58                             | 56                |
| Total accumulated other comprehensive income (loss)..... | <u>\$ (6,150) <sup>1</sup></u> | <u>\$ (3,544)</u> |

<sup>1</sup> In conjunction with the Cat Japan share redemption, to reflect the increase in our ownership interest in Cat Japan from 67 percent to 100 percent, \$107 million was reclassified to Accumulated other comprehensive income (loss) from other components of stockholders' equity and was not included in Comprehensive income during the second quarter of 2012. The amount was comprised of foreign currency translation of \$167 million, pension and other postretirement benefits of \$(61) million and available-for-sale securities of \$1 million.

### 2. New Accounting Guidance

**Disclosures about the credit quality of financing receivables and the allowance for credit losses** – In July 2010, the Financial Accounting Standards Board (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. We elected to present two separate statements. This guidance was effective January 1, 2012.

**Goodwill impairment testing** – In September 2011, the FASB issued accounting guidance on the testing of goodwill for impairment. The guidance allows entities testing goodwill for impairment the option of performing a qualitative assessment to determine the likelihood of goodwill impairment and whether it is necessary to perform the two-step impairment test currently required. This guidance was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption was permitted. We elected to early adopt this guidance for the year ended December 31, 2011 and the guidance did not have a material impact on our financial statements. See Note 7 for additional information.

### 3. Stock-Based Compensation

Accounting for stock-based compensation requires that the cost resulting from all stock-based payments be recognized in the financial statements based on the grant date fair value of the award. Stock-based compensation primarily consists of stock options, restricted stock units (RSUs) and stock-settled stock appreciation rights (SARs). We recognized pretax stock-based compensation cost in the amount of \$88 million and \$135 million for the three and six months ended June 30, 2012, respectively; and \$67 million and \$111 million for the three and six months ended June 30, 2011, respectively.

The following table illustrates the type and fair value of the stock-based compensation awards granted during the six month periods ended June 30, 2012 and 2011, respectively:

|                     | 2012      |                      | 2011      |                      |
|---------------------|-----------|----------------------|-----------|----------------------|
|                     | # Granted | Fair Value Per Award | # Granted | Fair Value Per Award |
| Stock options ..... | 3,224,203 | \$ 39.20             | 237,906   | \$ 36.73             |
| RSUs.....           | 1,429,939 | \$ 104.61            | 1,082,032 | \$ 97.51             |
| SARs.....           | —         | \$ —                 | 2,722,689 | \$ 36.73             |

The stock price on the date of grant was \$110.09 and \$102.13 for 2012 and 2011, respectively.

The following table provides the assumptions used in determining the fair value of the stock-based awards for the six month periods ended June 30, 2012 and 2011, respectively:

|                                         | Grant Year |            |
|-----------------------------------------|------------|------------|
|                                         | 2012       | 2011       |
| Weighted-average dividend yield.....    | 2.16%      | 2.22%      |
| Weighted-average volatility .....       | 35.0%      | 32.7%      |
| Range of volatilities .....             | 33.3-40.4% | 20.9-45.4% |
| Range of risk-free interest rates ..... | 0.17-2.00% | 0.25-3.51% |
| Weighted-average expected lives.....    | 7 years    | 8 years    |

As of June 30, 2012, the total remaining unrecognized compensation cost related to nonvested stock-based compensation awards was \$293 million, which will be amortized over the weighted-average remaining requisite service periods of approximately 2.2 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 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) to the extent effective on the Consolidated Statement of Financial Position until they are reclassified to earnings in the same period or periods during which the hedged transaction affects earnings. Changes in the fair value of undesignated derivative instruments and the ineffective portion of designated derivative instruments are reported in current earnings. Cash flow from designated derivative financial instruments are classified within the same category as the item being hedged on the Consolidated Statement of Cash Flow. Cash flow from undesignated derivative financial instruments are included in the investing category on the Consolidated Statement of Cash Flow.

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

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

##### Foreign Currency Exchange Rate Risk

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

Our Machinery and 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.

As of June 30, 2012, \$18 million of deferred net losses, net of tax, included in equity (Accumulated other comprehensive income (loss) in the Consolidated Statement of Financial Position), are expected to be reclassified to current earnings (Other income (expense) in the Consolidated Statement of Results of Operations) over the next twelve months when earnings are affected by the hedged transactions. The actual amount recorded in Other income (expense) will vary based on exchange rates at the time the hedged transactions impact earnings.

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

### Interest Rate Risk

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

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.

As of June 30, 2012, \$3 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 for the planned acquisition of Bucyrus International, Inc., we entered into interest rate swaps to manage our exposure to interest rate changes. For the three and six months ended June 30, 2011, we recognized a net loss of \$124 million and \$149 million, respectively, included in Other income (expense) in the Consolidated Statement of Results of Operations. These contracts were not designated as hedging instruments, and therefore, did not receive hedge accounting treatment. The contracts were liquidated in conjunction with the debt issuance in May 2011.

### 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)             |                                                          | Asset (Liability) Fair Value |                   |
|-----------------------------------|----------------------------------------------------------|------------------------------|-------------------|
|                                   | Consolidated Statement of Financial<br>Position Location | June 30, 2012                | December 31, 2011 |
| <b>Designated derivatives</b>     |                                                          |                              |                   |
| Foreign exchange contracts        |                                                          |                              |                   |
| Machinery and Power Systems ..... | Receivables – trade and other .....                      | \$ 32                        | \$ 54             |
| Machinery and Power Systems ..... | Long-term receivables – trade and other .....            | 3                            | 19                |
| Machinery and Power Systems ..... | Accrued expenses .....                                   | (60)                         | (73)              |
| Machinery and Power Systems ..... | Other liabilities .....                                  | (7)                          | (10)              |
| Interest rate contracts           |                                                          |                              |                   |
| Financial Products .....          | Receivables – trade and other .....                      | 15                           | 15                |
| Financial Products .....          | Long-term receivables – trade and other .....            | 229                          | 233               |
| Financial Products .....          | Accrued expenses .....                                   | (7)                          | (6)               |
|                                   |                                                          | <u>\$ 205</u>                | <u>\$ 232</u>     |
| <b>Undesignated derivatives</b>   |                                                          |                              |                   |
| Foreign exchange contracts        |                                                          |                              |                   |
| Machinery and Power Systems ..... | Receivables – trade and other .....                      | \$ 8                         | \$ 27             |
| Machinery and Power Systems ..... | Accrued expenses .....                                   | (35)                         | (12)              |
| Machinery and Power Systems ..... | Other liabilities .....                                  | (28)                         | (85)              |
| Financial Products .....          | Receivables – trade and other .....                      | 11                           | 7                 |
| Financial Products .....          | Accrued expenses .....                                   | (11)                         | (16)              |
| Interest rate contracts           |                                                          |                              |                   |
| Financial Products .....          | Accrued expenses .....                                   | (2)                          | (1)               |
| Commodity contracts               |                                                          |                              |                   |
| Machinery and Power Systems ..... | Receivables – trade and other .....                      | 1                            | 2                 |
| Machinery and Power Systems ..... | Accrued expenses .....                                   | (4)                          | (9)               |
|                                   |                                                          | <u>\$ (60)</u>               | <u>\$ (87)</u>    |

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

| <b>Fair Value Hedges</b><br><b>(Millions of dollars)</b> |                              |                                          |                                         |                                          |                                         |
|----------------------------------------------------------|------------------------------|------------------------------------------|-----------------------------------------|------------------------------------------|-----------------------------------------|
| <b>Classification</b>                                    |                              | <b>Three Months Ended June 30, 2012</b>  |                                         | <b>Six Months Ended June 30, 2012</b>    |                                         |
|                                                          |                              | <b>Gains (Losses)<br/>on Derivatives</b> | <b>Gains (Losses)<br/>on Borrowings</b> | <b>Gains (Losses)<br/>on Derivatives</b> | <b>Gains (Losses)<br/>on Borrowings</b> |
| Interest rate contracts                                  |                              |                                          |                                         |                                          |                                         |
| Financial Products.....                                  | Other income (expense) ..... | \$ 6                                     | \$ (5)                                  | \$ (3)                                   | \$ 10                                   |
|                                                          |                              | <u>\$ 6</u>                              | <u>\$ (5)</u>                           | <u>\$ (3)</u>                            | <u>\$ 10</u>                            |
| <b>Classification</b>                                    |                              | <b>Three Months Ended June 30, 2011</b>  |                                         | <b>Six Months Ended June 30, 2011</b>    |                                         |
|                                                          |                              | <b>Gains (Losses)<br/>on Derivatives</b> | <b>Gains (Losses)<br/>on Borrowings</b> | <b>Gains (Losses)<br/>on Derivatives</b> | <b>Gains (Losses)<br/>on Borrowings</b> |
| Interest rate contracts                                  |                              |                                          |                                         |                                          |                                         |
| Machinery and Power Systems..                            | Other income (expense) ..... | \$ —                                     | \$ —                                    | \$ (1)                                   | \$ 1                                    |
| Financial Products.....                                  | Other income (expense) ..... | 42                                       | (40)                                    | (11)                                     | 12                                      |
|                                                          |                              | <u>\$ 42</u>                             | <u>\$ (40)</u>                          | <u>\$ (12)</u>                           | <u>\$ 13</u>                            |

**Cash Flow Hedges**  
**(Millions of dollars)**

| <b>Three Months Ended June 30, 2012</b> |                                                                                    |                                             |                                                                                        |                                                                 |
|-----------------------------------------|------------------------------------------------------------------------------------|---------------------------------------------|----------------------------------------------------------------------------------------|-----------------------------------------------------------------|
|                                         | <b>Amount of Gains<br/>(Losses) Recognized<br/>in AOCI<br/>(Effective Portion)</b> | <b>Recognized in Earnings</b>               |                                                                                        |                                                                 |
|                                         |                                                                                    | <b>Classification of<br/>Gains (Losses)</b> | <b>Amount of Gains<br/>(Losses) Reclassified<br/>from AOCI<br/>(Effective Portion)</b> | <b>Recognized<br/>in Earnings<br/>(Ineffective<br/>Portion)</b> |
| Foreign exchange contracts              |                                                                                    |                                             |                                                                                        |                                                                 |
| Machinery and Power Systems...          | \$ —                                                                               | Other income (expense) .....                | \$ (4)                                                                                 | \$ —                                                            |
| Interest rate contracts                 |                                                                                    |                                             |                                                                                        |                                                                 |
| Financial Products.....                 | (2)                                                                                | Interest expense of Financial Products ...  | (1)                                                                                    | (1) <sup>1</sup>                                                |
|                                         | <u>\$ (2)</u>                                                                      |                                             | <u>\$ (5)</u>                                                                          | <u>\$ (1)</u>                                                   |
| <b>Three Months Ended June 30, 2011</b> |                                                                                    |                                             |                                                                                        |                                                                 |
|                                         | <b>Amount of Gains<br/>(Losses) Recognized<br/>in AOCI<br/>(Effective Portion)</b> | <b>Recognized in Earnings</b>               |                                                                                        |                                                                 |
|                                         |                                                                                    | <b>Classification of<br/>Gains (Losses)</b> | <b>Amount of Gains<br/>(Losses) Reclassified<br/>from AOCI<br/>(Effective Portion)</b> | <b>Recognized<br/>in Earnings<br/>(Ineffective<br/>Portion)</b> |
| Foreign exchange contracts              |                                                                                    |                                             |                                                                                        |                                                                 |
| Machinery and Power Systems...          | \$ (45)                                                                            | Other income (expense) .....                | \$ (9)                                                                                 | \$ —                                                            |
| Interest rate contracts                 |                                                                                    |                                             |                                                                                        |                                                                 |
| Machinery and Power Systems...          | —                                                                                  | Other income (expense) .....                | (1)                                                                                    | —                                                               |
| Financial Products.....                 | (1)                                                                                | Interest expense of Financial Products ...  | (6)                                                                                    | — <sup>1</sup>                                                  |
|                                         | <u>\$ (46)</u>                                                                     |                                             | <u>\$ (16)</u>                                                                         | <u>\$ —</u>                                                     |
| <b>Six Months Ended June 30, 2012</b>   |                                                                                    |                                             |                                                                                        |                                                                 |
|                                         | <b>Amount of Gains<br/>(Losses) Recognized<br/>in AOCI<br/>(Effective Portion)</b> | <b>Recognized in Earnings</b>               |                                                                                        |                                                                 |
|                                         |                                                                                    | <b>Classification of<br/>Gains (Losses)</b> | <b>Amount of Gains<br/>(Losses) Reclassified<br/>from AOCI<br/>(Effective Portion)</b> | <b>Recognized<br/>in Earnings<br/>(Ineffective<br/>Portion)</b> |
| Foreign exchange contracts              |                                                                                    |                                             |                                                                                        |                                                                 |
| Machinery and Power Systems..           | \$ (42)                                                                            | Other income (expense).....                 | \$ 1                                                                                   | \$ —                                                            |
| Interest rate contracts                 |                                                                                    |                                             |                                                                                        |                                                                 |
| Machinery and Power Systems..           | —                                                                                  | Other income (expense).....                 | (1)                                                                                    | —                                                               |
| Financial Products.....                 | (2)                                                                                | Interest expense of Financial Products...   | (2)                                                                                    | (1) <sup>1</sup>                                                |
|                                         | <u>\$ (44)</u>                                                                     |                                             | <u>\$ (2)</u>                                                                          | <u>\$ (1)</u>                                                   |
| <b>Six Months Ended June 30, 2011</b>   |                                                                                    |                                             |                                                                                        |                                                                 |
|                                         | <b>Amount of Gains<br/>(Losses) Recognized<br/>in AOCI<br/>(Effective Portion)</b> | <b>Recognized in Earnings</b>               |                                                                                        |                                                                 |
|                                         |                                                                                    | <b>Classification of<br/>Gains (Losses)</b> | <b>Amount of Gains<br/>(Losses) Reclassified<br/>from AOCI<br/>(Effective Portion)</b> | <b>Recognized<br/>in Earnings<br/>(Ineffective<br/>Portion)</b> |
| Foreign exchange contracts              |                                                                                    |                                             |                                                                                        |                                                                 |
| Machinery and Power Systems ..          | \$ (18)                                                                            | Other income (expense).....                 | \$ 9                                                                                   | \$ —                                                            |
| Interest rate contracts                 |                                                                                    |                                             |                                                                                        |                                                                 |
| Machinery and Power Systems ..          | —                                                                                  | Other income (expense).....                 | (1)                                                                                    | —                                                               |
| Financial Products .....                | (1)                                                                                | Interest expense of Financial Products...   | (12)                                                                                   | 1 <sup>1</sup>                                                  |
|                                         | <u>\$ (19)</u>                                                                     |                                             | <u>\$ (4)</u>                                                                          | <u>\$ 1</u>                                                     |

<sup>1</sup> The ineffective portion recognized in earnings is included in Other income (expense).

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

| (Millions of dollars)             |                                  | Three Months Ended<br>June 30, 2012 | Six Months Ended<br>June 30, 2012 |
|-----------------------------------|----------------------------------|-------------------------------------|-----------------------------------|
|                                   | Classification of Gains (Losses) |                                     |                                   |
| Foreign exchange contracts        |                                  |                                     |                                   |
| Machinery and Power Systems ..... | Other income (expense) .....     | \$ (35)                             | \$ 30                             |
| Financial Products .....          | Other income (expense) .....     | (5)                                 | 2                                 |
| Commodity contracts               |                                  |                                     |                                   |
| Machinery and Power Systems ..... | Other income (expense) .....     | (6)                                 | —                                 |
|                                   |                                  | <u>\$ (46)</u>                      | <u>\$ 32</u>                      |

| (Millions of dollars)             |                                  | Three Months Ended<br>June 30, 2011 | Six Months Ended<br>June 30, 2011 |
|-----------------------------------|----------------------------------|-------------------------------------|-----------------------------------|
|                                   | Classification of Gains (Losses) |                                     |                                   |
| Foreign exchange contracts        |                                  |                                     |                                   |
| Machinery and Power Systems ..... | Other income (expense) .....     | \$ 15                               | \$ 47                             |
| Financial Products .....          | Other income (expense) .....     | (2)                                 | (2)                               |
| Interest rate contracts           |                                  |                                     |                                   |
| Machinery and Power Systems ..... | Other income (expense) .....     | (124)                               | (149)                             |
| Commodity contracts               |                                  |                                     |                                   |
| Machinery and Power Systems ..... | Other income (expense) .....     | (2)                                 | 2                                 |
|                                   |                                  | <u>\$ (113)</u>                     | <u>\$ (102)</u>                   |

#### 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. In December 2011, the Board of Directors extended the \$7.5 billion stock repurchase program through December 31, 2015. 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 six months ended June 30, 2012 or 2011.

## 5. Inventories

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

| (Millions of dollars)  | June 30,<br>2012 | December 31,<br>2011 |
|------------------------|------------------|----------------------|
| Raw materials.....     | \$ 4,143         | \$ 3,766             |
| Work-in-process.....   | 3,504            | 2,959                |
| Finished goods .....   | 9,429            | 7,562                |
| Supplies.....          | 268              | 257                  |
| Total inventories..... | <u>\$ 17,344</u> | <u>\$ 14,544</u>     |

## 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<br>June 30, |                | Six Months Ended<br>June 30, |                |
|---------------------|--------------------------------|----------------|------------------------------|----------------|
|                     | 2012                           | 2011           | 2012                         | 2011           |
| Sales.....          | \$ 206                         | \$ 241         | \$ 372                       | \$ 439         |
| Cost of sales.....  | 160                            | 198            | 286                          | 359            |
| Gross profit.....   | <u>\$ 46</u>                   | <u>\$ 43</u>   | <u>\$ 86</u>                 | <u>\$ 80</u>   |
| Profit (loss) ..... | <u>\$ 12</u>                   | <u>\$ (17)</u> | <u>\$ 22</u>                 | <u>\$ (34)</u> |

**Financial Position of unconsolidated affiliated companies:**  
(Millions of dollars)

|                                          | June 30,<br>2012 | December 31,<br>2011 |
|------------------------------------------|------------------|----------------------|
| Assets:                                  |                  |                      |
| Current assets .....                     | \$ 332           | \$ 345               |
| Property, plant and equipment — net..... | 107              | 200                  |
| Other assets.....                        | 17               | 9                    |
|                                          | <u>456</u>       | <u>554</u>           |
| Liabilities:                             |                  |                      |
| Current liabilities.....                 | 197              | 220                  |
| Long-term debt due after one year .....  | 50               | 72                   |
| Other liabilities.....                   | 9                | 17                   |
|                                          | <u>256</u>       | <u>309</u>           |
| Equity.....                              | <u>\$ 200</u>    | <u>\$ 245</u>        |

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

|                                                               | June 30,<br>2012 | December 31,<br>2011 |
|---------------------------------------------------------------|------------------|----------------------|
| Investments in equity method companies .....                  | \$ 108           | \$ 111               |
| Plus: Investments in cost method companies.....               | 16               | 22                   |
| Total investments in unconsolidated affiliated companies..... | <u>\$ 124</u>    | <u>\$ 133</u>        |

**7. Intangible Assets and Goodwill**
**A. Intangible assets**

Intangible assets are comprised of the following:

|                                                                         |                                         | June 30, 2012               |                             |                 |
|-------------------------------------------------------------------------|-----------------------------------------|-----------------------------|-----------------------------|-----------------|
| (Millions of dollars)                                                   | Weighted<br>Amortizable<br>Life (Years) | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net             |
| Customer relationships .....                                            | 15                                      | \$ 2,822                    | \$ (272)                    | \$ 2,550        |
| Intellectual property .....                                             | 11                                      | 1,787                       | (317)                       | 1,470           |
| Other .....                                                             | 10                                      | 316                         | (118)                       | 198             |
| Total finite-lived intangible assets .....                              | 14                                      | 4,925                       | (707)                       | 4,218           |
| Indefinite-lived intangible assets - In-process research & development. |                                         | 18                          | —                           | 18              |
| Total intangible assets .....                                           |                                         | <u>\$ 4,943</u>             | <u>\$ (707)</u>             | <u>\$ 4,236</u> |

|                                                                         |                                         | December 31, 2011           |                             |                 |
|-------------------------------------------------------------------------|-----------------------------------------|-----------------------------|-----------------------------|-----------------|
| (Millions of dollars)                                                   | Weighted<br>Amortizable<br>Life (Years) | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net             |
| Customer relationships .....                                            | 15                                      | \$ 2,811                    | \$ (213)                    | \$ 2,598        |
| Intellectual property .....                                             | 11                                      | 1,794                       | (244)                       | 1,550           |
| Other .....                                                             | 11                                      | 299                         | (97)                        | 202             |
| Total finite-lived intangible assets .....                              | 13                                      | 4,904                       | (554)                       | 4,350           |
| Indefinite-lived intangible assets - In-process research & development. |                                         | 18                          | —                           | 18              |
| Total intangible assets .....                                           |                                         | <u>\$ 4,922</u>             | <u>\$ (554)</u>             | <u>\$ 4,368</u> |

During the second quarter of 2012, we acquired finite-lived intangible assets aggregating \$194 million due to the purchase of ERA Mining Machinery Limited. During the first quarter of 2012, we acquired finite-lived intangible assets aggregating \$8 million due to the purchase of Cat Tohoku. See Note 18 for details on these business combinations.

Customer relationship intangibles of \$100 million, net of accumulated amortization of \$4 million, were reclassified from Intangible assets to held for sale in the first half of 2012, primarily related to the divestiture of portions of the Bucyrus distribution business, and are not included in the June 30, 2012 balances in the table above. See Note 19 for additional information on assets held for sale.

Customer relationship intangibles of \$51 million, net of accumulated amortization of \$29 million, from the All Other segment were impaired during the second quarter of 2012. Fair value of the intangibles was determined using an income approach based on the present value of discounted cash flows. The impairment of \$22 million was recognized in Other operating (income) expenses on the Consolidated Statement of Results of Operations and included in the All Other segment.

Amortization expense for the three and six months ended June 30, 2012 was \$99 million and \$193 million, respectively. Amortization expense for the three and six months ended June 30, 2011 was \$22 million and \$44 million respectively. Amortization expense related to intangible assets is expected to be:

| (Millions of dollars) |              |              |              |              |                |
|-----------------------|--------------|--------------|--------------|--------------|----------------|
| 2012                  | 2013         | 2014         | 2015         | 2016         | Thereafter     |
| <u>\$393</u>          | <u>\$393</u> | <u>\$386</u> | <u>\$380</u> | <u>\$371</u> | <u>\$2,506</u> |

## B. Goodwill

During the second quarter of 2012, we recorded goodwill of \$467 million related to the acquisition of ERA Mining Machinery Limited. During the first quarter of 2012, we recorded goodwill of \$16 million related to the acquisition of Cat Tohoku. See Note 18 for details on these business combinations.

Goodwill of \$152 million was reclassified to held for sale in the first half of 2012, primarily related to the divestiture of portions of the Bucyrus distribution business, and is not included in the June 30, 2012 balance in the table below. See

Note 19 for additional information on assets held for sale.

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 qualitative assessment or a two-step process. We have an option to make a qualitative assessment of a reporting unit's goodwill for impairment. If we choose to perform a qualitative assessment and determine the fair value more likely than not exceeds the carrying value, no further evaluation is necessary. For reporting units where we perform the 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 higher than the fair value, there is an indication that an impairment may exist and the second step is required. In step two, the implied fair value of goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss. No goodwill for reporting units was impaired during the three and six months ended June 30, 2012 or 2011. See Note 19 for goodwill impairments relating to assets held for sale.

The changes in the carrying amount of the goodwill by reportable segment for the six months ended June 30, 2012 were as follows:

| <b>(Millions of dollars)</b>                                  |                                    |                                |                          |               |                               |
|---------------------------------------------------------------|------------------------------------|--------------------------------|--------------------------|---------------|-------------------------------|
|                                                               | <b>Construction<br/>Industries</b> | <b>Resource<br/>Industries</b> | <b>Power<br/>Systems</b> | <b>Other</b>  | <b>Consolidated<br/>Total</b> |
| Balance at December 31, 2011 .....                            | \$ 378                             | \$ 4,099                       | \$ 2,486                 | \$ 117        | \$ 7,080                      |
| Business acquisitions <sup>1</sup> .....                      | 16                                 | 467                            | —                        | —             | 483                           |
| Held for sale and business<br>divestitures <sup>2</sup> ..... | —                                  | (152)                          | —                        | —             | (152)                         |
| Other adjustments <sup>3</sup> .....                          | (5)                                | (59)                           | (27)                     | —             | (91)                          |
| Balance at June 30, 2012 .....                                | <u>\$ 389</u>                      | <u>\$ 4,355</u>                | <u>\$ 2,459</u>          | <u>\$ 117</u> | <u>\$ 7,320</u>               |

<sup>1</sup> See Note 18 for additional details.

<sup>2</sup> See Note 19 for additional details.

<sup>3</sup> Other adjustments are comprised primarily of foreign currency translation.

## 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 investments 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)                     | June 30, 2012   |                                      |                 | December 31, 2011 |                                      |                 |
|-------------------------------------------|-----------------|--------------------------------------|-----------------|-------------------|--------------------------------------|-----------------|
|                                           | Cost Basis      | Unrealized Pretax Net Gains (Losses) | Fair Value      | Cost Basis        | Unrealized Pretax Net Gains (Losses) | Fair Value      |
| <b>Government debt</b>                    |                 |                                      |                 |                   |                                      |                 |
| U.S. treasury bonds.....                  | \$ 10           | \$ —                                 | \$ 10           | \$ 10             | \$ —                                 | \$ 10           |
| Other U.S. and non-U.S. government bonds. | 121             | 2                                    | 123             | 90                | 2                                    | 92              |
| <b>Corporate bonds</b>                    |                 |                                      |                 |                   |                                      |                 |
| Corporate bonds.....                      | 588             | 35                                   | 623             | 542               | 30                                   | 572             |
| Asset-backed securities .....             | 96              | (1)                                  | 95              | 112               | (1)                                  | 111             |
| <b>Mortgage-backed debt securities</b>    |                 |                                      |                 |                   |                                      |                 |
| U.S. governmental agency.....             | 266             | 12                                   | 278             | 297               | 13                                   | 310             |
| Residential .....                         | 29              | (3)                                  | 26              | 33                | (3)                                  | 30              |
| Commercial .....                          | 131             | 6                                    | 137             | 142               | 3                                    | 145             |
| <b>Equity securities</b>                  |                 |                                      |                 |                   |                                      |                 |
| Large capitalization value.....           | 139             | 29                                   | 168             | 127               | 21                                   | 148             |
| Smaller company growth.....               | 22              | 11                                   | 33              | 22                | 7                                    | 29              |
| Total.....                                | <u>\$ 1,402</u> | <u>\$ 91</u>                         | <u>\$ 1,493</u> | <u>\$ 1,375</u>   | <u>\$ 72</u>                         | <u>\$ 1,447</u> |

During the three and six months ended June 30, 2012, charges for other-than-temporary declines in the market value of securities were \$1 million. 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. During the three and six months ended June 30, 2011, there were no charges for other-than-temporary declines in the market value of securities.

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

|                                        |    | June 30, 2012                    |                   |                                |                   |            |                   |
|----------------------------------------|----|----------------------------------|-------------------|--------------------------------|-------------------|------------|-------------------|
|                                        |    | Less than 12 months <sup>1</sup> |                   | 12 months or more <sup>1</sup> |                   | Total      |                   |
| (Millions of dollars)                  |    | Fair Value                       | Unrealized Losses | Fair Value                     | Unrealized Losses | Fair Value | Unrealized Losses |
| <b>Corporate bonds</b>                 |    |                                  |                   |                                |                   |            |                   |
| Asset-backed securities.....           | \$ | 3                                | \$ —              | \$ 19                          | \$ 4              | \$ 22      | \$ 4              |
| <b>Mortgage-backed debt securities</b> |    |                                  |                   |                                |                   |            |                   |
| Residential .....                      |    | 2                                | —                 | 15                             | 3                 | 17         | 3                 |
| Commercial.....                        |    | 2                                | —                 | 8                              | 1                 | 10         | 1                 |
| <b>Equity securities</b>               |    |                                  |                   |                                |                   |            |                   |
| Large capitalization value.....        |    | 28                               | 3                 | 14                             | 2                 | 42         | 5                 |
| Total.....                             | \$ | 35                               | \$ 3              | \$ 56                          | \$ 10             | \$ 91      | \$ 13             |

|                                        |    | December 31, 2011                |                   |                                |                   |            |                   |
|----------------------------------------|----|----------------------------------|-------------------|--------------------------------|-------------------|------------|-------------------|
|                                        |    | Less than 12 months <sup>1</sup> |                   | 12 months or more <sup>1</sup> |                   | Total      |                   |
| (Millions of dollars)                  |    | Fair Value                       | Unrealized Losses | Fair Value                     | Unrealized Losses | Fair Value | Unrealized Losses |
| <b>Corporate bonds</b>                 |    |                                  |                   |                                |                   |            |                   |
| Corporate bonds.....                   | \$ | 54                               | \$ 1              | \$ 1                           | \$ —              | \$ 55      | \$ 1              |
| Asset-backed securities.....           |    | 1                                | —                 | 20                             | 5                 | 21         | 5                 |
| <b>Mortgage-backed debt securities</b> |    |                                  |                   |                                |                   |            |                   |
| U.S. governmental agency.....          |    | 51                               | 1                 | —                              | —                 | 51         | 1                 |
| Residential .....                      |    | 3                                | —                 | 18                             | 3                 | 21         | 3                 |
| Commercial.....                        |    | 15                               | —                 | 8                              | 1                 | 23         | 1                 |
| <b>Equity securities</b>               |    |                                  |                   |                                |                   |            |                   |
| Large capitalization value.....        |    | 36                               | 5                 | 6                              | 1                 | 42         | 6                 |
| Smaller company growth.....            |    | 4                                | 1                 | —                              | —                 | 4          | 1                 |
| Total.....                             | \$ | 164                              | \$ 8              | \$ 53                          | \$ 10             | \$ 217     | \$ 18             |

<sup>1</sup> 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 June 30, 2012.

**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 June 30, 2012.

**Equity Securities.** Cat Insurance maintains a well-diversified equity portfolio consisting of two specific mandates: large capitalization value stocks and smaller company growth stocks. Overall U.S. equity valuations declined during the second quarter of 2012 due to a worsening European debt crisis and a global economic slowdown. In each case where unrealized losses exist, the respective company's management is taking action in order to increase shareholder value. We do not consider these investments to be other-than-temporarily impaired as of June 30, 2012.

The fair value of the available-for-sale debt securities at June 30, 2012, 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.

| <b>(Millions of dollars)</b>                    | <b>Cost Basis</b> | <b>Fair Value</b> |
|-------------------------------------------------|-------------------|-------------------|
| Due in one year or less .....                   | \$ 125            | \$ 127            |
| Due after one year through five years .....     | 496               | 510               |
| Due after five years through ten years .....    | 149               | 171               |
| Due after ten years.....                        | 45                | 43                |
| U.S. agency mortgage-backed securities.....     | 266               | 278               |
| Residential mortgage-backed securities .....    | 29                | 26                |
| Commercial mortgage-backed securities .....     | 131               | 137               |
| Total debt securities – available-for-sale..... | <u>\$ 1,241</u>   | <u>\$ 1,292</u>   |

#### **Sales of Securities**

| <b>(Millions of dollars)</b>                                      | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             |
|-------------------------------------------------------------------|------------------------------------|-------------|----------------------------------|-------------|
|                                                                   | <b>2012</b>                        | <b>2011</b> | <b>2012</b>                      | <b>2011</b> |
| Proceeds from the sale of available-for-sale securities.....      | \$ 65                              | \$ 56       | \$ 177                           | \$ 122      |
| Gross gains from the sale of available-for-sale securities .....  | \$ 1                               | \$ 1        | \$ 3                             | \$ 2        |
| Gross losses from the sale of available-for-sale securities ..... | \$ —                               | \$ —        | \$ —                             | \$ 1        |

## **9. Postretirement Benefits**

### **A. Pension and postretirement benefit costs**

In February 2012, we announced the closure of the Electro-Motive Diesel facility located in London, Ontario. As a result of the closure, we recognized a \$37 million other postretirement benefits curtailment gain in the first quarter. This excludes a \$21 million loss of a third party receivable for other postretirement benefits that was eliminated due to the closure. In addition, a \$10 million special termination benefit expense was recognized related to statutory pension benefits required to be paid to certain affected employees.

| (Millions of dollars)                                                       | U.S. Pension Benefits |               | Non-U.S. Pension Benefits |              | Other Postretirement Benefits |               |
|-----------------------------------------------------------------------------|-----------------------|---------------|---------------------------|--------------|-------------------------------|---------------|
|                                                                             | June 30,              |               | June 30,                  |              | June 30,                      |               |
|                                                                             | 2012                  | 2011          | 2012                      | 2011         | 2012                          | 2011          |
| <b>For the three months ended:</b>                                          |                       |               |                           |              |                               |               |
| <b>Components of net periodic benefit cost:</b>                             |                       |               |                           |              |                               |               |
| Service cost.....                                                           | \$ 46                 | \$ 38         | \$ 28                     | \$ 28        | \$ 22                         | \$ 20         |
| Interest cost.....                                                          | 154                   | 162           | 46                        | 44           | 56                            | 63            |
| Expected return on plan assets.....                                         | (203)                 | (199)         | (53)                      | (50)         | (16)                          | (17)          |
| Amortization of:                                                            |                       |               |                           |              |                               |               |
| Prior service cost (credit) <sup>1</sup> .....                              | 5                     | 5             | —                         | —            | (16)                          | (13)          |
| Net actuarial loss (gain) <sup>1</sup> .....                                | 124                   | 113           | 24                        | 18           | 25                            | 27            |
| Net periodic benefit cost.....                                              | 126                   | 119           | 45                        | 40           | 71                            | 80            |
| Curtailments, settlements and special termination benefits <sup>2</sup> ... | —                     | —             | 12                        | 9            | —                             | —             |
| Total cost included in operating profit.....                                | <u>\$ 126</u>         | <u>\$ 119</u> | <u>\$ 57</u>              | <u>\$ 49</u> | <u>\$ 71</u>                  | <u>\$ 80</u>  |
| <b>For the six months ended:</b>                                            |                       |               |                           |              |                               |               |
| <b>Components of net periodic benefit cost:</b>                             |                       |               |                           |              |                               |               |
| Service cost.....                                                           | \$ 92                 | \$ 77         | \$ 56                     | \$ 55        | \$ 46                         | \$ 41         |
| Interest cost.....                                                          | 308                   | 324           | 91                        | 87           | 111                           | 126           |
| Expected return on plan assets.....                                         | (406)                 | (398)         | (107)                     | (100)        | (32)                          | (35)          |
| Amortization of:                                                            |                       |               |                           |              |                               |               |
| Transition obligation (asset).....                                          | —                     | —             | —                         | —            | 1                             | 1             |
| Prior service cost (credit) <sup>1</sup> .....                              | 10                    | 10            | —                         | 1            | (33)                          | (27)          |
| Net actuarial loss (gain) <sup>1</sup> .....                                | 248                   | 226           | 48                        | 36           | 50                            | 54            |
| Net periodic benefit cost.....                                              | 252                   | 239           | 88                        | 79           | 143                           | 160           |
| Curtailments, settlements and special termination benefits <sup>2</sup> ... | —                     | —             | 22                        | 9            | (40)                          | —             |
| Total cost included in operating profit.....                                | <u>\$ 252</u>         | <u>\$ 239</u> | <u>\$ 110</u>             | <u>\$ 88</u> | <u>\$ 103</u>                 | <u>\$ 160</u> |
| <b>Weighted-average assumptions used to determine net cost:</b>             |                       |               |                           |              |                               |               |
| Discount rate.....                                                          | 4.3%                  | 5.1%          | 4.3%                      | 4.6%         | 4.3%                          | 5.0%          |
| Expected return on plan assets.....                                         | 8.0%                  | 8.5%          | 7.1%                      | 7.1%         | 8.0%                          | 8.5%          |
| Rate of compensation increase .....                                         | 4.5%                  | 4.5%          | 3.9%                      | 4.2%         | 4.4%                          | 4.4%          |

<sup>1</sup> Prior service cost (credit) and net actuarial loss (gain) 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. 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 cost (credit) and net actuarial loss (gain) are amortized using the straight-line method over the remaining life expectancy of those participants.

<sup>2</sup> Curtailments, settlements and special termination benefits were recognized in Other operating (income) expenses in the Consolidated Statement of Results of Operations.

We made \$119 million and \$293 million of contributions to our pension plans during the three and six months ended June 30, 2012, respectively. We currently anticipate full-year 2012 contributions of approximately \$1 billion, of which \$570 million are required contributions. We made \$104 million and \$235 million of contributions to our pension plans during the three and six months ended June 30, 2011, respectively.

## B. Defined contribution benefit costs

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 percent of employee contributions to the plan up to six percent of their compensation to 50 percent of employee contributions up to six percent of compensation. For U.S. 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.

Total company costs related to our defined contribution plans were as follows:

| (Millions of dollars) | Three Months Ended June 30, |              | Six Months Ended June 30, |               |
|-----------------------|-----------------------------|--------------|---------------------------|---------------|
|                       | 2012                        | 2011         | 2012                      | 2011          |
| U.S. Plans .....      | \$ 33                       | \$ 50        | \$ 134                    | \$ 132        |
| Non-U.S. Plans .....  | 17                          | 14           | 31                        | 26            |
|                       | <u>\$ 50</u>                | <u>\$ 64</u> | <u>\$ 165</u>             | <u>\$ 158</u> |

## 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 June 30, 2012 and December 31, 2011 the related liability was \$15 million and \$7 million, respectively. The increase in liability is primarily due to guarantees acquired through the purchase of ERA Mining Machinery Limited. The maximum potential amount of future payments (undiscounted and without reduction for any amounts that may possibly be recovered under recourse or collateralized provisions) we could be required to make under the guarantees are as follows:

| (Millions of dollars)                     | June 30,<br>2012 | December 31,<br>2011 |
|-------------------------------------------|------------------|----------------------|
| Guarantees with Caterpillar dealers ..... | \$ 146           | \$ 140               |
| Guarantees with customers .....           | 180              | 186                  |
| Limited indemnity .....                   | 8                | 11                   |
| Guarantees – other .....                  | 66               | 28                   |
| Total guarantees .....                    | <u>\$ 400</u>    | <u>\$ 365</u>        |

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 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 their 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 June 30, 2012 and December 31, 2011, the SPC's assets of \$866 million and \$586 million, respectively, are primarily comprised of loans to dealers and the SPC's liabilities of \$866 million and \$586 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.

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.

| (Millions of dollars)                       | 2012     |
|---------------------------------------------|----------|
| Warranty liability, January 1.....          | \$ 1,308 |
| Reduction in liability (payments) .....     | (460)    |
| Increase in liability (new warranties)..... | 540      |
| Warranty liability, June 30.....            | \$ 1,388 |

| (Millions of dollars)                       | 2011     |
|---------------------------------------------|----------|
| Warranty liability, January 1.....          | \$ 1,035 |
| Reduction in liability (payments) .....     | (926)    |
| Increase in liability (new warranties)..... | 1,199    |
| Warranty liability, December 31.....        | \$ 1,308 |

## 11. Computations of Profit Per Share

| (Dollars in millions except per share data) |                                                                                                                                  | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|---------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|--------------------------------|----------|------------------------------|----------|
|                                             |                                                                                                                                  | 2012                           | 2011     | 2012                         | 2011     |
| I.                                          | Profit for the period (A) <sup>1</sup> :                                                                                         | \$ 1,699                       | \$ 1,015 | \$ 3,285                     | \$ 2,240 |
| II.                                         | Determination of shares (in millions):                                                                                           |                                |          |                              |          |
|                                             | Weighted-average number of common shares outstanding (B).                                                                        | 652.9                          | 645.5    | 651.3                        | 643.3    |
|                                             | Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price ..... | 16.7                           | 21.7     | 18.6                         | 22.7     |
|                                             | Average common shares outstanding for fully diluted computation (C) <sup>2</sup> .....                                           | 669.6                          | 667.2    | 669.9                        | 666.0    |
| III.                                        | Profit per share of common stock:                                                                                                |                                |          |                              |          |
|                                             | Assuming no dilution (A/B) .....                                                                                                 | \$ 2.60                        | \$ 1.57  | \$ 5.04                      | \$ 3.48  |
|                                             | Assuming full dilution (A/C) <sup>2</sup> .....                                                                                  | \$ 2.54                        | \$ 1.52  | \$ 4.90                      | \$ 3.36  |

<sup>1</sup> Profit attributable to common stockholders.

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

SARs and stock options to purchase 6,091,056 common shares were outstanding for both the three and six months ended June 30, 2012, respectively, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive. For both the three and six months ended June 30, 2011, there were outstanding SARs and stock options to purchase 2,940,143 common shares, 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.

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 agreed to the terms of the consent decree, which required 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 paid \$2.04 million of the \$2.55 million penalty due to the United States in accordance with the decree terms. On July 9, 2012, under the terms of the consent decree, and subject to a settlement agreement executed on June 21, 2012 with the California Air Resources Board, Caterpillar paid the remaining \$0.51 million of the stipulated \$2.55 million penalty to the California Air Resources Board.

### **13. Income Taxes**

The provision for income taxes for the first six months of 2012 reflects an estimated annual effective tax rate of 30.5 percent compared to 29 percent for the first six months of 2011 and 26.5 percent for the full-year 2011, excluding the items discussed below. The increase from full-year 2011 is primarily due to expected changes in our geographic mix of profits from a tax perspective and the expiration of the U.S. research and development tax credit.

The 2012 tax provision also includes a negative impact of \$75 million from goodwill not deductible for tax purposes related to the divestiture of portions of the Bucyrus distribution business. A \$72 million net benefit was recorded in the second quarter of 2011 due to planned repatriation of non-U.S. earnings offset by an increase in unrecognized tax benefits.

### **14. Segment Information**

#### **A. Basis for segment information**

Our Executive Office is comprised of five Group Presidents and a CEO. Group Presidents are accountable for a related set of end-to-end businesses that they manage. The CEO allocates resources and manages performance at the Group President level. As such, the CEO 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 a smaller operating segment that is included in the All Other operating segment.

The segment information for 2011 has been retrospectively adjusted to conform to the 2012 presentation. A portion of goodwill assets, related to recent acquisitions, that was allocated to Machinery and Power Systems operating segments is now a methodology difference between segment and external reporting.

## **B. Description of segments**

We have five operating segments, of which four are reportable segments. Following is a brief description of our reportable segments and the business activities included in the All Other operating segment:

**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, and 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, off-highway 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 electric drive off-highway trucks to Resource Industries. In addition, segment profit includes Bucyrus acquisition-related costs and the impact from divestiture of a portion of the Bucyrus distribution business. On June 6, 2012, the acquisition of ERA Mining Machinery Limited, including its wholly-owned subsidiary Zhengzhou Siwei Mechanical & Electrical Manufacturing Co., Ltd., commonly known as Siwei, was completed. This added the responsibility for business strategy, product design, product management and development, manufacturing, marketing and sales and product support for underground coal mining equipment to Resource Industries. Inter-segment sales are a source of revenue for this segment.

**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, 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, development, manufacturing, marketing, sales and product support of turbines and turbine-related services; the development, manufacturing, remanufacturing, maintenance, 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 segment 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. and 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 (NC<sup>2</sup>) 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 the All Other operating segment is included as a reconciling item 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 allocated to segments 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.

Reconciling items are created based on accounting differences between segment reporting and our consolidated external reporting. Please refer to pages 32 to 37 for financial information regarding significant reconciling items. Most of our reconciling items are self-explanatory given the above explanations. For the reconciliation of profit, 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.

**Reportable Segments**  
**Three Months Ended June 30,**  
**(Millions of dollars)**

| <b>2012</b>                       |                                    |                                           |                                 |                                      |                       |                                  |                             |
|-----------------------------------|------------------------------------|-------------------------------------------|---------------------------------|--------------------------------------|-----------------------|----------------------------------|-----------------------------|
|                                   | <b>External sales and revenues</b> | <b>Inter-segment sales &amp; revenues</b> | <b>Total sales and revenues</b> | <b>Depreciation and amortization</b> | <b>Segment profit</b> | <b>Segment assets at June 30</b> | <b>Capital expenditures</b> |
| Construction Industries.....      | \$ 5,340                           | \$ 123                                    | \$ 5,463                        | \$ 139                               | \$ 688                | \$ 9,771                         | \$ 219                      |
| Resource Industries.....          | 5,390                              | 328                                       | 5,718                           | 168                                  | 1,426                 | 13,499                           | 242                         |
| Power Systems.....                | 5,511                              | 680                                       | 6,191                           | 147                                  | 982                   | 9,496                            | 237                         |
| Machinery and Power Systems ..... | \$ 16,241                          | \$ 1,131                                  | \$ 17,372                       | \$ 454                               | \$ 3,096              | \$ 32,766                        | \$ 698                      |
| Financial Products Segment .      | 764                                | —                                         | 764                             | 177                                  | 188                   | 34,451                           | 457                         |
| Total .....                       | <u>\$ 17,005</u>                   | <u>\$ 1,131</u>                           | <u>\$ 18,136</u>                | <u>\$ 631</u>                        | <u>\$ 3,284</u>       | <u>\$ 67,217</u>                 | <u>\$ 1,155</u>             |

| <b>2011</b>                       |                                    |                                           |                                 |                                      |                       |                                      |                             |
|-----------------------------------|------------------------------------|-------------------------------------------|---------------------------------|--------------------------------------|-----------------------|--------------------------------------|-----------------------------|
|                                   | <b>External sales and revenues</b> | <b>Inter-segment sales &amp; revenues</b> | <b>Total sales and revenues</b> | <b>Depreciation and amortization</b> | <b>Segment profit</b> | <b>Segment assets at December 31</b> | <b>Capital expenditures</b> |
| Construction Industries.....      | \$ 4,941                           | \$ 124                                    | \$ 5,065                        | \$ 126                               | \$ 482                | \$ 7,942                             | \$ 158                      |
| Resource Industries.....          | 3,206                              | 284                                       | 3,490                           | 72                                   | 796                   | 12,292                               | 105                         |
| Power Systems.....                | 4,918                              | 541                                       | 5,459                           | 129                                  | 736                   | 8,748                                | 132                         |
| Machinery and Power Systems ..... | \$ 13,065                          | \$ 949                                    | \$ 14,014                       | \$ 327                               | \$ 2,014              | \$ 28,982                            | \$ 395                      |
| Financial Products Segment .      | 764                                | —                                         | 764                             | 182                                  | 172                   | 31,747                               | 339                         |
| Total .....                       | <u>\$ 13,829</u>                   | <u>\$ 949</u>                             | <u>\$ 14,778</u>                | <u>\$ 509</u>                        | <u>\$ 2,186</u>       | <u>\$ 60,729</u>                     | <u>\$ 734</u>               |

**Reportable Segments**  
**Six Months Ended June 30,**  
**(Millions of dollars)**

| <b>2012</b>                       |                                    |                                           |                                 |                                      |                       |                                  |                             |
|-----------------------------------|------------------------------------|-------------------------------------------|---------------------------------|--------------------------------------|-----------------------|----------------------------------|-----------------------------|
|                                   | <b>External sales and revenues</b> | <b>Inter-segment sales &amp; revenues</b> | <b>Total sales and revenues</b> | <b>Depreciation and amortization</b> | <b>Segment profit</b> | <b>Segment assets at June 30</b> | <b>Capital expenditures</b> |
| Construction Industries.....      | \$ 10,402                          | \$ 253                                    | \$ 10,655                       | \$ 270                               | \$ 1,304              | \$ 9,771                         | \$ 350                      |
| Resource Industries.....          | 10,168                             | 656                                       | 10,824                          | 331                                  | 2,594                 | 13,499                           | 374                         |
| Power Systems.....                | 10,498                             | 1,355                                     | 11,853                          | 285                                  | 1,794                 | 9,496                            | 366                         |
| Machinery and Power Systems ..... | \$ 31,068                          | \$ 2,264                                  | \$ 33,332                       | \$ 886                               | \$ 5,692              | \$ 32,766                        | \$ 1,090                    |
| Financial Products Segment .      | 1,525                              | —                                         | 1,525                           | 351                                  | 393                   | 34,451                           | 800                         |
| Total .....                       | <u>\$ 32,593</u>                   | <u>\$ 2,264</u>                           | <u>\$ 34,857</u>                | <u>\$ 1,237</u>                      | <u>\$ 6,085</u>       | <u>\$ 67,217</u>                 | <u>\$ 1,890</u>             |

| <b>2011</b>                       |                                    |                                           |                                 |                                      |                       |                                      |                             |
|-----------------------------------|------------------------------------|-------------------------------------------|---------------------------------|--------------------------------------|-----------------------|--------------------------------------|-----------------------------|
|                                   | <b>External sales and revenues</b> | <b>Inter-segment sales &amp; revenues</b> | <b>Total sales and revenues</b> | <b>Depreciation and amortization</b> | <b>Segment profit</b> | <b>Segment assets at December 31</b> | <b>Capital expenditures</b> |
| Construction Industries.....      | \$ 9,412                           | \$ 271                                    | \$ 9,683                        | \$ 246                               | \$ 1,026              | \$ 7,942                             | \$ 237                      |
| Resource Industries.....          | 5,974                              | 558                                       | 6,532                           | 143                                  | 1,592                 | 12,292                               | 161                         |
| Power Systems.....                | 9,367                              | 1,095                                     | 10,462                          | 265                                  | 1,436                 | 8,748                                | 217                         |
| Machinery and Power Systems ..... | \$ 24,753                          | \$ 1,924                                  | \$ 26,677                       | \$ 654                               | \$ 4,054              | \$ 28,982                            | \$ 615                      |
| Financial Products Segment .      | 1,494                              | —                                         | 1,494                           | 358                                  | 308                   | 31,747                               | 519                         |
| Total .....                       | <u>\$ 26,247</u>                   | <u>\$ 1,924</u>                           | <u>\$ 28,171</u>                | <u>\$ 1,012</u>                      | <u>\$ 4,362</u>       | <u>\$ 60,729</u>                     | <u>\$ 1,134</u>             |

**Reconciliation of Sales and revenues:**

| (Millions of dollars)                                           | Machinery<br>and Power<br>Systems | Financial<br>Products | Consolidating<br>Adjustments | Consolidated<br>Total |
|-----------------------------------------------------------------|-----------------------------------|-----------------------|------------------------------|-----------------------|
| <b><u>Three Months Ended June 30, 2012</u></b>                  |                                   |                       |                              |                       |
| Total external sales and revenues from reportable segments..... | \$ 16,241                         | \$ 764                | \$ —                         | \$ 17,005             |
| All Other operating segment .....                               | 454                               | —                     | —                            | 454                   |
| Other.....                                                      | (11)                              | 16                    | (90) <sup>1</sup>            | (85)                  |
| Total sales and revenues.....                                   | <u>\$ 16,684</u>                  | <u>\$ 780</u>         | <u>\$ (90)</u>               | <u>\$ 17,374</u>      |
| <b><u>Three Months Ended June 30, 2011</u></b>                  |                                   |                       |                              |                       |
| Total external sales and revenues from reportable segments..... | \$ 13,065                         | \$ 764                | \$ —                         | \$ 13,829             |
| All Other operating segment .....                               | 475                               | —                     | —                            | 475                   |
| Other.....                                                      | (5)                               | 13                    | (82) <sup>1</sup>            | (74)                  |
| Total sales and revenues.....                                   | <u>\$ 13,535</u>                  | <u>\$ 777</u>         | <u>\$ (82)</u>               | <u>\$ 14,230</u>      |

<sup>1</sup> Elimination of Financial Products revenues from Machinery and Power Systems.

**Reconciliation of Sales and revenues:**

| (Millions of dollars)                                           | Machinery<br>and Power<br>Systems | Financial<br>Products | Consolidating<br>Adjustments | Consolidated<br>Total |
|-----------------------------------------------------------------|-----------------------------------|-----------------------|------------------------------|-----------------------|
| <b><u>Six Months Ended June 30, 2012</u></b>                    |                                   |                       |                              |                       |
| Total external sales and revenues from reportable segments..... | \$ 31,068                         | \$ 1,525              | \$ —                         | \$ 32,593             |
| All Other operating segment .....                               | 928                               | —                     | —                            | 928                   |
| Other.....                                                      | (24)                              | 32                    | (174) <sup>1</sup>           | (166)                 |
| Total sales and revenues.....                                   | <u>\$ 31,972</u>                  | <u>\$ 1,557</u>       | <u>\$ (174)</u>              | <u>\$ 33,355</u>      |
| <b><u>Six Months Ended June 30, 2011</u></b>                    |                                   |                       |                              |                       |
| Total external sales and revenues from reportable segments..... | \$ 24,753                         | \$ 1,494              | \$ —                         | \$ 26,247             |
| All Other operating segment .....                               | 1,064                             | —                     | —                            | 1,064                 |
| Other.....                                                      | (5)                               | 23                    | (150) <sup>1</sup>           | (132)                 |
| Total sales and revenues.....                                   | <u>\$ 25,812</u>                  | <u>\$ 1,517</u>       | <u>\$ (150)</u>              | <u>\$ 27,179</u>      |

<sup>1</sup> Elimination of Financial Products revenues from Machinery and Power Systems.

**Reconciliation of Consolidated profit before taxes:**

| <b>(Millions of dollars)</b>                                  | <b>Machinery<br/>and Power<br/>Systems</b> | <b>Financial<br/>Products</b> | <b>Consolidated<br/>Total</b> |
|---------------------------------------------------------------|--------------------------------------------|-------------------------------|-------------------------------|
| <b><u>Three Months Ended June 30, 2012</u></b>                |                                            |                               |                               |
| Total profit from reportable segments .....                   | \$ 3,096                                   | \$ 188                        | \$ 3,284                      |
| All Other operating segment .....                             | 188                                        | —                             | 188                           |
| Cost centers .....                                            | (11)                                       | —                             | (11)                          |
| Corporate costs .....                                         | (400)                                      | —                             | (400)                         |
| Timing .....                                                  | (137)                                      | —                             | (137)                         |
| Methodology differences:                                      |                                            |                               |                               |
| Inventory/cost of sales .....                                 | (21)                                       | —                             | (21)                          |
| Postretirement benefit expense .....                          | (145)                                      | —                             | (145)                         |
| Financing costs .....                                         | (112)                                      | —                             | (112)                         |
| Equity in profit of unconsolidated affiliated companies ..... | (5)                                        | —                             | (5)                           |
| Currency .....                                                | 9                                          | —                             | 9                             |
| Other income/expense methodology differences .....            | (74)                                       | —                             | (74)                          |
| Other methodology differences .....                           | 4                                          | (4)                           | —                             |
| Total profit before taxes .....                               | <u>\$ 2,392</u>                            | <u>\$ 184</u>                 | <u>\$ 2,576</u>               |
| <b><u>Three Months Ended June 30, 2011</u></b>                |                                            |                               |                               |
| Total profit from reportable segments .....                   | \$ 2,014                                   | \$ 172                        | \$ 2,186                      |
| All Other operating segment .....                             | 122                                        | —                             | 122                           |
| Cost centers .....                                            | (20)                                       | —                             | (20)                          |
| Corporate costs .....                                         | (300)                                      | —                             | (300)                         |
| Timing .....                                                  | (93)                                       | —                             | (93)                          |
| Methodology differences:                                      |                                            |                               |                               |
| Inventory/cost of sales .....                                 | 16                                         | —                             | 16                            |
| Postretirement benefit expense .....                          | (166)                                      | —                             | (166)                         |
| Financing costs .....                                         | (89)                                       | —                             | (89)                          |
| Equity in profit of unconsolidated affiliated companies ..... | 10                                         | —                             | 10                            |
| Currency .....                                                | (93)                                       | —                             | (93)                          |
| Interest rate swaps .....                                     | (124)                                      | —                             | (124)                         |
| Other income/expense methodology differences .....            | (97)                                       | —                             | (97)                          |
| Other methodology differences .....                           | (3)                                        | 1                             | (2)                           |
| Total profit before taxes .....                               | <u>\$ 1,177</u>                            | <u>\$ 173</u>                 | <u>\$ 1,350</u>               |

**Reconciliation of Consolidated profit before taxes:**

| <b>(Millions of dollars)</b>                                  | <b>Machinery<br/>and Power<br/>Systems</b> | <b>Financial<br/>Products</b> | <b>Consolidated<br/>Total</b> |
|---------------------------------------------------------------|--------------------------------------------|-------------------------------|-------------------------------|
| <b><u>Six Months Ended June 30, 2012</u></b>                  |                                            |                               |                               |
| Total profit from reportable segments .....                   | \$ 5,692                                   | \$ 393                        | \$ 6,085                      |
| All Other operating segment.....                              | 406                                        | —                             | 406                           |
| Cost centers.....                                             | 23                                         | —                             | 23                            |
| Corporate costs .....                                         | (760)                                      | —                             | (760)                         |
| Timing.....                                                   | (288)                                      | —                             | (288)                         |
| Methodology differences:                                      |                                            |                               |                               |
| Inventory/cost of sales.....                                  | (35)                                       | —                             | (35)                          |
| Postretirement benefit expense.....                           | (331)                                      | —                             | (331)                         |
| Financing costs.....                                          | (227)                                      | —                             | (227)                         |
| Equity in profit of unconsolidated affiliated companies ..... | (7)                                        | —                             | (7)                           |
| Currency .....                                                | 140                                        | —                             | 140                           |
| Other income/expense methodology differences .....            | (135)                                      | —                             | (135)                         |
| Other methodology differences.....                            | 6                                          | (3)                           | 3                             |
| Total profit before taxes.....                                | <u>\$ 4,484</u>                            | <u>\$ 390</u>                 | <u>\$ 4,874</u>               |
| <b><u>Six Months Ended June 30, 2011</u></b>                  |                                            |                               |                               |
| Total profit from reportable segments .....                   | \$ 4,054                                   | \$ 308                        | \$ 4,362                      |
| All Other operating segment.....                              | 367                                        | —                             | 367                           |
| Cost centers.....                                             | 1                                          | —                             | 1                             |
| Corporate costs .....                                         | (571)                                      | —                             | (571)                         |
| Timing.....                                                   | (169)                                      | —                             | (169)                         |
| Methodology differences:                                      |                                            |                               |                               |
| Inventory/cost of sales.....                                  | 22                                         | —                             | 22                            |
| Postretirement benefit expense.....                           | (358)                                      | —                             | (358)                         |
| Financing costs.....                                          | (178)                                      | —                             | (178)                         |
| Equity in profit of unconsolidated affiliated companies ..... | 18                                         | —                             | 18                            |
| Currency .....                                                | (75)                                       | —                             | (75)                          |
| Interest rate swaps .....                                     | (149)                                      | —                             | (149)                         |
| Other income/expense methodology differences .....            | (156)                                      | —                             | (156)                         |
| Other methodology differences.....                            | (4)                                        | 3                             | (1)                           |
| Total profit before taxes.....                                | <u>\$ 2,802</u>                            | <u>\$ 311</u>                 | <u>\$ 3,113</u>               |

**Reconciliation of Assets:**

| <b>(Millions of dollars)</b>                       | <b>Machinery<br/>and Power<br/>Systems</b> | <b>Financial<br/>Products</b> | <b>Consolidating<br/>Adjustments</b> | <b>Consolidated<br/>Total</b> |
|----------------------------------------------------|--------------------------------------------|-------------------------------|--------------------------------------|-------------------------------|
| <b><u>June 30, 2012</u></b>                        |                                            |                               |                                      |                               |
| Total assets from reportable segments .....        | \$ 32,766                                  | \$ 34,451                     | \$ —                                 | \$ 67,217                     |
| All Other operating segment .....                  | 2,029                                      | —                             | —                                    | 2,029                         |
| Items not included in segment assets:              |                                            |                               |                                      |                               |
| Cash and short-term investments .....              | 2,810                                      | —                             | —                                    | 2,810                         |
| Intercompany receivables .....                     | 54                                         | —                             | (54)                                 | —                             |
| Investment in Financial Products .....             | 4,011                                      | —                             | (4,011)                              | —                             |
| Deferred income taxes .....                        | 4,107                                      | —                             | (542)                                | 3,565                         |
| Goodwill, intangible assets and other assets ..... | 3,988                                      | —                             | —                                    | 3,988                         |
| Operating lease methodology difference .....       | (549)                                      | —                             | —                                    | (549)                         |
| Liabilities included in segment assets .....       | 13,061                                     | —                             | —                                    | 13,061                        |
| Inventory methodology differences .....            | (3,164)                                    | —                             | —                                    | (3,164)                       |
| Other .....                                        | 96                                         | (137)                         | (78)                                 | (119)                         |
| Total assets .....                                 | <u>\$ 59,209</u>                           | <u>\$ 34,314</u>              | <u>\$ (4,685)</u>                    | <u>\$ 88,838</u>              |
| <b><u>December 31, 2011</u></b>                    |                                            |                               |                                      |                               |
| Total assets from reportable segments .....        | \$ 28,982                                  | \$ 31,747                     | \$ —                                 | \$ 60,729                     |
| All Other operating segment .....                  | 2,035                                      | —                             | —                                    | 2,035                         |
| Items not included in segment assets:              |                                            |                               |                                      |                               |
| Cash and short-term investments .....              | 1,829                                      | —                             | —                                    | 1,829                         |
| Intercompany receivables .....                     | 75                                         | —                             | (75)                                 | —                             |
| Investment in Financial Products .....             | 4,035                                      | —                             | (4,035)                              | —                             |
| Deferred income taxes .....                        | 4,109                                      | —                             | (533)                                | 3,576                         |
| Goodwill, intangible assets and other assets ..... | 4,461                                      | —                             | —                                    | 4,461                         |
| Operating lease methodology difference .....       | (511)                                      | —                             | —                                    | (511)                         |
| Liabilities included in segment assets .....       | 12,088                                     | —                             | —                                    | 12,088                        |
| Inventory methodology differences .....            | (2,786)                                    | —                             | —                                    | (2,786)                       |
| Other .....                                        | 362                                        | (194)                         | (143)                                | 25                            |
| Total assets .....                                 | <u>\$ 54,679</u>                           | <u>\$ 31,553</u>              | <u>\$ (4,786)</u>                    | <u>\$ 81,446</u>              |

**Reconciliations of Depreciation and amortization:**

| (Millions of dollars)                                             | Machinery<br>and Power<br>Systems | Financial<br>Products | Consolidating<br>Adjustments | Consolidated<br>Total |
|-------------------------------------------------------------------|-----------------------------------|-----------------------|------------------------------|-----------------------|
| <b><u>Three Months Ended June 30, 2012</u></b>                    |                                   |                       |                              |                       |
| Total depreciation and amortization from reportable segments..... | \$ 454                            | \$ 177                | \$ —                         | \$ 631                |
| Items not included in segment depreciation and amortization:      |                                   |                       |                              |                       |
| All Other operating segment.....                                  | 41                                | —                     | —                            | 41                    |
| Cost centers.....                                                 | 22                                | —                     | —                            | 22                    |
| Other .....                                                       | (11)                              | 6                     | —                            | (5)                   |
| Total depreciation and amortization.....                          | <u>\$ 506</u>                     | <u>\$ 183</u>         | <u>\$ —</u>                  | <u>\$ 689</u>         |
| <b><u>Three Months Ended June 30, 2011</u></b>                    |                                   |                       |                              |                       |
| Total depreciation and amortization from reportable segments..... | \$ 327                            | \$ 182                | \$ —                         | \$ 509                |
| Items not included in segment depreciation and amortization:      |                                   |                       |                              |                       |
| All Other operating segment.....                                  | 41                                | —                     | —                            | 41                    |
| Cost centers.....                                                 | 19                                | —                     | —                            | 19                    |
| Other .....                                                       | 28                                | 2                     | —                            | 30                    |
| Total depreciation and amortization.....                          | <u>\$ 415</u>                     | <u>\$ 184</u>         | <u>\$ —</u>                  | <u>\$ 599</u>         |

**Reconciliations of Depreciation and amortization:**

| (Millions of dollars)                                             | Machinery<br>and Power<br>Systems | Financial<br>Products | Consolidating<br>Adjustments | Consolidated<br>Total |
|-------------------------------------------------------------------|-----------------------------------|-----------------------|------------------------------|-----------------------|
| <b><u>Six Months Ended June 30, 2012</u></b>                      |                                   |                       |                              |                       |
| Total depreciation and amortization from reportable segments..... | \$ 886                            | \$ 351                | \$ —                         | \$ 1,237              |
| Items not included in segment depreciation and amortization:      |                                   |                       |                              |                       |
| All Other operating segment.....                                  | 84                                | —                     | —                            | 84                    |
| Cost centers.....                                                 | 41                                | —                     | —                            | 41                    |
| Other .....                                                       | (23)                              | 11                    | —                            | (12)                  |
| Total depreciation and amortization.....                          | <u>\$ 988</u>                     | <u>\$ 362</u>         | <u>\$ —</u>                  | <u>\$ 1,350</u>       |
| <b><u>Six Months Ended June 30, 2011</u></b>                      |                                   |                       |                              |                       |
| Total depreciation and amortization from reportable segments..... | \$ 654                            | \$ 358                | \$ —                         | \$ 1,012              |
| Items not included in segment depreciation and amortization:      |                                   |                       |                              |                       |
| All Other operating segment.....                                  | 86                                | —                     | —                            | 86                    |
| Cost centers.....                                                 | 37                                | —                     | —                            | 37                    |
| Other .....                                                       | 33                                | 6                     | —                            | 39                    |
| Total depreciation and amortization.....                          | <u>\$ 810</u>                     | <u>\$ 364</u>         | <u>\$ —</u>                  | <u>\$ 1,174</u>       |

**Reconciliations of Capital expenditures:**

| (Millions of dollars)                                     | Machinery<br>and Power<br>Systems | Financial<br>Products | Consolidating<br>Adjustments | Consolidated<br>Total |
|-----------------------------------------------------------|-----------------------------------|-----------------------|------------------------------|-----------------------|
| <b>Three Months Ended June 30, 2012</b>                   |                                   |                       |                              |                       |
| Total capital expenditures from reportable segments ..... | \$ 698                            | \$ 457                | \$ —                         | \$ 1,155              |
| Items not included in segment capital expenditures:       |                                   |                       |                              |                       |
| All Other operating segment.....                          | 90                                | —                     | —                            | 90                    |
| Cost centers.....                                         | 65                                | —                     | —                            | 65                    |
| Timing.....                                               | (81)                              | —                     | —                            | (81)                  |
| Other .....                                               | (91)                              | 57                    | (29)                         | (63)                  |
| Total capital expenditures .....                          | <u>\$ 681</u>                     | <u>\$ 514</u>         | <u>\$ (29)</u>               | <u>\$ 1,166</u>       |
| <b>Three Months Ended June 30, 2011</b>                   |                                   |                       |                              |                       |
| Total capital expenditures from reportable segments ..... | \$ 395                            | \$ 339                | \$ —                         | \$ 734                |
| Items not included in segment capital expenditures:       |                                   |                       |                              |                       |
| All Other operating segment.....                          | 51                                | —                     | —                            | 51                    |
| Cost centers.....                                         | 19                                | —                     | —                            | 19                    |
| Timing.....                                               | (74)                              | —                     | —                            | (74)                  |
| Other .....                                               | 16                                | 22                    | (24)                         | 14                    |
| Total capital expenditures .....                          | <u>\$ 407</u>                     | <u>\$ 361</u>         | <u>\$ (24)</u>               | <u>\$ 744</u>         |

**Reconciliations of Capital expenditures:**

| (Millions of dollars)                                     | Machinery<br>and Power<br>Systems | Financial<br>Products | Consolidating<br>Adjustments | Consolidated<br>Total |
|-----------------------------------------------------------|-----------------------------------|-----------------------|------------------------------|-----------------------|
| <b>Six Months Ended June 30, 2012</b>                     |                                   |                       |                              |                       |
| Total capital expenditures from reportable segments ..... | \$ 1,090                          | \$ 800                | \$ —                         | \$ 1,890              |
| Items not included in segment capital expenditures:       |                                   |                       |                              |                       |
| All Other operating segment.....                          | 154                               | —                     | —                            | 154                   |
| Cost centers.....                                         | 103                               | —                     | —                            | 103                   |
| Timing.....                                               | 321                               | —                     | —                            | 321                   |
| Other .....                                               | (123)                             | 74                    | (124)                        | (173)                 |
| Total capital expenditures .....                          | <u>\$ 1,545</u>                   | <u>\$ 874</u>         | <u>\$ (124)</u>              | <u>\$ 2,295</u>       |
| <b>Six Months Ended June 30, 2011</b>                     |                                   |                       |                              |                       |
| Total capital expenditures from reportable segments ..... | \$ 615                            | \$ 519                | \$ —                         | \$ 1,134              |
| Items not included in segment capital expenditures:       |                                   |                       |                              |                       |
| All Other operating segment.....                          | 89                                | —                     | —                            | 89                    |
| Cost centers.....                                         | 34                                | —                     | —                            | 34                    |
| Timing.....                                               | 240                               | —                     | —                            | 240                   |
| Other .....                                               | (3)                               | 55                    | (45)                         | 7                     |
| Total capital expenditures .....                          | <u>\$ 975</u>                     | <u>\$ 574</u>         | <u>\$ (45)</u>               | <u>\$ 1,504</u>       |

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

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 retail customers.

- 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.
- 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.
- Mining - Finance receivables related to large mining customers worldwide.
- Latin America - Finance receivables originated in Central and South American countries and Mexico.
- Caterpillar 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 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 June 30, 2012 or December 31, 2011, for the Dealer portfolio segment. The average recorded investment for impaired loans and finance leases for the Dealer portfolio segment was zero for the three and six months ended June 30, 2012 and 2011.

Individually impaired loans and finance leases for the customer portfolio segment were as follows:

| (Millions of dollars)                                                                  | June 30, 2012       |                          |                   | December 31, 2011   |                          |                   |
|----------------------------------------------------------------------------------------|---------------------|--------------------------|-------------------|---------------------|--------------------------|-------------------|
|                                                                                        | Recorded Investment | Unpaid Principal Balance | Related Allowance | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| <b><u>Impaired Loans and Finance Leases With No Allowance Recorded<sup>1</sup></u></b> |                     |                          |                   |                     |                          |                   |
| <b>Customer</b>                                                                        |                     |                          |                   |                     |                          |                   |
| North America .....                                                                    | \$ 46               | \$ 44                    | \$ —              | \$ 83               | \$ 80                    | \$ —              |
| Europe .....                                                                           | 45                  | 44                       | —                 | 47                  | 46                       | —                 |
| Asia Pacific .....                                                                     | 3                   | 3                        | —                 | 4                   | 4                        | —                 |
| Mining .....                                                                           | 8                   | 8                        | —                 | 8                   | 8                        | —                 |
| Latin America .....                                                                    | 5                   | 5                        | —                 | 9                   | 9                        | —                 |
| Caterpillar Power Finance .....                                                        | 175                 | 174                      | —                 | 175                 | 170                      | —                 |
| <b>Total .....</b>                                                                     | <b>\$ 282</b>       | <b>\$ 278</b>            | <b>\$ —</b>       | <b>\$ 326</b>       | <b>\$ 317</b>            | <b>\$ —</b>       |
| <b><u>Impaired Loans and Finance Leases With An Allowance Recorded</u></b>             |                     |                          |                   |                     |                          |                   |
| <b>Customer</b>                                                                        |                     |                          |                   |                     |                          |                   |
| North America .....                                                                    | \$ 58               | \$ 53                    | \$ 12             | \$ 69               | \$ 64                    | \$ 15             |
| Europe .....                                                                           | 38                  | 38                       | 11                | 36                  | 33                       | 12                |
| Asia Pacific .....                                                                     | 28                  | 28                       | 4                 | 13                  | 13                       | 3                 |
| Mining .....                                                                           | 69                  | 68                       | 7                 | 13                  | 13                       | 4                 |
| Latin America .....                                                                    | 45                  | 45                       | 7                 | 25                  | 25                       | 6                 |
| Caterpillar Power Finance .....                                                        | 112                 | 108                      | 20                | 93                  | 92                       | 16                |
| <b>Total .....</b>                                                                     | <b>\$ 350</b>       | <b>\$ 340</b>            | <b>\$ 61</b>      | <b>\$ 249</b>       | <b>\$ 240</b>            | <b>\$ 56</b>      |
| <b><u>Total Impaired Loans and Finance Leases</u></b>                                  |                     |                          |                   |                     |                          |                   |
| <b>Customer</b>                                                                        |                     |                          |                   |                     |                          |                   |
| North America .....                                                                    | \$ 104              | \$ 97                    | \$ 12             | \$ 152              | \$ 144                   | \$ 15             |
| Europe .....                                                                           | 83                  | 82                       | 11                | 83                  | 79                       | 12                |
| Asia Pacific .....                                                                     | 31                  | 31                       | 4                 | 17                  | 17                       | 3                 |
| Mining .....                                                                           | 77                  | 76                       | 7                 | 21                  | 21                       | 4                 |
| Latin America .....                                                                    | 50                  | 50                       | 7                 | 34                  | 34                       | 6                 |
| Caterpillar Power Finance .....                                                        | 287                 | 282                      | 20                | 268                 | 262                      | 16                |
| <b>Total .....</b>                                                                     | <b>\$ 632</b>       | <b>\$ 618</b>            | <b>\$ 61</b>      | <b>\$ 575</b>       | <b>\$ 557</b>            | <b>\$ 56</b>      |

<sup>1</sup> No related allowance for credit losses due to sufficient collateral value.

| (Millions of dollars)                                                                  | Three Months Ended June 30, 2012 |                            | Three Months Ended June 30, 2011 |                            |
|----------------------------------------------------------------------------------------|----------------------------------|----------------------------|----------------------------------|----------------------------|
|                                                                                        | Average Recorded Investment      | Interest Income Recognized | Average Recorded Investment      | Interest Income Recognized |
| <b><u>Impaired Loans and Finance Leases With No Allowance Recorded<sup>1</sup></u></b> |                                  |                            |                                  |                            |
| <b>Customer</b>                                                                        |                                  |                            |                                  |                            |
| North America.....                                                                     | \$ 57                            | \$ —                       | \$ 104                           | \$ 1                       |
| Europe .....                                                                           | 45                               | —                          | 8                                | —                          |
| Asia Pacific .....                                                                     | 3                                | —                          | 6                                | —                          |
| Mining.....                                                                            | 8                                | —                          | 8                                | —                          |
| Latin America.....                                                                     | 5                                | —                          | 10                               | —                          |
| Caterpillar Power Finance.....                                                         | 203                              | 1                          | 261                              | —                          |
| <b>Total.....</b>                                                                      | <b>\$ 321</b>                    | <b>\$ 1</b>                | <b>\$ 397</b>                    | <b>\$ 1</b>                |
| <b><u>Impaired Loans and Finance Leases With An Allowance Recorded</u></b>             |                                  |                            |                                  |                            |
| <b>Customer</b>                                                                        |                                  |                            |                                  |                            |
| North America.....                                                                     | \$ 66                            | \$ 1                       | \$ 161                           | \$ 2                       |
| Europe .....                                                                           | 40                               | —                          | 53                               | —                          |
| Asia Pacific .....                                                                     | 24                               | —                          | 17                               | 1                          |
| Mining.....                                                                            | 41                               | 1                          | —                                | —                          |
| Latin America.....                                                                     | 40                               | 1                          | 46                               | 1                          |
| Caterpillar Power Finance.....                                                         | 86                               | —                          | 72                               | —                          |
| <b>Total.....</b>                                                                      | <b>\$ 297</b>                    | <b>\$ 3</b>                | <b>\$ 349</b>                    | <b>\$ 4</b>                |
| <b><u>Total Impaired Loans and Finance Leases</u></b>                                  |                                  |                            |                                  |                            |
| <b>Customer</b>                                                                        |                                  |                            |                                  |                            |
| North America.....                                                                     | \$ 123                           | \$ 1                       | \$ 265                           | \$ 3                       |
| Europe .....                                                                           | 85                               | —                          | 61                               | —                          |
| Asia Pacific .....                                                                     | 27                               | —                          | 23                               | 1                          |
| Mining.....                                                                            | 49                               | 1                          | 8                                | —                          |
| Latin America.....                                                                     | 45                               | 1                          | 56                               | 1                          |
| Caterpillar Power Finance.....                                                         | 289                              | 1                          | 333                              | —                          |
| <b>Total.....</b>                                                                      | <b>\$ 618</b>                    | <b>\$ 4</b>                | <b>\$ 746</b>                    | <b>\$ 5</b>                |

<sup>1</sup> No related allowance for credit losses due to sufficient collateral value.

| (Millions of dollars)                                                                  | Six Months Ended June 30, 2012 |                            | Six Months Ended June 30, 2011 |                            |
|----------------------------------------------------------------------------------------|--------------------------------|----------------------------|--------------------------------|----------------------------|
|                                                                                        | Average Recorded Investment    | Interest Income Recognized | Average Recorded Investment    | Interest Income Recognized |
| <b><u>Impaired Loans and Finance Leases With No Allowance Recorded<sup>1</sup></u></b> |                                |                            |                                |                            |
| <b>Customer</b>                                                                        |                                |                            |                                |                            |
| North America.....                                                                     | \$ 63                          | \$ 1                       | \$ 97                          | \$ 2                       |
| Europe .....                                                                           | 45                             | —                          | 7                              | —                          |
| Asia Pacific .....                                                                     | 3                              | —                          | 5                              | —                          |
| Mining.....                                                                            | 8                              | —                          | 8                              | —                          |
| Latin America.....                                                                     | 6                              | —                          | 7                              | —                          |
| Caterpillar Power Finance.....                                                         | 191                            | 2                          | 231                            | 1                          |
| <b>Total.....</b>                                                                      | <b>\$ 316</b>                  | <b>\$ 3</b>                | <b>\$ 355</b>                  | <b>\$ 3</b>                |
| <b><u>Impaired Loans and Finance Leases With An Allowance Recorded</u></b>             |                                |                            |                                |                            |
| <b>Customer</b>                                                                        |                                |                            |                                |                            |
| North America.....                                                                     | \$ 69                          | \$ 1                       | \$ 175                         | \$ 4                       |
| Europe .....                                                                           | 40                             | —                          | 58                             | 1                          |
| Asia Pacific .....                                                                     | 22                             | 1                          | 21                             | 1                          |
| Mining.....                                                                            | 29                             | 1                          | —                              | —                          |
| Latin America.....                                                                     | 33                             | 1                          | 46                             | 2                          |
| Caterpillar Power Finance.....                                                         | 87                             | —                          | 59                             | —                          |
| <b>Total.....</b>                                                                      | <b>\$ 280</b>                  | <b>\$ 4</b>                | <b>\$ 359</b>                  | <b>\$ 8</b>                |
| <b><u>Total Impaired Loans and Finance Leases</u></b>                                  |                                |                            |                                |                            |
| <b>Customer</b>                                                                        |                                |                            |                                |                            |
| North America.....                                                                     | \$ 132                         | \$ 2                       | \$ 272                         | \$ 6                       |
| Europe .....                                                                           | 85                             | —                          | 65                             | 1                          |
| Asia Pacific .....                                                                     | 25                             | 1                          | 26                             | 1                          |
| Mining.....                                                                            | 37                             | 1                          | 8                              | —                          |
| Latin America.....                                                                     | 39                             | 1                          | 53                             | 2                          |
| Caterpillar Power Finance.....                                                         | 278                            | 2                          | 290                            | 1                          |
| <b>Total.....</b>                                                                      | <b>\$ 596</b>                  | <b>\$ 7</b>                | <b>\$ 714</b>                  | <b>\$ 11</b>               |

<sup>1</sup> 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 June 30, 2012 and December 31, 2011, 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:

| (Millions of dollars)          |           |               |                   |
|--------------------------------|-----------|---------------|-------------------|
|                                |           | June 30, 2012 | December 31, 2011 |
| <b>Customer</b>                |           |               |                   |
| North America.....             | \$        | 92            | \$ 112            |
| Europe.....                    |           | 48            | 58                |
| Asia Pacific.....              |           | 30            | 24                |
| Mining.....                    |           | 12            | 12                |
| Latin America.....             |           | 169           | 108               |
| Caterpillar Power Finance..... |           | 297           | 158               |
| <b>Total.....</b>              | <b>\$</b> | <b>648</b>    | <b>\$ 472</b>     |

Aging related to loans and finance leases were as follows:

| (Millions of dollars)         |           | June 30, 2012             |                           |                         |                   |                  |                                 |                       |
|-------------------------------|-----------|---------------------------|---------------------------|-------------------------|-------------------|------------------|---------------------------------|-----------------------|
|                               |           | 31-60<br>Days<br>Past Due | 61-90<br>Days<br>Past Due | 91+<br>Days<br>Past Due | Total Past<br>Due | Current          | Total<br>Finance<br>Receivables | 91+ Still<br>Accruing |
| <b>Customer</b>               |           |                           |                           |                         |                   |                  |                                 |                       |
| North America.....            | \$        | 41                        | \$ 17                     | \$ 89                   | \$ 147            | \$ 5,516         | \$ 5,663                        | \$ 1                  |
| Europe.....                   |           | 32                        | 27                        | 56                      | 115               | 2,204            | 2,319                           | 10                    |
| Asia Pacific.....             |           | 82                        | 29                        | 42                      | 153               | 2,842            | 2,995                           | 15                    |
| Mining.....                   |           | 4                         | —                         | 12                      | 16                | 1,708            | 1,724                           | —                     |
| Latin America.....            |           | 45                        | 23                        | 157                     | 225               | 2,354            | 2,579                           | —                     |
| Caterpillar Power Finance.... |           | 83                        | 32                        | 177                     | 292               | 2,876            | 3,168                           | 14                    |
| <b>Dealer</b>                 |           |                           |                           |                         |                   |                  |                                 |                       |
| North America.....            |           | —                         | —                         | —                       | —                 | 1,907            | 1,907                           | —                     |
| Europe.....                   |           | —                         | —                         | —                       | —                 | 69               | 69                              | —                     |
| Asia Pacific.....             |           | —                         | —                         | —                       | —                 | 620              | 620                             | —                     |
| Mining.....                   |           | —                         | —                         | —                       | —                 | 1                | 1                               | —                     |
| Latin America.....            |           | —                         | —                         | —                       | —                 | 681              | 681                             | —                     |
| <b>Total.....</b>             | <b>\$</b> | <b>287</b>                | <b>\$ 128</b>             | <b>\$ 533</b>           | <b>\$ 948</b>     | <b>\$ 20,778</b> | <b>\$ 21,726</b>                | <b>\$ 40</b>          |

| (Millions of dollars)         |           | December 31, 2011         |                           |                         |                   |                  |                                 |                       |
|-------------------------------|-----------|---------------------------|---------------------------|-------------------------|-------------------|------------------|---------------------------------|-----------------------|
|                               |           | 31-60<br>Days<br>Past Due | 61-90<br>Days<br>Past Due | 91+<br>Days<br>Past Due | Total Past<br>Due | Current          | Total<br>Finance<br>Receivables | 91+ Still<br>Accruing |
| <b>Customer</b>               |           |                           |                           |                         |                   |                  |                                 |                       |
| North America.....            | \$        | 74                        | \$ 39                     | \$ 111                  | \$ 224            | \$ 5,378         | \$ 5,602                        | \$ 9                  |
| Europe.....                   |           | 27                        | 11                        | 57                      | 95                | 2,129            | 2,224                           | 10                    |
| Asia Pacific.....             |           | 47                        | 23                        | 38                      | 108               | 2,769            | 2,877                           | 14                    |
| Mining.....                   |           | —                         | —                         | 12                      | 12                | 1,473            | 1,485                           | —                     |
| Latin America.....            |           | 32                        | 15                        | 99                      | 146               | 2,339            | 2,485                           | —                     |
| Caterpillar Power Finance.... |           | 14                        | 16                        | 125                     | 155               | 2,765            | 2,920                           | 25                    |
| <b>Dealer</b>                 |           |                           |                           |                         |                   |                  |                                 |                       |
| North America.....            |           | —                         | —                         | —                       | —                 | 1,689            | 1,689                           | —                     |
| Europe.....                   |           | —                         | —                         | —                       | —                 | 57               | 57                              | —                     |
| Asia Pacific.....             |           | —                         | —                         | —                       | —                 | 161              | 161                             | —                     |
| Mining.....                   |           | —                         | —                         | —                       | —                 | —                | —                               | —                     |
| Latin America.....            |           | —                         | —                         | —                       | —                 | 480              | 480                             | —                     |
| <b>Total.....</b>             | <b>\$</b> | <b>194</b>                | <b>\$ 104</b>             | <b>\$ 442</b>           | <b>\$ 740</b>     | <b>\$ 19,240</b> | <b>\$ 19,980</b>                | <b>\$ 58</b>          |

### 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. The allowance for credit losses as of June 30, 2012 and December 31, 2011 was as follows:

|                                                        |                  |                 |                  |
|--------------------------------------------------------|------------------|-----------------|------------------|
| (Millions of dollars)                                  |                  |                 |                  |
|                                                        | June 30, 2012    |                 |                  |
| <b>Allowance for Credit Losses:</b>                    | <b>Customer</b>  | <b>Dealer</b>   | <b>Total</b>     |
| Balance at beginning of year .....                     | \$ 360           | \$ 6            | \$ 366           |
| Receivables written off .....                          | (50)             | —               | (50)             |
| Recoveries on receivables previously written off ..... | 23               | —               | 23               |
| Provision for credit losses .....                      | 51               | 2               | 53               |
| Other .....                                            | (2)              | —               | (2)              |
| Balance at end of period .....                         | <u>\$ 382</u>    | <u>\$ 8</u>     | <u>\$ 390</u>    |
| <b>Allowance for Credit Losses:</b>                    |                  |                 |                  |
| Individually evaluated for impairment .....            | \$ 61            | \$ —            | \$ 61            |
| Collectively evaluated for impairment .....            | 321              | 8               | 329              |
| Ending Balance .....                                   | <u>\$ 382</u>    | <u>\$ 8</u>     | <u>\$ 390</u>    |
| <b>Recorded Investment in Finance Receivables:</b>     |                  |                 |                  |
| Individually evaluated for impairment .....            | \$ 632           | \$ —            | \$ 632           |
| Collectively evaluated for impairment .....            | 17,816           | 3,278           | 21,094           |
| Ending Balance .....                                   | <u>\$ 18,448</u> | <u>\$ 3,278</u> | <u>\$ 21,726</u> |

| (Millions of dollars)                                 |                   |                 |                  |
|-------------------------------------------------------|-------------------|-----------------|------------------|
|                                                       | December 31, 2011 |                 |                  |
| Allowance for Credit Losses:                          | Customer          | Dealer          | Total            |
| Balance at beginning of year.....                     | \$ 357            | \$ 5            | \$ 362           |
| Receivables written off.....                          | (210)             | —               | (210)            |
| Recoveries on receivables previously written off..... | 52                | —               | 52               |
| Provision for credit losses.....                      | 167               | 1               | 168              |
| Other.....                                            | (6)               | —               | (6)              |
| Balance at end of year.....                           | <u>\$ 360</u>     | <u>\$ 6</u>     | <u>\$ 366</u>    |
| <b>Allowance for Credit Losses:</b>                   |                   |                 |                  |
| Individually evaluated for impairment.....            | \$ 56             | \$ —            | \$ 56            |
| Collectively evaluated for impairment.....            | 304               | 6               | 310              |
| Ending Balance.....                                   | <u>\$ 360</u>     | <u>\$ 6</u>     | <u>\$ 366</u>    |
| <b>Recorded Investment in Finance Receivables:</b>    |                   |                 |                  |
| Individually evaluated for impairment.....            | \$ 575            | \$ —            | \$ 575           |
| Collectively evaluated for impairment.....            | 17,018            | 2,387           | 19,405           |
| Ending Balance.....                                   | <u>\$ 17,593</u>  | <u>\$ 2,387</u> | <u>\$ 19,980</u> |

### 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. In addition, Cat Financial considers credit enhancements such as additional collateral and contractual third-party guarantees

in determining the allowance for credit losses attributable to non-performing receivables.

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

| (Millions of dollars)                  |                  |                 |                  |                   |                 |                  |  |
|----------------------------------------|------------------|-----------------|------------------|-------------------|-----------------|------------------|--|
|                                        | June 30, 2012    |                 |                  | December 31, 2011 |                 |                  |  |
|                                        | Customer         | Dealer          | Total            | Customer          | Dealer          | Total            |  |
| <b>Performing</b>                      |                  |                 |                  |                   |                 |                  |  |
| North America.....                     | \$ 5,571         | \$ 1,907        | \$ 7,478         | \$ 5,490          | \$ 1,689        | \$ 7,179         |  |
| Europe .....                           | 2,271            | 69              | 2,340            | 2,166             | 57              | 2,223            |  |
| Asia Pacific .....                     | 2,965            | 620             | 3,585            | 2,853             | 161             | 3,014            |  |
| Mining.....                            | 1,712            | 1               | 1,713            | 1,473             | —               | 1,473            |  |
| Latin America.....                     | 2,410            | 681             | 3,091            | 2,377             | 480             | 2,857            |  |
| Caterpillar Power Finance.....         | 2,871            | —               | 2,871            | 2,762             | —               | 2,762            |  |
| <b>Total Performing</b> .....          | <b>\$ 17,800</b> | <b>\$ 3,278</b> | <b>\$ 21,078</b> | <b>\$ 17,121</b>  | <b>\$ 2,387</b> | <b>\$ 19,508</b> |  |
| <b>Non-Performing</b>                  |                  |                 |                  |                   |                 |                  |  |
| North America.....                     | \$ 92            | \$ —            | \$ 92            | \$ 112            | \$ —            | \$ 112           |  |
| Europe .....                           | 48               | —               | 48               | 58                | —               | 58               |  |
| Asia Pacific .....                     | 30               | —               | 30               | 24                | —               | 24               |  |
| Mining.....                            | 12               | —               | 12               | 12                | —               | 12               |  |
| Latin America.....                     | 169              | —               | 169              | 108               | —               | 108              |  |
| Caterpillar Power Finance.....         | 297              | —               | 297              | 158               | —               | 158              |  |
| <b>Total Non-Performing</b> .....      | <b>\$ 648</b>    | <b>\$ —</b>     | <b>\$ 648</b>    | <b>\$ 472</b>     | <b>\$ —</b>     | <b>\$ 472</b>    |  |
| <b>Performing &amp; Non-Performing</b> |                  |                 |                  |                   |                 |                  |  |
| North America.....                     | \$ 5,663         | \$ 1,907        | \$ 7,570         | \$ 5,602          | \$ 1,689        | \$ 7,291         |  |
| Europe .....                           | 2,319            | 69              | 2,388            | 2,224             | 57              | 2,281            |  |
| Asia Pacific .....                     | 2,995            | 620             | 3,615            | 2,877             | 161             | 3,038            |  |
| Mining.....                            | 1,724            | 1               | 1,725            | 1,485             | —               | 1,485            |  |
| Latin America.....                     | 2,579            | 681             | 3,260            | 2,485             | 480             | 2,965            |  |
| Caterpillar Power Finance.....         | 3,168            | —               | 3,168            | 2,920             | —               | 2,920            |  |
| <b>Total</b> .....                     | <b>\$ 18,448</b> | <b>\$ 3,278</b> | <b>\$ 21,726</b> | <b>\$ 17,593</b>  | <b>\$ 2,387</b> | <b>\$ 19,980</b> |  |

### 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. In addition, Cat Financial factors in credit enhancements such as additional collateral and contractual third-party guarantees in determining the allowance for credit losses attributable to TDRs.

There were no loans or finance lease receivables modified as TDRs during the three and six months ended June 30, 2012 or 2011 for the Dealer portfolio segment.

Loan and finance lease receivables in the customer portfolio segment modified as TDRs during the three and six months ended June 30, 2012 and 2011, were as follows:

(Dollars in millions)

|                                                | Three Months Ended June 30, 2012 |                                         |                                          | Three Months Ended June 30, 2011 |                                         |                                          |
|------------------------------------------------|----------------------------------|-----------------------------------------|------------------------------------------|----------------------------------|-----------------------------------------|------------------------------------------|
|                                                | Number of Contracts              | Pre-TDR Outstanding Recorded Investment | Post-TDR Outstanding Recorded Investment | Number of Contracts              | Pre-TDR Outstanding Recorded Investment | Post-TDR Outstanding Recorded Investment |
| <b>Customer</b>                                |                                  |                                         |                                          |                                  |                                         |                                          |
| North America.....                             | 18                               | \$ 2                                    | \$ 2                                     | 15                               | \$ 4                                    | \$ 4                                     |
| Europe.....                                    | —                                | —                                       | —                                        | 5                                | 6                                       | 6                                        |
| Latin America.....                             | —                                | —                                       | —                                        | 4                                | 5                                       | 5                                        |
| Caterpillar Power Finance <sup>1,2</sup> ..... | —                                | —                                       | —                                        | 25                               | 60                                      | 60                                       |
| <b>Total</b> <sup>4</sup> .....                | <u>18</u>                        | <u>\$ 2</u>                             | <u>\$ 2</u>                              | <u>49</u>                        | <u>\$ 75</u>                            | <u>\$ 75</u>                             |

|                                                | Six Months Ended June 30, 2012 |                                         |                                          | Six Months Ended June 30, 2011 |                                         |                                          |
|------------------------------------------------|--------------------------------|-----------------------------------------|------------------------------------------|--------------------------------|-----------------------------------------|------------------------------------------|
|                                                | Number of Contracts            | Pre-TDR Outstanding Recorded Investment | Post-TDR Outstanding Recorded Investment | Number of Contracts            | Pre-TDR Outstanding Recorded Investment | Post-TDR Outstanding Recorded Investment |
| <b>Customer</b>                                |                                |                                         |                                          |                                |                                         |                                          |
| North America.....                             | 41                             | \$ 4                                    | \$ 4                                     | 39                             | \$ 9                                    | \$ 9                                     |
| Europe.....                                    | 7                              | 7                                       | 7                                        | 6                              | 7                                       | 7                                        |
| Latin America.....                             | —                              | —                                       | —                                        | 12                             | 10                                      | 10                                       |
| Caterpillar Power Finance <sup>1,3</sup> ..... | 5                              | 32                                      | 32                                       | 31                             | 113                                     | 113                                      |
| <b>Total</b> <sup>4</sup> .....                | <u>53</u>                      | <u>\$ 43</u>                            | <u>\$ 43</u>                             | <u>88</u>                      | <u>\$ 139</u>                           | <u>\$ 139</u>                            |

<sup>1</sup> During the three and six months ended June 30, 2012, \$6 million and \$15 million, respectively, of additional funds were subsequently loaned to a borrower whose terms had been modified in a TDR. The additional funds loaned are not reflected in the table above as no incremental modifications have been made with the borrower during the periods presented. At June 30, 2012, remaining commitments to lend additional funds to a borrower whose terms have been modified in a TDR were \$7 million.

<sup>2</sup> Two customers comprise \$55 million of the \$60 million pre-TDR and post-TDR outstanding recorded investment for the three months ended June 30, 2011.

<sup>3</sup> Three customers comprise \$32 million of the pre-TDR and post-TDR outstanding recorded investment for the six months ended June 30, 2012. Four customers comprise \$105 million of the \$113 million pre-TDR and post-TDR outstanding recorded investment for the six months ended June 30, 2011.

<sup>4</sup> Modifications include extended contract maturities, inclusion of interest only periods, below market interest rates, and extended skip payment periods.

TDRs in the customer portfolio segment with a payment default during the three and six months ended June 30, 2012 and 2011, which had been modified within twelve months prior to the default date, were as follows:

(Dollars in millions)

|                                | Three Months Ended June 30, 2012 |                              | Three Months Ended June 30, 2011 |                              |
|--------------------------------|----------------------------------|------------------------------|----------------------------------|------------------------------|
|                                | Number of Contracts              | Post-TDR Recorded Investment | Number of Contracts              | Post-TDR Recorded Investment |
| <b>Customer</b>                |                                  |                              |                                  |                              |
| North America.....             | 14                               | \$ 1                         | 7                                | \$ 3                         |
| Europe.....                    | —                                | —                            | 1                                | 1                            |
| Latin America.....             | —                                | —                            | —                                | —                            |
| Caterpillar Power Finance..... | 2                                | 2                            | —                                | —                            |
| <b>Total</b> .....             | <u>16</u>                        | <u>\$ 3</u>                  | <u>8</u>                         | <u>\$ 4</u>                  |

| (Dollars in millions)                        | Six Months Ended June 30, 2012 |                              | Six Months Ended June 30, 2011 |                              |
|----------------------------------------------|--------------------------------|------------------------------|--------------------------------|------------------------------|
|                                              | Number of Contracts            | Post-TDR Recorded Investment | Number of Contracts            | Post-TDR Recorded Investment |
| <b>Customer</b>                              |                                |                              |                                |                              |
| North America.....                           | 25                             | \$ 2                         | 41                             | \$ 9                         |
| Europe .....                                 | —                              | —                            | 1                              | 1                            |
| Latin America.....                           | —                              | —                            | —                              | —                            |
| Caterpillar Power Finance <sup>1</sup> ..... | 16                             | 21                           | 6                              | 5                            |
| <b>Total</b> .....                           | <b>41</b>                      | <b>\$ 23</b>                 | <b>48</b>                      | <b>\$ 15</b>                 |

<sup>1</sup> Two customers comprise \$19 million of the \$21 million post-TDR recorded investment for the six months ended June 30, 2012.

## B. Securitized Retail Installment Sale Contracts and Finance Leases

Cat Financial has periodically transferred certain finance receivables relating to retail installment sale contracts and finance leases to SPEs as part of their asset-backed securitization program.

On April 25, 2011, Cat Financial exercised a clean-up call on their only outstanding asset-backed securitization transaction. As a result, Cat Financial had no assets or liabilities related to their securitization program as of June 30, 2012 and December 31, 2011.

## 16. Redeemable Noncontrolling Interest — Caterpillar Japan Ltd.

On August 1, 2008, Shin Caterpillar Mitsubishi Ltd. (SCM) completed the first phase of a share redemption plan whereby SCM redeemed half of Mitsubishi Heavy Industries' (MHI's) shares in SCM. This resulted in Caterpillar owning 67 percent of the outstanding shares of SCM and MHI owning the remaining 33 percent. As part of the share redemption, SCM was renamed Caterpillar Japan Ltd. (Cat Japan) and we consolidated its financial statements. On April 2, 2012, the redemption of the remaining 33 percent interest was completed, resulting in Caterpillar becoming the sole owner of Cat Japan. Caterpillar paid \$444 million (36.5 billion Japanese Yen) to acquire the remaining equity interest held in Cat Japan by MHI.

## 17. Fair Value Measurements

### A. Fair value measurements

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

- **Level 1** – Quoted prices for identical instruments in active markets.
- **Level 2** – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.
- **Level 3** – Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

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

such as interest rates, yield curves and currency rates. These measurements are classified within Level 3.

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

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

#### Available-for-sale securities

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

#### Derivative financial instruments

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

#### Guarantees

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

Assets and liabilities measured on a recurring basis at fair value, primarily related to Financial Products, included in our Consolidated Statement of Financial Position as of June 30, 2012 and December 31, 2011 are summarized below:

| (Millions of dollars)                          | June 30, 2012 |          |         |                                           |
|------------------------------------------------|---------------|----------|---------|-------------------------------------------|
|                                                | Level 1       | Level 2  | Level 3 | Total Assets / Liabilities, at Fair Value |
| <b>Assets</b>                                  |               |          |         |                                           |
| Available-for-sale securities                  |               |          |         |                                           |
| Government debt                                |               |          |         |                                           |
| U.S. treasury bonds.....                       | \$ 10         | \$ —     | \$ —    | \$ 10                                     |
| Other U.S. and non-U.S. government bonds ..... | —             | 123      | —       | 123                                       |
| Corporate bonds                                |               |          |         |                                           |
| Corporate bonds.....                           | —             | 623      | —       | 623                                       |
| Asset-backed securities.....                   | —             | 95       | —       | 95                                        |
| Mortgage-backed debt securities                |               |          |         |                                           |
| U.S. governmental agency.....                  | —             | 278      | —       | 278                                       |
| Residential .....                              | —             | 26       | —       | 26                                        |
| Commercial.....                                | —             | 137      | —       | 137                                       |
| Equity securities                              |               |          |         |                                           |
| Large capitalization value.....                | 168           | —        | —       | 168                                       |
| Smaller company growth.....                    | 33            | —        | —       | 33                                        |
| Total available-for-sale securities.....       | 211           | 1,282    | —       | 1,493                                     |
| Derivative financial instruments, net.....     | —             | 145      | —       | 145                                       |
| Total Assets.....                              | \$ 211        | \$ 1,427 | \$ —    | \$ 1,638                                  |
| <b>Liabilities</b>                             |               |          |         |                                           |
| Guarantees.....                                | \$ —          | \$ —     | \$ 15   | \$ 15                                     |
| Total Liabilities.....                         | \$ —          | \$ —     | \$ 15   | \$ 15                                     |

| (Millions of dollars)                          | December 31, 2011 |          |         |                                           |
|------------------------------------------------|-------------------|----------|---------|-------------------------------------------|
|                                                | Level 1           | Level 2  | Level 3 | Total Assets / Liabilities, at Fair Value |
| <b>Assets</b>                                  |                   |          |         |                                           |
| Available-for-sale securities                  |                   |          |         |                                           |
| Government debt                                |                   |          |         |                                           |
| U.S. treasury bonds.....                       | \$ 10             | \$ —     | \$ —    | \$ 10                                     |
| Other U.S. and non-U.S. government bonds ..... | —                 | 92       | —       | 92                                        |
| Corporate bonds                                |                   |          |         |                                           |
| Corporate bonds.....                           | —                 | 572      | —       | 572                                       |
| Asset-backed securities.....                   | —                 | 111      | —       | 111                                       |
| Mortgage-backed debt securities                |                   |          |         |                                           |
| U.S. governmental agency.....                  | —                 | 310      | —       | 310                                       |
| Residential .....                              | —                 | 30       | —       | 30                                        |
| Commercial.....                                | —                 | 145      | —       | 145                                       |
| Equity securities                              |                   |          |         |                                           |
| Large capitalization value.....                | 148               | —        | —       | 148                                       |
| Smaller company growth.....                    | 29                | —        | —       | 29                                        |
| Total available-for-sale securities.....       | 187               | 1,260    | —       | 1,447                                     |
| Derivative financial instruments, net.....     | —                 | 145      | —       | 145                                       |
| Total Assets.....                              | \$ 187            | \$ 1,405 | \$ —    | \$ 1,592                                  |
| <b>Liabilities</b>                             |                   |          |         |                                           |
| Guarantees.....                                | \$ —              | \$ —     | \$ 7    | \$ 7                                      |
| Total Liabilities.....                         | \$ —              | \$ —     | \$ 7    | \$ 7                                      |

Below are roll-forwards of assets and liabilities measured at fair value using Level 3 inputs for the six months ended

June 30, 2012 and 2011. These instruments were valued using pricing models that, in management's judgment, reflect the assumptions of a marketplace participant.

| (Millions of dollars)              | Guarantees   |
|------------------------------------|--------------|
| Balance at December 31, 2011.....  | \$ 7         |
| Acquisitions.....                  | 6            |
| Issuance of guarantees.....        | 3            |
| Expiration of guarantees.....      | (1)          |
| Balance at June 30, 2012.....      | <u>\$ 15</u> |
| Balance at December 31, 2010 ..... | \$ 10        |
| Issuance of guarantees.....        | 1            |
| Expiration of guarantees.....      | (4)          |
| Balance at June 30, 2011.....      | <u>\$ 7</u>  |

In addition to the amounts above, Cat Financial had impaired loans with a fair value of \$219 million and \$141 million as of June 30, 2012 and December 31, 2011, respectively. A loan is considered impaired when management determines that collection of contractual amounts due is not probable. In these cases, an allowance for credit losses is established based primarily on the fair value of associated collateral. As the collateral's fair value is based on observable market prices and/or current appraised values, the impaired loans are classified as Level 2 measurements.

## B. Fair values of financial instruments

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

### Cash and short-term investments

Carrying amount approximated fair value.

### Restricted cash and short-term investments

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

### Finance receivables

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

### Wholesale inventory receivables

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

### Short-term borrowings

Carrying amount approximated fair value.

### Long-term debt

Fair value for Machinery and Power Systems and Financial Products fixed and floating rate debt was estimated based on quoted market prices.

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

| (Millions of dollars)                                                             | Fair Value of Financial Instruments |            |                   |            | Fair Value Levels | Reference |
|-----------------------------------------------------------------------------------|-------------------------------------|------------|-------------------|------------|-------------------|-----------|
|                                                                                   | June 30, 2012                       |            | December 31, 2011 |            |                   |           |
|                                                                                   | Carrying Amount                     | Fair Value | Carrying Amount   | Fair Value |                   |           |
| <b>Assets</b>                                                                     |                                     |            |                   |            |                   |           |
| Cash and short-term investments .....                                             | \$ 5,103                            | \$ 5,103   | \$ 3,057          | \$ 3,057   | 1                 |           |
| Restricted cash and short-term investments...                                     | 189                                 | 189        | 87                | 87         | 1                 |           |
| Available-for-sale securities.....                                                | 1,493                               | 1,493      | 1,447             | 1,447      | 1 & 2             | Note 8    |
| Finance receivables—net (excluding finance leases <sup>1</sup> ).....             | 14,146                              | 14,079     | 12,689            | 12,516     | 2                 | Note 15   |
| Wholesale inventory receivables—net (excluding finance leases <sup>1</sup> )..... | 1,441                               | 1,372      | 1,591             | 1,505      | 2                 | Note 15   |
| Interest rate swaps—net.....                                                      | 235                                 | 235        | 241               | 241        | 2                 | Note 4    |
| <b>Liabilities</b>                                                                |                                     |            |                   |            |                   |           |
| Short-term borrowings .....                                                       | 5,047                               | 5,047      | 3,988             | 3,988      | 1                 |           |
| Long-term debt (including amounts due within one year)                            |                                     |            |                   |            |                   |           |
| Machinery and Power Systems.....                                                  | 10,438                              | 12,370     | 8,973             | 10,737     | 2                 |           |
| Financial Products .....                                                          | 23,831                              | 24,859     | 21,631            | 22,674     | 2                 |           |
| Foreign currency contracts—net.....                                               | 87                                  | 87         | 89                | 89         | 2                 | Note 4    |
| Commodity contracts—net .....                                                     | 3                                   | 3          | 7                 | 7          | 2                 | Note 4    |
| Guarantees.....                                                                   | 15                                  | 15         | 7                 | 7          | 3                 | Note 10   |

<sup>1</sup> Total excluded items have a net carrying value at June 30, 2012 and December 31, 2011 of \$7,601 million and \$7,324 million, respectively.

## 18. Business Combinations

### ERA Mining Machinery Limited

During the second quarter of 2012, Caterpillar, through its wholly-owned subsidiary Caterpillar (Luxembourg) Investment Co. S.A., completed a tender offer to acquire the issued shares of ERA Mining Machinery Limited, including its wholly-owned subsidiary Zhengzhou Siwei Mechanical Manufacturing Co., Ltd., commonly known as Siwei. Substantially all of the issued shares of Siwei, a public company listed on the Hong Kong Exchange, were acquired at the end of May 2012 and approximately one percent of the issued shares remained outstanding and unacquired as of June 30, 2012. We expect to complete the compulsory acquisition of the remaining shares of Siwei common stock in the third quarter of 2012. Siwei primarily designs, manufactures, sells and supports underground coal mining equipment in mainland China and is known for its expertise in manufacturing mining roof support equipment. The tender offer allowed Siwei shareholders to choose between two types of consideration in exchange for their shares. The alternatives were either cash consideration of HK\$0.88 or a HK\$1.00 loan note issued by Caterpillar (Luxembourg) Investment Co. S.A. to the former shareholders of Siwei that will entitle the holder to receive on redemption a minimum of HK\$0.75 up to a maximum of HK\$1.15 depending on Siwei's consolidated gross profit for 2012 and 2013. Approximately 4 billion Siwei shares were tendered for the cash alternative and approximately 1.6 billion Siwei shares were tendered for the loan note alternative. The preliminary purchase price of approximately \$690 million is comprised of net cash paid of approximately \$453 million (\$475 million in cash paid for shares and to cancel share options less cash acquired of \$22 million), the fair value of the loan notes of \$169 million, approximately \$155 million of assumed third-party short term borrowings, a loan and interest payable to Caterpillar from Siwei of \$51 million, less restricted cash acquired of approximately \$138 million. The noncontrolling interest for the outstanding shares not tendered is \$7 million. The acquisition supports Caterpillar's long-term commitment to invest in China in order to support our growing base of Chinese customers and will further expand our underground mining business both inside and outside of China. Siwei will be reported in the Resource Industries segment.

The transaction was financed with available cash and included the issuance of loan notes to the former shareholders of Siwei, which have a debt component and a portion that is contingent consideration. The \$169 million fair value of the loan notes is comprised of \$152 million of debt representing the minimum redemption amount payable in April 2013 and \$17 million in contingent consideration representing the portion of the redemption amount conditionally payable in April

2013 or April 2014. The contingent consideration will be remeasured each reporting period at its estimated fair value with any adjustment included in Other operating (income) expenses in the Consolidated Results Of Operations.

Tangible assets acquired of \$671 million, recorded at their fair values, primarily include cash of \$22 million, restricted cash of \$138 million, receivables of \$213 million, inventory of \$105 million and property, plant and equipment of \$112 million. Finite-lived intangible assets acquired of \$194 million were primarily related to customer relationships and also included trade names. The finite-lived intangible assets are being amortized on a straight-line basis over a weighted average amortization period of approximately 15 years. Liabilities assumed of \$592 million, recorded at their fair values, primarily included accounts payable of \$342 million, third-party short term borrowings of \$155 million and accrued expenses of \$50 million. Additionally, deferred tax liabilities were \$38 million. Goodwill of \$467 million, substantially all of which is non-deductible for income tax purposes, represents the excess of the consideration transferred over the net assets recognized and represents the estimated future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Goodwill will not be amortized, but will be tested for impairment at least annually. Factors that contributed to a purchase price resulting in the recognition of goodwill include expected cost savings primarily from increased purchasing power for raw materials and a reduction in other manufacturing input costs, expanded underground mining equipment sales opportunities in China and internationally, along with the acquired assembled workforce. These values represent a preliminary allocation of the purchase price subject to finalization of post-closing procedures. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

### **Caterpillar Tohoku Ltd**

In March 2012, we acquired 100 percent of the stock of Caterpillar Tohoku Ltd (Cat Tohoku). Cat Tohoku was an independently owned and operated dealership providing sales, rental, service and after market support for Caterpillar machines and engines in the northeastern part of Japan. The purchase price, net of \$18 million of acquired cash, was approximately \$202 million. The purchase price included the assumption of \$77 million in third party debt as well as \$64 million net trade payables due to Caterpillar. We paid approximately \$59 million at closing and recognized a payable of \$21 million for estimated consideration due in March 2013. The acquisition of Cat Tohoku supports Caterpillar's efforts to restructure its distribution network in Japan.

The transaction was financed with available cash. Tangible assets acquired of \$251 million primarily include cash of \$18 million, receivables of \$33 million, inventory of \$26 million, and property, plant and equipment of \$157 million. Finite-lived intangible assets acquired were \$8 million. Liabilities assumed of \$132 million, recorded at their fair values, primarily included debt of \$77 million and accounts payable of \$39 million. Goodwill of \$16 million, which is deductible for income tax purposes, represents the excess of cost over the fair value of net tangible assets acquired. These values represent a preliminary allocation of the purchase price subject to finalization of post-closing procedures. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and are reported in the Construction Industries segment. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

## **19. Divestitures and Assets held for sale**

### **Bucyrus Distribution Business Divestiture**

In conjunction with our acquisition of Bucyrus in July 2011, we announced our intention to sell the Bucyrus distribution business to Caterpillar dealers that support mining customers around the world in a series of individual transactions. Bucyrus predominantly employed a direct to end customer model to sell and support products. The intention is for Bucyrus products to be sold and serviced by Caterpillar dealers, consistent with our long-held distribution strategy. We expect these transitions will occur in phases based on the mining business opportunity within each dealer territory.

As portions of the Bucyrus distribution business are sold or classified as held for sale, they will not qualify as discontinued operations because Caterpillar expects significant continuing direct cash flows from the Caterpillar dealers after the divestitures. The gain or loss on disposal, along with the continuing operations of these disposal groups, will be reported in the Resource Industries segment. Goodwill will be allocated to each disposal group using the relative fair value method. The value of the customer relationship intangibles related to each portion of the Bucyrus distribution business to be sold will be included in the disposal groups. The disposal groups will be recorded at the lower of their carrying value or fair value less cost to sell. In the second quarter of 2012, we recorded a goodwill impairment for \$27 million related to a disposal group being sold to one of the Caterpillar dealers. After the goodwill impairment, the carrying value of the disposal group was lower than its fair value less costs to sell. Fair value was determined based upon the negotiated sales

price. The impairment was recorded in Other operating (income) expenses and included in the Resource Industries segment.

In the second quarter of 2012, three sale transactions were completed whereby we sold portions of the Bucyrus distribution business to Finning International, WesTrac Pty Limited, a wholly owned subsidiary of Seven Group Holdings Limited, and Ferreyros S.A.A. for \$306 million, \$400 million and \$75 million respectively, subject to certain working capital adjustments. After-tax profit was unfavorably impacted by \$8 million in the second quarter of 2012 as a result of the Bucyrus distribution business divestiture activities. This is comprised of \$160 million of income (included in Other operating (income) expenses) related to the sales transactions, offset by costs incurred related to the Bucyrus distribution divestiture activities of \$57 million (included in Selling, general and administrative expenses) and income tax of \$111 million.

Assets sold included customer relationship intangibles of \$146 million, other assets of \$117 million, which consisted primarily of inventory and fixed assets, and allocated goodwill of \$230 million related to the Bucyrus distribution divestiture activities.

As part of these divestitures, Cat Financial provided \$400 million of financing to WesTrac Pty Limited and \$75 million to Ferreyros S.A.A. These loans are included in Receivables – finance and Long-term receivables – finance in the Consolidated Statement of Financial Position.

For the first half of 2012, after-tax profit was unfavorably impacted by \$28 million as a result of the Bucyrus distribution divestiture activities. This is comprised of \$155 million of income (included in Other operating (income) expenses) related to the sales transactions, offset by costs incurred related to the Bucyrus distribution divestiture activities of \$83 million (included in Selling, general and administrative expenses) and income tax of \$100 million.

As of June 30, 2012, nine divestiture transactions were classified as held for sale and are expected to close throughout the remainder of 2012. Current assets held for sale were included in Prepaid expenses and other current assets and non-current assets held for sale were included in Other assets in the Consolidated Statement of Financial Position.

Subsequent to June 30, 2012, three sale transactions were completed whereby we sold portions of the Bucyrus distribution business to Barloworld Limited, Hewitt Equipment Limited and Toromont Industries Ltd, which were classified as held for sale at June 30, 2012.

### **Third Party Logistics Business Divestiture**

On July 31, 2012, Platinum Equity acquired a 65 percent equity stake in Caterpillar Logistics Services LLC, the third party logistics division of our wholly owned subsidiary, Caterpillar Logistics Inc. (Cat Logistics). The sale of the third party business supports Caterpillar's increased focus on the continuing growth opportunities in its core businesses. Under the terms of the agreement, Caterpillar will retain a 35 percent equity stake. Current assets held for sale were included in Prepaid expenses and other current assets and non-current assets held for sale were included in Other assets in the Consolidated Statement of Financial Position at June 30, 2012. Current liabilities held for sale were included in Other current liabilities and non-current liabilities held for sale were included in Other liabilities in the Consolidated Statement of Financial Position.

The disposal will not qualify as discontinued operations because Caterpillar expects significant continuing involvement through the noncontrolling interest. The financial impact of the disposal, along with the continuing operations of the disposal group, will be reported in the All Other operating segment.

The major classes of assets and liabilities held for sale for a portion of the Bucyrus distribution business and the third party logistics divestitures were as follows:

| (Millions of dollars)                               | June 30,<br>2012 | December 31,<br>2011 |
|-----------------------------------------------------|------------------|----------------------|
| Receivables - trade and other .....                 | \$ 186           | \$ 25                |
| Prepaid expenses and other current assets .....     | 10               | —                    |
| Inventory .....                                     | 141              | 109                  |
| <b>Current assets</b> .....                         | <b>\$ 337</b>    | <b>\$ 134</b>        |
| Property plant and equipment - net .....            | \$ 222           | \$ 28                |
| Intangible assets .....                             | 136              | 186                  |
| Goodwill .....                                      | 191              | 296                  |
| Other assets .....                                  | 62               | —                    |
| <b>Non-current assets</b> .....                     | <b>\$ 611</b>    | <b>\$ 510</b>        |
| Accounts payable .....                              | \$ 19            | \$ —                 |
| Accrued expenses .....                              | 15               | —                    |
| Accrued wages, salaries and employee benefits ..... | 30               | —                    |
| <b>Current liabilities</b> .....                    | <b>\$ 64</b>     | <b>\$ —</b>          |
| Other liabilities .....                             | \$ 44            | \$ —                 |
| Liability for postemployment benefits .....         | 55               | —                    |
| <b>Long-term liabilities</b> .....                  | <b>\$ 99</b>     | <b>\$ —</b>          |

## 20. Employee separation charges

In 2011, we reported employee separation charges of \$112 million in Other operating (income) expenses in the Consolidated Statement of Results of Operations primarily related to the acquisition of Bucyrus. The majority of the charges were assigned to the Resource Industries segment.

For the three and six months ended June 30, 2012, we recognized employee separation charges of \$9 million and \$41 million in Other operating (income) expenses in the Consolidated Statement of Results of Operations primarily related to the closure of the Electro-Motive Diesel facility located in London, Ontario. The majority of the charges were assigned to the Power Systems segment.

Our accounting for separations was dependent upon how the particular program was designed. For voluntary programs, eligible separation costs were recognized at the time of employee acceptance. For involuntary programs, eligible costs were recognized when management had approved the program, the affected employees had been properly notified and the costs were estimable.

In addition to the separation charges noted above, in first quarter of 2012 we reported \$6 million of net gains associated with certain pension and other postretirement benefit plans, which were also recognized in Other operating (income) expenses in the Consolidated Statement of Results of Operations. See Note 9 for additional information.

The following table summarizes the 2011 and 2012 separation activity:

---

**(Millions of dollars)**

|                                                              | <b>Total</b>        |
|--------------------------------------------------------------|---------------------|
| Liability balance at December 31, 2010 .....                 | <u>\$ 22</u>        |
| Increase in liability (separation charges).....              | \$ 112              |
| Reduction in liability (payments and other adjustments)..... | (44)                |
| Liability balance at December 31, 2011.....                  | <u>\$ 90</u>        |
| Increase in liability (separation charges).....              | \$ 41               |
| Reduction in liability (payments and other adjustments)..... | (117)               |
| Liability balance at June 30, 2012 .....                     | <u><u>\$ 14</u></u> |

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The remaining liability balances as of June 30, 2012 represent costs for employees that have either not yet separated from the Company or their full severance has not yet been paid. The majority of these remaining costs are expected to be paid in 2012 and 2013.

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

### **Overview**

We reported second-quarter 2012 profit per share of \$2.54, a quarterly record, and a 67 percent increase from second-quarter 2011 profit per share of \$1.52. Sales and revenues were \$17.374 billion, also a record, and a 22 percent increase from second-quarter 2011 sales and revenues of \$14.230 billion. Profit was \$1.699 billion in the quarter, an increase of 67 percent from \$1.015 billion in the second quarter of 2011.

Profit per share for the six months ended June 30, 2012 was \$4.90 per share, an increase of \$1.54 per share from a profit of \$3.36 per share for the six months ended June 30, 2011. Profit of \$3.285 billion was 47 percent higher than profit of \$2.240 billion for the six months ended June 30, 2011. Sales and revenues for the six months ended June 30, 2012 were \$33.355 billion, up \$6.176 billion, or 23 percent, from \$27.179 billion for the six months ended June 30, 2011.

Highlights for the second quarter of 2012 include:

- Second-quarter sales and revenues of \$17.374 billion were an all-time high and were 22 percent higher than the second quarter of 2011. Excluding the effect of acquisitions, sales and revenues increased 12 percent from the second quarter of 2011.
- Profit per share was \$2.54 in the second quarter of 2012, the highest quarterly profit per share in our history. Second-quarter 2012 profit per share increased \$1.02 from the second quarter of 2011.
- ***Machinery & Power Systems (M&PS)*** operating cash flow was \$1.281 billion in the second quarter of 2012, compared with \$2.467 billion in the second quarter of 2011. The decrease was due to unfavorable changes in working capital, partially offset by higher profit.
- M&PS ***debt-to-capital ratio*** was 40.9 percent at the end of the second quarter of 2012, up slightly from 40.5 percent at the end of the first quarter of 2012 due to the issuance of \$1.5 billion of long-term debt in June 2012.
- The liquidity position also continued to strengthen in the second quarter. Total cash on a consolidated basis was \$5.1 billion, an increase of \$2.2 billion from the end of the first quarter.

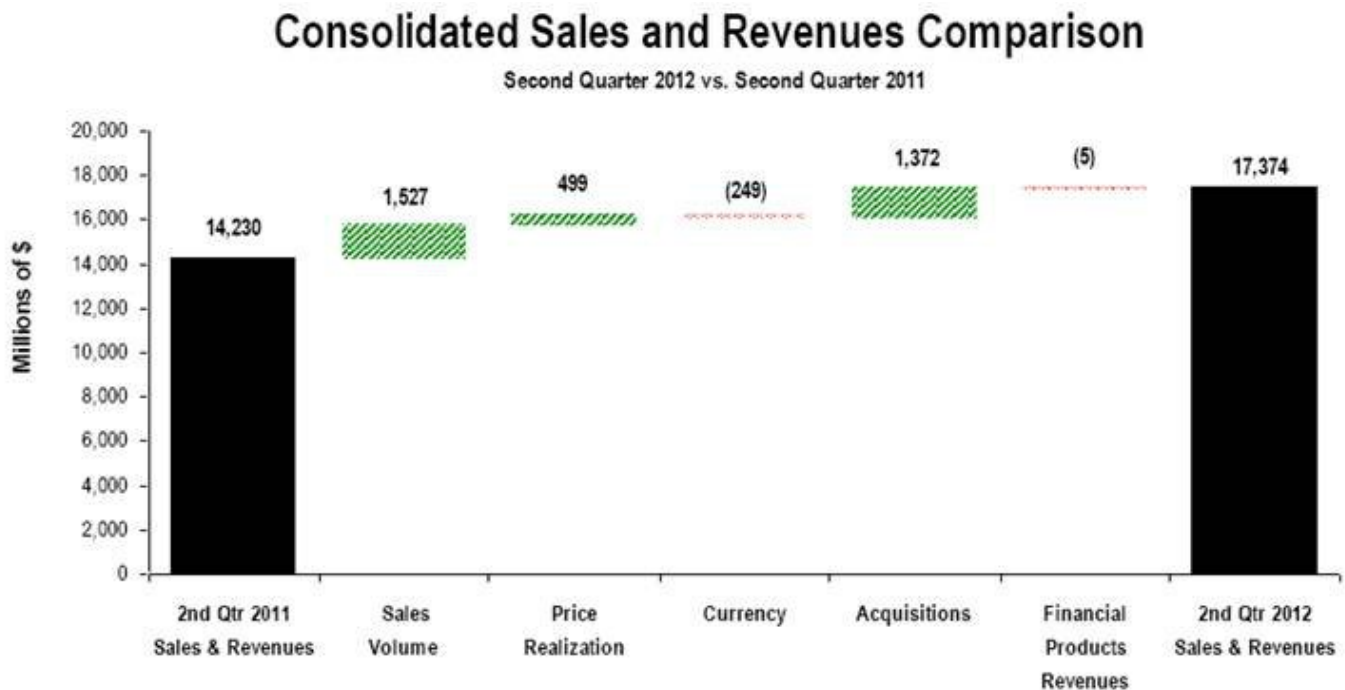
#### *Notes:*

- Glossary of terms is included on pages 69-70; first occurrence of terms shown in bold italics.
- Information on non-GAAP financial measures is included on pages 79-80.

## Consolidated Results of Operations

### THREE MONTHS ENDED JUNE 30, 2012 COMPARED WITH THREE MONTHS ENDED JUNE 30, 2011

#### CONSOLIDATED SALES AND REVENUES



The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between the second quarter of 2011 (at left) and the second quarter of 2012 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting sales and revenues appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Sales and revenues were \$17.374 billion in the second quarter of 2012, an increase of \$3.144 billion, or 22 percent, from the second quarter of 2011. The improvement was a result of **sales volume**, acquisitions and **price realization**. Sales volume improved \$1.527 billion, as sales for both new equipment and aftermarket parts increased. Sales volume increased in **Resource Industries**, **Construction Industries** and **Power Systems**.

Excluding acquisitions, sales increased in all geographic regions with the most significant improvement in North America. Outside of North America, the most significant improvement was in Asia/Pacific. Within Asia/Pacific, increases, primarily in Australia, more than offset a decline in China. While sales in Europe were down, sales in Africa, the Middle East and the CIS increased. Sales in **Latin America** were slightly higher.

The acquisition of Bucyrus International Inc. (Bucyrus) added \$1.176 billion in sales, and the Motoren-Werke Mannheim Holding GmbH (MWM) acquisition added \$196 million in sales. Price realization improved \$499 million.

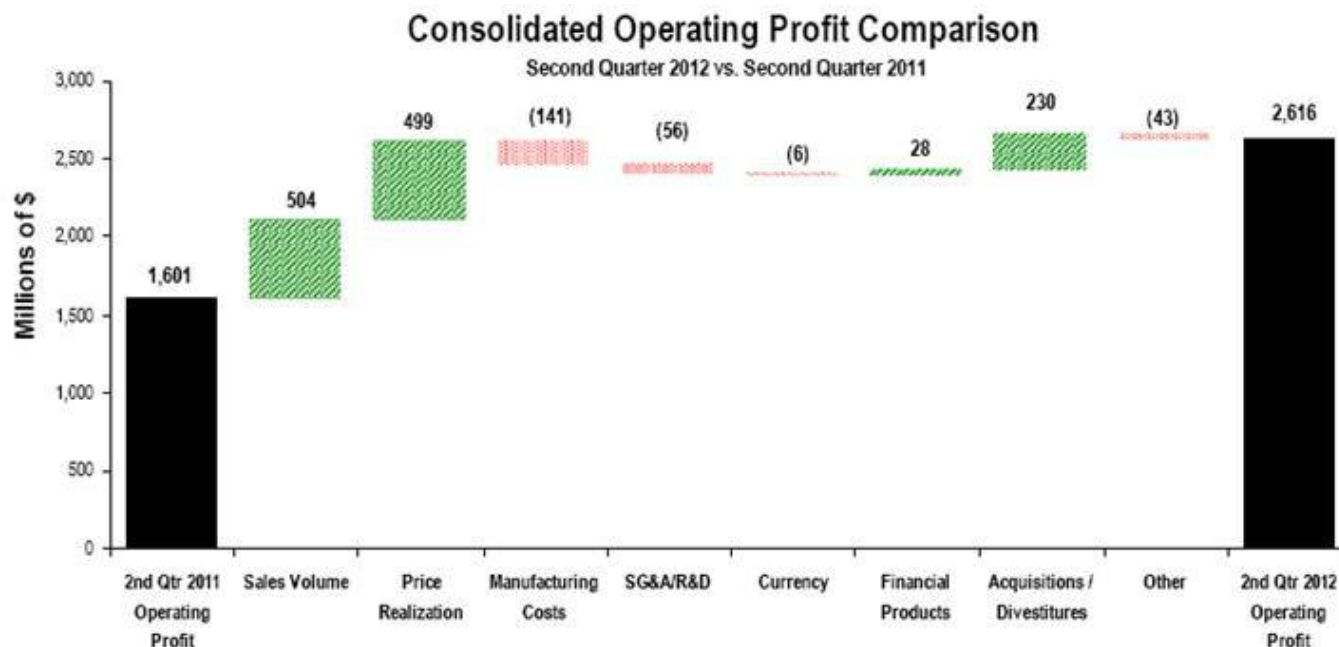
The increase in machinery sales volume was primarily the result of higher end user demand.

Mine production increased despite lower commodity prices for metals and coal compared with a year earlier. While lower than a year ago, most mining-related commodity prices have remained at levels attractive for investment. This was positive for mining in most regions of the world and drove increased sales for Resource Industries.

Some improvements in construction activity and continued fleet upgrading, primarily in North America, led to higher sales of construction equipment. Despite the increase in our machine sales in North America, construction activity in the United States and other developed countries is still well below prior peaks. Construction sales declined in the Asia/Pacific region, where a large decrease in China more than offset increases in other Asia/Pacific countries.

Power Systems' sales improved with the most significant increases occurring in petroleum and rail applications. Worldwide demand for energy, at prices that encourage continued investment, resulted in higher sales of engines and turbines for petroleum applications. Sales of our rail products and services, primarily locomotives, increased due to higher demand. Those increases were partially offset by lower sales for electric power generation, due to lower end user demand.

## CONSOLIDATED OPERATING PROFIT



The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between the second quarter of 2011 (at left) and the second quarter of 2012 (at right). Items favorably impacting operating profit appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting operating profit appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees. The bar entitled Other includes *consolidating adjustments* and *Machinery and Power Systems other operating (income) expenses*.

Operating profit for the second quarter of 2012 was \$2.616 billion compared with \$1.601 billion for the second quarter of 2011. The increase was primarily the result of higher sales volume and improved price realization. Acquisitions and divestitures favorably impacted operating profit by \$230 million, primarily related to Bucyrus.

The improvements were partially offset by higher period *manufacturing costs* and increased SG&A and R&D expenses.

Manufacturing costs were up \$141 million primarily due to higher period costs related to production volume and capacity expansion programs. SG&A and R&D expenses increased \$56 million primarily due to higher volume and increased costs to support product programs, partially offset by lower incentive compensation expense.

While manufacturing period costs, SG&A and R&D increased, as a percent of sales each declined compared with the second quarter of 2011. This focus on cost control contributed to the increase in operating profit as a percent of sales.

Short-term incentive compensation expense related to 2012 was about \$270 million in the second quarter of 2012 compared with about \$305 million in the second quarter of 2011.

The amount of incremental operating profit we earn on incremental sales and revenues is an important performance metric. Sales and revenues increased \$3.144 billion from the second quarter of 2011 to the second quarter of 2012, and operating profit increased \$1.015 billion. The resulting incremental operating profit rate is 32 percent. Excluding the acquisition of Bucyrus and MWM, incremental margin was about 44 percent. Excluding the acquisition of Bucyrus, MWM and *currency* impacts, incremental margin was about 39 percent.

The following table summarizes the impact of Bucyrus on second-quarter 2012 and 2011 results.

## Impact of Bucyrus on Profit

(Millions of dollars)

| <u>Impact Excluding Divestitures</u>                | <u>Second Quarter<br/>2011</u> | <u>Second Quarter<br/>2012</u> |
|-----------------------------------------------------|--------------------------------|--------------------------------|
| Sales .....                                         | \$ —                           | \$ 1,176                       |
| Cost of goods sold .....                            | —                              | (872)                          |
| SG&A .....                                          | (31)                           | (174)                          |
| R&D .....                                           | —                              | (32)                           |
| Other operating (income) expenses .....             | —                              | (1)                            |
| Operating profit (loss) .....                       | (31)                           | 97                             |
| Interest expense .....                              | (11)                           | (35)                           |
| Other income (expense) .....                        | (162)                          | 7                              |
| Profit (loss) before tax .....                      | (204)                          | 69                             |
| Income tax (provision) benefit .....                | 72                             | (24)                           |
| Profit (loss) .....                                 | <u>\$ (132)</u>                | <u>\$ 45</u>                   |
| <br><u>Distribution Business Divestiture Impact</u> |                                |                                |
| SG&A .....                                          | \$ —                           | \$ (57)                        |
| Other operating (income) expenses .....             | —                              | 160                            |
| Operating profit (loss) .....                       | —                              | 103                            |
| Income tax (provision) benefit .....                | —                              | (111)                          |
| Profit (loss) .....                                 | <u>\$ —</u>                    | <u>\$ (8)</u>                  |

### Other Profit/Loss Items

- **Interest expense excluding Financial Products** increased \$20 million from the second quarter of 2011 due to long-term debt issued in 2011 relating to the acquisition of Bucyrus.
- **Other income/expense** was income of \$70 million compared with expense of \$161 million in the second quarter of 2011. The change was primarily due to the absence of second-quarter 2011 losses of \$162 million on interest rate swaps and credit facility fees associated with the debt issuance for the Bucyrus acquisition and the favorable impact of currency gains and losses.
- **The provision for income taxes** in the second quarter of 2012 reflects an estimated annual tax rate of 30.5 percent compared with 29 percent for the second quarter of 2011 and 26.5 percent for the full-year 2011, excluding the items discussed below. The increase from 26.5 percent to 30.5 percent is primarily due to expected changes in our geographic mix of profits from a tax perspective and the expiration of the U.S. research and development tax credit.

The tax provision for the second quarter of 2012 also includes a negative impact of \$75 million from goodwill not deductible for tax purposes related to the divestiture of portions of the Bucyrus distribution business and \$12 million for an increase in the 2012 estimated annual tax rate from 30 to 30.5 percent. A \$72 million net benefit was recorded in the second quarter of 2011 due to planned repatriation of non-U.S. earnings offset by an increase in unrecognized tax benefits.

## Segment Information

### Sales and Revenues by Geographic Region

| (Millions of dollars)                         | Total           | %<br>Change | North<br>America | %<br>Change | Latin<br>America | %<br>Change | EAME            | %<br>Change  | Asia/<br>Pacific | %<br>Change |
|-----------------------------------------------|-----------------|-------------|------------------|-------------|------------------|-------------|-----------------|--------------|------------------|-------------|
| <b>Second Quarter 2012</b>                    |                 |             |                  |             |                  |             |                 |              |                  |             |
| Construction Industries <sup>1</sup> .....    | \$ 5,340        | 8 %         | \$ 1,966         | 42 %        | \$ 731           | (3)%        | \$ 1,332        | — %          | \$ 1,311         | (11)%       |
| Resource Industries <sup>2</sup> .....        | 5,390           | 68 %        | 1,589            | 55 %        | 876              | 40 %        | 1,142           | 62 %         | 1,783            | 110 %       |
| Power Systems <sup>3</sup> .....              | 5,511           | 12 %        | 2,373            | 20 %        | 618              | (4)%        | 1,474           | 11 %         | 1,046            | 8 %         |
| All Other Segment <sup>4</sup> .....          | 454             | (4)%        | 217              | 5 %         | 17               | (32)%       | 135             | (16)%        | 85               | 1 %         |
| Corporate Items and Eliminations .....        | (11)            |             | (13)             |             | —                |             | 1               |              | 1                |             |
| <b>Machinery &amp; Power Systems Sales ..</b> | <b>16,684</b>   | <b>23 %</b> | <b>6,132</b>     | <b>34 %</b> | <b>2,242</b>     | <b>9 %</b>  | <b>4,084</b>    | <b>16 %</b>  | <b>4,226</b>     | <b>25 %</b> |
| Financial Products Segment .....              | 764             | — %         | 417              | (3)%        | 97               | 8 %         | 102             | (8)%         | 148              | 13 %        |
| Corporate Items and Eliminations .....        | (74)            |             | (48)             |             | (8)              |             | (8)             |              | (10)             |             |
| <b>Financial Products Revenues .....</b>      | <b>690</b>      | <b>(1)%</b> | <b>369</b>       | <b>(4)%</b> | <b>89</b>        | <b>6 %</b>  | <b>94</b>       | <b>(10)%</b> | <b>138</b>       | <b>12 %</b> |
| <b>Consolidated Sales and Revenues .....</b>  | <b>\$17,374</b> | <b>22 %</b> | <b>\$ 6,501</b>  | <b>31 %</b> | <b>\$ 2,331</b>  | <b>9 %</b>  | <b>\$ 4,178</b> | <b>15 %</b>  | <b>\$ 4,364</b>  | <b>25 %</b> |
| <b>Second Quarter 2011</b>                    |                 |             |                  |             |                  |             |                 |              |                  |             |
| Construction Industries <sup>1</sup> .....    | \$ 4,941        |             | \$ 1,385         |             | \$ 755           |             | \$ 1,334        |              | \$ 1,467         |             |
| Resource Industries <sup>2</sup> .....        | 3,206           |             | 1,026            |             | 626              |             | 703             |              | 851              |             |
| Power Systems <sup>3</sup> .....              | 4,918           |             | 1,976            |             | 647              |             | 1,329           |              | 966              |             |
| All Other Segment <sup>4</sup> .....          | 475             |             | 206              |             | 25               |             | 160             |              | 84               |             |
| Corporate Items and Eliminations .....        | (5)             |             | (5)              |             | —                |             | —               |              | —                |             |
| <b>Machinery &amp; Power Systems Sales ..</b> | <b>13,535</b>   |             | <b>4,588</b>     |             | <b>2,053</b>     |             | <b>3,526</b>    |              | <b>3,368</b>     |             |
| Financial Products Segment .....              | 764             |             | 432              |             | 90               |             | 111             |              | 131              |             |
| Corporate Items and Eliminations .....        | (69)            |             | (49)             |             | (6)              |             | (6)             |              | (8)              |             |
| <b>Financial Products Revenues .....</b>      | <b>695</b>      |             | <b>383</b>       |             | <b>84</b>        |             | <b>105</b>      |              | <b>123</b>       |             |
| <b>Consolidated Sales and Revenues .....</b>  | <b>\$14,230</b> |             | <b>\$ 4,971</b>  |             | <b>\$ 2,137</b>  |             | <b>\$ 3,631</b> |              | <b>\$ 3,491</b>  |             |

<sup>1</sup> Does not include inter-segment sales of \$123 million and \$124 million in the second quarter 2012 and 2011, respectively.

<sup>2</sup> Does not include inter-segment sales of \$328 million and \$284 million in the second quarter 2012 and 2011, respectively.

<sup>3</sup> Does not include inter-segment sales of \$680 million and \$541 million in the second quarter 2012 and 2011, respectively.

<sup>4</sup> Does not include inter-segment sales of \$927 million and \$839 million in the second quarter 2012 and 2011, respectively.

## Sales and Revenues by Segment

| (Millions of dollars)                                | Second<br>Quarter<br>2011 | Sales<br>Volume | Price<br>Realization | Currency        | Acquisitions    | Other         | Second<br>Quarter<br>2012 | \$<br>Change    | %<br>Change |
|------------------------------------------------------|---------------------------|-----------------|----------------------|-----------------|-----------------|---------------|---------------------------|-----------------|-------------|
| Construction Industries .....                        | \$ 4,941                  | \$ 385          | \$ 140               | \$ (126)        | \$ —            | \$ —          | \$ 5,340                  | \$ 399          | 8 %         |
| Resource Industries .....                            | 3,206                     | 808             | 237                  | (37)            | 1,176           | —             | 5,390                     | 2,184           | 68 %        |
| Power Systems .....                                  | 4,918                     | 374             | 98                   | (75)            | 196             | —             | 5,511                     | 593             | 12 %        |
| All Other Segment .....                              | 475                       | (10)            | (1)                  | (10)            | —               | —             | 454                       | (21)            | (4)%        |
| Corporate Items and Eliminations ...                 | (5)                       | (30)            | 25                   | (1)             | —               | —             | (11)                      | (6)             |             |
| <b>Machinery &amp; Power Systems<br/>Sales .....</b> | <b>13,535</b>             | <b>1,527</b>    | <b>499</b>           | <b>(249)</b>    | <b>1,372</b>    | <b>—</b>      | <b>16,684</b>             | <b>3,149</b>    | <b>23 %</b> |
| Financial Products Segment .....                     | 764                       | —               | —                    | —               | —               | —             | 764                       | —               | — %         |
| Corporate Items and Eliminations ...                 | (69)                      | —               | —                    | —               | —               | (5)           | (74)                      | (5)             |             |
| <b>Financial Products Revenues .....</b>             | <b>695</b>                | <b>—</b>        | <b>—</b>             | <b>—</b>        | <b>—</b>        | <b>(5)</b>    | <b>690</b>                | <b>(5)</b>      | <b>(1)%</b> |
| <b>Consolidated Sales and Revenues ..</b>            | <b>\$ 14,230</b>          | <b>\$ 1,527</b> | <b>\$ 499</b>        | <b>\$ (249)</b> | <b>\$ 1,372</b> | <b>\$ (5)</b> | <b>\$ 17,374</b>          | <b>\$ 3,144</b> | <b>22 %</b> |

## Operating Profit by Segment

| (Millions of dollars)                      | Second Quarter 2012 | Second Quarter 2011 | \$ Change       | %<br>Change |
|--------------------------------------------|---------------------|---------------------|-----------------|-------------|
| Construction Industries .....              | \$ 688              | \$ 482              | \$ 206          | 43%         |
| Resource Industries .....                  | 1,426               | 796                 | 630             | 79%         |
| Power Systems .....                        | 982                 | 736                 | 246             | 33%         |
| All Other Segment .....                    | 188                 | 122                 | 66              | 54%         |
| Corporate Items and Eliminations .....     | (778)               | (623)               | (155)           |             |
| <b>Machinery &amp; Power Systems .....</b> | <b>2,506</b>        | <b>1,513</b>        | <b>993</b>      | <b>66%</b>  |
| Financial Products Segment .....           | 188                 | 172                 | 16              | 9%          |
| Corporate Items and Eliminations .....     | (4)                 | (16)                | 12              |             |
| <b>Financial Products .....</b>            | <b>184</b>          | <b>156</b>          | <b>28</b>       | <b>18%</b>  |
| <b>Consolidating Adjustments .....</b>     | <b>(74)</b>         | <b>(68)</b>         | <b>(6)</b>      |             |
| <b>Consolidated Operating Profit .....</b> | <b>\$ 2,616</b>     | <b>\$ 1,601</b>     | <b>\$ 1,015</b> | <b>63%</b>  |

## Construction Industries

Construction Industries' sales were \$5.340 billion in the second quarter of 2012, an increase of \$399 million, or 8 percent, from the second quarter of 2011. Sales increased in North America, were about flat in the *EAME* region and declined in Latin America and Asia/Pacific. The improvement in sales was a result of higher volume across all major equipment product categories. Sales of aftermarket parts were about flat.

Some improvement in construction activity and continued fleet upgrading, primarily in North America, led to the increase in sales. While the improvement in North America more than offset lower sales in China and other parts of the world, the construction industry in North America is still well below the prior peak.

Construction Industries' sales were lower in Asia/Pacific, where a large decrease in China more than offset increases in other Asia/Pacific countries. China's austerity policies caused machine demand to peak in the first half of 2011, making the second quarter of 2011 in China a strong sales quarter.

Construction Industries' profit was \$688 million in the second quarter of 2012 compared with \$482 million in the second quarter of 2011. The increase in profit was primarily due to improved price realization and higher sales volume and was partially offset by the negative impact of currency, which was mainly due to the Japanese yen and the Brazilian real. Manufacturing, SG&A and R&D expenses were about flat.

## Resource Industries

Resource Industries' sales were \$5.390 billion in the second quarter of 2012, an increase of \$2.184 billion, or 68 percent, from the

second quarter of 2011. The sales increase was primarily due to the acquisition of Bucyrus in the third quarter of 2011 and higher sales volume in all regions of the world. While sales volume for both new equipment and aftermarket parts improved, the more significant increase was for new equipment.

Though the prices for metals and coal were down from a year earlier, mine production increased and price levels remained attractive for investment. This was positive for mining in most regions of the world.

Bucyrus sales were \$1.176 billion in the second quarter of 2012, with \$292 million in North America, \$148 million in Latin America, \$271 million in EAME and \$465 million in Asia/Pacific.

Resource Industries' profit of \$1.426 billion in the second quarter of 2012 was significantly higher than profit of \$796 million in the second quarter of 2011. The acquisition of Bucyrus increased segment profit by \$285 million.

Excluding the effect of the Bucyrus acquisition, Resource Industries' profit increased by \$345 million, primarily due to higher sales volume and improved price realization. The improvement was partially offset by higher manufacturing, SG&A and R&D costs. The manufacturing cost increase was primarily due to higher costs related to increased production volume.

### **Power Systems**

Power Systems' sales were \$5.511 billion in the second quarter of 2012, an increase of \$593 million, or 12 percent, from the second quarter of 2011. The improvement was the result of higher sales volume, the acquisition of MWM and improved price realization. The sales volume increase was almost all in North America.

The most significant increases in Power Systems' sales occurred in petroleum and rail applications. Worldwide demand for energy, at prices that encourage continued investment, resulted in higher sales of engines and turbines for petroleum applications. Sales of our rail products and services, primarily locomotives, increased due to higher demand. Those increases were partially offset by lower sales for electric power generation, due to lower end user demand.

Power Systems' profit was \$982 million in the second quarter of 2012 compared with \$736 million in the second quarter of 2011. The increase was primarily due to higher sales volume and improved price realization. The improvements were partially offset by increased period manufacturing, SG&A and R&D expenses.

MWM, acquired during the fourth quarter of 2011, added sales of \$196 million, primarily in EAME, and was about neutral to profit.

### **Financial Products Segment**

Financial Products' revenues were \$764 million for both the second quarter of 2012 and 2011. The favorable impact from higher average *earning assets* was primarily offset by an unfavorable impact from lower interest rates.

Financial Products' profit was \$188 million in the second quarter of 2012, compared with \$172 million in the second quarter of 2011. The increase was primarily due to a \$24 million favorable impact due to lower claims experience at Cat Insurance and a \$13 million favorable impact from higher average earning assets. These increases were partially offset by \$9 million lower net gains from returned or repossessed equipment.

At the end of the second quarter of 2012, past dues at Cat Financial were 3.35 percent compared with 3.19 percent at the end of the first quarter of 2012, 2.89 percent at the end of 2011 and 3.73 percent at the end of the second quarter of 2011. Although past dues have improved when compared with the second quarter of 2011, the increase from the end of 2011 and from the first quarter of 2012 reflects higher delinquencies in our European marine and China portfolios. Write-offs, net of recoveries, were \$16 million for the second quarter of 2012, down from \$29 million for the second quarter of 2011.

As of June 30, 2012, Cat Financial's allowance for credit losses totaled \$393 million or 1.47 percent of net finance receivables, compared with \$369 million or 1.47 percent of net finance receivables at year-end 2011. The allowance for credit losses as of June 30, 2011, was \$382 million or 1.52 percent of net finance receivables.

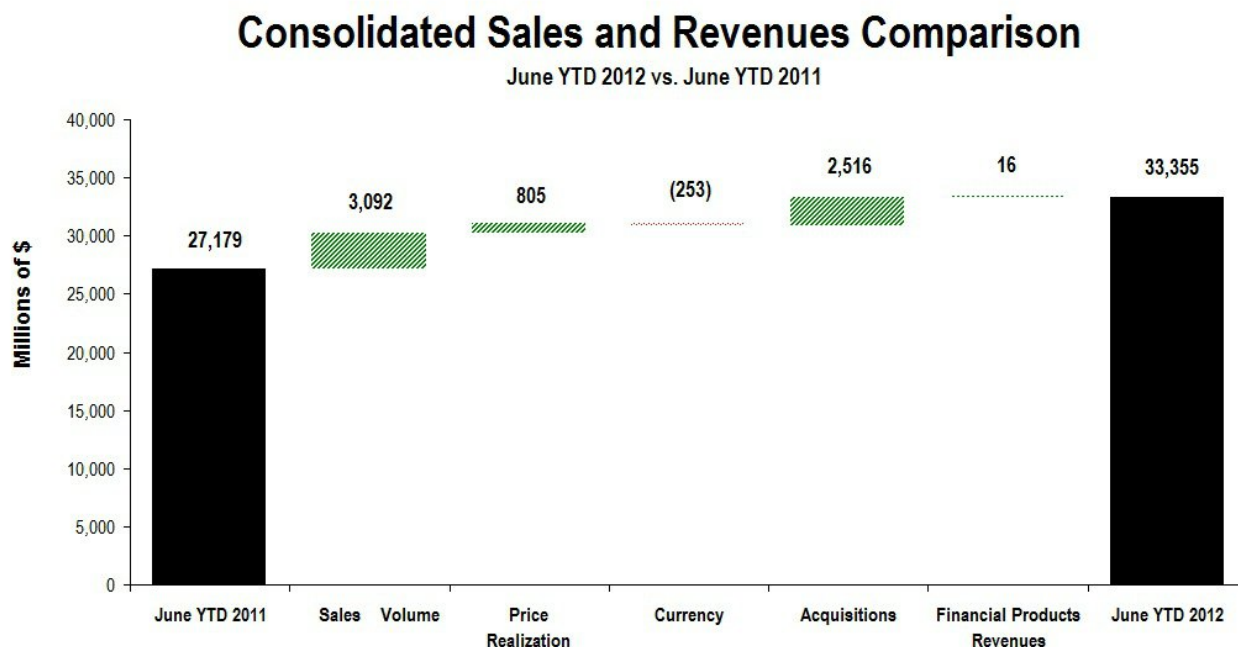
### **Corporate Items and Eliminations**

Expense for corporate items and eliminations was \$782 million in the second quarter of 2012, an increase of \$143 million from the second quarter of 2011. Corporate items and eliminations include: corporate-level expenses; timing differences, as some expenses are reported in segment profit on a cash basis; retirement benefit costs other than service cost; and currency differences, as segment profit is reported using annual fixed exchange rates and inter-segment eliminations.

The increase in expense from the second quarter of 2011 was primarily due to higher corporate-level expenses and timing differences.

## **SIX MONTHS ENDED JUNE 30, 2012 COMPARED WITH SIX MONTHS ENDED JUNE 30, 2011**

### **CONSOLIDATED SALES AND REVENUES**



The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between the six months ended June 30, 2011 (at left) and the six months ended June 30, 2012 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting sales and revenues appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Total sales and revenues were \$33.355 billion for the six months ended June 30, 2012, an increase of \$6.176 billion, or 23 percent, from the six months ended June 30, 2011. The improvement was a result of sales volume, acquisitions and price realization. Sales volume improved \$3.092 billion, as sales for both new equipment and aftermarket parts increased. Sales volume increased in Resource Industries, Construction Industries and Power Systems. Excluding acquisitions, sales increased in all geographic regions except Latin America, with the most significant improvement in North America. The acquisition of Bucyrus added \$2.177 billion in sales, and the Motoren-Werke Mannheim Holding GmbH (MWM) acquisition added \$339 million in sales. Price realization improved \$805 million.

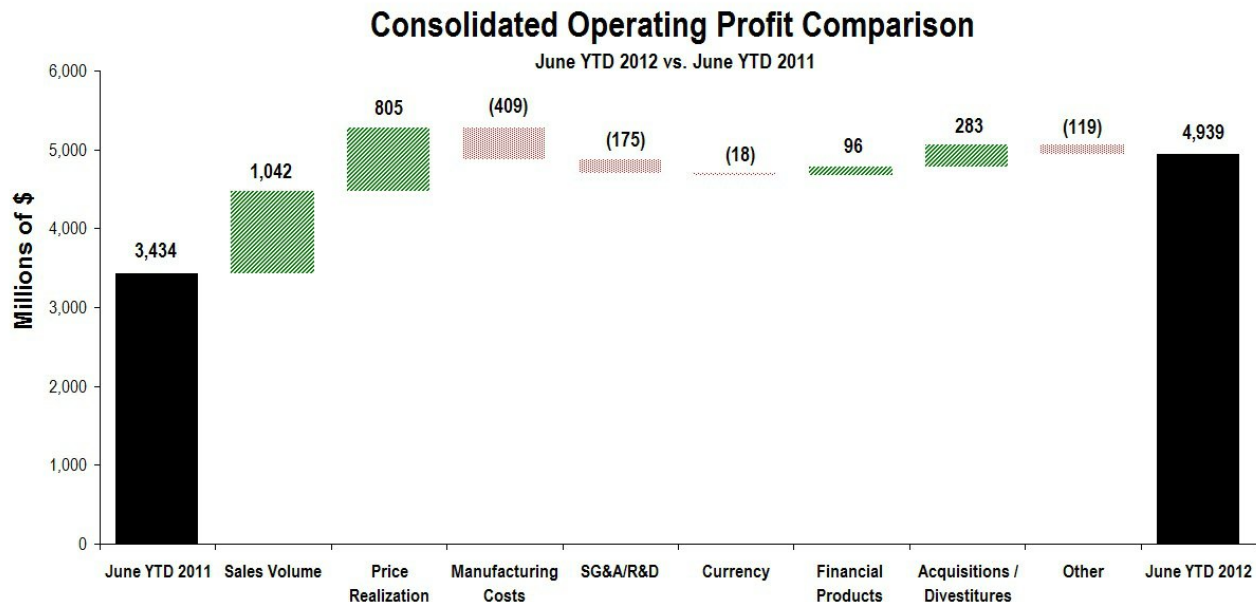
The volume increase in machinery was primarily the result of higher end user demand. Dealer-reported new machine inventory levels were up about \$1.3 billion during the six months ended June 30, 2012, compared to an increase of \$1.1 billion in 2011.

Mine production increased despite lower commodity prices for metals and coal compared with a year earlier. While lower than a year ago, most mining-related commodity prices have remained at levels attractive for investment. This was positive for mining in most regions of the world and drove increased sales for Resource Industries.

Some improvements in construction activity and continued fleet upgrading, primarily in North America, led to higher sales of construction equipment. Despite the increase in our machine sales in North America, construction activity in the United States and other developed countries is still well below prior peaks. Construction sales declined in the Asia/Pacific region, where a large decrease in China more than offset increases in other Asia/Pacific countries.

Power Systems' sales improved with the most significant increases occurring in petroleum and rail applications. Worldwide demand for energy, at prices that encourage continued investment, resulted in higher sales of engines and turbines for petroleum applications. Sales of our rail products and services, primarily locomotives, increased due to higher demand. Those increases were partially offset by lower sales for electric power generation, due to lower end user demand.

## CONSOLIDATED OPERATING PROFIT



The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between the six months ended June 30, 2011 (at left) and the six months ended June 30, 2012 (at right). Items favorably impacting operating profit appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting operating profit appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees. The bar entitled Other includes consolidating adjustments and Machinery and Power Systems other operating (income) expenses.

Operating profit for the six months ended June 30, 2012 was \$4.939 billion compared with \$3.434 billion for the six months ended June 30, 2011. The increase was primarily the result of higher sales volume and improved price realization. Acquisitions and divestitures favorably impacted operating profit by \$283 million, primarily related to Bucyrus.

The improvements were partially offset by higher manufacturing costs and increased SG&A and R&D expenses. Manufacturing costs were up \$409 million primarily due to higher period costs related to production volume and capacity expansion programs. Material and freight costs were also up from the six months ended June 30, 2011. The increase in material costs was due to higher steel costs. SG&A and R&D expenses increased \$175 million primarily due to higher volume and increased costs to support product programs, partially offset by lower incentive compensation expense.

While manufacturing period costs, SG&A and R&D increased, as a percent of sales, in total they declined compared with the six months ended June 30, 2011. This focus on cost control contributed to the increase in operating profit as a percent of sales.

Short-term incentive compensation expense related to the six months ended June 30, 2012 was about \$500 million in the six months ended June 30, 2012 compared with about \$525 million in the six months ended June 30, 2011.

The amount of incremental operating profit we earn on incremental sales and revenues is an important performance metric. Sales and revenues increased \$6.176 billion from the six months ended June 30, 2011 compared to the six months ended June 30, 2012, and operating profit increased \$1.505 billion. The resulting incremental operating profit rate is 24 percent. Excluding the acquisition of Bucyrus and MWM, incremental margin was about 33 percent. Excluding the acquisition of Bucyrus, MWM and currency impacts, incremental margin was about 32 percent.

The following table summarizes the impact of Bucyrus on year-to-date 2012 and 2011 results.

## **Impact of Bucyrus on Profit**

**(Millions of dollars)**

| <b><u>Impact Excluding Divestitures</u></b> | <b>Six Months Ended<br/>June 30, 2011</b> | <b>Six Months Ended<br/>June 30, 2012</b> |
|---------------------------------------------|-------------------------------------------|-------------------------------------------|
| Sales.....                                  | \$ —                                      | \$ 2,177                                  |
| Cost of goods sold .....                    | —                                         | (1,594)                                   |
| SG&A .....                                  | (35)                                      | (331)                                     |
| R&D.....                                    | —                                         | (68)                                      |
| Other operating (income) expenses .....     | —                                         | (5)                                       |
| Operating profit (loss).....                | (35)                                      | 179                                       |
| Interest expense .....                      | (11)                                      | (71)                                      |
| Other income (expense).....                 | (203)                                     | 13                                        |
| Profit (loss) before tax .....              | (249)                                     | 121                                       |
| Income tax (provision) benefit.....         | 88                                        | (43)                                      |
| Profit (loss) .....                         | <u>\$ (161)</u>                           | <u>\$ 78</u>                              |

### **Distribution Business Divestiture Impact**

|                                         |             |                |
|-----------------------------------------|-------------|----------------|
| SG&A .....                              | \$ —        | \$ (83)        |
| Other operating (income) expenses ..... | —           | 155            |
| Operating profit (loss).....            | —           | 72             |
| Income tax (provision) benefit.....     | —           | (100)          |
| Profit (loss) .....                     | <u>\$ —</u> | <u>\$ (28)</u> |

### **Other Profit/Loss Items**

- **Interest expense excluding Financial Products** increased \$46 million from the six months ended June 30, 2011 due to long-term debt issued in 2011 relating to the acquisition of Bucyrus.
- **Other income/expense** was income of \$158 million compared with expense of \$144 million in the six months ended June 30, 2011. The change was primarily due to the absence of losses during the six months ended June 30, 2011 of \$204 million on interest rate swaps and credit facility fees associated with the debt issuance for the Bucyrus acquisition and the favorable impact of currency gains and losses.
- **The provision for income taxes** for the first six months of 2012 reflects an estimated annual effective tax rate of 30.5 percent compared with 29 percent for the first six months of 2011 and 26.5 percent for the full-year 2011, excluding the items discussed below. The increase from full-year 2011 is primarily due to expected changes in our geographic mix of profits from a tax perspective and the expiration of the U.S. research and development tax credit.

The 2012 tax provision also includes a negative impact of \$75 million from goodwill not deductible for tax purposes related to the divestiture of portions of the Bucyrus distribution business. A \$72 million net benefit was recorded in the second quarter of 2011 due to planned repatriation of non-U.S. earnings offset by an increase in unrecognized tax benefits.

## Segment Information

### Sales and Revenues by Geographic Region

| (Millions of dollars)                         | Total           | %<br>Change | North<br>America | %<br>Change | Latin<br>America | %<br>Change | EAME            | %<br>Change  | Asia/<br>Pacific | %<br>Change |
|-----------------------------------------------|-----------------|-------------|------------------|-------------|------------------|-------------|-----------------|--------------|------------------|-------------|
| <b>Six months ended June 30, 2012</b>         |                 |             |                  |             |                  |             |                 |              |                  |             |
| Construction Industries <sup>1</sup> .....    | \$10,402        | 11 %        | \$ 3,746         | 39 %        | \$ 1,421         | (2)%        | \$ 2,565        | 5 %          | \$ 2,670         | (5)%        |
| Resource Industries <sup>2</sup> .....        | 10,168          | 70 %        | 3,149            | 61 %        | 1,566            | 29 %        | 2,172           | 69 %         | 3,281            | 116 %       |
| Power Systems <sup>3</sup> .....              | 10,498          | 12 %        | 4,551            | 15 %        | 1,109            | — %         | 2,851           | 13 %         | 1,987            | 12 %        |
| All Other Segment <sup>4</sup> .....          | 928             | (13)%       | 442              | (19)%       | 38               | (33)%       | 279             | (4)%         | 169              | (1)%        |
| Corporate Items and Eliminations .....        | (24)            |             | (24)             |             | —                |             | —               |              | —                |             |
| <b>Machinery &amp; Power Systems Sales ..</b> | <b>31,972</b>   | <b>24 %</b> | <b>11,864</b>    | <b>30 %</b> | <b>4,134</b>     | <b>8 %</b>  | <b>7,867</b>    | <b>20 %</b>  | <b>8,107</b>     | <b>29 %</b> |
| Financial Products Segment .....              | 1,525           | 2 %         | 833              | (3)%        | 194              | 15 %        | 205             | (6)%         | 293              | 19 %        |
| Corporate Items and Eliminations .....        | (142)           |             | (94)             |             | (15)             |             | (15)            |              | (18)             |             |
| <b>Financial Products Revenues .....</b>      | <b>1,383</b>    | <b>1 %</b>  | <b>739</b>       | <b>(3)%</b> | <b>179</b>       | <b>13 %</b> | <b>190</b>      | <b>(10)%</b> | <b>275</b>       | <b>18 %</b> |
| <b>Consolidated Sales and Revenues .....</b>  | <b>\$33,355</b> | <b>23 %</b> | <b>\$ 12,603</b> | <b>27 %</b> | <b>\$ 4,313</b>  | <b>8 %</b>  | <b>\$ 8,057</b> | <b>19 %</b>  | <b>\$ 8,382</b>  | <b>28 %</b> |
| <b>Six months ended June 30, 2011</b>         |                 |             |                  |             |                  |             |                 |              |                  |             |
| Construction Industries <sup>1</sup> .....    | \$ 9,412        |             | \$ 2,693         |             | \$ 1,456         |             | \$ 2,442        |              | \$ 2,821         |             |
| Resource Industries <sup>2</sup> .....        | 5,974           |             | 1,951            |             | 1,215            |             | 1,286           |              | 1,522            |             |
| Power Systems <sup>3</sup> .....              | 9,367           |             | 3,955            |             | 1,107            |             | 2,523           |              | 1,782            |             |
| All Other Segment <sup>4</sup> .....          | 1,064           |             | 547              |             | 57               |             | 290             |              | 170              |             |
| Corporate Items and Eliminations .....        | (5)             |             | (5)              |             | —                |             | —               |              | —                |             |
| <b>Machinery &amp; Power Systems Sales ..</b> | <b>25,812</b>   |             | <b>9,141</b>     |             | <b>3,835</b>     |             | <b>6,541</b>    |              | <b>6,295</b>     |             |
| Financial Products Segment .....              | 1,494           |             | 861              |             | 169              |             | 218             |              | 246              |             |
| Corporate Items and Eliminations .....        | (127)           |             | (96)             |             | (10)             |             | (8)             |              | (13)             |             |
| <b>Financial Products Revenues .....</b>      | <b>1,367</b>    |             | <b>765</b>       |             | <b>159</b>       |             | <b>210</b>      |              | <b>233</b>       |             |
| <b>Consolidated Sales and Revenues .....</b>  | <b>\$27,179</b> |             | <b>\$ 9,906</b>  |             | <b>\$ 3,994</b>  |             | <b>\$ 6,751</b> |              | <b>\$ 6,528</b>  |             |

<sup>1</sup> Does not include inter-segment sales of \$253 million and \$271 million for the six months ended June 30, 2012 and 2011, respectively.

<sup>2</sup> Does not include inter-segment sales of \$656 million and \$558 million for the six months ended June 30, 2012 and 2011, respectively.

<sup>3</sup> Does not include inter-segment sales of \$1,355 million and \$1,095 million for the six months ended June 30, 2012 and 2011, respectively.

<sup>4</sup> Does not include inter-segment sales of \$1,834 million and \$1,635 million for the six months ended June 30, 2012 and 2011, respectively.

**Sales and Revenues by Segment**

| (Millions of dollars)                            | Six months ended June 30, 2011 | Sales Volume    | Price Realization | Currency        | Acquisitions    | Other        | Six months ended June 30, 2012 | \$ Change       | % Change    |
|--------------------------------------------------|--------------------------------|-----------------|-------------------|-----------------|-----------------|--------------|--------------------------------|-----------------|-------------|
| Construction Industries .....                    | \$ 9,412                       | \$ 906          | \$ 200            | \$ (116)        | \$ —            | \$ —         | \$ 10,402                      | \$ 990          | 11 %        |
| Resource Industries .....                        | 5,974                          | 1,642           | 414               | (39)            | 2,177           | —            | 10,168                         | 4,194           | 70 %        |
| Power Systems .....                              | 9,367                          | 709             | 169               | (86)            | 339             | —            | 10,498                         | 1,131           | 12 %        |
| All Other Segment .....                          | 1,064                          | (124)           | (1)               | (11)            | —               | —            | 928                            | (136)           | (13)%       |
| Corporate Items and Eliminations ...             | (5)                            | (41)            | 23                | (1)             | —               | —            | (24)                           | (19)            |             |
| <b>Machinery &amp; Power Systems Sales .....</b> | <b>25,812</b>                  | <b>3,092</b>    | <b>805</b>        | <b>(253)</b>    | <b>2,516</b>    | <b>—</b>     | <b>31,972</b>                  | <b>6,160</b>    | <b>24 %</b> |
| Financial Products Segment .....                 | 1,494                          | —               | —                 | —               | —               | 31           | 1,525                          | 31              | 2 %         |
| Corporate Items and Eliminations ...             | (127)                          | —               | —                 | —               | —               | (15)         | (142)                          | (15)            |             |
| <b>Financial Products Revenues .....</b>         | <b>1,367</b>                   | <b>—</b>        | <b>—</b>          | <b>—</b>        | <b>—</b>        | <b>16</b>    | <b>1,383</b>                   | <b>16</b>       | <b>1 %</b>  |
| <b>Consolidated Sales and Revenues.</b>          | <b>\$ 27,179</b>               | <b>\$ 3,092</b> | <b>\$ 805</b>     | <b>\$ (253)</b> | <b>\$ 2,516</b> | <b>\$ 16</b> | <b>\$ 33,355</b>               | <b>\$ 6,176</b> | <b>23 %</b> |

**Operating Profit by Segment**

| (Millions of dollars)                      | Six months ended June 30, 2012 | Six months ended June 30, 2011 | \$ Change       | % Change   |
|--------------------------------------------|--------------------------------|--------------------------------|-----------------|------------|
| Construction Industries .....              | \$ 1,304                       | \$ 1,026                       | \$ 278          | 27%        |
| Resource Industries .....                  | 2,594                          | 1,592                          | 1,002           | 63%        |
| Power Systems .....                        | 1,794                          | 1,436                          | 358             | 25%        |
| All Other Segment .....                    | 406                            | 367                            | 39              | 11%        |
| Corporate Items and Eliminations .....     | (1,395)                        | (1,147)                        | (248)           |            |
| <b>Machinery &amp; Power Systems .....</b> | <b>4,703</b>                   | <b>3,274</b>                   | <b>1,429</b>    | <b>44%</b> |
| Financial Products Segment .....           | 393                            | 308                            | 85              | 28%        |
| Corporate Items and Eliminations .....     | (15)                           | (26)                           | 11              |            |
| <b>Financial Products .....</b>            | <b>378</b>                     | <b>282</b>                     | <b>96</b>       | <b>34%</b> |
| <b>Consolidating Adjustments .....</b>     | <b>(142)</b>                   | <b>(122)</b>                   | <b>(20)</b>     |            |
| <b>Consolidated Operating Profit .....</b> | <b>\$ 4,939</b>                | <b>\$ 3,434</b>                | <b>\$ 1,505</b> | <b>44%</b> |

**Construction Industries**

Construction Industries' sales were \$10.402 billion in the six months ended June 30, 2012, an increase of \$990 million, or 11 percent, from the six months ended June 30, 2011. Sales increased in North America, were up slightly in the EAME region and declined slightly in Asia/Pacific and Latin America. The improvement in sales was a result of higher volume across all major equipment product categories. While sales volume for both new equipment and aftermarket parts improved, the more significant increase was for new equipment.

Some improvement in construction activity and continued fleet upgrading, primarily in North America, led to the increase in sales. Despite the increase in our machine sales in North America, construction activity in the United States and other developed countries is still well below prior peaks.

Construction Industries' sales were lower in Asia/Pacific, where a large decrease in China more than offset increases in other Asia/Pacific countries. China's austerity policies caused machine demand to peak in the first half of 2011, making the first half of 2011 in China a strong sales period.

Construction Industries' profit was \$1.304 billion in the six months ended June 30, 2012 compared with \$1.026 billion in the six months ended June 30, 2011. The increase in profit was primarily due to higher sales volume and improved price realization and was partially offset by the negative impact of currency, mainly due to the Japanese yen, and higher period manufacturing costs.

**Resource Industries**

Resource Industries' sales were \$10.168 billion for the six months ended June 30, 2012, an increase of \$4.194 billion, or 70 percent,

from the six months ended June 30, 2011. The sales increase was primarily due to the acquisition of Bucyrus in the third quarter of 2011 and higher sales volume in most regions of the world. While sales volume for both new equipment and aftermarket parts improved, the more significant increase was for new equipment.

Mine production increased despite lower commodity prices for metals and coal compared with a year earlier. While lower than a year ago, most mining-related commodity prices have remained at levels attractive for investment. This was positive for mining in most regions of the world and drove increased sales for Resource Industries.

Bucyrus sales were \$2.177 billion for the six months ended June 30, 2012, with \$565 million in North America, \$322 million in Latin America, \$452 million in EAME and \$838 million in Asia/Pacific.

Resource Industries' profit of \$2.594 billion in the six months ended June 30, 2012 was significantly higher than profit of \$1.592 billion for the six months ended June 30, 2011. The acquisition of Bucyrus increased segment profit by \$347 million.

Excluding the effect of the Bucyrus acquisition, Resource Industries' profit increased by \$655 million, primarily due to higher sales volume and improved price realization. The improvement was partially offset by higher manufacturing, SG&A and R&D costs. The manufacturing cost increase was primarily due to higher costs related to increased production volume.

### **Power Systems**

Power Systems' sales were \$10.498 billion in the six months ended June 30, 2012, an increase of \$1.131 billion, or 12 percent, compared to the six months ended June 30, 2011. The improvement was the result of higher sales volume, the acquisition of MWM and improved price realization. The sales volume increase occurred primarily in North America.

Worldwide demand for energy, at prices that encourage continued investment, resulted in higher sales of engines and turbines for petroleum applications. Sales of our rail products and services, primarily locomotives, increased due to higher demand. Those increases were partially offset by lower sales for electric power generation due to lower end user demand.

Power Systems' profit was \$1.794 billion in the six months ended June 30, 2012 compared with \$1.436 billion in the six months ended June 30, 2011. The increase was primarily due to higher sales volume and improved price realization. The improvements were partially offset by increased manufacturing, SG&A and R&D expenses, all largely driven by higher volume.

MWM, acquired during the fourth quarter of 2011, added sales of \$339 million, primarily in EAME, and was about neutral to profit.

### **Financial Products Segment**

Financial Products' revenues were \$1.525 billion for the six months ended June 30, 2012, an increase of \$31 million, or 2 percent, from the six months ended June 30, 2011. The increase was primarily due to the impact from higher average earning assets, partially offset by an unfavorable impact from lower interest rates.

Financial Products' profit of \$393 million in the first half of 2012 was up \$85 million from the first half of 2011. The increase was due to a \$35 million favorable impact due to lower claims experience at Cat Insurance and a \$33 million decrease in provision expense and a \$31 million favorable impact from higher average earning assets at Cat Financial.

### **Corporate Items and Eliminations**

Expense for corporate items and eliminations was \$1,410 million in the six months ended June 30, 2012, an increase of \$237 million from the six months ended June 30, 2011. Corporate items and eliminations include: corporate-level expenses; timing differences, as some expenses are reported in segment profit on a cash basis; retirement benefit costs other than service cost; and currency differences, as segment profit is reported using annual fixed exchange rates and inter-segment eliminations.

Corporate-level expenses and expense from timing and other methodology differences increased from the six months ended June 30, 2011 and were partially offset by favorable currency differences. Segment profit for 2012 is based on fixed exchange rates set at the beginning of 2012, while segment profit for 2011 is based on fixed exchange rates set at the beginning of 2011. The difference in actual exchange rates compared with fixed exchange rates is included in corporate items and eliminations and is not reflected in segment profit. The favorable impact included in corporate items and eliminations related to currency was primarily due to actual exchange rates in the first six months of 2012 being favorable compared with 2012 fixed exchange rates.

## **ACQUISITIONS AND DIVESTITURES**

### **ERA Mining Machinery Limited**

During the second quarter of 2012, Caterpillar, through its wholly-owned subsidiary Caterpillar (Luxembourg) Investment Co. S.A., completed a tender offer to acquire the issued shares of ERA Mining Machinery Limited, including its wholly-owned subsidiary Zhengzhou Siwei Mechanical Manufacturing Co., Ltd., commonly known as Siwei. Substantially all of the issued

shares of Siwei, a public company listed on the Hong Kong Exchange, were acquired at the end of May 2012 and approximately one percent of the issued shares remained outstanding and unacquired as of June 30, 2012. We expect to complete the compulsory acquisition of the remaining shares of Siwei common stock in the third quarter of 2012. Siwei primarily designs, manufactures, sells and supports underground coal mining equipment in mainland China and is known for its expertise in manufacturing mining roof support equipment. The tender offer allowed Siwei shareholders to choose between two types of consideration in exchange for their shares. The alternatives were either cash consideration of HK\$0.88 or a HK\$1.00 loan note issued by Caterpillar (Luxembourg) Investment Co. S.A. to the former shareholders of Siwei that will entitle the holder to receive on redemption a minimum of HK\$0.75 up to a maximum of HK\$1.15 depending on Siwei's consolidated gross profit for 2012 and 2013. Approximately 4 billion Siwei shares were tendered for the cash alternative and approximately 1.6 billion Siwei shares were tendered for the loan note alternative. The preliminary purchase price of approximately \$690 million is comprised of net cash paid of approximately \$453 million (\$475 million in cash paid for shares and to cancel share options less cash acquired of \$22 million), the fair value of the loan notes of \$169 million, approximately \$155 million of assumed third-party short term borrowings, a loan and interest payable to Caterpillar from Siwei of \$51 million, less restricted cash acquired of approximately \$138 million. The noncontrolling interest for the outstanding shares not tendered is \$7 million. The acquisition supports Caterpillar's long-term commitment to invest in China in order to support our growing base of Chinese customers and will further expand our underground mining business both inside and outside of China. Siwei will be reported in the Resource Industries segment.

The transaction was financed with available cash and included the issuance of loan notes to the former shareholders of Siwei, which have a debt component and a portion that is contingent consideration. The \$169 million fair value of the loan notes is comprised of \$152 million of debt representing the minimum redemption amount payable in April 2013 and \$17 million in contingent consideration representing the portion of the redemption amount conditionally payable in April 2013 or April 2014. The contingent consideration will be remeasured each reporting period at its estimated fair value with any adjustment included in Other operating (income) expenses in the Consolidated Results Of Operations.

Tangible assets acquired of \$671 million, recorded at their fair values, primarily include cash of \$22 million, restricted cash of \$138 million, receivables of \$213 million, inventory of \$105 million and property, plant and equipment of \$112 million. Finite-lived intangible assets acquired of \$194 million were primarily related to customer relationships and also included trade names. The finite-lived intangible assets are being amortized on a straight-line basis over a weighted average amortization period of approximately 15 years. Liabilities assumed of \$592 million, recorded at their fair values, primarily included accounts payable of \$342 million, third-party short term borrowings of \$155 million and accrued expenses of \$50 million. Additionally, deferred tax liabilities were \$38 million. Goodwill of \$467 million, substantially all of which is non-deductible for income tax purposes, represents the excess of the consideration transferred over the net assets recognized and represents the estimated future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Goodwill will not be amortized, but will be tested for impairment at least annually. Factors that contributed to a purchase price resulting in the recognition of goodwill include expected cost savings primarily from increased purchasing power for raw materials and a reduction in other manufacturing input costs, expanded underground mining equipment sales opportunities in China and internationally, along with the acquired assembled workforce. These values represent a preliminary allocation of the purchase price subject to finalization of post-closing procedures. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

### **Bucyrus Distribution Business Divestiture**

In conjunction with our acquisition of Bucyrus in July 2011, we announced our intention to sell the Bucyrus distribution business to Caterpillar dealers that support mining customers around the world in a series of individual transactions. Bucyrus predominantly employed a direct to end customer model to sell and support products. The intention is for Bucyrus products to be sold and serviced by Caterpillar dealers, consistent with our long-held distribution strategy. We expect these transitions will occur in phases based on the mining business opportunity within each dealer territory.

As portions of the Bucyrus distribution business are sold or classified as held for sale, they will not qualify as discontinued operations because Caterpillar expects significant continuing direct cash flows from the Caterpillar dealers after the divestitures. The gain or loss on disposal, along with the continuing operations of these disposal groups, will be reported in the Resource Industries segment. Goodwill will be allocated to each disposal group using the relative fair value method. The value of the customer relationship intangibles related to each portion of the Bucyrus distribution business to be sold will be included in the disposal groups. The disposal groups will be recorded at the lower of their carrying value or fair value less cost to sell. In the second quarter of 2012, we recorded a goodwill impairment for \$27 million related to a disposal group being sold to one of the Caterpillar dealers. After the goodwill impairment, the carrying value of the disposal group was lower than its fair value less costs to sell. Fair value was determined based upon the negotiated sales price. The impairment was recorded in Other operating (income) expenses and included in the Resource Industries segment.

In the second quarter of 2012, three sale transactions were completed whereby we sold portions of the Bucyrus distribution business to Finning International, WesTrac Pty Limited, a wholly owned subsidiary of Seven Group Holdings Limited, and Ferreyros S.A.A. for \$306 million, \$400 million and \$75 million respectively, subject to certain working capital adjustments. After-tax profit was unfavorably impacted by \$8 million in the second quarter of 2012 as a result of the Bucyrus distribution business divestiture activities. This is comprised of \$160 million of income (included in Other operating (income) expenses) related to the sales transactions, offset by costs incurred related to the Bucyrus distribution divestiture activities of \$57 million (included in Selling, general and administrative expenses) and income tax of \$111 million.

Assets sold included customer relationship intangibles of \$146 million, other assets of \$117 million, which consisted primarily of inventory and fixed assets, and allocated goodwill of \$230 million related to the Bucyrus distribution divestiture activities.

As part of these divestitures, Cat Financial provided \$400 million of financing to WesTrac Pty Limited and \$75 million to Ferreyros S.A.A. These loans are included in Receivables – finance and Long-term receivables – finance in the Consolidated Statement of Financial Position.

For the first half of 2012, after-tax profit was unfavorably impacted by \$28 million as a result of the Bucyrus distribution divestiture activities. This is comprised of \$155 million of income (included in Other operating (income) expenses) related to the sales transactions, offset by costs incurred related to the Bucyrus distribution divestiture activities of \$83 million (included in Selling, general and administrative expenses) and income tax of \$100 million.

## **GLOSSARY OF TERMS**

1. **All Other Segment** - Primarily includes activities such as: the remanufacturing of Cat engines and components and remanufacturing services for other companies as well as the 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.
2. **Caterpillar Production System** - The Caterpillar Production System is the common Order-to-Delivery process being implemented enterprise-wide to achieve our safety, quality, velocity, earnings and growth goals.
3. **Consolidating Adjustments** - Eliminations of transactions between Machinery and Power Systems and Financial Products.
4. **Construction Industries** - A segment responsible for small and core construction machines. Responsibility includes business strategy, product design, product management and development, manufacturing, marketing, and 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 and pipe layers. 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.
5. **Currency** - With respect to sales and revenues, currency represents the translation impact on sales resulting from changes in foreign currency exchange rates versus the U.S. dollar. With respect to operating profit, currency represents the net translation impact on sales and operating costs resulting from changes in foreign currency exchange rates versus the U.S. dollar. Currency includes the impact on sales and operating profit for the Machinery and Power Systems lines of business only; currency impacts on Financial Products revenues and operating profit are included in the Financial Products portions of the respective analyses. With respect to other income/expense, currency represents the effects of forward and option contracts entered into by the company to reduce the risk of fluctuations in exchange rates and the net effect of changes in foreign currency exchange rates on our foreign currency assets and liabilities for consolidated results.
6. **Debt-to-Capital Ratio** - A key measure of financial strength used by both management and our credit rating agencies. The metric is a ratio of Machinery and Power Systems debt (short-term borrowings plus long-term debt) and redeemable noncontrolling interest to the sum of Machinery and Power Systems debt, redeemable noncontrolling interest and stockholders' equity.

7. **EAME** - A geographic region including Europe, Africa, the Middle East and the Commonwealth of Independent States (CIS).
8. **Earning Assets** - Assets consisting primarily of total finance receivables net of unearned income, plus equipment on operating leases, less accumulated depreciation at Cat Financial.
9. **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 segment also provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment.
10. **Latin America** - Geographic region including Central and South American countries and Mexico.
11. **Machinery and Power Systems (M&PS)** - Represents the aggregate total of Construction Industries, Resource Industries, Power Systems, and All Other segments and related corporate items and eliminations.
12. **Machinery and Power Systems Other Operating (Income) Expenses** - Comprised primarily of gains/losses on disposal of long-lived assets, long-lived asset impairment charges, pension curtailment charges and employee redundancy costs.
13. **Manufacturing Costs** - Manufacturing costs exclude the impacts of currency and represent the volume-adjusted change for variable costs and the absolute dollar change for period manufacturing costs. Variable manufacturing costs are defined as having a direct relationship with the volume of production. This includes material costs, direct labor and other costs that vary directly with production volume such as freight, power to operate machines and supplies that are consumed in the manufacturing process. Period manufacturing costs support production but are defined as generally not having a direct relationship to short-term changes in volume. Examples include machinery and equipment repair, depreciation on manufacturing assets, facility support, procurement, factory scheduling, manufacturing planning and operations management.
14. **Power Systems** - A segment responsible for the product management, 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 product management, development, manufacturing, marketing, sales and product support of turbines and turbine-related services; the development, manufacturing, remanufacturing, maintenance, leasing and service of diesel-electric locomotives and components and other rail-related products and services.
15. **Price Realization** - The impact of net price changes excluding currency and new product introductions. Consolidated price realization includes the impact of changes in the relative weighting of sales between geographic regions.
16. **Resource Industries** - A segment responsible for business strategy, product design, product management and development, manufacturing, marketing and sales and product support for large track-type tractors, large mining trucks, underground mining equipment, tunnel boring equipment, large wheel loaders, off-highway 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 International Inc. 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 electric drive off-highway trucks to Resource Industries. In addition, Resource Industries segment profit includes Bucyrus acquisition-related costs and the impact from divestiture of the former Bucyrus distribution businesses. On June 6, 2012, the acquisition of ERA Mining Machinery Limited, including its wholly-owned subsidiary Zhengzhou Siwei Mechanical & Electrical Manufacturing Co., Ltd., commonly known as Siwei, was completed. This added the responsibility for business strategy, product design, product management and development, manufacturing, marketing and sales and product support for underground coal mining equipment to Resource Industries.
17. **Sales Volume** - With respect to sales and revenues, sales volume represents the impact of changes in the quantities sold for Machinery and Power Systems as well as the incremental revenue impact of new product introductions, including emissions-related product updates. With respect to operating profit, sales volume represents the impact of changes in the quantities sold for Machinery and Power Systems combined with product mix as well as the net operating profit impact of new product introductions, including emissions-related product updates. Product mix represents the net operating profit impact of changes in the relative weighting of Machinery and Power Systems sales with respect to total sales.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Sources of funds**

We generate significant capital resources from operating activities, which are the primary source of funding for our Machinery and Power Systems operations. Funding for these businesses is also provided by commercial paper and long-term debt issuances. Financial Products operations are funded primarily from commercial paper, term debt issuances and collections from the existing portfolio. Throughout the second quarter of 2012, we experienced favorable liquidity conditions globally in both our Machinery and Power Systems and Financial Products operations. On a consolidated basis, we ended second quarter of 2012 with \$5.10 billion of cash, an increase of \$2.05 billion from year-end 2011. Our cash balances are held in numerous locations throughout the world. We expect to meet our United States funding needs without repatriating undistributed profits that are indefinitely reinvested outside the United States.

Consolidated operating cash flow for the first half of 2012 was \$2.01 billion, down from \$3.29 billion for the same period a year ago. The decrease was primarily due to changes in inventory, accounts payable and short-term incentive compensation. Inventory increased more in the first half of 2012 than in the first half of 2011. Also contributing to the decline in operating cash flow were less significant increases in accounts payable during the first half of 2012 compared to the first half of 2011 and the payment of additional short-term incentive compensation during the first half of 2012 compared with the first half of 2011. Partially offsetting these items was higher profit. See further discussion of operating cash flow under Machinery and Power Systems and Financial Products.

Total debt as of June 30, 2012 was \$39.32 billion, an increase of \$4.72 billion from year-end 2011. Debt related to Machinery and Power Systems increased \$1.96 billion in the first half of 2012, primarily due to the issuance of \$1.50 billion of long-term debt. On June 21, 2012, we issued \$500 million of 0.950% Senior Notes due in 2015, \$500 million of 1.500% Senior notes due in 2017, and \$500 million of 2.600% of Senior Notes due in 2022. The Notes are unsecured obligations of Caterpillar and rank equally with all other unsecured indebtedness. This debt was issued for general corporate purposes. Debt related to Financial Products increased \$2.76 billion primarily at Cat Financial, reflecting increasing portfolio balances and an increasing cash position.

We have three global credit facilities with a syndicate of banks totaling \$8.5 billion (Credit Facility) available in the aggregate to both Caterpillar and Cat Financial to support the commercial paper programs in the event those programs become unavailable and for general liquidity purposes. Based on management's allocation decision, which can be revised from time to time, the portion of the Credit Facility available to Cat Financial as of June 30, 2012 was \$6.5 billion.

- The 364-day facility of \$2.55 billion expires in September 2012.
- The four-year facility of \$2.09 billion expires in September 2014.
- The five-year facility of \$3.86 billion expires in September 2016.

At June 30, 2012, Caterpillar's consolidated net worth was \$22.39 billion, which was above the \$9.00 billion required under the Credit Facility. The consolidated net worth is defined as the consolidated stockholder's equity including preferred stock but excluding the pension and other postretirement benefits balance within Accumulated other comprehensive income (loss).

At June 30, 2012, Cat Financial's covenant interest coverage ratio was 1.66 to 1. This is above the 1.15 to 1 minimum ratio calculated as (1) profit excluding income taxes, interest expense and net gain/(loss) from interest rate derivatives to (2) interest expense calculated at the end of each calendar quarter for the rolling four quarter period then most recently ended, required by the Credit Facility.

In addition, at June 30, 2012, Cat Financial's covenant leverage ratio was 8.30 to 1. This is below the maximum ratio of debt to net worth of 10 to 1, calculated (1) on a monthly basis as the average of the leverage ratios determined on the last day of each of the six preceding calendar months and (2) at each December 31, required by the Credit Facility.

In the event Caterpillar or Cat Financial does not meet one or more of their respective financial covenants under the Credit Facility in the future (and are unable to obtain a consent or waiver), the bank group may terminate the commitments allocated to the party that does not meet its covenants. Additionally, in such event, certain of Cat Financial's other lenders under other loan agreements where similar financial covenants or cross default provisions are applicable, may, at their election, choose to pursue remedies under those loan agreements, including accelerating the repayment of outstanding borrowings. At June 30, 2012, there were no borrowings under the Credit Facility.

Our total credit commitments as of June 30, 2012 were:

| (Millions of dollars)                                            | June 30, 2012   |                             |                    |
|------------------------------------------------------------------|-----------------|-----------------------------|--------------------|
|                                                                  | Consolidated    | Machinery and Power Systems | Financial Products |
| Credit lines available:                                          |                 |                             |                    |
| Global credit facilities .....                                   | \$ 8,500        | \$ 2,000                    | \$ 6,500           |
| Other external .....                                             | 4,843           | 742                         | 4,101              |
| Total credit lines available .....                               | 13,343          | 2,742                       | 10,601             |
| Less: Global credit facilities supporting commercial paper ..... | (3,266)         | —                           | (3,266)            |
| Less: Utilized credit .....                                      | (2,603)         | (394)                       | (2,209)            |
| Available credit .....                                           | <u>\$ 7,474</u> | <u>\$ 2,348</u>             | <u>\$ 5,126</u>    |

Other consolidated credit lines with banks as of June 30, 2012 totaled \$4.84 billion. These committed and uncommitted credit lines, which may be eligible for renewal at various future dates or have no specified expiration date, are used primarily by our subsidiaries for local funding requirements. Caterpillar or Cat Financial may guarantee subsidiary borrowings under these lines.

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

### Machinery and Power Systems

Net cash provided by operating activities was \$1.52 billion in the first half of 2012, compared with \$4.11 billion for the same period in 2011. The decline was a result of unfavorable changes primarily related to inventory, receivables, accounts payable and short-term incentive compensation. Partially offsetting these items were higher profit and an increase in customer advances.

Excluding the acquisition of Siwei, inventory increased approximately \$2.7 billion during the first half of 2012 and there were several reasons for the increase:

- About half of the increase was finished inventory, with more than half of that at our Excavator Division. Most of the increase in excavators was in China. As we began 2012, our expectations for sales in China were higher, and we built substantial new machine inventory. However, sales did not improve as much as expected, resulting in increased inventory. We are working to lower finished inventory and are lowering production levels in China and have started to export machines to other regions of the world. Given the weak construction equipment industry in China, we expect a gradual reduction through the remainder of 2012.
- About 30 percent of the increase was for components, work-in-process and aftermarket parts inventory and was related to increasing sales.
- About 10 percent of the inventory increase was related to the former Bucyrus (net of the impact of divestitures of distribution businesses to Cat dealers). Bucyrus sales are generally seasonally stronger during the second half of the year and with relatively long production lead times, it is common for Bucyrus to add inventory during the first half of the year to support higher sales during the second half.
- In-transit inventory accounted for about 10 percent of the increase and was related to higher sales.

During the first half of 2011, we experienced decreases in receivables, resulting from increased sales of receivables to Cat Financial to support expected acquisitions. We continued to benefit from the sale of receivables in the first half of 2012, but the change in receivables was not significant. Also contributing to the decline in operating cash flow were less significant increases in accounts payable during the first half of 2012 compared to the first half of 2011 and the payment of additional short-term incentive compensation during the first half of 2012 compared with the first half of 2011.

Net cash used for investing activities in the first half of 2012 was \$1.14 billion compared with net cash used for investing activities of \$94 million in the first half of 2011. The change was primarily due to the absence of the 2011 loan repayments from Cat Financial and the use of cash for higher capital expenditures and the acquisition of Siwei in 2012, partially offset by higher proceeds from divestitures. Net cash provided by financing activities in the first half of 2012 was \$630 million compared with net cash provided by financing activities of \$3.60 billion in the first half of 2011. The change was primarily due to the issuance of long-term debt for the acquisition of Bucyrus in 2011.

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

**Strong financial position** - A key measure of Machinery and Power Systems' financial strength used by both management and our credit rating agencies is Machinery and Power Systems' debt-to-capital ratio. Debt-to-capital is defined as short-term borrowings, long-term debt due within one year, redeemable noncontrolling interest and long-term debt due after one year (debt) divided by the sum of debt (including redeemable noncontrolling interest) and stockholders' equity. Debt also includes borrowings from Financial Products. The debt-to-capital ratio for Machinery and Power Systems was 40.9 percent at June 30, 2012, within our target range of 30 to 45 percent, compared with 42.7 percent at December 31, 2011. Profit during the first half of 2012 was the primary contributor to the reduction in the debt-to-capital ratio, partially offset by the \$1.5 billion debt issuance in June 2012.

**Capital to support growth** - Capital expenditures during first half of 2012 were \$1.55 billion, an increase of \$570 million compared with the first half of 2011. We expect capital expenditures for 2012 to be about \$4 billion, up from \$2.65 billion in 2011. During the second quarter of 2012, we completed the acquisition of Siwei. The preliminary purchase price of approximately \$690 million is comprised of net cash paid of approximately \$453 million (\$475 million in cash paid for shares and to cancel share options less cash acquired of \$22 million), the fair value of the loan notes of \$169 million which includes a debt component and a contingent consideration portion, approximately \$155 million of assumed third-party short term borrowings, a loan and interest payable to Caterpillar from Siwei of \$51 million, less restricted cash acquired of approximately \$138 million. The acquisition of Siwei was funded with available cash and included the issuance of loan notes to the former shareholders of Siwei, which have a debt component and a portion that is contingent consideration.

**Appropriately funded employee benefit plans** - We made \$119 million and \$293 million of contributions to our pension plans during the three and six months ended June 30, 2012, respectively. We currently anticipate full-year 2012 contributions of approximately \$1 billion, of which \$570 million are required contributions. We made \$104 million and \$235 million of contributions to our pension plans during the three and six months ended June 30, 2011, respectively.

**Paying dividends** - Dividends paid totaled \$598 million in the first half of 2012, representing 46 cents per share paid in both the first and second quarter. Each quarter, our Board of Directors reviews the company's dividend for the applicable quarter. The Board evaluates the financial condition of the company and considers the economic outlook, corporate cash flow, the company's liquidity needs, and the health and stability of global credit markets to determine whether to maintain or change the quarterly dividend. On June 13, 2012, we increased the quarterly dividend 13 percent to 52 cents per share payable on August 20, 2012, to stockholders of record at the close of business on July 20, 2012.

**Common stock repurchases** - Pursuant to the February 2007 Board-authorized stock repurchase program, \$3.8 billion of the \$7.5 billion authorized was spent through 2008. In December 2011, the Board of Directors extended the authorization for the \$7.5 billion stock repurchase program through December 31, 2015. We have not repurchased stock under the program since 2008. Basic shares outstanding as of June 30, 2012 were 653 million.

## **Financial Products**

Financial Products operating cash flow was \$559 million through the first half of 2012, compared with \$563 million for the same period a year ago. Net cash used for investing activities through the first half of 2012 was \$2.12 billion, compared to \$1.51 billion for the same period in 2011. The change was primarily due to more net cash used for finance receivables and expenditures for equipment leased to others due to increased growth in Cat Financial's portfolio. Net cash provided by financing activities was \$2.73 billion through the first half of 2012, compared with \$366 million for the same period in 2011. The change was primarily to provide for an increase in Cat Financial's cash position and the impact of net intercompany borrowings.

## **CRITICAL ACCOUNTING POLICIES**

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

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

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

Goodwill is reviewed for impairment utilizing a qualitative assessment or a two-step process. We have an option to make a qualitative assessment of a reporting unit's goodwill for impairment. If we choose to perform a qualitative assessment and determine the fair value more likely than not exceeds the carrying value, no further evaluation is necessary. For reporting units where we perform the 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 higher than the fair value, there is an indication that an impairment may exist and the second step is required. In step two, the implied fair value of goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss.

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

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

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

For debt securities, once a security's fair value is below cost we utilize data gathered by investment managers, external sources

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

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

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

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

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

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

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

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

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

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

**Postretirement benefits** — Primary actuarial assumptions were determined as follows:

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

**Post-sale discount reserve** — We provide discounts to dealers through merchandising programs. We have numerous programs that are designed to promote the sale of our products. The most common dealer programs provide a discount when the dealer sells a product to a targeted end user. The amount of accrued post-sale discounts was \$1,111 million and \$937 million as of June 30, 2012 and December 31, 2011 respectively. The reserve represents discounts that we expect to pay on previously sold units and is reviewed at least quarterly. The reserve is adjusted if discounts paid differ from those estimated. Historically, those adjustments have not been material.

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

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

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

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

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

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

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

A provision for U.S. income taxes has not been recorded on undistributed profits of our non-U.S. subsidiaries that we have determined to be indefinitely reinvested outside the U.S. If management intentions or U.S. tax law changes in the future, there may be a significant negative impact on the provision for income taxes to record an incremental tax liability in the period the change occurs. A deferred tax asset is recognized only if we have definite plans to generate a U.S. tax benefit by repatriating earnings in the foreseeable future.

## **GLOBAL WORKFORCE**

Caterpillar worldwide full-time employment was 132,825 at the end of second quarter 2012 compared with 108,175 at the end of second quarter 2011, an increase of 24,650 full-time employees. In addition, the flexible workforce increased by 4,039 for a total increase in the global workforce of 28,689.

The increase was primarily a result of acquisitions and higher sales volume. Acquisitions, primarily Bucyrus, MWM and ERA Mining Machinery Limited, added 16,322 people to the global workforce.

## **OTHER MATTERS**

### **Environmental and Legal Matters**

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

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

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

We have disclosed certain individual legal proceedings in this filing. Additionally, we are involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance liability (including claimed asbestos and welding fumes exposure), contracts, employment issues, 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 agreed to the terms of the consent decree, which required 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 paid \$2.04 million of the \$2.55 million penalty due to the United States in accordance with the decree terms. On July 9, 2012, under the terms of the consent decree, and subject to a settlement agreement executed on June 21, 2012 with the California Air Resources Board, Caterpillar paid the remaining \$0.51 million of the stipulated \$2.55 million penalty to the California Air Resources Board.

## **Retirement Benefits**

We recognized pension expense of \$183 million and \$362 million for the three and six months ended June 30, 2012, as compared to \$168 million and \$327 million for the three and six months ended June 30, 2011. The increase in expense is due to higher amortization of net actuarial losses due to lower discount rates at the end of 2011 and asset losses in 2011. In addition, 2012 expense included \$10 million of special termination benefits related to the closure of the Electro-Motive Diesel facility discussed below. This was partially offset by higher amortization of asset gains from 2009 and 2010. Accounting guidance on retirement benefits requires companies to discount future benefit obligations back to today's dollars using a discount rate that is based on high-quality fixed-income investments. A decrease in the discount rate increases the pension benefit obligation, while an increase in the discount rate decreases the pension benefit obligation. This increase or decrease in the pension benefit obligation is recognized in Accumulated other comprehensive income (loss) and subsequently amortized into earnings as an actuarial gain or loss. The guidance also requires companies to use an expected long-term rate of asset return for computing current year pension expense. Differences between the actual and expected returns are also recognized in Accumulated other comprehensive income (loss) and subsequently amortized into earnings as actuarial gains and losses. As of June 30, 2012, total actuarial losses, recognized in Accumulated other comprehensive income (loss), related to pensions were \$8.51 billion. The majority of the actuarial losses are due to lower discount rates, plan asset losses and losses from other demographic and economic assumptions over the past several years.

Other postretirement benefit expense was \$71 million and \$103 million for the three and six months ended June 30, 2012, as compared to \$80 million and \$160 million for the three and six months ended June 30, 2011. The decrease in expense was primarily the result of curtailment gains of \$40 million of which \$37 million is related to the closure of the Electro-Motive Diesel facility discussed below. Actuarial losses, recognized in Accumulated other comprehensive income (loss), for other postretirement benefit plans were \$1.44 billion at June 30, 2012. These losses mainly reflect several years of declining discount rates, changes in our

health care trend assumption and plan asset losses, partially offset by gains from lower than expected health care costs.

Actuarial losses for both pensions and other postretirement benefits will be impacted in future periods by actual asset returns, actual health care inflation, discount rate changes, actual demographic experience and other factors that impact these expenses. These losses, reported in Accumulated other comprehensive income (loss), will generally be amortized as a component of net periodic benefit cost on a straight-line basis over the average remaining service period of active employees expected to receive benefits under the plans. For other postretirement benefit plans in which all or almost all of the plan's participants are fully eligible for benefits under the plan, the losses are amortized using the straight-line method over the remaining life expectancy of those participants. At the end of 2011, the average remaining service period of active employees or life expectancy for fully eligible employees was 11 years for our U.S. pension plans, 13 years for our non-U.S. pension plans and 10 years for other postretirement benefit plans. We expect our amortization of net actuarial losses to increase approximately \$60 million in 2012 as compared to 2011, primarily due to a decrease in discount rates and plan asset losses during 2011, partially offset by higher amortization of plan asset gains from 2009 and 2010.

In February 2012, we announced the closure of the Electro-Motive Diesel facility located in London, Ontario. As a result of the closure, we recognized a \$37 million other postretirement benefits curtailment gain in the first quarter. This excludes a \$21 million loss of a third party receivable for other postretirement benefits that was eliminated due to the closure. In addition, a \$10 million special termination benefit expense was recognized related to statutory pension benefits required to be paid to certain affected employees.

We expect our total defined benefit expense to decrease approximately \$40 million in 2012 as compared to 2011. This decrease in expense is primarily due to the other postretirement benefits curtailment gain related to the closure of the Electro-Motive Diesel facility.

We made \$119 million and \$293 million of contributions to our pension plans during the three and six months ended June 30, 2012, respectively. We currently anticipate full-year 2012 contributions of approximately \$1 billion, of which \$570 million are required contributions. We made \$104 million and \$235 million of contributions to our pension plans during the three months and six months ended June 30, 2011, respectively.

### **Order Backlog**

The dollar amount of backlog believed to be firm was approximately \$28.2 billion at June 30, 2012 and \$29.8 billion at December 31, 2011. This reflects an 11 percent increase in backlog from the same period a year ago (including the Bucyrus backlog as of the acquisition on July 8, 2011) and an 8 percent decline from the end of the first quarter of 2012. The decline occurred in Construction Industries, Resource Industries and Power Systems, and was primarily a result of improvements in delivery performance with a number of machines coming off managed distribution. Dealers and customers are also exercising caution, particularly for long lead-time products, given the economic uncertainty in the world today. Of the total backlog, approximately \$5.8 billion at June 30, 2012 and \$4.0 billion at December 31, 2011 was not expected to be filled in the following twelve months.

### **NON-GAAP FINANCIAL MEASURES**

The following definitions are provided for “non-GAAP financial measures” in connection with Item 10(e) of Regulation S-K issued by the Securities and Exchange Commission. These non-GAAP financial measures have no standardized meaning prescribed by U.S. GAAP and therefore are unlikely to be comparable to the calculation of similar measures for other companies. Management does not intend these items to be considered in isolation or substitutes for the related GAAP measures.

### **Supplemental Consolidating Data**

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

**Consolidated** – Caterpillar Inc. and its subsidiaries.

**Machinery and Power Systems** – The Machinery and Power Systems data contained in the schedules on pages 81 to 88 are “non-GAAP financial measures” as defined by the Securities and Exchange Commission in Item 10(e) of Regulation S-K. This non-GAAP financial measure has no standardized meaning prescribed by U.S. GAAP, and therefore, is unlikely to be comparable with the calculation of similar measures for other companies. Management does not intend this item to be considered in isolation or as a substitute for the related GAAP measure. Caterpillar defines Machinery and Power Systems as it is presented in the supplemental data as Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis. Machinery

and Power Systems information relates to the design, manufacture and marketing of our products. Financial Products information relates to the financing to customers and dealers for the purchase and lease of Caterpillar and other equipment. The nature of these businesses is different especially with regard to the financial position and cash flow items. Caterpillar management utilizes this presentation internally to highlight these differences. We also believe this presentation will assist readers in understanding our business.

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

**Consolidating Adjustments** – Eliminations of transactions between Machinery and Power Systems and Financial Products.

Pages 81 to 88 reconcile Machinery and Power Systems with Financial Products on the equity basis to Caterpillar Inc. consolidated financial information.

**Caterpillar Inc.**  
**Supplemental Data for Results of Operations**  
**For The Three Months Ended June 30, 2012**  
**(Unaudited)**  
**(Millions of dollars)**

|                                                                   | Supplemental Consolidating Data |                                          |                    |                           |
|-------------------------------------------------------------------|---------------------------------|------------------------------------------|--------------------|---------------------------|
|                                                                   | Consolidated                    | Machinery and Power Systems <sup>1</sup> | Financial Products | Consolidating Adjustments |
| <b>Sales and revenues:</b>                                        |                                 |                                          |                    |                           |
| Sales of Machinery and Power Systems .....                        | \$ 16,684                       | \$ 16,684                                | \$ —               | \$ —                      |
| Revenues of Financial Products .....                              | 690                             | —                                        | 780                | (90) <sup>2</sup>         |
| Total sales and revenues .....                                    | 17,374                          | 16,684                                   | 780                | (90)                      |
| <b>Operating costs:</b>                                           |                                 |                                          |                    |                           |
| Cost of goods sold .....                                          | 12,280                          | 12,280                                   | —                  | —                         |
| Selling, general and administrative expenses .....                | 1,517                           | 1,373                                    | 150                | (6) <sup>3</sup>          |
| Research and development expenses .....                           | 632                             | 632                                      | —                  | —                         |
| Interest expense of Financial Products .....                      | 198                             | —                                        | 198                | — <sup>4</sup>            |
| Other operating (income) expenses .....                           | 131                             | (107)                                    | 248                | (10) <sup>3</sup>         |
| Total operating costs .....                                       | 14,758                          | 14,178                                   | 596                | (16)                      |
| <b>Operating profit</b> .....                                     | 2,616                           | 2,506                                    | 184                | (74)                      |
| Interest expense excluding Financial Products .....               | 110                             | 121                                      | —                  | (11) <sup>4</sup>         |
| Other income (expense) .....                                      | 70                              | 7                                        | —                  | 63 <sup>5</sup>           |
| <b>Consolidated profit before taxes</b> .....                     | 2,576                           | 2,392                                    | 184                | —                         |
| Provision for income taxes .....                                  | 872                             | 819                                      | 53                 | —                         |
| Profit of consolidated companies .....                            | 1,704                           | 1,573                                    | 131                | —                         |
| Equity in profit (loss) of unconsolidated affiliated companies... | 5                               | 5                                        | —                  | —                         |
| Equity in profit of Financial Products' subsidiaries .....        | —                               | 130                                      | —                  | (130) <sup>6</sup>        |
| <b>Profit of consolidated and affiliated companies</b> .....      | 1,709                           | 1,708                                    | 131                | (130)                     |
| Less: Profit attributable to noncontrolling interests .....       | 10                              | 9                                        | 1                  | —                         |
| <b>Profit</b> <sup>7</sup> .....                                  | \$ 1,699                        | \$ 1,699                                 | \$ 130             | \$ (130)                  |

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

<sup>2</sup> Elimination of Financial Products' revenues earned from Machinery and Power Systems.

<sup>3</sup> Elimination of net expenses recorded by Machinery and Power Systems paid to Financial Products.

<sup>4</sup> Elimination of interest expense recorded between Financial Products and Machinery and Power Systems.

<sup>5</sup> Elimination of discount recorded by Machinery and Power Systems on receivables sold to Financial Products and of interest earned between Machinery and Power Systems and Financial Products.

<sup>6</sup> Elimination of Financial Products' profit due to equity method of accounting.

<sup>7</sup> Profit attributable to common stockholders.

**Caterpillar Inc.**  
**Supplemental Data for Results of Operations**  
**For The Six Months Ended June 30, 2012**  
**(Unaudited)**  
**(Millions of dollars)**

|                                                                   |              | Supplemental Consolidating Data          |                    |                           |
|-------------------------------------------------------------------|--------------|------------------------------------------|--------------------|---------------------------|
|                                                                   | Consolidated | Machinery and Power Systems <sup>1</sup> | Financial Products | Consolidating Adjustments |
| <b>Sales and revenues:</b>                                        |              |                                          |                    |                           |
| Sales of Machinery and Power Systems .....                        | \$ 31,972    | \$ 31,972                                | \$ —               | \$ —                      |
| Revenues of Financial Products .....                              | 1,383        | —                                        | 1,557              | (174) <sup>2</sup>        |
| Total sales and revenues .....                                    | 33,355       | 31,972                                   | 1,557              | (174)                     |
| <b>Operating costs:</b>                                           |              |                                          |                    |                           |
| Cost of goods sold .....                                          | 23,517       | 23,517                                   | —                  | —                         |
| Selling, general and administrative expenses .....                | 2,857        | 2,597                                    | 277                | (17) <sup>3</sup>         |
| Research and development expenses .....                           | 1,219        | 1,219                                    | —                  | —                         |
| Interest expense of Financial Products .....                      | 402          | —                                        | 402                | — <sup>4</sup>            |
| Other operating (income) expenses .....                           | 421          | (64)                                     | 500                | (15) <sup>3</sup>         |
| Total operating costs .....                                       | 28,416       | 27,269                                   | 1,179              | (32)                      |
| <b>Operating profit</b> .....                                     | 4,939        | 4,703                                    | 378                | (142)                     |
| Interest expense excluding Financial Products .....               | 223          | 246                                      | —                  | (23) <sup>4</sup>         |
| Other income (expense) .....                                      | 158          | 27                                       | 12                 | 119 <sup>5</sup>          |
| <b>Consolidated profit before taxes</b> .....                     | 4,874        | 4,484                                    | 390                | —                         |
| Provision for income taxes .....                                  | 1,561        | 1,449                                    | 112                | —                         |
| Profit of consolidated companies .....                            | 3,313        | 3,035                                    | 278                | —                         |
| Equity in profit (loss) of unconsolidated affiliated companies... | 7            | 7                                        | —                  | —                         |
| Equity in profit of Financial Products' subsidiaries .....        | —            | 273                                      | —                  | (273) <sup>6</sup>        |
| <b>Profit of consolidated and affiliated companies</b> .....      | 3,320        | 3,315                                    | 278                | (273)                     |
| Less: Profit attributable to noncontrolling interests .....       | 35           | 30                                       | 5                  | —                         |
| <b>Profit</b> <sup>7</sup> .....                                  | \$ 3,285     | \$ 3,285                                 | \$ 273             | \$ (273)                  |

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

<sup>2</sup> Elimination of Financial Products' revenues earned from Machinery and Power Systems.

<sup>3</sup> Elimination of net expenses recorded by Machinery and Power Systems paid to Financial Products.

<sup>4</sup> Elimination of interest expense recorded between Financial Products and Machinery and Power Systems.

<sup>5</sup> Elimination of discount recorded by Machinery and Power Systems on receivables sold to Financial Products and of interest earned between Machinery and Power Systems and Financial Products.

<sup>6</sup> Elimination of Financial Products' profit due to equity method of accounting.

<sup>7</sup> Profit attributable to common stockholders.

**Caterpillar Inc.**  
**Supplemental Data for Results of Operations**  
**For The Three Months Ended June 30, 2011**  
**(Unaudited)**  
**(Millions of dollars)**

|                                                                   |              | Supplemental Consolidating Data          |                    |                           |
|-------------------------------------------------------------------|--------------|------------------------------------------|--------------------|---------------------------|
|                                                                   | Consolidated | Machinery and Power Systems <sup>1</sup> | Financial Products | Consolidating Adjustments |
| <b>Sales and revenues:</b>                                        |              |                                          |                    |                           |
| Sales of Machinery and Power Systems .....                        | \$ 13,535    | \$ 13,535                                | \$ —               | \$ —                      |
| Revenues of Financial Products .....                              | 695          | —                                        | 777                | (82) <sup>2</sup>         |
| Total sales and revenues.....                                     | 14,230       | 13,535                                   | 777                | (82)                      |
| <b>Operating costs:</b>                                           |              |                                          |                    |                           |
| Cost of goods sold .....                                          | 10,303       | 10,303                                   | —                  | —                         |
| Selling, general and administrative expenses.....                 | 1,257        | 1,121                                    | 141                | (5) <sup>3</sup>          |
| Research and development expenses .....                           | 584          | 584                                      | —                  | —                         |
| Interest expense of Financial Products.....                       | 209          | —                                        | 209                | — <sup>4</sup>            |
| Other operating (income) expenses .....                           | 276          | 14                                       | 271                | (9) <sup>3</sup>          |
| Total operating costs.....                                        | 12,629       | 12,022                                   | 621                | (14)                      |
| <b>Operating profit</b> .....                                     | 1,601        | 1,513                                    | 156                | (68)                      |
| Interest expense excluding Financial Products .....               | 90           | 101                                      | —                  | (11) <sup>4</sup>         |
| Other income (expense) .....                                      | (161)        | (235)                                    | 17                 | 57 <sup>5</sup>           |
| <b>Consolidated profit before taxes</b> .....                     | 1,350        | 1,177                                    | 173                | —                         |
| Provision for income taxes .....                                  | 318          | 273                                      | 45                 | —                         |
| Profit of consolidated companies .....                            | 1,032        | 904                                      | 128                | —                         |
| Equity in profit (loss) of unconsolidated affiliated companies .. | (10)         | (10)                                     | —                  | —                         |
| Equity in profit of Financial Products' subsidiaries.....         | —            | 123                                      | —                  | (123) <sup>6</sup>        |
| <b>Profit of consolidated and affiliated companies</b> .....      | 1,022        | 1,017                                    | 128                | (123)                     |
| Less: Profit attributable to noncontrolling interests .....       | 7            | 2                                        | 5                  | —                         |
| <b>Profit</b> <sup>7</sup> .....                                  | \$ 1,015     | \$ 1,015                                 | \$ 123             | \$ (123)                  |

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

<sup>2</sup> Elimination of Financial Products' revenues earned from Machinery and Power Systems.

<sup>3</sup> Elimination of net expenses recorded by Machinery and Power Systems paid to Financial Products.

<sup>4</sup> Elimination of interest expense recorded between Financial Products and Machinery and Power Systems.

<sup>5</sup> Elimination of discount recorded by Machinery and Power Systems on receivables sold to Financial Products and of interest earned between Machinery and Power Systems and Financial Products.

<sup>6</sup> Elimination of Financial Products' profit due to equity method of accounting.

<sup>7</sup> Profit attributable to common stockholders.

**Caterpillar Inc.**  
**Supplemental Data for Results of Operations**  
**For The Six Months Ended June 30, 2011**  
**(Unaudited)**  
**(Millions of dollars)**

|                                                                   | Supplemental Consolidating Data |                                          |                    |                           |
|-------------------------------------------------------------------|---------------------------------|------------------------------------------|--------------------|---------------------------|
|                                                                   | Consolidated                    | Machinery and Power Systems <sup>1</sup> | Financial Products | Consolidating Adjustments |
| <b>Sales and revenues:</b>                                        |                                 |                                          |                    |                           |
| Sales of Machinery and Power Systems .....                        | \$ 25,812                       | \$ 25,812                                | \$ —               | \$ —                      |
| Revenues of Financial Products .....                              | 1,367                           | —                                        | 1,517              | (150) <sup>2</sup>        |
| Total sales and revenues.....                                     | 27,179                          | 25,812                                   | 1,517              | (150)                     |
| <b>Operating costs:</b>                                           |                                 |                                          |                    |                           |
| Cost of goods sold .....                                          | 19,360                          | 19,360                                   | —                  | —                         |
| Selling, general and administrative expenses.....                 | 2,356                           | 2,070                                    | 293                | (7) <sup>3</sup>          |
| Research and development expenses .....                           | 1,109                           | 1,109                                    | —                  | —                         |
| Interest expense of Financial Products .....                      | 412                             | —                                        | 413                | (1) <sup>4</sup>          |
| Other operating (income) expenses .....                           | 508                             | (1)                                      | 529                | (20) <sup>3</sup>         |
| Total operating costs.....                                        | 23,745                          | 22,538                                   | 1,235              | (28)                      |
| <b>Operating profit</b> .....                                     | 3,434                           | 3,274                                    | 282                | (122)                     |
| Interest expense excluding Financial Products .....               | 177                             | 198                                      | —                  | (21) <sup>4</sup>         |
| Other income (expense) .....                                      | (144)                           | (274)                                    | 29                 | 101 <sup>5</sup>          |
| <b>Consolidated profit before taxes</b> .....                     | 3,113                           | 2,802                                    | 311                | —                         |
| Provision for income taxes .....                                  | 830                             | 747                                      | 83                 | —                         |
| Profit of consolidated companies .....                            | 2,283                           | 2,055                                    | 228                | —                         |
| Equity in profit (loss) of unconsolidated affiliated companies .. | (18)                            | (18)                                     | —                  | —                         |
| Equity in profit of Financial Products' subsidiaries.....         | —                               | 220                                      | —                  | (220) <sup>6</sup>        |
| <b>Profit of consolidated and affiliated companies</b> .....      | 2,265                           | 2,257                                    | 228                | (220)                     |
| Less: Profit attributable to noncontrolling interests .....       | 25                              | 17                                       | 8                  | —                         |
| <b>Profit</b> <sup>7</sup> .....                                  | <u>\$ 2,240</u>                 | <u>\$ 2,240</u>                          | <u>\$ 220</u>      | <u>\$ (220)</u>           |

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

<sup>2</sup> Elimination of Financial Products' revenues earned from Machinery and Power Systems.

<sup>3</sup> Elimination of net expenses recorded by Machinery and Power Systems paid to Financial Products.

<sup>4</sup> Elimination of interest expense recorded between Financial Products and Machinery and Power Systems.

<sup>5</sup> Elimination of discount recorded by Machinery and Power Systems on receivables sold to Financial Products and of interest earned between Machinery and Power Systems and Financial Products.

<sup>6</sup> Elimination of Financial Products' profit due to equity method of accounting.

<sup>7</sup> Profit attributable to common stockholders.

**Caterpillar Inc.**  
**Supplemental Data for Financial Position**  
**At June 30, 2012**  
**(Unaudited)**  
**(Millions of dollars)**

|                                                                                             | Supplemental Consolidating Data |                                          |                    |                           |
|---------------------------------------------------------------------------------------------|---------------------------------|------------------------------------------|--------------------|---------------------------|
|                                                                                             | Consolidated                    | Machinery and Power Systems <sup>1</sup> | Financial Products | Consolidating Adjustments |
| <b>Assets</b>                                                                               |                                 |                                          |                    |                           |
| Current assets:                                                                             |                                 |                                          |                    |                           |
| Cash and short-term investments .....                                                       | \$ 5,103                        | \$ 2,810                                 | \$ 2,293           | \$ — <sup>2,3</sup>       |
| Receivables – trade and other .....                                                         | 10,443                          | 5,510                                    | 394                | 4,539 <sup>3</sup>        |
| Receivables – finance .....                                                                 | 8,383                           | —                                        | 13,003             | (4,620)                   |
| Deferred and refundable income taxes .....                                                  | 1,685                           | 1,621                                    | 64                 | — <sup>4</sup>            |
| Prepaid expenses and other current assets .....                                             | 1,336                           | 885                                      | 464                | (13)                      |
| Inventories .....                                                                           | 17,344                          | 17,344                                   | —                  | —                         |
| Total current assets .....                                                                  | 44,294                          | 28,170                                   | 16,218             | (94)                      |
| Property, plant and equipment – net .....                                                   | 14,928                          | 11,832                                   | 3,096              | — <sup>2,3</sup>          |
| Long-term receivables – trade and other .....                                               | 803                             | 202                                      | 272                | 329 <sup>3</sup>          |
| Long-term receivables – finance .....                                                       | 12,955                          | —                                        | 13,322             | (367)                     |
| Investments in unconsolidated affiliated companies .....                                    | 124                             | 124                                      | —                  | — <sup>5</sup>            |
| Investments in Financial Products subsidiaries .....                                        | —                               | 4,011                                    | —                  | (4,011) <sup>6</sup>      |
| Noncurrent deferred and refundable income taxes .....                                       | 2,032                           | 2,483                                    | 91                 | (542)                     |
| Intangible assets .....                                                                     | 4,236                           | 4,227                                    | 9                  | —                         |
| Goodwill .....                                                                              | 7,320                           | 7,303                                    | 17                 | —                         |
| Other assets .....                                                                          | 2,146                           | 857                                      | 1,289              | —                         |
| <b>Total assets .....</b>                                                                   | <b>\$ 88,838</b>                | <b>\$ 59,209</b>                         | <b>\$ 34,314</b>   | <b>\$ (4,685)</b>         |
| <b>Liabilities</b>                                                                          |                                 |                                          |                    |                           |
| Current liabilities:                                                                        |                                 |                                          |                    |                           |
| Short-term borrowings .....                                                                 | \$ 5,047                        | \$ 592                                   | \$ 4,455           | \$ — <sup>7</sup>         |
| Accounts payable .....                                                                      | 8,470                           | 8,396                                    | 151                | (77) <sup>8</sup>         |
| Accrued expenses .....                                                                      | 3,532                           | 3,143                                    | 402                | (13) <sup>9</sup>         |
| Accrued wages, salaries and employee benefits .....                                         | 1,628                           | 1,605                                    | 23                 | —                         |
| Customer advances .....                                                                     | 3,132                           | 3,132                                    | —                  | —                         |
| Dividends payable .....                                                                     | 339                             | 339                                      | —                  | —                         |
| Other current liabilities .....                                                             | 2,117                           | 1,650                                    | 476                | (9) <sup>6</sup>          |
| Long-term debt due within one year .....                                                    | 7,008                           | 1,269                                    | 5,739              | —                         |
| Total current liabilities .....                                                             | 31,273                          | 20,126                                   | 11,246             | (99) <sup>7</sup>         |
| Long-term debt due after one year .....                                                     | 27,261                          | 9,211                                    | 18,092             | (42)                      |
| Liability for postemployment benefits .....                                                 | 10,626                          | 10,626                                   | —                  | — <sup>6</sup>            |
| Other liabilities .....                                                                     | 3,697                           | 3,265                                    | 965                | (533)                     |
| <b>Total liabilities .....</b>                                                              | <b>72,857</b>                   | <b>43,228</b>                            | <b>30,303</b>      | <b>(674)</b>              |
| <b>Commitments and contingencies</b>                                                        |                                 |                                          |                    |                           |
| Redeemable noncontrolling interest .....                                                    | —                               | —                                        | —                  | —                         |
| <b>Stockholders' equity</b>                                                                 |                                 |                                          |                    |                           |
| Common stock .....                                                                          | 4,373                           | 4,373                                    | 906                | (906) <sup>5</sup>        |
| Treasury stock .....                                                                        | (10,139)                        | (10,139)                                 | —                  | — <sup>5</sup>            |
| Profit employed in the business .....                                                       | 27,842                          | 27,842                                   | 2,903              | (2,903) <sup>5</sup>      |
| Accumulated other comprehensive income (loss) .....                                         | (6,150)                         | (6,150)                                  | 102                | (102) <sup>5</sup>        |
| Noncontrolling interests .....                                                              | 55                              | 55                                       | 100                | (100)                     |
| <b>Total stockholders' equity .....</b>                                                     | <b>15,981</b>                   | <b>15,981</b>                            | <b>4,011</b>       | <b>(4,011)</b>            |
| <b>Total liabilities, redeemable noncontrolling interest and stockholders' equity .....</b> | <b>\$ 88,838</b>                | <b>\$ 59,209</b>                         | <b>\$ 34,314</b>   | <b>\$ (4,685)</b>         |

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

<sup>2</sup> Elimination of receivables between Machinery and Power Systems and Financial Products.

<sup>3</sup> Reclassification of Machinery and Power Systems' trade receivables purchased by Financial Products and Financial Products' wholesale inventory receivables.

<sup>4</sup> Elimination of Machinery and Power Systems' insurance premiums that are prepaid to Financial Products.

<sup>5</sup> Elimination of Financial Products' equity which is accounted for by Machinery and Power Systems on the equity basis.

<sup>6</sup> Reclassification reflecting required netting of deferred tax assets / liabilities by taxing jurisdiction.

<sup>7</sup> Elimination of debt between Machinery and Power Systems and Financial Products.

<sup>8</sup> Elimination of payables between Machinery and Power Systems and Financial Products.

<sup>9</sup> Elimination of prepaid insurance in Financial Products' accrued expenses.

**Caterpillar Inc.**  
**Supplemental Data for Financial Position**  
**At December 31, 2011**  
**(Unaudited)**  
**(Millions of dollars)**

|                                                                                             | Supplemental Consolidating Data |                                          |                    |                           |
|---------------------------------------------------------------------------------------------|---------------------------------|------------------------------------------|--------------------|---------------------------|
|                                                                                             | Consolidated                    | Machinery and Power Systems <sup>1</sup> | Financial Products | Consolidating Adjustments |
| <b>Assets</b>                                                                               |                                 |                                          |                    |                           |
| Current assets:                                                                             |                                 |                                          |                    |                           |
| Cash and short-term investments .....                                                       | \$ 3,057                        | \$ 1,829                                 | \$ 1,228           | \$ — <sup>2,3</sup>       |
| Receivables – trade and other .....                                                         | 10,285                          | 5,497                                    | 430                | 4,358 <sup>3</sup>        |
| Receivables – finance .....                                                                 | 7,668                           | —                                        | 12,202             | (4,534) <sup>3</sup>      |
| Deferred and refundable income taxes .....                                                  | 1,580                           | 1,515                                    | 65                 | — <sup>4</sup>            |
| Prepaid expenses and other current assets .....                                             | 994                             | 525                                      | 481                | (12) <sup>4</sup>         |
| Inventories .....                                                                           | 14,544                          | 14,544                                   | —                  | —                         |
| Total current assets .....                                                                  | 38,128                          | 23,910                                   | 14,406             | (188)                     |
| Property, plant and equipment – net .....                                                   | 14,395                          | 11,492                                   | 2,903              | — <sup>2,3</sup>          |
| Long-term receivables – trade and other .....                                               | 1,130                           | 281                                      | 271                | 578 <sup>3</sup>          |
| Long-term receivables – finance .....                                                       | 11,948                          | —                                        | 12,556             | (608) <sup>3</sup>        |
| Investments in unconsolidated affiliated companies .....                                    | 133                             | 133                                      | —                  | — <sup>5</sup>            |
| Investments in Financial Products subsidiaries .....                                        | —                               | 4,035                                    | —                  | (4,035) <sup>6</sup>      |
| Noncurrent deferred and refundable income taxes .....                                       | 2,157                           | 2,593                                    | 97                 | (533) <sup>6</sup>        |
| Intangible assets .....                                                                     | 4,368                           | 4,359                                    | 9                  | —                         |
| Goodwill .....                                                                              | 7,080                           | 7,063                                    | 17                 | —                         |
| Other assets .....                                                                          | 2,107                           | 813                                      | 1,294              | —                         |
| <b>Total assets .....</b>                                                                   | <b>\$ 81,446</b>                | <b>\$ 54,679</b>                         | <b>\$ 31,553</b>   | <b>\$ (4,786)</b>         |
| <b>Liabilities</b>                                                                          |                                 |                                          |                    |                           |
| Current liabilities:                                                                        |                                 |                                          |                    |                           |
| Short-term borrowings .....                                                                 | \$ 3,988                        | \$ 157                                   | \$ 3,895           | \$ (64) <sup>7</sup>      |
| Accounts payable .....                                                                      | 8,161                           | 8,106                                    | 165                | (110) <sup>8</sup>        |
| Accrued expenses .....                                                                      | 3,386                           | 2,957                                    | 443                | (14) <sup>9</sup>         |
| Accrued wages, salaries and employee benefits .....                                         | 2,410                           | 2,373                                    | 37                 | —                         |
| Customer advances .....                                                                     | 2,691                           | 2,691                                    | —                  | —                         |
| Dividends payable .....                                                                     | 298                             | 298                                      | —                  | — <sup>6</sup>            |
| Other current liabilities .....                                                             | 1,967                           | 1,590                                    | 382                | (5) <sup>6</sup>          |
| Long-term debt due within one year .....                                                    | 5,660                           | 558                                      | 5,102              | —                         |
| Total current liabilities .....                                                             | 28,561                          | 18,730                                   | 10,024             | (193) <sup>7</sup>        |
| Long-term debt due after one year .....                                                     | 24,944                          | 8,446                                    | 16,529             | (31) <sup>7</sup>         |
| Liability for postemployment benefits .....                                                 | 10,956                          | 10,956                                   | —                  | — <sup>6</sup>            |
| Other liabilities .....                                                                     | 3,583                           | 3,145                                    | 965                | (527) <sup>6</sup>        |
| <b>Total liabilities .....</b>                                                              | <b>68,044</b>                   | <b>41,277</b>                            | <b>27,518</b>      | <b>(751)</b>              |
| <b>Commitments and contingencies</b>                                                        |                                 |                                          |                    |                           |
| <b>Redeemable noncontrolling interest .....</b>                                             | <b>473</b>                      | <b>473</b>                               | <b>—</b>           | <b>—</b>                  |
| <b>Stockholders' equity</b>                                                                 |                                 |                                          |                    |                           |
| Common stock .....                                                                          | 4,273                           | 4,273                                    | 906                | (906) <sup>5</sup>        |
| Treasury stock .....                                                                        | (10,281)                        | (10,281)                                 | —                  | — <sup>5</sup>            |
| Profit employed in the business .....                                                       | 25,219                          | 25,219                                   | 2,880              | (2,880) <sup>5</sup>      |
| Accumulated other comprehensive income (loss) .....                                         | (6,328)                         | (6,328)                                  | 154                | (154) <sup>5</sup>        |
| Noncontrolling interests .....                                                              | 46                              | 46                                       | 95                 | (95) <sup>5</sup>         |
| <b>Total stockholders' equity .....</b>                                                     | <b>12,929</b>                   | <b>12,929</b>                            | <b>4,035</b>       | <b>(4,035)</b>            |
| <b>Total liabilities, redeemable noncontrolling interest and stockholders' equity .....</b> | <b>\$ 81,446</b>                | <b>\$ 54,679</b>                         | <b>\$ 31,553</b>   | <b>\$ (4,786)</b>         |

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

<sup>2</sup> Elimination of receivables between Machinery and Power Systems and Financial Products.

<sup>3</sup> Reclassification of Machinery and Power Systems' trade receivables purchased by Financial Products and Financial Products' wholesale inventory receivables.

<sup>4</sup> Elimination of Machinery and Power Systems' insurance premiums that are prepaid to Financial Products.

<sup>5</sup> Elimination of Financial Products' equity which is accounted for by Machinery and Power Systems on the equity basis.

<sup>6</sup> Reclassification reflecting required netting of deferred tax assets / liabilities by taxing jurisdiction.

<sup>7</sup> Elimination of debt between Machinery and Power Systems and Financial Products.

<sup>8</sup> Elimination of payables between Machinery and Power Systems and Financial Products.

<sup>9</sup> Elimination of prepaid insurance in Financial Products' accrued expenses.

**Caterpillar Inc.**  
**Supplemental Data for Cash Flow**  
**For The Six Months Ended June 30, 2012**  
**(Unaudited)**  
**(Millions of dollars)**

|                                                                                  | Supplemental Consolidating Data |                                                |                       |                              |
|----------------------------------------------------------------------------------|---------------------------------|------------------------------------------------|-----------------------|------------------------------|
|                                                                                  | Consolidated                    | Machinery<br>and Power<br>Systems <sup>1</sup> | Financial<br>Products | Consolidating<br>Adjustments |
| <b>Cash flow from operating activities:</b>                                      |                                 |                                                |                       |                              |
| Profit of consolidated and affiliated companies .....                            | \$ 3,320                        | \$ 3,315                                       | \$ 278                | \$ (273) <sup>2</sup>        |
| Adjustments for non-cash items:                                                  |                                 |                                                |                       |                              |
| Depreciation and amortization .....                                              | 1,350                           | 988                                            | 362                   | — <sup>3</sup>               |
| Undistributed profit of Financial Products .....                                 | —                               | (23)                                           | —                     | 23 <sup>4</sup>              |
| Other .....                                                                      | (59)                            | (66)                                           | (94)                  | 101                          |
| Changes in assets and liabilities, net of acquisitions and divestitures:         |                                 |                                                |                       |                              |
| Receivables - trade and other .....                                              | 37                              | (36)                                           | (21)                  | 94 <sup>4,5</sup>            |
| Inventories .....                                                                | (2,939)                         | (2,893)                                        | —                     | (46) <sup>4</sup>            |
| Accounts payable .....                                                           | 299                             | 290                                            | (24)                  | 33 <sup>4</sup>              |
| Accrued expenses .....                                                           | 115                             | 119                                            | (5)                   | 1 <sup>4</sup>               |
| Accrued wages, salaries and employee benefits .....                              | (753)                           | (739)                                          | (14)                  | —                            |
| Customer advances .....                                                          | 434                             | 434                                            | —                     | — <sup>4</sup>               |
| Other assets - net .....                                                         | 63                              | 52                                             | 1                     | 10 <sup>4</sup>              |
| Other liabilities - net .....                                                    | 140                             | 74                                             | 76                    | (10) <sup>4</sup>            |
| Net cash provided by (used for) operating activities .....                       | <u>2,007</u>                    | <u>1,515</u>                                   | <u>559</u>            | <u>(67)</u>                  |
| <b>Cash flow from investing activities:</b>                                      |                                 |                                                |                       |                              |
| Capital expenditures - excluding equipment leased to others .....                | (1,508)                         | (1,500)                                        | (8)                   | — <sup>4,9</sup>             |
| Expenditures for equipment leased to others .....                                | (787)                           | (45)                                           | (866)                 | 124 <sup>4</sup>             |
| Proceeds from disposals of leased assets and property, plant and equipment ..... | 543                             | 63                                             | 491                   | (11) <sup>5,8,9</sup>        |
| Additions to finance receivables .....                                           | (5,942)                         | —                                              | (10,012)              | 4,070 <sup>5,9</sup>         |
| Collections of finance receivables .....                                         | 4,298                           | —                                              | 8,016                 | (3,718) <sup>5</sup>         |
| Net intercompany purchased receivables .....                                     | —                               | —                                              | 117                   | (117) <sup>6</sup>           |
| Proceeds from sale of finance receivables .....                                  | 85                              | —                                              | 85                    | — <sup>9</sup>               |
| Net intercompany borrowings .....                                                | —                               | —                                              | 63                    | (63) <sup>9</sup>            |
| Investments and acquisitions (net of cash acquired) .....                        | (517)                           | (461)                                          | —                     | (56) <sup>8</sup>            |
| Proceeds from sale of businesses and investments (net of cash sold) .....        | 308                             | 783                                            | —                     | (475) <sup>8</sup>           |
| Proceeds from sale of available-for-sale securities .....                        | 177                             | 19                                             | 158                   | —                            |
| Investments in available-for-sale securities .....                               | (199)                           | (4)                                            | (195)                 | —                            |
| Other - net .....                                                                | 38                              | 8                                              | 30                    | —                            |
| Net cash provided by (used for) investing activities .....                       | <u>(3,504)</u>                  | <u>(1,137)</u>                                 | <u>(2,121)</u>        | <u>(246)</u>                 |
| <b>Cash flow from financing activities:</b>                                      |                                 |                                                |                       |                              |
| Dividends paid .....                                                             | (598)                           | (598)                                          | (250)                 | 250 <sup>7</sup>             |
| Distribution to noncontrolling interests .....                                   | (5)                             | (5)                                            | —                     | —                            |
| Common stock issued, including treasury shares reissued .....                    | 25                              | 25                                             | —                     | —                            |
| Excess tax benefit from stock-based compensation .....                           | 156                             | 156                                            | —                     | —                            |
| Acquisitions of redeemable noncontrolling interests .....                        | (444)                           | (444)                                          | —                     | — <sup>6</sup>               |
| Net intercompany borrowings .....                                                | —                               | (63)                                           | —                     | 63                           |
| Proceeds from debt issued (original maturities greater than three months) .....  | 9,019                           | 1,662                                          | 7,357                 | —                            |
| Payments on debt (original maturities greater than three months) .....           | (5,033)                         | (211)                                          | (4,822)               | —                            |
| Short-term borrowings - net (original maturities three months or less) .....     | 552                             | 108                                            | 444                   | —                            |
| Net cash provided by (used for) financing activities .....                       | <u>3,672</u>                    | <u>630</u>                                     | <u>2,729</u>          | <u>313</u>                   |
| Effect of exchange rate changes on cash .....                                    | (129)                           | (27)                                           | (102)                 | —                            |
| <b>Increase (decrease) in cash and short-term investments .....</b>              | <b>2,046</b>                    | <b>981</b>                                     | <b>1,065</b>          | <b>—</b>                     |
| Cash and short-term investments at beginning of period .....                     | 3,057                           | 1,829                                          | 1,228                 | —                            |
| Cash and short-term investments at end of period .....                           | <u>\$ 5,103</u>                 | <u>\$ 2,810</u>                                | <u>\$ 2,293</u>       | <u>\$ —</u>                  |

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

<sup>2</sup> Elimination of Financial Products' profit after tax due to equity method of accounting.

<sup>3</sup> Non-cash adjustment for the undistributed earnings from Financial Products.

<sup>4</sup> Elimination of non-cash adjustments and changes in assets and liabilities related to consolidated reporting.

<sup>5</sup> Reclassification of Financial Products' cash flow activity from investing to operating for receivables that arose from the sale of inventory.

<sup>6</sup> Elimination of net proceeds and payments to/from Machinery and Power Systems and Financial Products.

<sup>7</sup> Elimination of dividend from Financial Products to Machinery and Power Systems.

<sup>8</sup> Elimination of proceeds received from Financial Products related to Machinery and Power Systems' sale of Bucyrus distribution businesses to Cat dealers.

<sup>9</sup> Reclassification of Financial Products' payments related to Machinery and Power Systems' acquisition of Caterpillar Tohoku Limited.

**Caterpillar Inc.**  
**Supplemental Data for Cash Flow**  
**For The Six Months Ended June 30, 2011**  
**(Unaudited)**  
**(Millions of dollars)**

|                                                                                  | Supplemental Consolidating Data |                                          |                    |                           |
|----------------------------------------------------------------------------------|---------------------------------|------------------------------------------|--------------------|---------------------------|
|                                                                                  | Consolidated                    | Machinery and Power Systems <sup>1</sup> | Financial Products | Consolidating Adjustments |
| <b>Cash flow from operating activities:</b>                                      |                                 |                                          |                    |                           |
| Profit of consolidated and affiliated companies.....                             | \$ 2,265                        | \$ 2,257                                 | \$ 228             | \$ (220) <sup>2</sup>     |
| Adjustments for non-cash items:                                                  |                                 |                                          |                    |                           |
| Depreciation and amortization.....                                               | 1,174                           | 810                                      | 364                | — <sup>4</sup>            |
| Other .....                                                                      | 337                             | 308                                      | (63)               | 92 <sup>3</sup>           |
| Financial Products' dividend in excess of profit.....                            | —                               | 80                                       | —                  | (80)                      |
| Changes in assets and liabilities, net of acquisitions and divestitures:         |                                 |                                          |                    |                           |
| Receivables - trade and other.....                                               | 45                              | 1,159                                    | 17                 | (1,131) <sup>4,5</sup>    |
| Inventories.....                                                                 | (1,850)                         | (1,850)                                  | —                  | — <sup>4</sup>            |
| Accounts payable.....                                                            | 1,056                           | 1,083                                    | 12                 | (39) <sup>4</sup>         |
| Accrued expenses.....                                                            | (41)                            | (12)                                     | (28)               | (1) <sup>4</sup>          |
| Accrued wages, salaries and employee benefits.....                               | (91)                            | (88)                                     | (3)                | —                         |
| Customer advances .....                                                          | 14                              | 14                                       | —                  | — <sup>4</sup>            |
| Other assets – net .....                                                         | 28                              | 89                                       | 61                 | (122) <sup>4</sup>        |
| Other liabilities – net.....                                                     | 357                             | 261                                      | (25)               | 121 <sup>4</sup>          |
| Net cash provided by (used for) operating activities .....                       | 3,294                           | 4,111                                    | 563                | (1,380)                   |
| <b>Cash flow from investing activities:</b>                                      |                                 |                                          |                    |                           |
| Capital expenditures - excluding equipment leased to others.....                 | (924)                           | (921)                                    | (3)                | — <sup>4</sup>            |
| Expenditures for equipment leased to others .....                                | (580)                           | (54)                                     | (571)              | 45 <sup>4</sup>           |
| Proceeds from disposals of leased assets and property, plant and equipment ..... | 621                             | 72                                       | 601                | (52) <sup>5,8</sup>       |
| Additions to finance receivables.....                                            | (4,294)                         | —                                        | (7,734)            | 3,440 <sup>5</sup>        |
| Collections of finance receivables .....                                         | 3,981                           | —                                        | 7,008              | (3,027)                   |
| Net intercompany purchased receivables.....                                      | —                               | —                                        | (1,056)            | 1,056                     |
| Proceeds from sale of finance receivables .....                                  | 104                             | —                                        | 104                | — <sup>6</sup>            |
| Net intercompany borrowings.....                                                 | —                               | 600                                      | 62                 | (662)                     |
| Investments and acquisitions (net of cash acquired).....                         | (68)                            | (68)                                     | —                  | — <sup>8</sup>            |
| Proceeds from sale of business and investments (net of cash sold).....           | 21                              | 392                                      | 11                 | (382)                     |
| Proceeds from sale of available-for-sale securities.....                         | 122                             | 6                                        | 116                | —                         |
| Investments in available-for-sale securities.....                                | (131)                           | (7)                                      | (124)              | —                         |
| Other – net.....                                                                 | (38)                            | (114)                                    | 76                 | —                         |
| Net cash provided by (used for) investing activities.....                        | (1,186)                         | (94)                                     | (1,510)            | 418                       |
| <b>Cash flow from financing activities:</b>                                      |                                 |                                          |                    |                           |
| Dividends paid .....                                                             | (565)                           | (565)                                    | (300)              | 300 <sup>7</sup>          |
| Distribution to noncontrolling interests .....                                   | (2)                             | (2)                                      | —                  | —                         |
| Common stock issued, including treasury shares reissued .....                    | 96                              | 96                                       | —                  | —                         |
| Excess tax benefit from stock-based compensation.....                            | 159                             | 159                                      | —                  | — <sup>6</sup>            |
| Net intercompany borrowings.....                                                 | —                               | (62)                                     | (600)              | 662                       |
| Proceeds from debt issued (original maturities greater than three months).....   | 10,329                          | 4,530                                    | 5,799              | —                         |
| Payments on debt (original maturities greater than three months).....            | (5,125)                         | (487)                                    | (4,638)            | —                         |
| Short-term borrowings – net (original maturities three months or less).....      | 36                              | (69)                                     | 105                | —                         |
| Net cash provided by (used for) financing activities .....                       | 4,928                           | 3,600                                    | 366                | 962                       |
| Effect of exchange rate changes on cash .....                                    | 87                              | 14                                       | 73                 | —                         |
| <b>Increase (decrease) in cash and short-term investments.....</b>               | <b>7,123</b>                    | <b>7,631</b>                             | <b>(508)</b>       | <b>—</b>                  |
| Cash and short-term investments at beginning of period.....                      | 3,592                           | 1,825                                    | 1,767              | —                         |
| Cash and short-term investments at end of period.....                            | <u>\$ 10,715</u>                | <u>\$ 9,456</u>                          | <u>\$ 1,259</u>    | <u>\$ —</u>               |

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

<sup>2</sup> Elimination of Financial Products' profit after tax due to equity method of accounting.

<sup>3</sup> Elimination of Financial Products' dividend to Machinery and Power Systems in excess of Financial Products' profit.

<sup>4</sup> Elimination of non-cash adjustments and changes in assets and liabilities related to consolidated reporting.

<sup>5</sup> Reclassification of Financial Products' cash flow activity from investing to operating for receivables that arose from the sale of inventory.

<sup>6</sup> Elimination of net proceeds and payments to/from Machinery and Power Systems and Financial Products.

<sup>7</sup> Elimination of dividend from Financial Products to Machinery and Power Systems.

<sup>8</sup> Elimination of proceeds received from Financial Products related to machinery and Power Systems' sale of Carter Machinery.

## **Forward-looking Statements**

Certain statements in this Form 10-Q relate to future events and expectations and are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “believe,” “estimate,” “will be,” “will,” “would,” “expect,” “anticipate,” “plan,” “project,” “intend,” “could,” “should” or other similar words or expressions often identify forward-looking statements. All statements other than statements of historical fact are forward-looking statements, including, without limitation, statements regarding our outlook, projections, forecasts or trend descriptions. These statements do not guarantee future performance, and we do not undertake to update our forward-looking statements.

Caterpillar's actual results may differ materially from those described or implied in our forward-looking statements based on a number of factors, including, but not limited to: (i) global economic conditions and economic conditions in the industries and markets we serve; (ii) government monetary or fiscal policies and infrastructure spending; (iii) commodity or component price increases and/or limited availability of raw materials and component products, including steel; (iv) our and our customers', dealers' and suppliers' ability to access and manage liquidity; (v) political and economic risks and instability, including national or international conflicts and civil unrest; (vi) our and Cat Financial's ability to: maintain credit ratings, avoid material increases in borrowing costs, and access capital markets; (vii) the financial condition and credit worthiness of Cat Financial's customers; (viii) inability to realize expected benefits from acquisitions and divestitures, including the acquisition of Bucyrus International, Inc.; (ix) international trade and investment policies; (x) challenges related to Tier 4 emissions compliance; (xi) market acceptance of our products and services; (xii) changes in the competitive environment, including market share, pricing and geographic and product mix of sales; (xiii) successful implementation of capacity expansion projects, cost reduction initiatives and efficiency or productivity initiatives, including the Caterpillar Production System; (xiv) sourcing practices of our dealers or original equipment manufacturers; (xv) compliance with environmental laws and regulations; (xvi) alleged or actual violations of trade or anti-corruption laws and regulations; (xvii) additional tax expense or exposure; (xviii) currency fluctuations; (xix) our or Cat Financial's compliance with financial covenants; (xx) increased pension plan funding obligations; (xxi) union disputes or other employee relations issues; (xxii) significant legal proceedings, claims, lawsuits or investigations; (xxiii) compliance requirements imposed if carbon emissions legislation and/or regulations are adopted; (xxiv) changes in accounting standards; (xxv) failure or breach of IT security; (xxvi) adverse effects of natural disasters; and (xxvii) other factors described in more detail under “Item 1A. Risk Factors” in our Form 10-K filed with the SEC on February 21, 2012 for the year ended December 31, 2011. This filing is available on our website at [www.caterpillar.com/secfilings](http://www.caterpillar.com/secfilings).

### ***Item 3. Quantitative and Qualitative Disclosures About Market Risk***

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

### ***Item 4. Controls and Procedures***

#### ***Evaluation of disclosure controls and procedures***

An evaluation was performed under the supervision and with the participation of the company’s management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the company’s disclosure controls and procedures, as that term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this quarterly report. Based on that evaluation, the company’s management, including the CEO and CFO, concluded that the company’s disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

#### ***Changes in internal control over financial reporting***

Except for the change noted below, there has been no change in the company's internal control over financial reporting during the second quarter of 2012, that has materially affected, or is reasonably likely to materially affect, the company’s internal control over financial reporting.

During the second quarter of 2012, we acquired substantially all of the equity in ERA Mining Machinery Limited, including its wholly-owned subsidiary Zhengzhou Siwei Mechanical Manufacturing Co., Ltd., commonly known as Siwei. As part of the post-closing integration, we are engaged in refining and harmonizing the internal controls and processes of the acquired business with those of the company. Management intends to exclude the internal controls of Siwei from its annual assessment of the effectiveness of the company's internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 for 2012. This exclusion is in accordance with the general guidance issued by the Securities and Exchange Commission that an

assessment of a recent business combination may be omitted from management's report on internal control over financial reporting in the year of consolidation.

## **PART II. OTHER INFORMATION**

### ***Item 1. Legal Proceedings***

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

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

#### ***Issuer Purchases of Equity Securities***

No shares were repurchased during the second quarter 2012.

#### ***Other Purchases of Equity Securities***

| <b>Period</b>         | <b>Total Number of Shares Purchased<sup>1</sup></b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Purchased Under the Program</b> | <b>Approximate Dollar Value of Shares that may yet be Purchased under the Program</b> |
|-----------------------|-----------------------------------------------------|-------------------------------------|-----------------------------------------------------------|---------------------------------------------------------------------------------------|
| April 1-30, 2012..... | 1,160                                               | \$ 106.49                           | NA                                                        | NA                                                                                    |
| May 1-31, 2012.....   | 4,815                                               | \$ 105.04                           | NA                                                        | NA                                                                                    |
| June 1-30, 2012.....  | 822                                                 | \$ 90.29                            | NA                                                        | NA                                                                                    |
| <b>Total</b> .....    | <b>6,797</b>                                        | <b>\$ 103.50</b>                    |                                                           |                                                                                       |

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

#### ***Non-U.S. Employee Stock Purchase Plans***

We have 29 employee stock purchase plans administered outside the United States for our non-U.S. employees. As of June 30, 2012, those plans had approximately 13,927 active participants in the aggregate. During the second quarter of 2012, approximately 100,095 shares of Caterpillar common stock or foreign denominated equivalents were distributed under the plans. Participants in some foreign plans have the option of receiving non-U.S. share certificates (foreign-denominated equivalents) in lieu of U.S. shares of Caterpillar common stock upon withdrawal from the plan. These equivalent certificates are tradable only on the local stock market and are included in our determination of shares outstanding.

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

### ***Item 4. Mine Safety Disclosures***

Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in Exhibit 95 to this quarterly report.

**Item 6. Exhibits**

|         |                                                                                                                                                                                                                                                              |
|---------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1     | Restated Certificate of Incorporation of Caterpillar Inc., effective June 13, 2012.                                                                                                                                                                          |
| 3.2     | Bylaws of Caterpillar Inc., as amended and restated as of June 13, 2012                                                                                                                                                                                      |
| 4.1     | Form of 0.950% Senior Note due 2015 (incorporated by reference from Exhibit 4.1 to Form 8-K filed June 21, 2012).                                                                                                                                            |
| 4.2     | Form of 1.500% Senior Note due 2017 (incorporated by reference from Exhibit 4.2 to Form 8-K filed June 21, 2012).                                                                                                                                            |
| 4.3     | Form of 2.600% Senior Note due 2022 (incorporated by reference from Exhibit 4.3 to Form 8-K filed June 21, 2012).                                                                                                                                            |
| 11      | Computations of Earnings per Share (included in Note 11 of this Form 10-Q filed for the quarter ended June 30, 2012).                                                                                                                                        |
| 31.1    | Certification of Douglas R. Oberhelman, Chairman and Chief Executive Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                     |
| 31.2    | Certification of Edward J. Rapp, Group President and Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                     |
| 32      | Certification of Douglas R. Oberhelman, Chairman and Chief Executive Officer of Caterpillar Inc. and Edward J. Rapp, Group President and Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 95      | Mine Safety Disclosures                                                                                                                                                                                                                                      |
| 101.INS | XBRL Instance Document                                                                                                                                                                                                                                       |
| 101.SCH | XBRL Taxonomy Extension Schema Document                                                                                                                                                                                                                      |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                                                                                                                        |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document                                                                                                                                                                                                         |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document                                                                                                                                                                                                              |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                                                                                                                       |

## SIGNATURES

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

### CATERPILLAR INC.

|                |                                                            |                                                   |
|----------------|------------------------------------------------------------|---------------------------------------------------|
| August 6, 2012 | <u>/s/Douglas R. Oberhelman</u><br>(Douglas R. Oberhelman) | Chairman and Chief Executive Officer              |
| August 6, 2012 | <u>/s/Edward J. Rapp</u><br>(Edward J. Rapp)               | Group President and Chief Financial Officer       |
| August 6, 2012 | <u>/s/James B. Buda</u><br>(James B. Buda)                 | Senior Vice President and Chief Legal Officer     |
| August 6, 2012 | <u>/s/Jananne A. Copeland</u><br>(Jananne A. Copeland)     | Corporate Controller and Chief Accounting Officer |

# EXHIBIT INDEX

| <b>Exhibit No.</b>             | <b>Description</b>                                                                                                                                                                                                                                                                  |
|--------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <a href="#"><u>3.1</u></a>     | <a href="#"><u>Restated Certificate of Incorporation of Caterpillar Inc., effective June 13, 2012.</u></a>                                                                                                                                                                          |
| <a href="#"><u>3.2</u></a>     | <a href="#"><u>Bylaws of Caterpillar Inc., as amended and restated as of June 13, 2012.</u></a>                                                                                                                                                                                     |
| <a href="#"><u>4.1</u></a>     | <a href="#"><u>Form of 0.950% Senior Note due 2015 (incorporated by reference from Exhibit 4.1 to Form 8-K filed June 21, 2012).</u></a>                                                                                                                                            |
| <a href="#"><u>4.2</u></a>     | <a href="#"><u>Form of 1.500% Senior Note due 2017 (incorporated by reference from Exhibit 4.2 to Form 8-K filed June 21, 2012).</u></a>                                                                                                                                            |
| <a href="#"><u>4.3</u></a>     | <a href="#"><u>Form of 2.600% Senior Note due 2022 (incorporated by reference from Exhibit 4.3 to Form 8-K filed June 21, 2012).</u></a>                                                                                                                                            |
| <a href="#"><u>11</u></a>      | <a href="#"><u>Computations of Earnings per Share (included in Note 11 of this Form 10-Q filed for the quarter ended June 30, 2012).</u></a>                                                                                                                                        |
| <a href="#"><u>31.1</u></a>    | <a href="#"><u>Certification of Douglas R. Oberhelman, Chairman and Chief Executive Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>                                                                                     |
| <a href="#"><u>31.2</u></a>    | <a href="#"><u>Certification of Edward J. Rapp, Group President and Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>                                                                                     |
| <a href="#"><u>32</u></a>      | <a href="#"><u>Certification of Douglas R. Oberhelman, Chairman and Chief Executive Officer of Caterpillar Inc. and Edward J. Rapp, Group President and Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a> |
| <a href="#"><u>95</u></a>      | <a href="#"><u>Mine Safety Disclosures</u></a>                                                                                                                                                                                                                                      |
| <a href="#"><u>101.INS</u></a> | <a href="#"><u>XBRL Instance Document</u></a>                                                                                                                                                                                                                                       |
| <a href="#"><u>101.SCH</u></a> | <a href="#"><u>XBRL Taxonomy Extension Schema Document</u></a>                                                                                                                                                                                                                      |
| <a href="#"><u>101.CAL</u></a> | <a href="#"><u>XBRL Taxonomy Extension Calculation Linkbase Document</u></a>                                                                                                                                                                                                        |
| <a href="#"><u>101.DEF</u></a> | <a href="#"><u>XBRL Taxonomy Extension Definition Linkbase Document</u></a>                                                                                                                                                                                                         |
| <a href="#"><u>101.LAB</u></a> | <a href="#"><u>XBRL Taxonomy Extension Label Linkbase Document</u></a>                                                                                                                                                                                                              |
| <a href="#"><u>101.PRE</u></a> | <a href="#"><u>XBRL Taxonomy Extension Presentation Linkbase Document</u></a>                                                                                                                                                                                                       |

**RESTATED CERTIFICATE OF INCORPORATION  
OF  
CATERPILLAR INC.**

Caterpillar Inc., a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

1. The name of the corporation is Caterpillar Inc. The date of filing its original Certificate of Incorporation with the Secretary of State was March 12, 1986.
2. This Restated Certificate of Incorporation restates and integrates and further amends the provisions of the Certificate of Incorporation of this corporation and has been duly adopted by the stockholders of the corporation in accordance with the provisions of Sections 242 and 245 of the General Corporation Law of Delaware.
3. The text of the Certificate of Incorporation is amended and restated to read as herein set forth in full:

**FIRST:** The name of this corporation is Caterpillar Inc.

**SECOND:** The address of the registered office of the corporation in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle, and the name of its registered agent at that address is The Corporation Trust Company.

**THIRD:** The purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

**FOURTH:** (a) The corporation is authorized to issue two classes of shares to be designated, respectively, "common stock" and "preferred stock." The total number of such shares shall be two billion and five million (2,005,000,000), all of which shares shall have a par value of \$1.00 per share. The total number of shares of common stock authorized to be issued shall be two billion (2,000,000,000) and the total number of shares of preferred stock authorized to be issued shall be five million (5,000,000).

(b) The shares of preferred stock may be issued from time to time in one or more series. The Board of Directors is hereby authorized to establish from time to time by resolution or resolutions the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof, including but not limited to the fixing or alteration of the dividend rights, dividend rate or rates, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), the redemption price or prices, and the liquidation preferences of any wholly unissued series of shares of preferred stock, and the number of shares constituting any such series and the designation thereof, or any or all of them; and to increase or decrease the number of shares of any series subsequent to the issue of shares of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

**FIFTH:** In furtherance and not in limitation of the powers conferred by statute, the Board of Directors shall have power to make, alter, amend and repeal the bylaws (except so far as the bylaws adopted by the stockholders shall otherwise provide). Any bylaws made by the Board of Directors under the powers conferred hereby may be altered, amended or repealed by the Board of Directors or by the stockholders. Notwithstanding the foregoing and anything contained in this Certificate of Incorporation to the contrary, Sections 1(b)(ii), 1(c) and 3(f) of Article II, and Section 1 of Article III of the bylaws shall not be altered, amended or repealed, and no provisions inconsistent therewith shall be adopted, without the affirmative vote

of the holders of not less than a majority of the outstanding stock of the corporation entitled to vote generally in the election of directors, voting together as a single class (it being understood that for the purposes of this Article FIFTH, each share shall have one vote except as otherwise provided in accordance with Article FOURTH).

**SIXTH:** (a) The number of directors which shall constitute the whole Board of Directors of this corporation shall be as specified in the bylaws of the corporation, subject to the provisions of Article FIFTH herein and this Article SIXTH.

(b) At each annual meeting of stockholders, directors shall be elected for a term of office to expire at the next annual meeting of stockholders, with each director to serve until his successor is duly elected and qualified or until his death, resignation or removal.

(c) No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(d) Newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled by the affirmative vote of a majority of the remaining directors then in office (and not by stockholders), even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office until the next annual meeting of stockholders and until such director's successor shall have been elected and qualified.

(e) Any director may be removed from office without cause but only by the affirmative vote of the holders of not less than a majority of the outstanding stock of the corporation entitled to vote generally in the election of directors, voting together as a single class (it being understood that for the purpose of this Article SIXTH, each share shall have one vote except as otherwise provided in accordance with Article FOURTH).

(f) Notwithstanding the foregoing, whenever the holders of any one or more classes or series of stock issued by this corporation having a preference over the common stock as to dividends or upon liquidation, shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies, terms of removal and other features of such directorships shall be governed by the terms of Article FOURTH and the resolution or resolutions establishing such class or series adopted pursuant thereto.

**SEVENTH:** (a) Any action required or permitted to be taken by the stockholders of the corporation must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders.

(b) Special meetings of the stockholders of this corporation for any purpose or purposes may be called at any time by the Chairman of the Board, the Chief Executive Officer, the Secretary or by the Board of Directors pursuant to a resolution approved by a majority of the entire Board of Directors, but such special meetings may not be called by any other person or persons, except as otherwise provided in the bylaws of this corporation.

(c) Advance notice of stockholder nominations for the election of directors shall be given in the manner provided in the bylaws of this corporation.

(d) Election of directors need not be by written ballot unless the bylaws of this corporation shall so provide.

**EIGHTH:** The corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute and this Certificate of Incorporation, and all rights conferred on stockholders herein are granted subject to this reservation. Notwithstanding the foregoing, the affirmative vote of not less than a majority of the total voting power of

all outstanding shares of stock in this corporation entitled to vote generally in the election of directors voting together as a single class (it being understood that for the purposes of this Article EIGHTH, each share shall have one vote except as otherwise provided in accordance with Article FOURTH) shall be required to alter, amend or repeal, or adopt any provisions inconsistent with the provisions set forth in Articles FIFTH, SIXTH, SEVENTH, and this Article EIGHTH.

**NINTH:** No director shall be personally liable to the corporation or any stockholders for monetary damages for breach of fiduciary duty as a director, except for any matter in respect of which such director shall be liable under Section 174 of Title 8 of the Delaware Code (relating to the Delaware General Corporation Law) or any amendment thereto or any successor provision thereto or shall be liable by reason that, in addition to any and all other requirements for such liability, such director (i) shall have breached the duty of loyalty to the corporation of its stockholders, (ii) shall not have acted in good faith, or, in failing to act, shall not have acted in good faith, (iii) shall have acted in a manner involving intentional misconduct or a knowing violation of law or, in failing to act, shall have acted in a manner involving intentional misconduct or a knowing violation of law, or (iv) shall have derived an improper personal benefit. Neither the amendment nor repeal of this Article NINTH, nor the adoption of any provision of the Certificate of Incorporation inconsistent with this Article NINTH, shall eliminate or reduce the effect of this Article NINTH in respect of any matter occurring, or any cause of action, suit or claim that, but for this Article NINTH would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

IN WITNESS WHEREOF, said Caterpillar Inc. has caused this certificate to be signed by Douglas R. Oberhelman, its Chief Executive Officer, and attested by Christopher M. Reitz, its Secretary, this 13th day of June 2012.

Caterpillar Inc.

By: /s/ Douglas R. Oberhelman

Name: Douglas R. Oberhelman

Title: Chief Executive Officer

ATTEST:

By: /s/ Christopher M. Reitz

Name: Christopher M. Reitz

Title: Secretary

**CATERPILLAR INC.  
BYLAWS**

(as amended and restated as of June 13, 2012)

**Article I  
Offices**

**Section 1. Registered Office.**

The registered office of the corporation in the State of Delaware shall be in the City of Wilmington, County of New Castle, State of Delaware.

**Section 2. Other Offices.**

The corporation may also have offices at such other places both within and without the State of Delaware as the board of directors may from time to time determine or the business of the corporation may require.

**Article II  
Stockholders**

**Section 1. Stockholder Meetings.**

- (a) Place of Meetings. Meetings of stockholders shall be held at such places, within or without the State of Delaware, as may from time to time be designated by the board of directors.
- (b) Annual Meeting.
  - (i) The annual meeting of stockholders shall be held on the second Wednesday in June in each year at a time designated by the board of directors, or at such a time and date as may be designated by the board.
  - (ii) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (b) otherwise properly brought before the meeting by or at the direction of the board of directors, or (c) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder (other than the nomination of a person for election as a director, which is governed by Article III, Section 1(d)(ii) of these bylaws), the stockholder must have given timely notice thereof in writing to the secretary of the corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation, not less than 60 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or 30 days after such anniversary date, notice by the stockholder to be timely must be so received not earlier than 120 days prior to such annual meeting and not later than the close of business on the fifteenth (15th) day following the date on which public announcement of the date of the annual meeting was first made by the corporation. In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above. A stockholder's notice to the secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and (b) as to the stockholder proposing such business and any beneficial owner on whose behalf the proposal is made (1) the name and address, as they appear on the corporation's books, of the stockholder and such beneficial owner, (2) a representation that the stockholder is a holder of record

of stock of the corporation entitled to vote at the annual meeting and intends to appear in person or by proxy at the meeting to introduce the matter specified in the notice, (3) the class and number of shares of the corporation which are beneficially owned by such stockholder and beneficial owner, (4) any material interest of such stockholder and beneficial owner in such business, (5) a description of any agreement, arrangement or understanding with respect to such business between or among such stockholder and beneficial owner and any other person or persons (naming such person or persons), (6) a description of any agreement, arrangement or understanding (including any derivative or short positions, profit interests, stock appreciation or similar rights, options, hedging transactions, and borrowed or loaned shares, regardless of whether settled in shares or cash) that has been entered into as of the date of the stockholder's notice by, or on behalf of, such stockholder and beneficial owner, the effect or intent of which is to mitigate loss, manage risk or benefit from changes in the share price of any class of the corporation's capital stock, or increase or decrease the voting power of such stockholder and beneficial owner with respect to shares of stock of the corporation and (7) a representation that such stockholder and beneficial owner will promptly notify the corporation in writing of any changes in the information required by this Section 1(b)(ii). Notwithstanding anything in the bylaws to the contrary, no business (other than matters properly brought under Rule 14a-8 under the Securities Exchange Act of 1934 and included in the corporation's notice of meeting) shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 1(b)(ii), or, with respect to the election of directors, the provisions of Article III, Section 1(d) of these bylaws. The presiding officer of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 1, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

(c) Special Meetings.

- (i) Special meetings of the stockholders of this corporation for any purpose or purposes may be called at any time by the chairman of the board, by the chief executive officer, by the secretary, or by the board of directors pursuant to a resolution approved by a majority of the entire board of directors, but such special meetings may not be called by any other person or persons.
- (ii) A special meeting of stockholders shall be called by the board of directors upon written request to the secretary of one or more record holders of shares of stock of the corporation representing in the aggregate not less than twenty-five percent (25%) of the total number of shares of stock entitled to vote on the matter or matters to be brought before the proposed special meeting. A request to the secretary shall be signed by each stockholder, or a duly authorized agent of such stockholder, requesting the special meeting and shall set forth, for each stockholder requesting the meeting, the information required to be in a stockholder's notice pursuant to Article II, Section 1(b)(ii) (as if such notice were submitted in connection with an annual meeting) or Article III, Section 1(d)(ii) of these bylaws, as applicable.
- (iii) A special meeting requested by stockholders shall be held at such date, time and place as may be fixed by the board of directors; provided, however, that the date of any such special meeting shall be not more than ninety (90) days after a proper request to call the special meeting is received by the secretary. Notwithstanding the foregoing, a special meeting requested by stockholders shall not be held if (1) the business proposed to be brought before the special meeting by stockholders is not a proper subject for stockholder action under applicable law or (2) the board of directors has called or calls for an annual meeting of stockholders to be held within ninety (90) days after the secretary receives the request for the special meeting and the board of directors determines in good faith that the business of such annual meeting includes (among any other matters properly brought before the annual meeting) the business specified in the request. A stockholder may revoke a request for a special meeting at any time by written revocation delivered to the secretary, and if, following such revocation, there are un-revoked requests from stockholders holding in the aggregate less than the requisite number of shares entitling the stockholders to request the calling of a special meeting, the board of directors, in its discretion, may cancel the special meeting.

- (iv) Business transacted at all special meetings shall be limited to the matters stated in the corporation's notice of special meeting. Business transacted at a special meeting requested by stockholders shall be limited to the matters described in the request for the special meeting; provided, however, that nothing herein shall prohibit the board of directors from submitting additional matters to stockholders at any such special meeting. In the event that a special meeting is called at the request of stockholders for the purpose of electing one or more persons to the board of directors, a stockholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the corporation's notice of meeting, if the stockholder's notice is submitted within the time and in the manner required by Article III, Section 1(d)(ii) of these bylaws.
- (v) Notwithstanding anything in the bylaws to the contrary, no business (other than matters properly brought under Rule 14a-8 under the Securities Exchange Act of 1934 and included in the corporation's notice of meeting) shall be conducted at a special meeting except in accordance with the procedures set forth in this Section 1(c). The presiding officer of a special meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 1(c), and if the presiding officer should so determine, the presiding officer shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.
- (d) Notice of Meetings. Notice of every meeting of the stockholders shall be given in any manner permitted by law, and such notice shall include the record date for determining the stockholders entitled to vote at the meeting, if such date is different from the record date for determining stockholders entitled to notice of the meeting.
- (e) Quorum. Except as otherwise required by law, the certificate of incorporation and these bylaws, the holders of not less than one-third of the shares entitled to vote at any meeting of the stockholders, present in person or by proxy, shall constitute a quorum at all meetings of the stockholders. If a quorum shall fail to attend any meeting, the chairman of the meeting may adjourn the meeting to another place, date or time. If a notice of any adjourned special meeting of stockholders is sent to all stockholders entitled to vote thereat, stating that it will be held with those present constituting a quorum, then, except as otherwise required by law, those present at such adjourned meeting shall constitute a quorum.

## **Section 2. Determination of Stockholders Entitled to Vote.**

To determine the stockholders entitled to notice of any meeting or to vote, the board of directors may fix in advance a record date for each as provided in Article VI, Section 1 hereof.

## **Section 3. Voting.**

- (a) Subject to the provisions of applicable law, and except as otherwise provided in the certificate of incorporation, each stockholder present in person or by proxy shall be entitled to one vote for each full share of stock registered in the name of such stockholder at the time fixed by the board of directors or by law as the record date of the determination of stockholders entitled to vote at a meeting.
- (b) Every stockholder entitled to vote may do so in person or by one or more agents authorized by proxy. Such authorization may be in writing or by transmission of an electronic communication, as permitted by law and in accordance with procedures established for the meeting.
- (c) Voting may be by voice or by ballot as the chairman of the meeting shall determine.

- (d) In all matters other than the election of directors, the affirmative vote of the majority of shares present in person or by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders. Directors shall be elected by a plurality of the votes of the shares present in person or by proxy at the meeting and entitled to vote on the election of directors.
- (e) In advance of any meeting of stockholders the board of directors may appoint one or more persons (who shall not be candidates for office) as inspectors of election to act at the meeting. If inspectors are not so appointed, or if an appointed inspector fails to appear or fails or refuses to act at a meeting, the chairman of any meeting of stockholders may, and on the request of any stockholder or his proxy shall, appoint inspectors of election at the meeting.
- (f) Any action required or permitted to be taken by the stockholders of the corporation must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders.

### **Article III**

#### **Board of Directors**

##### **Section 1. Election of Directors.**

- (a) Number. The authorized number of directors of the corporation shall be fixed from time to time by the board of directors but shall not be less than three (3). The exact number of directors shall be determined from time to time either by a resolution or bylaw duly adopted by the board of directors.
- (b) Election and Terms of Directors. Each director shall serve for a term of office to expire at the next annual meeting of stockholders, with each director to serve until his successor is duly elected and qualified or until his death, resignation or removal.
- (c) Newly Created Directorships and Vacancies. No decrease in the number of directors constituting the board of directors shall shorten the term of any incumbent director. Newly created directorships resulting from any increase in the number of directors and any vacancies on the board of directors resulting from death, resignation, disqualification, removal or other cause shall be filled by the affirmative vote of a majority of the remaining directors then in office (and not by stockholders), even though less than a quorum of the board of directors. Any director elected in accordance with the preceding sentence shall hold office until the next annual meeting of stockholders and until such director's successor shall have been elected and qualified.
- (d) Nomination of Directors. Candidates for director shall be nominated either
  - (i) by the board of directors or a committee appointed by the board of directors or
  - (ii) by nomination at any such stockholders' meeting by or on behalf of any stockholder entitled to vote at such meeting provided that written notice of such stockholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the secretary of the corporation (1) with respect to an election to be held at an annual meeting of stockholders, not less than 60 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or 30 days after such anniversary date, notice by the stockholder to be timely must be so given not earlier than 120 days prior to such annual meeting and not later than the fifteenth (15th) day following the date on which public announcement of the date of such meeting is first made by the corporation and (2) with respect to an election to be held at a special meeting of stockholders for the election of directors, not later than the close of business on the tenth (10th) day following the date on which public announcement of the date of such meeting is first made by the corporation. In no event shall the public announcement of an adjournment or postponement of a meeting commence a new time period (or extend any time period)

for the giving of a stockholder's notice as described above. Each such notice shall set forth as to the stockholder giving the notice and any beneficial owner on whose behalf the nomination is made: (a) the name and address of such stockholder and beneficial holder and of the person or persons to be nominated; (b) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) the class and number of shares of the corporation which are beneficially owned by such stockholder and beneficial owner, (d) a description of all arrangements or understandings between or among such stockholder and beneficial owner and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (e) a description of any agreement, arrangement or understanding (including any derivative or short positions, profit interests, stock appreciation or similar rights, options, hedging transactions, and borrowed or loaned shares, regardless of whether settled in shares or cash) that has been entered into as of the date of the stockholder's notice by, or on behalf of, such stockholder and beneficial owner, the effect or intent of which is to mitigate loss, manage risk or benefit from changes in the share price of any class of the corporation's capital stock, or increase or decrease the voting power of such stockholder and beneficial owner with respect to shares of stock of the corporation; (f) a representation that such stockholder and beneficial owner will promptly notify the corporation in writing of any changes in the information required by this Section 1(d)(ii); (g) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the board of directors; and (h) the consent of each nominee to serve as a director of the corporation if so elected. The presiding officer of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

- (e) Removal. Any director may be removed from office without cause but only by the affirmative vote of the holders of not less than a majority of the outstanding stock of the corporation entitled to vote generally in the election of directors, voting together as a single class.
- (f) Preferred Stock Provisions. Notwithstanding the foregoing, whenever the holders of any one or more classes or series of stock issued by this corporation having a preference over the common stock as to dividends or upon liquidation, shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies, nominations, terms of removal and other features of such directorships shall be governed by the terms of Article FOURTH of the certificate of incorporation and the resolution or resolutions establishing such class or series adopted pursuant thereto.

## **Section 2. Meetings of the Board of Directors.**

- (a) Regular Meetings. Regular meetings of the board of directors shall be held without call at 7:30 a.m. on the second Wednesday in February, April, June, August, October and December (unless otherwise set forth in a meeting notice). Notice of all such regular meetings is permitted but not required.
- (b) Special Meetings. Special meetings of the board of directors may be called by the chairman of the board, any two (2) directors or by any officer authorized by the board.
- (c) Notice of Meetings. Notices setting the time and place of meetings shall be given by the secretary or an assistant secretary, or by any other officer authorized by the board. Such notices shall be given to each director personally or by mail, messenger, telephone or electronic transmission. Notice by mail shall be deposited in the United States mail, postage prepaid, not later than the third (3rd) day prior to the date fixed for the meeting. Notice by telephone or electronic transmission shall be sent, and notice given personally or by messenger shall be delivered, at least twenty-four (24) hours prior to the time set for the meeting. Notice of a special meeting need not contain a statement of the purpose of the meeting.

- (d) Adjourned Meetings. A majority of directors present at any regular or special meeting of the board of directors, whether or not constituting a quorum, may adjourn from time to time until the time fixed for the next regular meeting. Notice of the time and place of holding an adjourned meeting shall not be required if the time and place are fixed at the meeting adjourned.
- (e) Place of Meetings. Unless (i) a resolution of the board of directors, or (ii) the written consent of all directors given either before or after the meeting and filed with the secretary or (iii) the meeting notice, designates a different place within or without the State of Delaware, meetings of the board of directors, both regular and special, shall be held at the corporation's offices at 100 N.E. Adams Street, Peoria, Illinois.
- (f) Participation by Telephone or Other Means. Members of the board may participate in a meeting through use of conference telephone or other communications equipment, so long as all members participating in such meeting can hear one another, and such participation shall constitute presence in person at such meeting.
- (g) Quorum. At all meetings of the board one-third of the total number of directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action is approved by at least a majority of the required quorum for such meeting. Less than a quorum may adjourn any meeting of the board from time to time without notice.

### **Section 3. Action Without a Meeting.**

Any action required or permitted to be taken by the board of directors may be taken without a meeting if all members of the board consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of the proceedings of the board.

### **Section 4. Compensation of Directors.**

The directors may be paid such compensation for their services as the board shall from time to time determine. Directors who receive salaries as officers or employees of the corporation shall not receive additional compensation for their services as directors.

### **Section 5. Committees of the Board.**

There shall be such committees of the board of directors each consisting of two or more directors with such authority, subject to applicable law, as a majority of the board shall by resolution determine. Committees of the board shall meet subject to the call of the chairman of each committee and shall prepare and file with the secretary minutes of their meetings. Unless a committee shall by resolution establish a different procedure, notice of the time and place of committee meetings shall be given by the chairman of the committee, or at his request by the chairman of the board or by the secretary or an assistant secretary. Such notice shall be given to each committee member personally or by mail, messenger, telephone or electronic transmission at the times provided in subsection (c) of Section 2 of this Article for notice of special meetings of the board of directors. One-third of a committee but not less than two members shall constitute a quorum for the transaction of business. Except as a committee by resolution may determine otherwise, the provisions of Section 3 and of subsections (d), (e) and (f) of Section 2 of this Article shall apply, mutatis mutandis, to meetings of board committees.

## **Article IV Officers**

### **Section 1. Officers.**

The officers of the corporation shall be a chairman of the board, who shall be the chief executive officer, one or more group presidents, one or more vice presidents, a chief financial officer, a secretary and a treasurer, together with such other officers as the board of directors shall determine. Any two or more offices may be held by the same person.

Notwithstanding the foregoing or any other provision of these bylaws, the chairman of the board may be an individual other than the chief executive officer only for a period not to exceed six months commencing upon the effective date of the election of a new chief executive officer.

## **Section 2. Election and Tenure of Officers.**

Officers shall be elected by the board of directors, shall hold office at the pleasure of the board, and shall be subject to removal at any time by the board. Vacancies in office may be filled by the board.

## **Section 3. Powers and Duties of Officers.**

Each officer shall have such powers and duties as may be prescribed by the board of directors or by an officer authorized to do so by the board.

## **Section 4. Compensation of Officers.**

The compensation of officers shall be determined by the board of directors; provided that the board may delegate authority to determine the compensation of any assistant secretary or assistant treasurer, with power to redelegate.

# **Article V Indemnification**

The corporation shall indemnify to the full extent permitted by, and in the manner permissible under, the laws of the State of Delaware any person made, or threatened to be made, a party to an action or proceeding, whether criminal, civil, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he, his testator or intestate is or was a director or officer of the corporation or any predecessor of the corporation, or served any other enterprise as a director or officer at the request of the corporation or any predecessor of the corporation. The corporation shall pay or reimburse the actual and reasonable expenses (including attorneys fees) of such person incurred in defending any threatened or pending proceeding in advance of its final disposition if the corporation has received an undertaking by the person receiving such payment or reimbursement to repay all amounts advanced if it should be ultimately determined that he or she is not entitled to be indemnified under this Article V or otherwise.

The foregoing provisions of this Article V shall be deemed to be a contract between the corporation and each director and officer who serves in such capacity at any time while this bylaw is in effect, and any repeal or modification thereof shall not affect any rights or obligations then existing with respect to any state of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought based in whole or in part upon any such state of facts.

The foregoing rights of indemnification and advancement of expenses shall not be deemed exclusive of any other rights to which any director or officer may be entitled apart from the provisions of this Article.

The board of directors in its discretion shall have power on behalf of the corporation to indemnify and advance expenses to any person, other than a director or officer, made a party to any action, suit or proceeding by reason of the fact that he, his testator or intestate, is or was an employee of the corporation.

# **Article VI Miscellaneous**

## **Section 1. Record Date.**

- (a) In order that the corporation may determine the stockholders entitled to notice of any meeting of stockholders or any adjournment thereof, the board of directors may fix, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors and which record date shall not be more than sixty (60) nor less than ten (10) days prior to the date of such meeting. If the board of directors so fixes a date, such date shall also be the record date for determining the stockholders entitled to vote at such meeting unless the board of directors determines, at the time it fixes such record date, that a later date on or before the date of the meeting shall be the date for making such determination. If no

record date is fixed by the board of directors, the record date for determining stockholders entitled to notice of and to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for determination of stockholders entitled to vote at the adjourned meeting, and in such case shall also fix as the record date for stockholders entitled to notice of such adjourned meeting the same or an earlier date as that fixed for determination of stockholders entitled to vote in accordance with the foregoing provisions at the adjourned meeting.

- (b) In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the board may fix, in advance, a record date, which shall not be more than sixty (60) days prior to any such corporate action. If not fixed by the board, the record date shall be at the close of business on the day on which the board of directors adopts resolution relating thereto.
- (c) Stockholders on a record date are entitled to notice, to vote or to receive the dividend, distribution or allotment of rights or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date, except as otherwise provided by agreement or by applicable law.

## **Section 2. Stock Certificates.**

- (a) Shares of the corporation may be certificated or uncertificated, as provided under the laws of the State of Delaware. Every holder of certificated shares in the corporation shall be entitled to have a certificate signed in the name of the corporation by the chairman of the board or the vice chairman, or by the president or vice president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary, certifying the number of shares and the class or series of shares owned by the stockholder. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were an officer, transfer agent or registrar at the date of issue.
- (b) The corporation may issue a new share certificate or a new certificate for any other security in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate or the owner's legal representative to give the corporation a bond (or other adequate security) sufficient to indemnify it against any claim that may be made against it (including any expense or liability) on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

## **Section 3. Corporate Seal.**

The corporation shall have a corporate seal in such form as shall be prescribed and adopted by the board of directors.

## **Section 4. Construction and Definitions.**

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the General Corporation Law of Delaware shall govern the construction of these bylaws.

**Section 5. Amendments.**

Subject to the provisions of the certificate of incorporation, these bylaws may be altered, amended or repealed at any regular meeting of the stockholders (or at any special meeting thereof duly called for that purpose) by a majority vote of the shares represented and entitled to vote at the meeting; provided that in the notice of such special meeting notice of such purpose shall be given. Subject to the laws of the State of Delaware, the certificate of incorporation and these bylaws, the board of directors may by majority vote of those present at any meeting at which a quorum is present amend these bylaws, or enact such other bylaws as in their judgment may be advisable for the regulation of the conduct of the affairs of the corporation.

## SECTION 302 CERTIFICATION

I, Douglas R. Oberhelman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Caterpillar Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 6, 2012

/s/Douglas R. Oberhelman  
(Douglas R. Oberhelman)

Chairman of the Board and Chief  
Executive Officer

## SECTION 302 CERTIFICATION

I, Edward J. Rapp, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Caterpillar Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 6, 2012

/s/Edward J. Rapp  
(Edward J. Rapp)

Group President and  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Caterpillar Inc. (the "Company") on Form 10-Q for the period ending June 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 6, 2012

/s/Douglas R. Oberhelman  
(Douglas R. Oberhelman)

Chairman of the Board and Chief  
Executive Officer

August 6, 2012

/s/Edward J. Rapp  
(Edward J. Rapp)

Group President and  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Caterpillar Inc. and will be retained by Caterpillar Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

## Second Quarter, 2012 Mine Safety Disclosures

| Mine or Operating Name/MSHA Identification Number | Contractor ID | Section 104 S&S Citations (#) | Section 104(b) Orders (#) | Section 104(d) Citations and Orders (#) | Section 110(b)(2) Violations (#) | Section 107(a) Orders (#) | Total Dollar Value of MSHA Assessments Proposed (\$) | Total Number of Mining Related Fatalities (#) | Received Notice of Pattern Violations Under Section 104 (e) (yes/no) | Received Notice of Potential to Have Pattern Under Section 104(e) (yes/no) | Legal Actions Pending as of Last Day of Period (#) | Legal Actions Initiated During Period (#) | Legal Actions Resolved During Period (#) |
|---------------------------------------------------|---------------|-------------------------------|---------------------------|-----------------------------------------|----------------------------------|---------------------------|------------------------------------------------------|-----------------------------------------------|----------------------------------------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------|-------------------------------------------|------------------------------------------|
| Bear Run, 1202422                                 | Z8T           |                               |                           |                                         |                                  |                           |                                                      |                                               |                                                                      |                                                                            | 1                                                  |                                           |                                          |
| El Segundo, 2902257                               | Z620          | 1                             |                           |                                         |                                  |                           |                                                      |                                               |                                                                      |                                                                            |                                                    |                                           |                                          |
| Lee Ranch, 2901879                                | Z8T           |                               |                           |                                         |                                  |                           |                                                      |                                               |                                                                      |                                                                            | 1                                                  |                                           |                                          |
| North Antelope Rochelle Mine, 4801353             | Z8T           |                               |                           |                                         |                                  |                           | 807                                                  |                                               |                                                                      |                                                                            |                                                    |                                           |                                          |
| Jim Bridger Mine, 4800677                         | Z8T           | 1                             |                           |                                         |                                  | 1                         |                                                      |                                               |                                                                      |                                                                            |                                                    |                                           |                                          |
| Republic Energy, 4609054                          | Z8T           |                               |                           |                                         |                                  |                           |                                                      |                                               |                                                                      |                                                                            | 1                                                  |                                           |                                          |
| Twilight MTR Surface Mine, 4608645                | Z8T           |                               |                           |                                         |                                  |                           |                                                      |                                               |                                                                      |                                                                            | 1*                                                 |                                           |                                          |
| <b>Total</b>                                      |               | <b>2</b>                      |                           |                                         |                                  | <b>1</b>                  | <b>807</b>                                           |                                               |                                                                      |                                                                            | <b>4</b>                                           |                                           |                                          |

\*Legal action pending at Twilight MTR Surface Mine initiated on August 21, 2008 and inadvertently omitted from prior reports.

