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, 2010

OR

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

For the transition period from to

Commission File Number: 1-768

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

Delaware (State or other jurisdiction of incorporation)	**37-0602744** (IRS Employer I.D. No.)
100 NE Adams Street, Peoria, Illinois (Address of principal executive offices)	**61629** (Zip Code)

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

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

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

At June 30, 2010, 630,472,409 shares of common stock of the registrant were outstanding.

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

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
Sales and revenues:		
Sales of Machinery and Engines	$9,723	$7,254
Revenues of Financial Products	686	721
Total sales and revenues	10,409	7,975
Operating costs:		
Cost of goods sold	7,372	5,752
Selling, general and administrative expenses	1,059	914
Research and development expenses	450	351
Interest expense of Financial Products	234	272
Other operating (income) expenses	317	339
Total operating costs	9,432	7,628
Operating profit (loss)	977	347
Interest expense excluding Financial Products	81	109
Other income (expense)	50	163
Consolidated profit (loss) before taxes	946	401
Provision (benefit) for income taxes	209	40
Profit (loss) of consolidated companies	737	361
Equity in profit (loss) of unconsolidated affiliated companies	(4)	(1)
Profit (loss) of consolidated and affiliated companies	733	360
Less: Profit (loss) attributable to noncontrolling interests	26	(11)
Profit (loss) [1]	$707	$371
Profit (loss) per common share	$1.12	$0.61
Profit (loss) per common share — diluted [2]	$1.09	$0.60
Weighted-average common shares outstanding (millions)		
- Basic	629.8	611.8
- Diluted [2]	647.0	619.8
Cash dividends declared per common share	$0.86	$0.84

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

See accompanying notes to Consolidated Financial Statements.

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

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Sales and revenues:		
Sales of Machinery and Engines	$17,274	$15,764
Revenues of Financial Products	1,373	1,436
Total sales and revenues	18,647	17,200
Operating costs:		
Cost of goods sold	13,266	12,779
Selling, general and administrative expenses	1,991	1,796
Research and development expenses	852	739
Interest expense of Financial Products	467	551
Other operating (income) expenses	586	1,163
Total operating costs	17,162	17,028
Operating profit (loss)	1,485	172
Interest expense excluding Financial Products	183	210
Other income (expense)	113	227
Consolidated profit (loss) before taxes	1,415	189
Provision (benefit) for income taxes	440	(40)
Profit (loss) of consolidated companies	975	229
Equity in profit (loss) of unconsolidated affiliated companies	(6)	—
Profit (loss) of consolidated and affiliated companies	969	229
Less: Profit (loss) attributable to noncontrolling interests	29	(30)
Profit (loss) [1]	$940	$259
Profit (loss) per common share	$1.50	$0.43
Profit (loss) per common share — diluted [2]	$1.46	$0.42
Weighted-average common shares outstanding (millions)		
- Basic	628.1	607.6
- Diluted [2]	645.2	614.0
Cash dividends declared per common share	$0.86	$0.84

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

See accompanying notes to Consolidated Financial Statements.

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

	June 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and short-term investments	$3,597	$4,867
Receivables – trade and other	6,348	5,611
Receivables – finance	8,086	8,301
Deferred and refundable income taxes	1,041	1,216
Prepaid expenses and other current assets	965	862
Inventories	7,339	6,360
Total current assets	27,376	27,217
Property, plant and equipment – net	11,763	12,386
Long-term receivables – trade and other	1,150	971
Long-term receivables – finance	11,585	12,279
Investments in unconsolidated affiliated companies	154	105
Noncurrent deferred and refundable income taxes	2,464	2,714
Intangible assets	485	465
Goodwill	2,292	2,269
Other assets	1,524	1,632
Total assets	$58,793	$60,038
Liabilities		
Current liabilities:		
Short-term borrowings:		
Machinery and Engines	$217	$433
Financial Products	3,430	3,650
Accounts payable	3,975	2,993
Accrued expenses	3,083	3,351
Accrued wages, salaries and employee benefits	1,182	797
Customer advances	1,404	1,217
Dividends payable	277	262
Other current liabilities	936	888
Long-term debt due within one year:		
Machinery and Engines	434	302
Financial Products	4,846	5,399
Total current liabilities	19,784	19,292
Long-term debt due after one year:		
Machinery and Engines	4,828	5,652
Financial Products	15,398	16,195
Liability for postemployment benefits	6,977	7,420
Other liabilities	2,102	2,179
Total liabilities	49,089	50,738
Commitments and contingencies (Notes 10 and 12)		
Redeemable noncontrolling interest	432	477
Stockholders' equity		
Common stock of $1.00 par value:		
Authorized shares: 900,000,000		
Issued shares: (6/30/10 and 12/31/09 – 814,894,624) at paid-in amount	3,636	3,439
Treasury stock (6/30/10 – 184,422,215 shares; 12/31/09 – 190,171,905 shares) at cost	(10,539)	(10,646)
Profit employed in the business	20,133	19,711
Accumulated other comprehensive income (loss)	(4,045)	(3,764)
Noncontrolling interests	87	83
Total stockholders' equity	9,272	8,823
Total liabilities, redeemable noncontrolling interest and stockholders' equity	$58,793	$60,038

See accompanying notes to Consolidated Financial Statements.

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

	Common stock	Treasury stock	Profit employed in the business	Accumulated other comprehensive income (loss)	Noncontrolling interests	Total	Comprehensive income (loss)
Six Months Ended June 30, 2009							
Balance at December 31, 2008	$3,057	$(11,217)	$19,826	$(5,579)	$103	$6,190	
Profit (loss) of consolidated and affiliated companies	—	—	259	—	(30)	229	$229
Foreign currency translation, net of tax of $16	—	—	—	166	1	167	167
Pension and other postretirement benefits							
Current year actuarial gain (loss), net of tax of $80[1]	—	—	—	55	—	55	55
Amortization of actuarial (gain) loss, net of tax of $54	—	—	—	95	2	97	97
Current year prior service cost, net of tax of $197[1]	—	—	—	236	—	236	236
Amortization of prior service cost, net of tax of $1	—	—	—	2	—	2	2
Amortization of transition (asset) obligation, net of tax of $0	—	—	—	1	—	1	1
Derivative financial instruments							
Gains (losses) deferred, net of tax of $57	—	—	—	92	—	92	92
(Gains) losses reclassified to earnings, net of tax of $12	—	—	—	(15)	—	(15)	(15)
Retained interests							
Gains (losses) deferred, net of tax of $12[2]	—	—	—	(22)	—	(22)	(22)
(Gains) losses reclassified to earnings, net of tax of $10	—	—	—	18	—	18	18
Available-for-sale securities							
Gains (losses) deferred, net of tax of $14	—	—	—	26	—	26	26
(Gains) losses reclassified to earnings, net of tax of $10	—	—	—	19	—	19	19
Change in ownership for noncontrolling interest	—	—	—	—	(6)	(6)	—
Dividends declared	—	—	(513)	—	—	(513)	—
Common shares issued from treasury stock for stock-based compensation: 1,286,806	(6)	37	—	—	—	31	—
Common shares issued from treasury stock for benefit plans: 18,480,095[3]	224	435	—	—	—	659	—
Stock-based compensation expense	74	—	—	—	—	74	—
Excess tax benefits from stock-based compensation	(2)	—	—	—	—	(2)	—
Cat Japan share redemption[4]	—	—	7	—	30	37	—
Balance at June 30, 2009	**$3,347**	**$(10,745)**	**$19,579**	**$(4,906)**	**$100**	**$7,375**	**$905**
Six Months Ended June 30, 2010							
Balance at December 31, 2009	$3,439	$(10,646)	$19,711	$(3,764)	$83	$8,823	
Adjustment to adopt consolidation of variable interest entities[5]	—	—	(6)	3	—	(3)	
Balance at January 1, 2010	$3,439	$(10,646)	$19,705	$(3,761)	$83	$8,820	
Profit (loss) of consolidated and affiliated companies	—	—	940	—	29	969	$969
Foreign currency translation, net of tax of $153	—	—	—	(428)	(7)	(435)	(435)
Pension and other postretirement benefits							
Amortization of actuarial (gain) loss, net of tax of $91	—	—	—	152	6	158	158
Amortization of prior service cost, net of tax of $6	—	—	—	(7)	—	(7)	(7)
Amortization of transition (asset) obligation, net of tax of $0	—	—	—	1	—	1	1
Derivative financial instruments							
Gains (losses) deferred, net of tax of $29	—	—	—	(50)	—	(50)	(50)
(Gains) losses reclassified to earnings, net of tax of $19	—	—	—	33	—	33	33
Available-for-sale securities							
Gains (losses) deferred, net of tax of $11	—	—	—	15	—	15	15
Change in ownership from noncontrolling interests	(17)	—	—	—	(12)	(29)	—
Dividends declared	—	—	(542)	—	—	(542)	—
Common shares issued from treasury stock for stock-based compensation: 4,716,874	(2)	86	—	—	—	84	—
Common shares issued from treasury stock for benefit plans: 1,032,816[3]	41	21	—	—	—	62	—
Stock-based compensation expense	138	—	—	—	—	138	—
Excess tax benefits from stock-based compensation	37	—	—	—	—	37	—
Cat Japan share redemption[4]	—	—	30	—	(12)	18	—
Balance at June 30, 2010	**$3,636**	**$(10,539)**	**$20,133**	**$(4,045)**	**$87**	**$9,272**	**$684**

1 Changes in amounts due to plan re-measurements. See Note 9 for additional information.
2 Includes noncredit component of other-than-temporary impairment losses on securitized retained interest of ($10) million, net of tax of $5 million, for the six months ended June 30, 2009. See Note 15 for additional information.
3 See Note 9 regarding shares issued for benefit plans.
4 See Note 16 regarding the Cat Japan share redemption.
5 See Note 15 for additional information.

See accompanying notes to Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2010	**2009**
Cash flow from operating activities:		
Profit (loss) of consolidated and affiliated companies	$969	$229
Adjustments for non-cash items:		
Depreciation and amortization	1,116	1,072
Other	176	59
Changes in assets and liabilities:		
Receivables – trade and other	(1,096)	3,133
Inventories	(1,020)	1,631
Accounts payable	1,151	(2,181)
Accrued expenses	(91)	(536)
Customer advances	171	(338)
Other assets – net	288	168
Other liabilities – net	79	(434)
Net cash provided by (used for) operating activities	1,743	2,803
Cash flow from investing activities:		
Capital expenditures – excluding equipment leased to others	(484)	(443)
Expenditures for equipment leased to others	(372)	(441)
Proceeds from disposals of property, plant and equipment	755	454
Additions to finance receivables	(4,017)	(3,800)
Collections of finance receivables	4,161	5,119
Proceeds from sale of finance receivables	5	93
Investments and acquisitions (net of cash acquired)	(170)	—
Proceeds from sale of available-for-sale securities	90	170
Investments in available-for-sale securities	(81)	(251)
Other – net	6	(53)
Net cash provided by (used for) investing activities	(107)	848
Cash flow from financing activities:		
Dividends paid	(527)	(505)
Common stock issued, including treasury shares reissued	84	31
Excess tax benefit from stock-based compensation	39	2
Acquisitions of noncontrolling interests	(26)	(6)
Proceeds from debt issued (original maturities greater than three months):		
– Machinery and Engines	126	872
– Financial Products	4,125	8,157
Payments on debt (original maturities greater than three months):		
– Machinery and Engines	(889)	(915)
– Financial Products	(5,582)	(6,655)
Short-term borrowings – net (original maturities three months or less)	(136)	(3,365)
Net cash provided by (used for) financing activities	(2,786)	(2,384)
Effect of exchange rate changes on cash	(120)	(12)
Increase (decrease) in cash and short-term investments	(1,270)	1,255
Cash and short-term investments at beginning of period	4,867	2,736
Cash and short-term investments at end of period	$3,597	$3,991

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

Non-cash activities:
During 2010 and 2009, we contributed 1.0 and 18.4 million shares of company stock with a fair value of $62 and $659 million to our U.S. benefit plans, respectively.

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, 2010 and 2009, (b) the consolidated financial position at June 30, 2010 and December 31, 2009, (c) the consolidated changes in stockholders' equity for the six month periods ended June 30, 2010 and 2009, and (d) the consolidated statement of cash flow for the six month periods ended June 30, 2010 and 2009. The financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain amounts for prior periods have been reclassified to conform to the current period financial statement presentation.

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

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

B. Nature of Operations

We operate in three principal lines of business:

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

(2) **Engines** - A principal line of business including the design, manufacture, marketing and sales of engines for Caterpillar machinery, electric power generation systems, locomotives, marine, petroleum, construction, industrial, agricultural and other applications, and related parts. Also includes remanufacturing of Caterpillar engines and a variety of Caterpillar machine and engine components and remanufacturing services for other companies. Reciprocating engines meet power needs ranging from 10 to 21,800 horsepower (8 to over 16 000 kilowatts). Turbines range from 1,600 to 30,000 horsepower (1 200 to 22 000 kilowatts).

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

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

C. Accumulated Other Comprehensive Income (Loss)

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

(Millions of dollars)	June 30, 2010	June 30, 2009
Foreign currency translation	$175	$427
Pension and other postretirement benefits	(4,293)	(5,460)
Derivative financial instruments	43	172
Retained interests	—	(11)
Available-for-sale securities	30	(34)
Total accumulated other comprehensive income (loss)	$(4,045)	$(4,906)

2. New Accounting Guidance

Fair value measurements - In September 2006, the Financial Accounting Standards Board (FASB) issued accounting guidance on fair value measurements, which provides a common definition of fair value and a framework for measuring assets and liabilities at fair values when a particular standard prescribes it. In addition, this guidance expands disclosures about fair value measurements. In February 2008, the FASB issued additional guidance that (1) deferred the effective date of the original guidance for one year for certain nonfinancial assets and nonfinancial liabilities and (2) removed certain leasing transactions from the scope of the original guidance. We applied this guidance to financial assets and liabilities effective January 1, 2008 and nonfinancial assets and liabilities effective January 1, 2009. The adoption of this guidance did not have a material impact on our financial statements. See Note 17 for additional information.

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

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

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

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

Recognition and presentation of other-than-temporary impairments - In April 2009, the FASB issued accounting guidance on the recognition and presentation of other-than-temporary impairments. This new guidance amends the existing impairment guidance relating to certain debt securities and requires a company to assess the likelihood of selling the security prior to recovering its cost basis. When a security meets the criteria for impairment, the impairment charges related to credit losses would be recognized in earnings, while noncredit losses would be reflected in other comprehensive income. Additionally, it requires a more detailed, risk-oriented breakdown of major security types and related information.

We adopted this guidance on April 1, 2009. The adoption of this guidance did not have a material impact on our financial statements. See Note 8 for additional information.

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

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

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

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

3. Stock-Based Compensation

Accounting for stock-based compensation requires that the cost resulting from all stock-based payments be recognized in the financial statements based on the grant date fair value of the award. Stock-based compensation primarily consists of stock-settled stock appreciation rights (SARs), restricted stock units (RSUs) and stock options. We recognized pretax stock-based compensation cost in the amount of $97 million and $138 million for the three and six months ended June 30, 2010, respectively; and $41 million and $74 million for the three and six months ended June 30, 2009, respectively. Included in the second quarter of 2010 pretax stock-based compensation cost was $17 million relating to the modification of awards resulting from separations due to the streamlining of our corporate structure as announced in the second quarter.

The following table illustrates the type and fair value of the stock-based compensation awards granted during the six month periods ended June 30, 2010 and 2009, respectively:

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

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

The following table provides the assumptions used in determining the fair value of the stock-based awards for the six month periods ended June 30, 2010 and 2009, respectively:

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

As of June 30, 2010, the total remaining unrecognized compensation cost related to nonvested stock-based compensation awards was $224 million, which will be amortized over the weighted-average remaining requisite service periods of approximately 2.3 years.

4. Derivative Financial Instruments and Risk Management

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

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

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

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

Foreign Currency Exchange Rate Risk

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

Our Machinery and Engines operations purchase, manufacture and sell products in many locations around the world. As we have a diversified revenue and cost base, we manage our future foreign currency cash flow exposure on a net basis. We use foreign currency forward and option contracts to manage unmatched foreign currency cash inflow and outflow. Our objective is to minimize the risk of exchange rate movements that would reduce the U.S. dollar value of our foreign currency cash flow. Our policy allows for managing anticipated foreign currency cash flow for up to five years.

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

As of June 30, 2010, $27 million of deferred net gains, net of tax, included in equity (Accumulated other comprehensive income (loss) in the Consolidated Statement of Financial Position), are expected to be reclassified to current earnings (Other income (expense) in the Consolidated Statement of Results of Operations) over the next twelve months when earnings are affected by the hedged transactions. The actual amount recorded in Other income (expense) will vary based on exchange rates at the time the hedged transactions impact earnings.

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

Interest Rate Risk

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

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

Financial Products operations have a match-funding policy that addresses interest rate risk by aligning the interest rate profile (fixed or floating rate) of Cat Financial's debt portfolio with the interest rate profile of their receivables portfolio within predetermined ranges on an 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, 2010, $20 million of deferred net losses, net of tax, included in equity (Accumulated other comprehensive income (loss) in the Consolidated Statement of Financial Position), related to Financial Products floating-to-fixed interest rate swaps, are expected to be reclassified to current earnings (Interest expense of Financial Products in the Consolidated Statement of Results of Operations) over the next twelve months. The actual amount recorded in Interest expense of Financial Products will vary based on interest rates at the time the hedged transactions impact earnings.

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

Commodity Price Risk

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

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

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

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

(Millions of dollars)		**Asset (Liability) Fair Value**	
	Statement of Financial Position Location	**June 30, 2010**	**December 31, 2009**
Designated derivatives			
Foreign exchange contracts			
Machinery and Engines	Receivables – trade and other	$50	$27
Machinery and Engines	Long-term receivables – trade and other	38	125
Machinery and Engines	Accrued expenses	(13)	(22)
Machinery and Engines	Other liabilities	—	(3)
Interest rate contracts			
Machinery and Engines	Receivables – trade and other	1	1
Machinery and Engines	Accrued expenses	(1)	(1)
Financial Products	Receivables – trade and other	24	18
Financial Products	Long-term receivables – trade and other	218	127
Financial Products	Accrued expenses	(35)	(100)
		$282	$172
Undesignated derivatives			
Foreign exchange contracts			
Machinery and Engines	Receivables – trade and other	$7	$—
Machinery and Engines	Long-term receivables – trade and other	58	66
Machinery and Engines	Accrued expenses	—	—
Machinery and Engines	Other liabilities	(1)	(3)
Financial Products	Receivables – trade and other	9	20
Financial Products	Accrued expenses	(5)	(18)
Interest rate contracts			
Machinery and Engines	Accrued expenses	—	(7)
Financial Products	Receivables – trade and other	—	1
Financial Products	Long-term receivables – trade and other	—	1
Financial Products	Accrued expenses	(2)	(6)
Commodity contracts			
Machinery and Engines	Receivables – trade and other	3	10
		$69	$64

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

Fair Value Hedges
(Millions of dollars)

		Three Months Ended June 30, 2010		**Six Months Ended June 30, 2010**	
	Classification	**Gains (Losses) on Derivatives**	**Gains (Losses) on Borrowings**	**Gains (Losses) on Derivatives**	**Gains (Losses) on Borrowings**
Interest rate contracts					
Machinery and Engines	Other income (expense)	$(1)	$1	$—	$—
Financial Products	Other income (expense)	88	(83)	141	(134)
		$87	$(82)	$141	$(134)

		Three Months Ended June 30, 2009		**Six Months Ended June 30, 2009**	
	Classification	**Gains (Losses) on Derivatives**	**Gains (Losses) on Borrowings**	**Gains (Losses) on Derivatives**	**Gains (Losses) on Borrowings**
Interest rate contracts					
Financial Products	Other income (expense)	$(160)	$155	$(220)	$234
		$(160)	$155	$(220)	$234

Cash Flow Hedges
(Millions of dollars)

	Three Months Ended June 30, 2010				
			Recognized in Earnings		
	Classification	Recognized in AOCI (Effective Portion)	Classification of Gains (Losses)	Reclassified from AOCI (Effective Portion)	Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts					
Machinery and Engines	AOCI	$26	Other income (expense)	$(11)	$(1)
Interest rate contracts					
Machinery and Engines	AOCI	—	Other income (expense)	(1)	—
Financial Products	AOCI	—	Interest expense of Financial Products..	(15)	—[1]
		$26		$(27)	$(1)

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

	Six Months Ended June 30, 2010				
			Recognized in Earnings		
	Classification	Recognized in AOCI (Effective Portion)	Classification of Gains (Losses)	Reclassified from AOCI (Effective Portion)	Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts					
Machinery and Engines	AOCI	$(73)	Other income (expense)	$(19)	$—
Interest rate contracts					
Machinery and Engines	AOCI	—	Other income (expense)	(1)	—
Financial Products	AOCI	(6)	Interest expense of Financial Products..	(32)	1[1]
		$(79)		$(52)	$1

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

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

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

(Millions of dollars)	Classification of Gains (Losses)	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Foreign exchange contracts			
Machinery and Engines	Other income (expense)	$(4)	$7
Financial Products	Other income (expense)	(12)	11
Interest rate contracts			
Machinery and Engines	Other income (expense)	—	(2)
Financial Products	Other income (expense)	—	1
Commodity contracts			
Machinery and Engines	Other income (expense)	(7)	(3)
		$(23)	$14

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

Stock Repurchase Risk

Payments for stock repurchase derivatives are accounted for as a reduction in stockholders' equity. In February 2007, the Board of Directors authorized a $7.5 billion stock repurchase program, expiring on December 31, 2011. The amount of Caterpillar stock that can be repurchased under the authorization is impacted by movements in the price of the stock. In August 2007, the Board of Directors authorized the use of derivative contracts to reduce stock repurchase price volatility. There were no stock repurchase derivatives outstanding for the three and six months ended June 30, 2010 or 2009.

5. Inventories

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

(Millions of dollars)	June 30, 2010	December 31, 2009
Raw materials	$2,232	$1,979
Work-in-process	976	656
Finished goods	3,899	3,465
Supplies	232	260
Total inventories	$7,339	$6,360

Inventory quantities were reduced during the six months ended June 30, 2009. This reduction resulted in a liquidation of LIFO inventory layers carried at lower costs prevailing in prior years as compared with current costs. The effect of this reduction of inventory that was not expected to be replaced by the end of 2009 decreased Cost of goods sold in the Consolidated Results of Operations by approximately $110 million and increased Profit by approximately $85 million or $0.14 per share for the three and six months ended June 30, 2009. There were no LIFO inventory liquidations during the three and six months ended June 30, 2010.

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 June 30,**		**Six Months Ended June 30,**	
	2010	**2009**	**2010**	**2009**
Sales	$202	$144	$364	$267
Cost of sales	154	110	274	201
Gross profit	$48	$34	$90	$66
Profit (loss)	$—	$(10)	$(2)	$(8)

Financial Position of unconsolidated affiliated companies: (**Millions of dollars**)	**June 30, 2010**	**December 31, 2009**
Assets:		
Current assets	$379	$223
Property, plant and equipment — net	197	219
Other assets	18	5
	594	447
Liabilities:		
Current liabilities	219	250
Long-term debt due after one year	86	41
Other liabilities	27	17
	332	308
Equity	$262	$139
Caterpillar's investments in unconsolidated affiliated companies: **(Millions of dollars)**		
Investments in equity method companies	$119	$70
Plus: Investments in cost method companies	35	35
Total investments in unconsolidated affiliated companies	$154	$105

7. Intangible Assets and Goodwill

A. Intangible assets

Intangible assets are comprised of the following:

		June 30, 2010		
(Millions of dollars)	**Weighted Amortizable Life (Years)**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Customer relationships	17	$423	$(88)	$335
Intellectual property	9	234	(151)	83
Other	11	128	(61)	67
Total intangible assets	14	$785	$(300)	$485

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

During the second quarter of 2010, we acquired finite-lived intangible assets of $10 million due to the purchase of FCM Rail Ltd. (FCM) and also acquired finite-lived intangible assets of $6 million from other acquisitions. During the first quarter of 2010, we acquired finite-lived intangible assets of $28 million due to the purchase of GE Transportation's Inspection Products business and also acquired finite-lived intangible assets of $12 million due to the purchase of JCS Company, Ltd. (JCS). See Note 19 for details on these business combinations.

Amortization expense for the three and six months ended June 30, 2010 was $17 million and $32 million, respectively. Amortization expense for the three and six months ended June 30, 2009 was $13 million and $31 million, respectively. Amortization expense related to intangible assets is expected to be:

(Millions of dollars)					
2010	**2011**	**2012**	**2013**	**2014**	**Thereafter**
$66	$60	$55	$47	$45	$244

B. Goodwill

During the second quarter of 2010, we acquired net assets with related goodwill of $16 million as part of the purchase of FCM. During the first quarter of 2010, we acquired net assets with related goodwill of $14 million as part of the purchase of GE Transportation's Inspection Products business and also acquired net assets with related goodwill of $8 million as part of the purchase of JCS. See Note 19 for details on the acquisition of these assets.

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

No goodwill was impaired or disposed of during the three and six months ended June 30, 2010 or 2009.

The changes in the carrying amount of the goodwill by reportable segment for the six months ended June 30, 2010 were as follows:

(Millions of dollars)	Balance at December 31, 2009	Business combinations	Other adjustments[1]	Balance at June 30, 2010
Building Construction Products	$4	$—	$—	$4
Cat Japan	256	—	(12)	244
Core Components	—	8	—	8
Earthmoving	43	—	—	43
Electric Power	203	—	—	203
Excavation	39	—	—	39
Large Power Systems	569	—	—	569
Marine & Petroleum Power	60	—	—	60
Mining	30	—	—	30
All Other [2]	1,065	30	(3)	1,092
Consolidated Total	$2,269	$38	$(15)	$2,292

1 Other adjustments are comprised primarily of foreign currency translation.

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

8. Available-For-Sale Securities

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

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

	June 30, 2010			December 31, 2009		
(Millions of dollars)	**Cost Basis**	**Unrealized Pretax Net Gains (Losses)**	**Fair Value**	**Cost Basis**	**Unrealized Pretax Net Gains (Losses)**	**Fair Value**
Government debt						
U.S. treasury bonds	$14	$—	$14	$14	$—	$14
Other U.S. and non-U.S. government bonds	68	1	69	65	—	65
Corporate bonds						
Corporate bonds	463	29	492	455	20	475
Asset-backed securities	150	(3)	147	141	(7)	134
Mortgage-backed debt securities						
U.S. governmental agency mortgage-backed securities	262	18	280	295	13	308
Residential mortgage-backed securities	53	(6)	47	61	(10)	51
Commercial mortgage-backed securities	168	(2)	166	175	(13)	162
Equity securities						
Large capitalization value	86	6	92	76	13	89
Smaller company growth	21	4	25	19	5	24
Total	$1,285	$47	$1,332	$1,301	$21	$1,322

During the three months ended June 30, 2009, there were no charges for other-than-temporary declines in the market value of securities. During the six months ended June 30, 2009, we recognized pretax charges for other-than-temporary declines in the market values of equity securities in the Cat Insurance investment portfolios of $11 million. During the three and six months ended June 30, 2010, 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.

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

	June 30, 2010					
	Less than 12 months [1]		12 months or more [1]		Total	
(Millions of dollars)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government debt						
U.S. treasury bonds	$—	$—	$—	$—	$—	$—
Other U.S. and non-U.S. government bonds	5	—	2	—	7	—
Corporate bonds						
Corporate bonds	23	1	3	—	26	1
Asset-backed securities	4	—	44	6	48	6
Mortgage-backed debt securities						
U.S. governmental agency mortgage-backed securities	3	—	—	—	3	—
Residential mortgage-backed securities	1	—	37	7	38	7
Commercial mortgage-backed securities	—	—	41	7	41	7
Equity securities						
Large capitalization value	29	3	13	4	42	7
Smaller company growth	5	1	1	—	6	1
Total	$70	$5	$141	$24	$211	$29

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

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

	December 31, 2009					
	Less than 12 months [1]		12 months or more [1]		Total	
(Millions of dollars)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government debt						
U.S. treasury bonds	$4	$—	$—	$—	$4	$—
Other U.S. and non-U.S. government bonds	14	—	2	—	16	—
Corporate bonds						
Corporate bonds	25	—	10	1	35	1
Asset-backed securities	4	1	44	10	48	11
Mortgage-backed debt securities						
U.S. governmental agency mortgage-backed securities	—	—	3	—	3	—
Residential mortgage-backed securities	—	—	49	10	49	10
Commercial mortgage-backed securities	24	—	73	14	97	14
Equity securities						
Large capitalization value	2	—	23	3	25	3
Smaller company growth	1	—	2	—	3	—
Total	$74	$1	$206	$38	$280	$39

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

Government Debt. The unrealized losses on our investments in other U.S. and non-U.S. government bonds are the result of changes in interest rates since time of purchase. We do not intend to sell the investments and it is not likely that we will be required to sell these investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of June 30, 2010.

Corporate Bonds. The unrealized losses on our investments in corporate bonds and asset-backed securities relate primarily to an increase in credit-related yield spreads, risk aversion and continued volatility in the financial markets since initial purchase. We do not intend to sell the investments and it is not likely that we will be required to sell the investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of June 30, 2010.

Mortgage-Backed Debt Securities. The unrealized losses on our investments in mortgage-backed securities relate primarily to elevated housing delinquencies and default rates, credit-related yield spreads and continued risk aversion. Continued weakness and lack of liquidity in the commercial sector continue to impact valuations. We do not intend to sell the investments and it is not likely that we will be required to sell these investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of June 30, 2010.

Equity Securities. Cat Insurance maintains a well-diversified equity portfolio consisting of two specific mandates: large capitalization value stocks and smaller company growth stocks. Despite indications of an improving U.S. economy, equity valuations continued to fluctuate as weak labor conditions continue to dampen the market's recovery. In each case where unrealized losses exist, the respective company's management is taking corrective action to increase shareholder value. We do not consider these investments to be other-than-temporarily impaired as of June 30, 2010.

The fair value of the available-for-sale debt securities at June 30, 2010, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay and creditors may have the right to call obligations.

(Millions of dollars)	Fair Value
Due in one year or less	$63
Due after one year through five years	$420
Due after five years through ten years	$224
Due after ten years	$508

Proceeds from sale of available-for-sale securities during the three and six months ended June 30, 2010 were $45 million and $90 million, respectively. Proceeds from sale of available-for-sale securities during the three and six months ended June 30, 2009 were $83 million and $170 million, respectively. Gross gains of $1 million were included in current earnings for the three and six months ended June 30, 2010. There were no gross losses for the three or six months ended June 30, 2010. There were no gross gains or losses for the three months ended June 30, 2009. Gross gains of $1 million and gross losses of $7 million were included in current earnings for the six months ended June 30, 2009.

9. Postretirement Benefits

A. Pension and postretirement benefit costs

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

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

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

The $225 million of curtailment, settlement and special termination benefit expense for 2009 associated with certain pension and other postretirement benefit plans was reported in Other operating (income) expense in the Consolidated Statement of Results of Operations. This includes $201 million reported for the six months ended June 30, 2009. There was no curtailment, settlement and special termination benefit expense for the three months ended June 30, 2009.

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

March 31, 2009, which resulted in a decrease in our Liability for postretirement benefits of $432 million and an increase in Accumulated other comprehensive income (loss) of $272 million net of tax. The plan was further amended in December 2009 to define the HRA benefit that active employees will receive once they are retired and reach age 65. The plan was re-measured at year-end 2009 and the December amendment resulted in a decrease in our Liability for postretirement benefits of $101 million and an increase in Accumulated other comprehensive income (loss) of $64 million net of tax. These decreases will be amortized into earnings on a straight-line basis over approximately 7 years, the average remaining service period of active employees in the plan. The amendments reduced other postretirement benefits expense by approximately $28 million and $55 million for the three and six months ended June 30, 2010 and reduced expense by approximately $20 million for the three and six months ended June 30, 2009.

The re-measurements did not have a material impact on our benefit obligations, plan assets or funded status for the three and six months ended June 30, 2009. There were no re-measurements during the three and six months ended June 30, 2010.

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

(Millions of dollars)	**U.S. Pension Benefits June 30,**		**Non-U.S. Pension Benefits June 30,**		**Other Postretirement Benefits June 30,**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
For the three months ended:						
Components of net periodic benefit cost:						
Service cost	$48	$43	$23	$20	$17	$18
Interest cost	167	172	40	34	61	69
Expected return on plan assets	(190)	(193)	(49)	(43)	(23)	(27)
Amortization of:						
Transition obligation (asset)	—	—	—	—	—	1
Prior service cost (credit) [1]	7	7	—	—	(13)	(14)
Net actuarial loss (gain)	87	63	17	9	8	5
Net periodic benefit cost	119	92	31	20	50	52
Curtailments, settlements and special termination benefits [2]	—	—	4	—	—	—
Total cost included in operating profit	$119	$92	$35	$20	$50	$52
For the six months ended:						
Components of net periodic benefit cost:						
Service cost	$97	$92	$46	$44	$33	$36
Interest cost	333	342	82	70	122	143
Expected return on plan assets	(381)	(391)	(98)	(86)	(46)	(59)
Amortization of:						
Transition obligation (asset)	—	—	—	—	1	1
Prior service cost (credit) [1]	14	14	—	—	(27)	(13)
Net actuarial loss (gain)	175	123	34	22	16	10
Net periodic benefit cost	238	180	64	50	99	118
Curtailments, settlements and special termination benefits [2]	—	130	8	9	—	62
Total cost included in operating profit	$238	$310	$72	$59	$99	$180
Weighted-average assumptions used to determine net cost:						
Discount rate	5.7%	6.3%	4.8%	4.6%	5.6%	6.2%
Expected return on plan assets	8.5%	8.5%	7.0%	6.6%	8.5%	8.5%
Rate of compensation increase	4.5%	4.5%	4.2%	3.7%	4.4%	4.4%

[1] Prior service costs for both pension and other postretirement benefits are generally amortized using the straight-line method over the average remaining service period to the full retirement eligibility date of employees expected to receive benefits from the plan amendment. For other postretirement benefit plans in which all or almost all of the plan's participants are fully eligible for benefits under the plan, prior service costs are amortized using the straight-line method over the remaining life expectancy of those participants.

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

We made $300 million and $548 million of contributions to our U.S. and non-U.S. pension plans during the three and six months ended June 30, 2010, respectively. We currently anticipate additional contributions of approximately $450 million during the remainder of the year, most of which are voluntary contributions. We made $895 million and $953 million of contributions to our U.S. and non-U.S. pension plans during the three and six months ended June 30, 2009, respectively. Our second-quarter 2009 contribution included a voluntary contribution to our U.S. plans of 18.2 million shares ($650 million) in Caterpillar stock, held as treasury stock.

B. Defined contribution benefit costs

Beginning in June 2009, we began funding our employer matching contribution for certain U.S. defined contribution plans in Caterpillar stock, held as treasury stock. For the three and six months ended June 30, 2010, we have made $33 million (0.5 million shares) and $62 million (1 million shares) of matching contributions in Caterpillar stock, respectively. For the three months ended June 30, 2009, we made $9 million (0.2 million shares) of matching contributions in Caterpillar stock.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions of dollars)	**2010**	**2009**	**2010**	**2009**
U.S. Plans	$35	$55	$83	$94
Non-U.S. Plans	9	6	16	15
	$44	$61	$99	$109

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, 2010 and December 31, 2009, the related liability was $17 million. 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, 2010**	**December 31, 2009**
Guarantees with Caterpillar dealers	$321	$313
Guarantees with customers	178	193
Limited indemnity	18	20
Guarantees – other	47	64
Total guarantees	$564	$590

We provide guarantees to repurchase certain loans of Caterpillar dealers from a financial trust (Trust) that qualifies as a variable interest entity. The purpose of the Trust is to provide short-term working capital loans to Caterpillar dealers. This Trust issues commercial paper and uses the proceeds to fund its loan program. We have a loan purchase agreement with the Trust that obligates us to purchase certain loans that are not paid at maturity. We receive a fee for providing this guarantee, which provides a source of liquidity for the Trust. We are the primary beneficiary of the Trust as our guarantees result in Cat

Financial having both the power to direct the activities that most significantly impact the Trust's economic performance and the obligation to absorb losses, and therefore we have consolidated the financial statements of the Trust. As of June 30, 2010 and December 31, 2009, the Trust's assets of $330 million and $231 million, respectively, are primarily comprised of loans to dealers and the Trust's liabilities of $330 million and $231 million, respectively are primarily comprised of commercial paper. No loss has been experienced or is anticipated under this loan purchase agreement. Our assets are not available to pay creditors of the Trust, except to the extent we may be obligated to perform under the guarantee, and assets of the Trust are not available to pay our creditors.

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

(Millions of dollars)	2010
Warranty liability, January 1	$1,049
Reduction in liability (payments)	(426)
Increase in liability (new warranties)	278
Warranty liability, June 30	$901

(Millions of dollars)	2009
Warranty liability, January 1	$1,201
Reduction in liability (payments)	(1,032)
Increase in liability (new warranties)	880
Warranty liability, December 31	$1,049

11. Computations of Profit Per Share

(Dollars in millions except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
I. Profit (loss) for the period (A)[1]:	$707	$371	$940	$259
II. Determination of shares (in millions):				
Weighted-average number of common shares outstanding (B)	629.8	611.8	628.1	607.6
Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price	17.2	8.0	17.1	6.4
Average common shares outstanding for fully diluted computation (C)	647.0	619.8	645.2	614.0
III. Profit (loss) per share of common stock:				
Assuming no dilution (A/B)	$1.12	$0.61	$1.50	$0.43
Assuming full dilution (A/C)	$1.09	$0.60	$1.46	$0.42

[1] Profit (loss) attributable to common stockholders.

SARs and stock options to purchase 12,465,174 and 25,871,262 common shares were outstanding for the three and six months ended June 30, 2010, respectively, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive. For the three and six months ended June 30, 2009, there were outstanding SARs and stock options to purchase 29,040,001 and 41,376,879 common shares, respectively, but were not included in the computation of diluted earnings per share because the effect would have been 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. Although it is not possible to predict with certainty the outcome of these unresolved legal actions, we believe that these actions will not individually or in the aggregate have a material adverse effect on our consolidated results of operations, financial position or liquidity.

On May 14, 2007, the U.S. Environmental Protection Agency (EPA) issued a Notice of Violation to Caterpillar Inc., alleging various violations of Clean Air Act Sections 203, 206 and 207. EPA claims that Caterpillar violated such sections by shipping engines and catalytic converter after-treatment devices separately, introducing into commerce a number of uncertified and/or misbuilt engines, and failing to timely report emissions-related defects. Caterpillar is currently engaged in negotiations with EPA and the U.S. Department of Justice to resolve these issues. 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. Caterpillar continues to cooperate with EPA and the Department of Justice and, while penalties will likely exceed $100,000, management does not believe that this issue will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

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

13. Income Taxes

The provision for income taxes for the first six months of 2010 reflects an estimated annual effective tax rate of 29 percent, excluding the discrete items discussed below, compared to a discrete period effective tax rate of negative 20.5 percent for the first six months of 2009. The 2010 estimated annual tax rate is expected to be less than the U.S. tax rate of 35 percent primarily due to profits in tax jurisdictions with rates lower than the U.S. rate. The 2010 estimated annual tax rate is based on current tax law and therefore does not include the U.S. research and development tax credit and other benefits that have not been extended past 2009. A discrete calculation was used to report the tax benefit for the first six months of 2009 rather than an estimated annual tax rate as the estimated range of annual profit/(loss) before tax produced significant variability and made it difficult to reasonably estimate the 2009 annual effective tax rate.

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

This deferred tax charge was offset by a $34 million benefit related to the recognition of refund claims for prior tax years and a $26 million benefit for the release of a valuation allowance against the deferred tax assets of certain non-U.S. entities due to tax planning actions implemented in the second quarter of 2010.

The IRS has completed its field examination of our tax returns for 1992 to 2006. For tax years 1992 to 1994, we expect to litigate the unagreed adjustments related to transfer pricing. In 2009, we reached a settlement with the IRS for tax years 1995 to 1999. For tax years 2000 to 2004, we are in the appeals process for unagreed adjustments primarily related to export tax benefits. In the second quarter of 2010, we received notice of proposed adjustments related to tax years 2005 and 2006 and intend to appeal the unagreed adjustments primarily related to export tax benefits. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

14. Segment Information

A. Basis for segment information

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

Our divisional structure and responsibilities are as follows:

- Machine business divisions are profit centers primarily responsible for product management, development, marketing, sales and product support. Machine business divisions also have select manufacturing responsibilities. Inter-segment sales of components are a source of revenue for some of these divisions.
- Engine business divisions are profit centers primarily responsible for product management, development, manufacturing, marketing, sales and product support. Inter-segment sales of engines and/or components are a source of revenue for some of these divisions.
- Component business divisions are profit centers primarily responsible for product management, development, manufacturing, marketing, sales and product support for internal and external customers. Inter-segment sales of components are a source of revenue for these divisions.
- Service business divisions are profit centers primarily responsible for various services and service-related products to customers including financial, logistics, remanufacturing and rail services. Inter-segment sales of services and service-related products are a source of revenue for some of these divisions.
- Manufacturing services divisions are cost centers primarily responsible for the manufacture of products and/or components within the geographic regions of the Americas and EAME.
- Corporate services divisions are cost centers primarily responsible for the performance of certain support functions globally (e.g., Finance, Human Resources, Information Technology, Legal and Purchasing) and to provide centralized services.
- Regional distribution services divisions are cost centers primarily responsible for the total portfolio of business with each dealer, the dealer relationship, dealer development and ensuring the most efficient and effective distribution of machines, engines and parts.
- Centers of excellence divisions are cost centers primarily responsible for Caterpillar's most critical/differentiating processes in the areas of Marketing and Product Support, Production and Product Development.

The segment information for 2009 has been retrospectively adjusted to conform to the 2010 presentation. Core Components, formerly included in the all other category, is now a reportable segment. The portion of postretirement benefit expense ($89 million and $178 million for the three and six months ended June 30, 2009, respectively) that was allocated to Machinery and Engines business divisions based on budgeted external and inter-segment sales, is now a methodology difference between segment and external reporting.

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

- Our Machinery and Engines businesses are vertically integrated and there are a significant amount of inter-segment transactions that make information for individual segments less meaningful.
- A significant amount of corporate and other costs ($222 million and $415 million for the three and six months ended June 30, 2010, respectively, and $256 million and $509 million for the three and six months ended June 30, 2009, respectively) are allocated to Machinery and Engines business divisions based on budgeted external and inter-

segment sales. It would be difficult to provide meaningful information by reportable segment for these costs as the allocation method does not directly reflect the benefited segment and the allocation is done in total, not by financial statement line item. In addition, the budgeted amount is allocated to segments; any differences from budget are treated as a reconciling item between reportable segment and consolidated results.

- As discussed below, there are various methodology differences between our segment reporting and U.S. GAAP. This results in numerous reconciling items between reportable segment and consolidated results.
- We have twenty-four operating segments, of which twelve are reportable segments. Reporting financial information for this number of businesses, especially considering our level of vertical integration, would not be meaningful to our financial statement users.

In summary, due to Caterpillar's high level of integration and our concern that segment disclosures have limited value for our external readers, we are continuing to disclose financial results for our three principal lines of business (Machinery, Engines and Financial Products) in our Management's Discussion and Analysis beginning on page 43.

B. Description of segments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

C. Segment measurement and reconciliations

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

- Generally, liabilities are managed at the corporate level and are not included in segment operations. Segment accountable assets generally include inventories, receivables and property, plant and equipment.
- Segment inventories and cost of sales are valued using a current cost methodology.
- Currency exposures are generally managed at the corporate level and the effects of changes in exchange rates on results of operations within the year are not included in segment results. The net difference created in the translation of revenues and costs between exchange rates used for U.S. GAAP reporting and exchange rates used for segment reporting are recorded as a methodology difference.
- Postretirement benefit expenses are split; segments are generally responsible for service and prior service costs, with the remaining elements of net periodic benefit cost included as a methodology difference.
- Interest expense is not included in Machinery and Engines segment results.
- Accountable profit is determined on a pretax basis.

Reconciling items are created based on accounting differences between segment reporting and our consolidated external reporting. Please refer to pages 29 to 34 for financial information regarding significant reconciling items. Most of our reconciling items are self-explanatory given the above explanations. For the reconciliation of profit (loss), we have grouped the reconciling items as follows:

- **Corporate costs:** Certain corporate costs are allocated and included in the business division's accountable profit at budgeted levels. Any differences are treated as reconciling items. These costs are related to corporate requirements and strategies that are considered to be for the benefit of the entire organization.
- **Redundancy costs:** Redundancy costs include pension and other postretirement benefit plan curtailments, settlements and special termination benefits as well as employee separation charges. Most of these costs are reconciling items between accountable profit and consolidated profit before tax. Table Reconciliation of Redundancy Costs on pages 31-32 has been included to illustrate how segment accountable profit would have been impacted by the redundancy costs. See Notes 9 and 18 for more information.
- **Methodology differences:** See previous discussion of significant accounting differences between segment reporting and consolidated external reporting.
- **Timing:** Timing differences in the recognition of costs between segment reporting and consolidated external reporting.

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

	2010						
	External sales and revenues	Inter-segment sales & revenues	Total sales and revenues	Depreciation and amortization	Accountable profit (loss)	Accountable assets at June 30	Capital expenditures
Building Construction Products	$548	$2	$550	$6	$17	$740	$3
Cat Japan	290	547	837	48	8	2,392	10
Core Components	314	398	712	20	171	1,037	11
Earthmoving	1,247	49	1,296	26	11	2,456	44
Electric Power	620	4	624	6	33	767	2
Excavation	1,159	23	1,182	17	24	1,531	17
Large Power Systems	723	847	1,570	52	146	2,942	46
Logistics	161	394	555	25	123	786	14
Marine & Petroleum Power	479	14	493	6	60	784	5
Mining	950	68	1,018	13	183	1,393	7
Turbines	994	2	996	15	237	537	12
Total Machinery & Engines	$7,485	$2,348	$9,833	$234	$1,013	$15,365	$171
Financing & Insurance Services	744	—	744	180	110	30,317	213
Total	$8,229	$2,348	$10,577	$414	$1,123	$45,682	$384

	2009						
	External sales and revenues	Inter-segment sales & revenues	Total sales and revenues	Depreciation and amortization	Accountable profit (loss)	Accountable assets at Dec. 31	Capital expenditures
Building Construction Products	$247	$5	$252	$7	$(41)	$615	$2
Cat Japan	308	105	413	29	(75)	2,440	13
Core Components	218	202	420	19	41	955	12
Earthmoving	665	20	685	23	(76)	2,197	26
Electric Power	584	5	589	6	43	702	4
Excavation	489	11	500	15	(96)	1,325	9
Large Power Systems	523	829	1,352	47	38	2,703	21
Logistics	170	303	473	27	110	828	6
Marine & Petroleum Power	728	13	741	4	78	747	17
Mining	797	31	828	20	136	1,141	11
Turbines	829	4	833	15	215	734	10
Total Machinery & Engines	$5,558	$1,528	$7,086	$212	$373	$14,387	$131
Financing & Insurance Services	807	—	807	182	145	32,230	221
Total	$6,365	$1,528	$7,893	$394	$518	$46,617	$352

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

2010	External sales and revenues	Inter-segment sales & revenues	Total sales and revenues	Depreciation and amortization	Accountable profit (loss)	Accountable assets at June 30	Capital expenditures
Building Construction Products	$954	$14	$968	$14	$12	$740	$6
Cat Japan	604	917	1,521	100	(30)	2,392	44
Core Components	576	734	1,310	39	304	1,037	17
Earthmoving	2,156	83	2,239	51	(42)	2,456	68
Electric Power	1,087	5	1,092	12	39	767	2
Excavation	2,014	41	2,055	33	11	1,531	23
Large Power Systems	1,409	1,447	2,856	98	223	2,942	81
Logistics	338	745	1,083	51	251	786	21
Marine & Petroleum Power	962	30	992	12	119	784	11
Mining	1,627	116	1,743	28	269	1,393	12
Turbines	1,506	2	1,508	30	312	537	19
Total Machinery & Engines	$13,233	$4,134	$17,367	$468	$1,468	$15,365	$304
Financing & Insurance Services	1,483	—	1,483	363	216	30,317	387
Total	$14,716	$4,134	$18,850	$831	$1,684	$45,682	$691

2009	External sales and revenues	Inter-segment sales & revenues	Total sales and revenues	Depreciation and amortization	Accountable profit (loss)	Accountable assets at Dec. 31	Capital expenditures
Building Construction Products	$527	$9	$536	$14	$(101)	$615	$4
Cat Japan	638	482	1,120	74	(165)	2,440	58
Core Components	435	472	907	37	92	955	22
Earthmoving	1,748	41	1,789	45	(126)	2,197	46
Electric Power	1,319	10	1,329	13	140	702	7
Excavation	1,192	37	1,229	30	(190)	1,325	18
Large Power Systems	1,076	1,923	2,999	94	133	2,703	36
Logistics	347	628	975	54	202	828	19
Marine & Petroleum Power	1,603	29	1,632	8	186	747	25
Mining	1,672	68	1,740	40	234	1,141	20
Turbines	1,640	7	1,647	30	397	734	19
Total Machinery & Engines	$12,197	$3,706	$15,903	$439	$802	$14,387	$274
Financing & Insurance Services	1,595	—	1,595	362	234	32,230	443
Total	$13,792	$3,706	$17,498	$801	$1,036	$46,617	$717

Reconciliation of Sales and revenues:
(Millions of dollars)

	Machinery and Engines	Financial Products	Consolidating Adjustments	Consolidated Total
Three Months Ended June 30, 2010:				
Total external sales and revenues from reportable segments	$7,485	$744	$—	$8,229
All other operating segments	2,247	3	—	2,250
Other	(9)	6	(67)[1]	(70)
Total sales and revenues	$9,723	$753	$(67)	$10,409
Three Months Ended June 30, 2009:				
Total external sales and revenues from reportable segments	$5,558	$807	$—	$6,365
All other operating segments	1,682	—	—	1,682
Other	14	7	(93)[1]	(72)
Total sales and revenues	$7,254	$814	$(93)	$7,975

[1] Elimination of Financial Products revenues from Machinery and Engines.

Reconciliation of Sales and revenues: **(Millions of dollars)**	**Machinery and Engines**	**Financial Products**	**Consolidating Adjustments**	**Consolidated Total**
Six Months Ended June 30, 2010:				
Total external sales and revenues from reportable segments	$13,233	$1,483	$—	$14,716
All other operating segments	4,056	3	—	4,059
Other	(15)	13	(126)[1]	(128)
Total sales and revenues	$17,274	$1,499	$(126)	$18,647
Six Months Ended June 30, 2009:				
Total external sales and revenues from reportable segments	$12,197	$1,595	$—	$13,792
All other operating segments	3,558	—	—	3,558
Other	9	15	(174)[1]	(150)
Total sales and revenues	$15,764	$1,610	$(174)	$17,200

[1] Elimination of Financial Products revenues from Machinery and Engines.

Reconciliation of Consolidated profit (loss) before taxes: **(Millions of dollars)**	**Machinery and Engines**	**Financial Products**	**Consolidated Total**
Three Months Ended June 30, 2010:			
Total accountable profit from reportable segments	$1,013	$110	$1,123
All other operating segments	348	(1)	347
Cost centers	(34)	—	(34)
Corporate costs	(149)	—	(149)
Timing	(40)	—	(40)
Redundancy costs	(35)	—	(35)
Methodology differences:			
Inventory/cost of sales	(68)	—	(68)
Postretirement benefit expense	(125)	—	(125)
Financing costs	(80)	—	(80)
Equity in profit of unconsolidated affiliated companies	4	—	4
Currency	11	—	11
Other methodology differences	(8)	—	(8)
Total profit (loss) before taxes	$837	$109	$946
Three Months Ended June 30, 2009:			
Total accountable profit from reportable segments	$373	$145	$518
All other operating segments	(12)	—	(12)
Cost centers	(18)	—	(18)
Corporate costs	(29)	—	(29)
Timing	9	—	9
Redundancy costs	(70)	—	(70)
Methodology differences:			
Inventory/cost of sales	28	—	28
Postretirement benefit expense	(80)	—	(80)
Financing costs	(108)	—	(108)
Equity in profit of unconsolidated affiliated companies	1	—	1
Currency	154	—	154
Other methodology differences	13	(5)	8
Total profit (loss) before taxes	$261	$140	$401

Reconciliation of Consolidated profit (loss) before taxes:

(Millions of dollars)	Machinery and Engines	Financial Products	Consolidated Total
Six Months Ended June 30, 2010:			
Total accountable profit from reportable segments	$1,468	$216	$1,684
All other operating segments	514	(1)	513
Cost centers	(8)	—	(8)
Corporate costs	(288)	—	(288)
Timing	(8)	—	(8)
Redundancy costs	(37)	—	(37)
Methodology differences:			
Inventory/cost of sales	(54)	—	(54)
Postretirement benefit expense	(237)	—	(237)
Financing costs	(181)	—	(181)
Equity in profit of unconsolidated affiliated companies	6	—	6
Currency	44	—	44
Other methodology differences	(23)	4	(19)
Total profit (loss) before taxes	$1,196	$219	$1,415
Six Months Ended June 30, 2009:			
Total accountable profit from reportable segments	$802	$234	$1,036
All other operating segments	(8)	—	(8)
Cost centers	11	—	11
Corporate costs	20	—	20
Timing	(2)	—	(2)
Redundancy costs	(617)	(11)	(628)
Methodology differences:			
Inventory/cost of sales	(18)	—	(18)
Postretirement benefit expense	(153)	—	(153)
Financing costs	(209)	—	(209)
Equity in profit of unconsolidated affiliated companies	—	—	—
Currency	140	—	140
Other methodology differences	4	(4)	—
Total profit (loss) before taxes	$(30)	$219	$189

Reconciliation of Redundancy costs:

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

(Millions of dollars)	Accountable profit (loss)	Redundancy costs	Accountable profit (loss) with redundancy costs
Three Months Ended June 30, 2009:			
Building Construction Products	$(41)	$(1)	$(42)
Cat Japan	(75)	—	(75)
Core Components	41	(2)	39
Earthmoving	(76)	(34)	(110)
Electric Power	43	(1)	42
Excavation	(96)	(15)	(111)
Large Power Systems	38	—	38
Logistics	110	(1)	109
Marine & Petroleum Power	78	—	78
Mining	136	(3)	133
Turbines	215	—	215
Financing & Insurance Services	145	—	145
All other operating segments	(12)	(13)	(25)
Consolidated Total	$506	$(70)	$436

(Millions of dollars)	Accountable profit (loss)	Redundancy costs	Accountable profit (loss) with redundancy costs
Six Months Ended June 30, 2009:			
Building Construction Products	$(101)	$(39)	$(140)
Cat Japan	(165)	(3)	(168)
Core Components	92	(3)	89
Earthmoving	(126)	(89)	(215)
Electric Power	140	(22)	118
Excavation	(190)	(60)	(250)
Large Power Systems	133	(89)	44
Logistics	202	(29)	173
Marine & Petroleum Power	186	(10)	176
Mining	234	(53)	181
Turbines	397	—	397
Financing & Insurance Services	234	(11)	223
All other operating segments	(8)	(220)	(228)
Consolidated Total	$1,028	$(628)	$400

Reconciliation of Assets:

(Millions of dollars)	Machinery and Engines	Financial Products	Consolidating Adjustments	Consolidated Total
June 30, 2010:				
Total accountable assets from reportable segments	$15,365	$30,317	$—	$45,682
All other operating segments	7,956	134	—	8,090
Items not included in segment assets:				
Cash and short-term investments	1,900	—	—	1,900
Intercompany receivables	662	—	(662)	—
Investment in Financial Products	3,762	—	(3,762)	—
Deferred income taxes and prepaids	3,790	—	(598)	3,192
Goodwill, intangible assets and other assets	1,077	—	—	1,077
Liabilities included in segment assets	2,511	—	—	2,511
Inventory methodology differences	(2,912)	—	—	(2,912)
Other	398	(345)	(800)	(747)
Total assets	$34,509	$30,106	$(5,822)	$58,793
December 31, 2009:				
Total accountable assets from reportable segments	$14,387	$32,230	$—	$46,617
All other operating segments	7,356	—	—	7,356
Items not included in segment assets:				
Cash and short-term investments	2,239	—	—	2,239
Intercompany receivables	106	—	(106)	—
Investment in Financial Products	4,514	—	(4,514)	—
Deferred income taxes and prepaids	4,131	—	(460)	3,671
Goodwill, intangible assets and other assets	1,364	—	—	1,364
Liabilities included in segment assets	2,270	—	—	2,270
Inventory methodology differences	(2,735)	—	—	(2,735)
Other	564	(255)	(1,053)	(744)
Total assets	$34,196	$31,975	$(6,133)	$60,038

Reconciliations of Depreciation and amortization: **(Millions of dollars)**	**Machinery and Engines**	**Financial Products**	**Consolidating Adjustments**	**Consolidated Total**
Three Months Ended June 30, 2010:				
Total accountable depreciation and amortization from reportable segments	$234	$180	$—	$414
Items not included in segment depreciation and amortization:				
All other operating segments	109	3	—	112
Cost centers	39	—	—	39
Other	(3)	—	—	(3)
Total depreciation and amortization	$379	$183	$—	$562
Three Months Ended June 30, 2009:				
Total accountable depreciation and amortization from reportable segments	$212	$182	$—	$394
Items not included in segment depreciation and amortization:				
All other operating segments	101	—	—	101
Cost centers	46	—	—	46
Other	(3)	—	—	(3)
Total depreciation and amortization	$356	$182	$—	$538

Reconciliations of Depreciation and amortization: **(Millions of dollars)**	**Machinery and Engines**	**Financial Products**	**Consolidating Adjustments**	**Consolidated Total**
Six Months Ended June 30, 2010:				
Total accountable depreciation and amortization from reportable segments	$468	$363	$—	$831
Items not included in segment depreciation and amortization:				
All other operating segments	214	3	—	217
Cost centers	76	—	—	76
Other	(8)	—	—	(8)
Total depreciation and amortization	$750	$366	$—	$1,116
Six Months Ended June 30, 2009:				
Total accountable depreciation and amortization from reportable segments	$439	$362	$—	$801
Items not included in segment depreciation and amortization:				
All other operating segments	196	—	—	196
Cost centers	86	—	—	86
Other	(11)	—	—	(11)
Total depreciation and amortization	$710	$362	$—	$1,072

Reconciliations of Capital expenditures: **(Millions of dollars)**	**Machinery and Engines**	**Financial Products**	**Consolidating Adjustments**	**Consolidated Total**
Three Months Ended June 30, 2010:				
Total accountable capital expenditures from reportable segments	$171	$213	$—	$384
Items not included in segment capital expenditures:				
All other operating segments	76	11	—	87
Cost centers	18	—	—	18
Other	24	—	(30)	(6)
Total capital expenditures	$289	$224	$(30)	$483
Three Months Ended June 30, 2009:				
Total accountable capital expenditures from reportable segments	$131	$221	$—	$352
Items not included in segment capital expenditures:				
All other operating segments	68	—	—	68
Cost centers	20	—	—	20
Other	(1)	—	—	(1)
Total capital expenditures	$218	$221	$—	$439

Reconciliations of Capital expenditures:				
(Millions of dollars)	**Machinery and Engines**	**Financial Products**	**Consolidating Adjustments**	**Consolidated Total**
Six Months Ended June 30, 2010:				
Total accountable capital expenditures from reportable segments	$304	$387	$—	$691
Items not included in segment capital expenditures:				
All other operating segments	127	11	—	138
Cost centers	37	—	—	37
Other	24	—	(34)	(10)
Total capital expenditures	$492	$398	$(34)	$856
Six Months Ended June 30, 2009:				
Total accountable capital expenditures from reportable segments	$274	$443	$—	$717
Items not included in segment capital expenditures:				
All other operating segments	115	—	—	115
Cost centers	54	—	—	54
Other	(1)	—	(1)	(2)
Total capital expenditures	$442	$443	$(1)	$884

15. Securitizations

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

Securitized Retail Installment Sale Contracts and Finance Leases

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

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

The restricted assets (Receivables-finance, Long-term receivables-finance, Prepaid expenses and other current assets, and Other assets) of these consolidated SPEs totaled $296 million at June 30, 2010. The liabilities (Accrued expenses, Long-term debt due within one year-Financial Products, and Other liabilities) of these consolidated SPEs totaled $212 million at June 30, 2010.

Prior to January 1, 2010, the SPEs were considered to be QSPEs and thus not consolidated. Cat Financial's retained interests in the securitized assets were classified as available-for-sale securities and were included in Other assets in the Consolidated Statement of Financial Position at fair value. Cat Financial estimated fair value and cash flows using a valuation model and key assumptions for credit losses, prepayment rates and discount rates. These assumptions were based on Cat Financial's historical experience, market trends and anticipated performance relative to the particular assets securitized. Cat Financial periodically evaluated for impairment and recognized the credit component of an other-than-temporary impairment in Profit and the noncredit component in Accumulated other comprehensive income (loss) for those retained interests in which Cat Financial did not intend to sell and it was not likely that they would be required to sell prior to recovery.

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

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

During 2009, the assumptions used to determine the expected cash flows for Cat Financial's securitization transactions were revised, which resulted in other-than-temporary impairments to earnings of $9 million and $31 million during the three and six months ended June 30, 2009. The impairment charge was recorded in Revenues of Financial Products on the Consolidated Statement of Results of Operations. The impairments recognized in earnings were primarily driven by an increase in the credit loss assumption due to the continuing adverse economic conditions in the U.S. The noncredit related component of $15 million for the three and six months ended June 30, 2009, recorded in Accumulated other comprehensive income (loss), was primarily driven by changes in discount rates.

To maintain competitiveness in the capital markets and to have effective and efficient use of alternative funding sources, Cat Financial may elect to provide additional reserve support to previously issued asset-backed securitizations.

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

Sales and Servicing of Trade Receivables

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

During 2009, Cat Financial sold interests in a certain pool of trade receivables through a revolving structure to third-party commercial paper conduits, which are asset-backed commercial paper issuers that are special purpose entities (SPEs) of the sponsor bank and are not consolidated by Cat Financial. Cat Financial services the sold trade receivables and receives an annual servicing fee of approximately 0.5 percent of the average outstanding principal balance. Consolidated expenses of $2 million and $4 million related to the sale of trade receivables were recognized for the three and six months ended June 30, 2009, respectively, and are included in Other income (expense) in the Consolidated Statement of Results of Operations. As of June 30, 2010 and December 31, 2009, there were no trade receivables sold to the third-party commercial paper conduits.

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

Cash flows from sale of trade receivables:

	Six Months Ended June 30,	
(Millions of dollars)	2010	2009
Cash proceeds from sales of receivables to the conduits	$—	$791
Cash flows received on the interests that continue to be held	$3,500	$4,496

16. Redeemable Noncontrolling Interest — Caterpillar Japan Ltd.

On August 1, 2008, Shin Caterpillar Mitsubishi Ltd. (SCM) completed the first phase of a share redemption plan whereby SCM redeemed half of Mitsubishi Heavy Industries (MHI's) shares in SCM. This resulted in Caterpillar owning 67 percent of the outstanding shares of SCM and MHI owning the remaining 33 percent. As part of the share redemption, SCM was renamed Caterpillar Japan Ltd. (Cat Japan). Both Cat Japan and MHI have options, exercisable beginning August 1, 2013, to require the redemption of the remaining shares owned by MHI, which if exercised, would make Caterpillar the sole owner of Cat Japan.

The remaining 33 percent of Cat Japan owned by MHI has been reported as redeemable noncontrolling interest and classified as mezzanine equity (temporary equity) in the Consolidated Statement of Financial Position. The redeemable noncontrolling interest is reported at its estimated redemption value. Any adjustment to the redemption value impacts Profit employed in the business, but does not impact Profit. If the fair value of the redeemable noncontrolling interest falls below the redemption value, profit available to common stockholders would be reduced by the difference between the redemption value and the fair value. This would result in lower profit in the profit per common share computation in that period. Reductions impacting the profit per common share computation may be partially or fully reversed in subsequent periods if the fair value of the redeemable noncontrolling interest increases relative to the redemption value. Such increases in profit per common share would be limited to cumulative prior reductions. During the second quarter of 2009, the estimated redemption value decreased, resulting in an adjustment to the carrying value of the redeemable noncontrolling interest. Profit employed in the business increased by $37 million due to this adjustment. During the first and second quarters of 2010, the estimated redemption value decreased, resulting in adjustments to the carrying value of the redeemable noncontrolling interest. Profit employed in the business increased by $9 million in the first quarter and increased an additional $9 million in the second quarter due to these adjustments. As of June 30, 2010, the fair value of the redeemable noncontrolling interest remained greater than the estimated redemption value.

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

With the consolidation of Cat Japan’s results of operations, 33 percent of Cat Japan’s comprehensive income or loss is attributed to the redeemable noncontrolling interest, impacting its carrying value. Because the redeemable noncontrolling interest must be reported at its estimated future redemption value, the impact from attributing the comprehensive income or loss is offset by adjusting the carrying value to the redemption value. This adjustment impacts Profit employed in the business, but not Profit. For the six months ended June 30, 2009, the carrying value had decreased by $30 million due to Cat Japan’s comprehensive loss. This resulted in an offsetting adjustment of $30 million to increase the carrying value to the redemption value and a corresponding reduction to Profit employed in the business. For the six months ended June 30, 2010, the carrying value had increased by $12 million due to Cat Japan’s comprehensive income. This resulted in an offsetting adjustment of $12 million to decrease the carrying value to the redemption value and a corresponding increase to Profit employed in the business. As Cat Japan’s functional currency is the Japanese yen, changes in exchange rates affect the reported amount of the redeemable noncontrolling interest. At June 30, 2010, the redeemable noncontrolling interest was $432 million.

17. Fair Value Measurements

A. Fair value measurements

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

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

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

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

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

Available-for-sale securities

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

Derivative financial instruments

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

Securitized retained interests

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

Guarantees

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

Assets and liabilities measured at fair value, primarily related to Financial Products, included in our Consolidated Statement of Financial Position as of June 30, 2010 and December 31, 2009 are summarized below:

(Millions of dollars)	June 30, 2010			
	Level 1	Level 2	Level 3	Total Assets / Liabilities, at Fair Value
Assets				
Available-for-sale securities				
Government debt				
U.S. treasury bonds	$14	$—	$—	$14
Other U.S. and non-U.S. government bonds	—	69	—	69
Corporate bonds				
Corporate bonds	—	492	—	492
Asset-backed securities	—	147	—	147
Mortgage-backed debt securities				
U.S. governmental agency mortgage-backed securities	—	280	—	280
Residential mortgage-backed securities	—	47	—	47
Commercial mortgage-backed securities	—	166	—	166
Equity securities				
Large capitalization value	92	—	—	92
Smaller company growth	25	—	—	25
Total available-for-sale securities	131	1,201	—	1,332
Derivative financial instruments, net	—	351	—	351
Total Assets	$131	$1,552	$—	$1,683
Liabilities				
Guarantees	$—	$—	$17	$17
Total Liabilities	$—	$—	$17	$17

(Millions of dollars)	December 31, 2009			
	Level 1	Level 2	Level 3	Total Assets / Liabilities, at Fair Value
Assets				
Available-for-sale securities				
Government debt				
U.S. treasury bonds	$14	$—	$—	$14
Other U.S. and non-U.S. government bonds	—	65	—	65
Corporate bonds				
Corporate bonds	—	475	—	475
Asset-backed securities	—	134	—	134
Mortgage-backed debt securities				
U.S. governmental agency mortgage-backed securities	—	308	—	308
Residential mortgage-backed securities	—	51	—	51
Commercial mortgage-backed securities	—	162	—	162
Equity securities				
Large capitalization value	89	—	—	89
Smaller company growth	24	—	—	24
Total available-for-sale securities	127	1,195	—	1,322
Derivative financial instruments, net	—	236	—	236
Securitized retained interests	—	—	102	102
Total Assets	$127	$1,431	$102	$1,660
Liabilities				
Guarantees	$—	$—	$17	$17
Total Liabilities	$—	$—	$17	$17

Below are roll-forwards of assets and liabilities measured at fair value using Level 3 inputs for the six months ended June 30, 2010 and 2009. These instruments, primarily related to Cat Financial, were valued using pricing models that, in management's judgment, reflect the assumptions a marketplace participant would use.

(Millions of dollars)	Securitized Retained Interests	Guarantees
Balance at December 31, 2009	$102	$17
Adjustment to adopt accounting for variable-interest entities	(102)	—
Issuance of guarantees	—	4
Expiration of guarantees	—	(4)
Balance at June 30, 2010	$—	$17
Balance at December 31, 2008	$52	$14
Gains or losses included in earnings (realized / unrealized)	(28)	—
Changes in Accumulated other comprehensive income (loss)	(6)	—
Purchases, issuances, and settlements	86	1
Balance at June 30, 2009	$104	$15

The amount of unrealized losses on securitized retained interests included in earnings for the three and six months ended June 30, 2009 related to assets still held at June 30, 2009 was $7 million and $28 million, respectively. These losses were reported in Revenues of Financial Products in the Consolidated Statement of Results of Operations.

In addition to the amounts above, we had impaired loans of $240 million and $208 million as of June 30, 2010 and December 31, 2009, respectively. A loan is considered impaired when management determines that collection of contractual amounts due is not probable. In these cases, an allowance for 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 Engines fixed rate debt was estimated based on quoted market prices. For Financial Products, fixed and floating rate debt was estimated based on quoted market prices. Commercial paper carrying amounts approximated fair value. For deposit obligations, carrying value approximated fair value.

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

Fair Values of Financial Instruments					
	June 30, 2010		December 31, 2009		
(Millions of dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Reference
Assets					
Cash and short-term investments	$3,597	$3,597	$4,867	$4,867	
Restricted cash and short-term investments	135	135	37	37	
Available-for-sale securities	1,332	1,332	1,322	1,322	Note 8
Finance receivables—net (excluding finance leases[1])	12,786	12,325	13,077	12,604	
Wholesale inventory receivables—net (excluding finance leases[1])	910	864	660	628	
Foreign currency contracts—net	143	143	192	192	Note 4
Interest rate swaps—net	205	205	34	34	Note 4
Commodity contracts—net	3	3	10	10	Note 4
Securitized retained interests	—	—	102	102	Note 15
Liabilities					
Short-term borrowings	3,647	3,647	4,083	4,083	
Long-term debt (including amounts due within one year)					
Machinery and Engines	5,262	6,321	5,954	6,674	
Financial Products	20,244	21,312	21,594	22,367	
Guarantees	17	17	17	17	Note 10

1 Total excluded items have a net carrying value at June 30, 2010 and December 31, 2009 of $7,166 million and $7,780 million, respectively.

18. Employee separation charges

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

For the three and six months ended June 30, 2010, we recognized employee separation charges of $20 million in Other operating (income) expenses in the Consolidated Statement of Results of Operations primarily related to involuntary separations due to the streamlining of our corporate structure as announced in the second quarter. In addition, see Note 3 for information regarding stock-based compensation cost associated with the modification of equity awards for employees affected by the separations.

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

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

	Machinery and Engines					
(Millions of dollars)	North America	Latin America	EAME	Asia Pacific	Financial Products[1]	Total
Liability balance at December 31, 2008	$4	$2	$5	$—	$—	$11
Increase in liability (separation charges)[2]	$323	$15	$102	$31	$10	$481
Reduction in liability (payments and other adjustments)	(313)	(17)	(78)	(25)	(10)	(443)
Liability balance at December 31, 2009	$14	$—	$29	$6	$—	$49
Increase in liability (separation charges)	$15	$—	$2	$3	$—	$20
Reduction in liability (payments and other adjustments)	(13)	—	(16)	(6)	—	(35)
Liability balance at June 30, 2010	$16	$—	$15	$3	$—	$34

1 Includes $8 million for North America and $2 million for EAME.
2 Includes $442 million for the six months ended June 30, 2009.

The remaining liability balances as of June 30, 2010 represent costs for employees that have either not yet separated from the Company or their full severance has not yet been paid. The majority of these remaining costs are expected to be paid during 2010.

In addition to the 2009 separation charges noted above, we reported $225 million ($201 million for the six months ended June 30, 2009) of costs associated with certain pension and other postretirement benefit plans, which were also recognized in Other operating (income) expenses in the Consolidated Statement of Results of Operations. See Note 9 for additional information.

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

19. Business combinations

FCM Rail Ltd.

In May 2010, we acquired 100 percent of the equity in privately held FCM Rail Ltd. (FCM) for approximately $97 million, including the assumption of $59 million in debt. We paid $32 million at closing with an additional $6 million to be paid by May 2012. FCM is one of the largest lessors of maintenance-of-way (MOW) equipment in the United States, and is located in Fenton, Michigan. This acquisition strengthens Progress Rail's position in the MOW industry by expanding its service offerings.

The transaction was financed with available cash. Tangible assets acquired of $93 million, primarily consisting of property, plant and equipment, were recorded at their fair values. Finite-lived intangible assets acquired of $10 million related to customer relationships are being amortized on a straight-line basis over 15 years. Liabilities assumed of $81 million, including $59 million of assumed debt, were recorded at their fair values. Goodwill of $16 million, non-deductible for income tax purposes, represents the excess of cost over the fair value of net tangible and finite-lived intangible assets acquired. These values represent a preliminary allocation of the purchase price subject to finalization of post-closing procedures. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and reported in the "All Other" category in Note 14. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

GE Transportation's Inspection Products Business

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

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

JCS Company, Ltd.

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

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

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

Overview

We reported a second-quarter 2010 profit of $1.09 per share, an increase of $0.49 per share from a profit of $0.60 per share in the second quarter of 2009. Profit of $707 million was 91 percent higher than second-quarter 2009 profit of $371 million. Sales and revenues of $10.409 billion were up 31 percent from $7.975 billion in the second quarter of 2009.

Profit per share for the six months ended June 30, 2010 was $1.46 per share, an increase of $1.04 per share from a profit of $0.42 per share for the six months ended June 30, 2009. Profit of $940 million was 263 percent higher than profit of $259 million for the six months ended June 30, 2009. Sales and revenues for the six months ended June 30, 2010 were $18.647 billion, up $1.447 billion, or 8 percent, from the six months ended June 30, 2009.

We have been focused on increasing production in response to higher demand from our customers, particularly in developing economies, managing costs and improving cash flow. The results can be seen in our second quarter—sales and revenues increased, operating profit as a percent of sales more than doubled, and ***Machinery and Engines*** operating cash flow and our ***debt-to-capital ratio*** strengthened.

Sales and revenues were up $2.434 billion from the second quarter of 2009. ***Sales volume*** improved $2.259 billion, ***price realization*** was favorable $187 million, and the impact of ***currency*** added $23 million. ***Financial Products*** revenues were down $35 million. Profit was up $336 million from the second quarter of 2009. The increase was primarily the result of higher sales volume, improved operating efficiencies and favorable price realization, partially offset by higher taxes, provisions for incentive compensation and the absence of $110 million of ***LIFO inventory decrement benefits*** from the second quarter of 2009.

Highlights for the second quarter of 2010 include:

- Second-quarter sales and revenues of $10.409 billion were 31 percent higher than the second quarter of 2009, led by strong growth in developing economies.
- ***Machinery*** sales increased 55 percent due to the absence of dealer inventory reductions that occurred in the second quarter of 2009, higher end-user demand and better price realization.
- ***Engines*** sales increased 3 percent, and Financial Products revenues declined 5 percent from the second quarter of 2009.
- ***Manufacturing costs*** improved $316 million. Excluding LIFO inventory decrement benefits of $110 million in the second quarter of 2009, manufacturing costs improved $426 million.
- Machinery and Engines operating cash flow was $2.357 billion through the first half of 2010, compared with $583 million through the first half of 2009.
- Machinery and Engines debt-to-capital ratio was 41.9 percent at the end of the second quarter of 2010, compared to 53.1 percent at the end of the second quarter of 2009 and 47.2 percent at year-end 2009.

Outlook

We have improved our outlook for 2010 by raising the sales and revenues range and increasing profit expectations. Sales and revenues are now expected to be in a range of $39 to $42 billion, with a midpoint of $40.5 billion. The increased 2010 profit outlook is a range of $3.15 to $3.85 per share, with a midpoint of $3.50 per share. The previous sales and revenues outlook was a range of $38 to $42 billion, and the previous profit outlook range was $2.50 to $3.25 per share.

The increased outlook for 2010 reflects an increase in sales and revenues and a more significant increase in profit—a result of our continuing focus on cost management and profit improvement. While significant economic concerns remain around the world, orders have continued to outpace our shipments, and we expect to increase production in the second half of the year.

We continue to be positive about the longer-term prospects for many of the industries we serve—like mining, energy, infrastructure, electric power and rail. This year we have made several announcements related to increasing capacity and expanding our line-up of products and services.

The initiatives announced include:

- A new excavator facility to increase production capacity in the United States.
- An agreement to acquire Electro-Motive Diesel (EMD), which has the largest installed base of diesel-electric locomotives in the world.
- A multi-year investment of nearly $700 million supporting mining customers, including a full line of mining shovels and capacity expansion for mining trucks made in the United States and India.
- A 400-percent increase in excavator production capacity over the next several years in Xuzhou, China.
- A new facility for small wheel loader and backhoe loader manufacturing in Brazil.

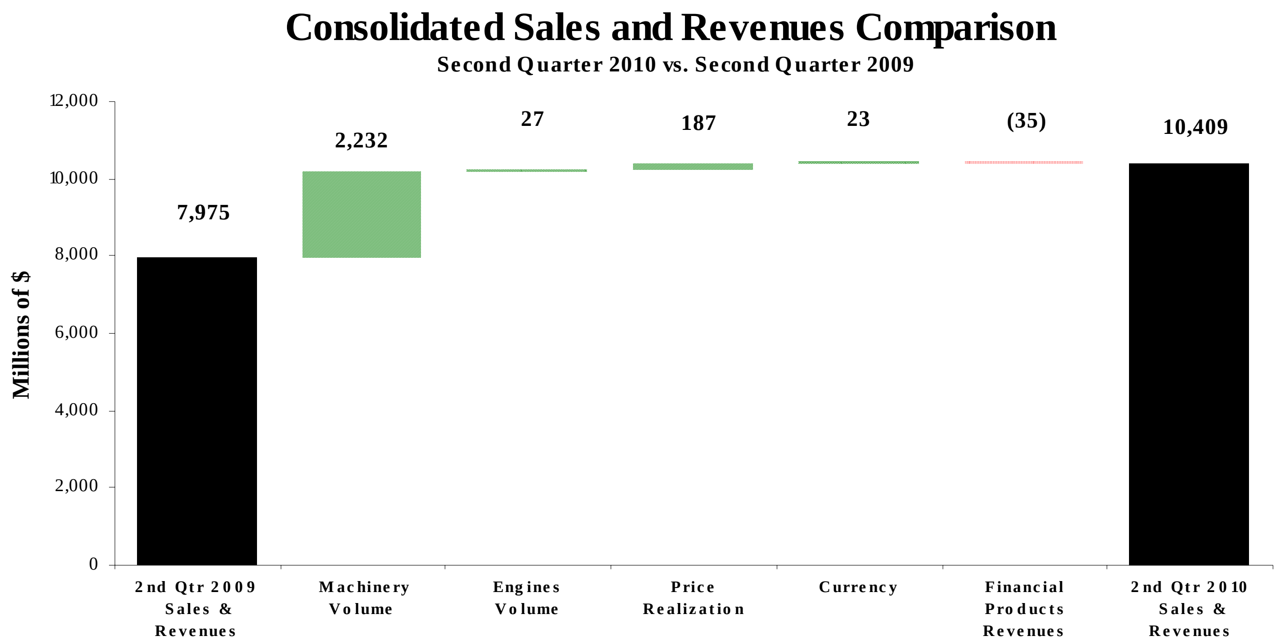
We expect these investments will position the company for continued global leadership and growth.

Notes:
- Glossary of terms is included on pages 58-59; first occurrence of terms shown in bold italics.
- Information on non-GAAP financial measures, including the treatment of redundancy costs, is included on page 69.

Consolidated Results of Operations

THREE MONTHS ENDED JUNE 30, 2010 COMPARED WITH THREE MONTHS ENDED JUNE 30, 2009

SALES AND REVENUES



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

Sales and revenues for the second quarter of 2010 were $10.409 billion, up $2.434 billion, or 31 percent, from the second quarter of 2009. Machinery sales volume was up $2.232 billion due to the absence of dealer inventory reductions that occurred in the second quarter of 2009 and higher end-user demand. Engines volume increased $27 million. Price realization improved $187 million, and currency had a positive impact on sales of $23 million. Financial Products revenues decreased $35 million.

Our ***integrated service businesses*** tend to be more stable through the business cycle than new machines and engines. Second-quarter sales and revenues for these businesses were higher compared to the second quarter of 2009. However, with the increase in sales of new machines this quarter, integrated service businesses represented a lower percent of total company sales and revenues than the prior period. These businesses represented about 40 percent of total company sales and revenues in the second quarter of 2010, down from about 46 percent in the second quarter of 2009.

Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	Latin America	% Change	EAME	% Change	Asia/ Pacific	% Change
Second Quarter 2010										
Machinery	$6,733	55%	$2,478	43%	$1,158	116%	$1,374	36%	$1,723	62%
Engines[1]	2,990	3%	1,059	4%	361	42%	924	(15)%	646	17%
Financial Products[2]	686	(5)%	402	(7)%	71	(5)%	107	(14)%	106	16%
	$10,409	31%	$3,939	24%	$1,590	83 %	$2,405	8%	$2,475	45%
Second Quarter 2009										
Machinery	$4,338		$1,730		$537		$1,010		$1,061	
Engines[1]	2,916		1,020		255		1,090		551	
Financial Products[2]	721		431		75		124		91	
	$7,975		$3,181		$867		$2,224		$1,703	

[1] Does not include internal engines transfers of $602 million and $319 million in second quarter 2010 and 2009, respectively. Internal engines transfers are valued at prices comparable to those for unrelated parties.

[2] Does not include internal revenues earned from Machinery and Engines of $67 million and $93 million in second quarter 2010 and 2009, respectively.

Machinery Sales - Sales were $6.733 billion, an increase of $2.395 billion, or 55 percent, from the second quarter of 2009.

- Sales volume increased $2.232 billion.
- Price realization increased $131 million.
- Currency increased sales by $32 million.
- Geographic mix between regions (included in price realization) was $4 million unfavorable.
- Dealer-reported inventories were about flat during the quarter compared with a reduction of almost $1.2 billion in the second quarter of 2009. Absence of the 2009 inventory change was a contributor to higher sales volume. Dealer inventory levels were well below the second quarter of 2009, and months of supply were the lowest in at least 10 years.
- For the first time since the second quarter of 2008, dealers reported increased deliveries to end users. Factors underlying this change included low interest rates, continued economic recoveries in most countries, increased construction in some countries and higher metals and energy prices.
- Reported deliveries in the developed economies showed an increasing trend during the quarter, even though most economic recoveries were modest. We believe this improvement reflects a willingness by end users to resume fleet replacements after significantly lowering purchases over the last two years.
- Overall sales volume grew in all regions and in most countries within those regions.

North America – Sales increased $748 million, or 43 percent.

- Sales volume increased $683 million.
- Price realization increased $64 million.
- Currency increased sales by $1 million.
- Dealers reduced reported inventories during the second quarter of 2010, but at a lower rate than in the second quarter of 2009. This change contributed to higher sales volume. Dealer inventories were about half the second quarter 2009 levels, and months of supply were the lowest in at least 10 years.

- An increase in deliveries to end users, as reported by dealers, was the most significant contributor to the growth in sales volume. Economic recoveries in both the United States and Canada led to increased output in some key industries, which we believe encouraged buying.

- Increases in dealer deliveries were greater than the modest increases in economic activity might suggest. We believe that low interest rates and increased confidence encouraged users to moderate the shrinking and aging of fleets that started in early 2006.

- Housing starts in the United States were 12 percent higher than last year and new single-family units available for sale were the lowest since 1970. Canadian housing starts were up 54 percent. Increased housing construction and some signs that home prices are stabilizing contributed to increased sales of smaller machines.

- U.S. nonresidential building contracting, which tends to lag economic recoveries, fell 27 percent from the second quarter of 2009. Lower commercial property prices and low industrial capacity utilization were contributing factors. Nonresidential construction in Canada declined 3 percent.

- Spending for highway construction increased slightly in the second quarter compared to the second quarter of 2009. Funding provided by the U.S. government’s recovery program helped offset pressure on state and local government budgets.

- U.S. nonmetals mining and quarry production increased 6 percent, and Canadian producers increased quarry output 2 percent. Modest production gains benefited sales of quarry products.

- Metals prices were 50 percent higher than last year, causing U.S. metals mines to increase production 8 percent. These factors helped increase sales of mining equipment.

- Central Appalachian coal prices averaged almost $63 per ton during the quarter and were 27 percent higher than the second quarter of 2009. U.S. coal production increased 3 percent during the quarter, and Canadian production has risen significantly so far this year. An improved coal sector further increased mining sales.

- Lumber prices rose 56 percent, encouraging a 20-percent increase in U.S. production and a 29-percent gain in Canadian production. Sales of forestry products increased to support this demand.

Latin America – Sales increased $621 million, or 116 percent.

- Sales volume increased $547 million.

- Price realization increased $38 million.

- Currency increased sales by $36 million.

- Dealers reported increases in their inventories during the quarter compared with a drawdown in the second quarter of 2009. This change, taken to prepare for a better economic environment, accounted for most of the growth in sales volume.

- Dealer inventories were about the same as a year earlier. Inventories in months of supply were the lowest in at least 10 years.

- Dealers also reported higher deliveries to end users, a result of continuing economic recoveries and higher commodity prices. Industrial production increased in most countries, mining output rose and oil production was up 2 percent.

- Brazil had the largest increase in sales volume in Latin America. Interest rates averaged lower than last year, a major factor in the 16-percent increase in industrial production. Mining output increased 17 percent, driven by a 44-percent gain in iron ore.

- Sales volume increased significantly in Chile, despite the recent earthquake’s unfavorable impact on some sectors of the economy. Interest rates were lower than last year, and significantly higher copper prices contributed to higher copper export revenues.

EAME – Sales increased $364 million, or 36 percent.

- Sales volume increased $402 million.

- Price realization decreased $13 million.

- Currency decreased sales by $25 million.

- Dealer-reported inventories were about flat during the quarter compared with a reduction in the second quarter of 2009. This change accounted for most of the sales volume growth.

- Both inventories and months of supply were well below last year. Months of supply was also slightly below the historical average.

- European economies reflected some strengthening, as indicated by faster growth in industrial production and favorable surveys of business expectations. Housing starts also improved in several countries.

- Dealers in Europe reported an increase in deliveries in the second quarter of 2010 compared to the second quarter of 2009.

- The economic environment was favorable in Africa/Middle East. Recoveries were underway in the large economies of Turkey and South Africa, favorable metals prices benefited mining production and regional oil revenues increased in response to higher oil prices and production.

- Economic activity in the Commonwealth of Independent States (CIS) is improving. Positive factors included increased government spending, higher mining output and 3-percent growth in crude oil production.

Asia/Pacific – Sales increased $662 million, or 62 percent.

- Sales volume increased $596 million.

- Price realization increased $46 million.

- Currency increased sales by $20 million.

- Dealer-reported inventories were about flat during the quarter compared to a reduction in the second quarter of 2009. This change positively benefited sales volume. Inventories were below last year in both dollars and months of supply; months of supply was also below the historical average.

- Most of the increase in sales volume resulted from dealers reporting higher deliveries to end users. Asian economies were recovering, which benefited construction, and higher metals prices encouraged investment in the mining industry.

- China had a large increase in sales volume, and deliveries remained near record highs. Although the government acted to control the recovery, lending increased 21 percent, and industrial production was up 16 percent. Both construction spending and coal production increased more than 20 percent.

- Lower interest rates in Indonesia contributed to economic growth. Construction spending increased, leading to a gain in sales volume.

- Australian coal prices rose 50 percent, prompting mines to expand production. In response to economic growth, housing permits increased 31 percent. These factors contributed to the growth in sales volume.

- In Japan, industrial production was 23 percent higher than last year, and orders for new housing rose 5 percent.

Engines Sales – Sales were $2.990 billion, an increase of $74 million, or 3 percent, from the second quarter of 2009.

- Sales volume increased $27 million.

- Price realization increased $56 million.

- Currency decreased sales by $9 million.

- Geographic mix between regions (included in price realization) was $7 million favorable.

- Dealer inventories and months of supply were down from the second quarter of 2009.

North America – Sales increased $39 million, or 4 percent.

- Sales volume increased $54 million.

- Price realization decreased $15 million.

- Sales volume in North America was relatively flat. Engine sales for industrial applications were the most significant positive contributor, coming off depressed levels in the second quarter of 2009.

Latin America – Sales increased $106 million, or 42 percent.

- Sales volume increased $95 million.

- Price realization increased $7 million.

- Currency increased sales by $4 million.

- Sales for petroleum applications increased 16 percent due to higher turbine sales from one large order.

- Sales of electric power applications increased 109 percent due to higher turbine sales from one large order and modest improvements in industry demand.

EAME — Sales decreased $166 million, or 15 percent.

- Sales volume decreased $189 million.

- Price realization increased $32 million.

- Currency decreased sales by $9 million.

- Sales for electric power applications increased 11 percent primarily due to increased turbine sales.

- Sales for petroleum applications decreased 44 percent primarily due to lower turbine sales and a slowdown in demand for engines used in production applications and land-based drilling.

- Sales for marine applications decreased 36 percent due to weak industry demand and a declining order backlog.

- Sales for industrial applications increased 8 percent due to higher demand in construction and agricultural applications.

Asia/Pacific – Sales increased $95 million, or 17 percent.

- Sales volume increased $74 million.

- Price realization increased $25 million.

- Currency decreased sales by $4 million.

- Sales for petroleum applications increased 16 percent primarily due to higher turbine sales.

- Sales for electric power applications increased 64 percent primarily due to higher turbine sales and increased demand throughout the region.

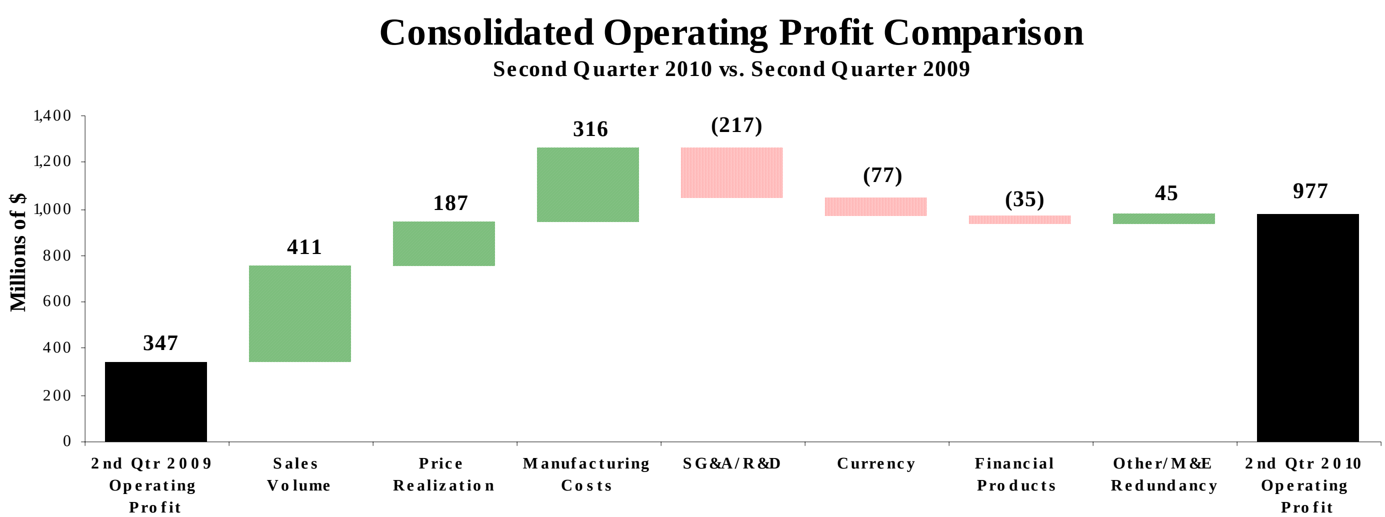
- Sales for marine applications decreased 15 percent due to weak industry demand, partially offset by higher sales for workboat and general cargo vessels.

Financial Products Revenues - Revenues were $686 million, a decrease of $35 million, or 5 percent, from the second quarter of 2009.

- Revenues decreased $59 million due to a decrease in average ***earning assets***, partially offset by an increase of $14 million due to the favorable impact of higher interest rates on new and existing finance receivables.

- Other revenues at Cat Financial increased $8 million. The increase was due to a $12 million favorable impact from returned and repossessed equipment and the absence of a $9 million write-down on retained interests related to the securitized asset portfolio in the second quarter of 2009, partially offset by the unfavorable impact from various other revenue items.

OPERATING PROFIT



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

Operating profit in the second quarter of 2010 was $977 million compared to $347 million in the second quarter of 2009. The improvement was primarily the result of higher sales volume, which includes the impact of an unfavorable mix of products, lower manufacturing costs and better price realization. The improvements were partially offset by higher selling, general and administrative (SG&A) and research and development (R&D) expenses and an unfavorable impact of currency.

Manufacturing costs improved $316 million primarily due to variable labor and burden efficiencies and lower warranty and material costs, partially offset by the absence of $110 million of LIFO inventory decrement benefits.

SG&A and R&D expenses increased by $217 million primarily due to provisions related to incentive pay and increased expense to support product development programs related to EPA Tier 4 emissions requirements.

Currency had a $77 million negative impact on operating profit as the negative impact on costs more than offset the benefit to sales.

Redundancy costs were $85 million in the second quarter of 2009.

Operating Profit (Loss) by Principal Line of Business

(Millions of dollars)	Second Quarter 2010	Second Quarter 2009	$ Change	% Change
Machinery[1]	$477	$(252)	$729	—
Engines[1]	462	555	(93)	(17)%
Financial Products	92	127	(35)	(28)%
Consolidating Adjustments	(54)	(83)	29	
Consolidated Operating Profit	$977	$347	$630	182%

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

Operating Profit/Loss by Principal Line of Business

- **Machinery** operating profit was $477 million compared to an operating loss of $252 million in the second quarter of 2009. Positive factors included higher sales volume, which includes the impact of an unfavorable mix of products, lower manufacturing costs (despite the absence of LIFO decrement benefits) and improved price realization. These improvements were partially offset by higher SG&A and R&D expenses.

- **Engines** operating profit of $462 million was down $93 million from the second quarter of 2009. Higher SG&A and R&D expenses and lower sales volume, which includes the impact of an unfavorable mix of products, were partially offset by lower manufacturing costs and improved price realization.

- **Financial Products** operating profit of $92 million was down $35 million, or 28 percent, from the second quarter of 2009. The decrease was primarily attributable to a $26 million unfavorable impact from lower average earning assets and a $12 million increase in SG&A expenses (excluding the provision for credit losses).

Other Profit/Loss Items

- **Interest expense excluding Financial Products** decreased $28 million from the second quarter of 2009.

- **Other income/expense** was income of $50 million compared with income of $163 million in the second quarter of 2009. The decrease was primarily caused by an unfavorable impact from currency exchange gains and losses.

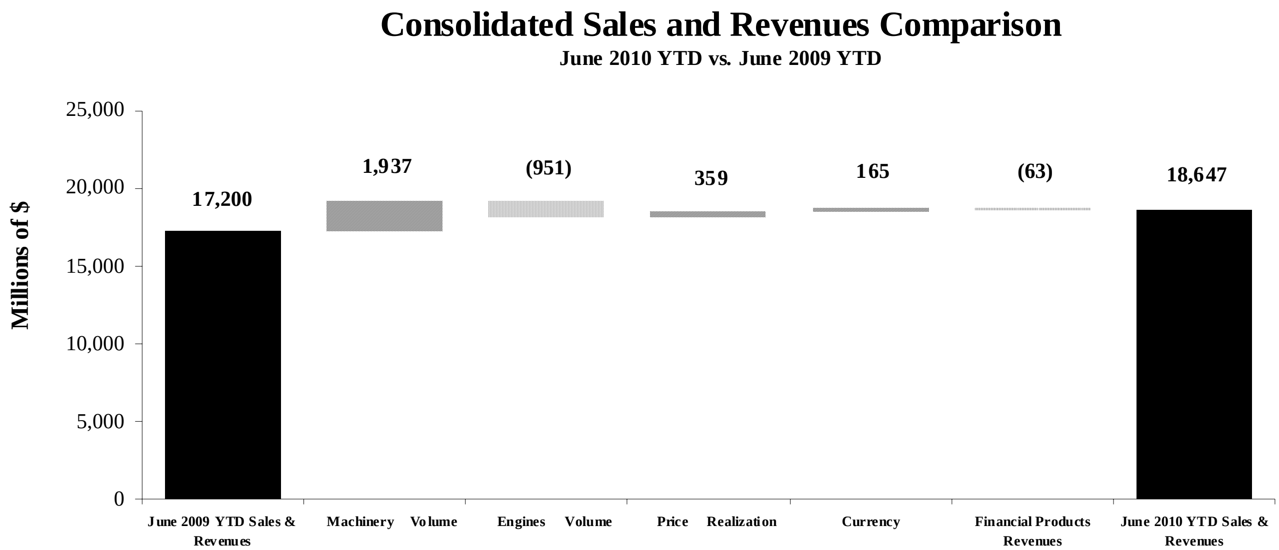
- **The provision for income taxes** in the second quarter of 2010 reflects an estimated annual effective tax rate of 29 percent, excluding the items discussed below, compared to an actual tax rate of 10 percent for the second quarter of 2009. The 2010 estimated annual tax rate is expected to be less than the U.S. tax rate of 35 percent primarily due to profits in tax jurisdictions with rates lower than the U.S. rate. The 2010 estimated annual tax rate is based on current tax law and therefore does not include the U.S. research and development tax credit and other benefits that have not been extended past 2009.

  The provision for income taxes in the second quarter of 2010 also includes a $34 million benefit related to the recognition of refund claims for prior tax years, a $26 million benefit for the release of a valuation allowance against the deferred tax assets of certain non-U.S. entities due to tax planning actions implemented in the second quarter of 2010, and a $5 million benefit related to the first three months of 2010 for a decrease in the estimated annual tax rate from 30 to 29 percent.

- **Profit (loss) attributable to noncontrolling interests** negatively impacted profit by $37 million from the second quarter of 2009, primarily due to improved financial performance of ***Caterpillar Japan Ltd***. (Cat Japan). We own two-thirds of Cat Japan, meaning one-third of its profits or losses are attributable to our partner, Mitsubishi Heavy Industries.

SIX MONTHS ENDED JUNE 30, 2010 COMPARED WITH SIX MONTHS ENDED JUNE 30, 2009

SALES AND REVENUES



The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between six months ended June 30, 2009 (at left) and the six months ended June 30, 2010 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting sales and revenues appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Sales and revenues for the six months ended June 30, 2010 were $18.647 billion, up $1.447 billion, or 8 percent, from the six months ended June 30, 2009. Machinery sales volume was up $1.937 billion due to absence of dealer inventory reductions that occurred in the first half of 2009 and higher end-user demand. Engines volume decreased $951 million. Price realization improved $359 million, and currency had a positive impact on sales of $165 million. Financial Products revenues decreased $63 million.

Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	Latin America	% Change	EAME	% Change	Asia/ Pacific	% Change
Six months ended June 30, 2010										
Machinery	$11,995	24%	$4,368	11%	$1,899	55%	$2,358	4%	$3,370	51%
Engines[1]	5,279	(13)%	1,814	(12)%	557	7%	1,742	(25)%	1,166	—
Financial Products[2]	1,373	(4)%	804	(8)%	144	12%	222	(9)%	203	9%
	$18,647	8%	$6,986	1%	$2,600	39%	$4,322	(11)%	$4,739	32%
Six months ended June 30, 2009										
Machinery	$9,680		$3,946		$1,227		$2,268		$2,239	
Engines[1]	6,084		2,073		521		2,325		1,165	
Financial Products[2]	1,436		876		129		244		187	
	$17,200		$6,895		$1,877		$4,837		$3,591	

[1] Does not include internal engines transfers of $1,103 million and $755 million in the six months ended June 30, 2010 and 2009, respectively. Internal engines transfers are valued at prices comparable to those for unrelated parties.

[2] Does not include internal revenues earned from Machinery and Engines of $126 million and $174 million in the six months ended 2010 and 2009, respectively.

<u>Machinery Sales</u> - Sales of $11.995 billion increased $2.315 billion, or 24 percent, from the six months ended June 30, 2009.

- Sales volume increased $1.937 billion.
- Price realization increased $246 million.
- Currency increased sales by $132 million.
- Geographic mix between regions (included in price realization) was $31 million unfavorable.
- Volume comparisons differed markedly between quarters. Volume declined in the first quarter due to dealers reporting lower deliveries to end users. In the second quarter, volume increased sufficiently to allow a large first-half gain.
- Dealer-reported inventories were about flat during the first half of 2010 compared with a reduction of about $1.5 billion in the first half of 2009. Absence of the 2009 inventory change was the primary reason for higher sales volume.

North America – Sales increased $422 million, or 11 percent.

- Sales volume increased $322 million.
- Price realization increased $98 million.
- Currency increased sales by $2 million.
- The gain in sales volume resulted from an increase in dealer deliveries to end users. This improvement occurred in response to low interest rates and some improvement in economic activity.
- U.S. housing starts averaged 14 percent higher than last year, and new home sales rose slightly. Sales of new single-family units outpaced starts, driving the inventory of unsold homes to a 40-year low. The Canadian housing recovery has been much stronger, with starts up 52 percent in the first half. These factors contributed to an increase in sales of smaller machines.
- U.S. nonresidential building contracting fell 20 percent due to weak commercial property prices and low industrial capacity utilization. Highway construction contracting increased 16 percent, benefiting from the Federal government’s recovery program.
- Metals prices increased 62 percent, leading to a 3-percent increase in U.S. metals production. Gains were concentrated in the second quarter.
- Central Appalachian coal prices averaged 14 percent higher; however, a weak first quarter resulted in a 2-percent decline in U.S. coal production in the first half of 2010 compared to the first half of 2009. In contrast, Canadian production expanded 40 percent.

Latin America – Sales increased $672 million, or 55 percent.

- Sales volume increased $521 million.
- Price realization increased $75 million.
- Currency increased sales by $76 million.
- Dealers reported increases in their inventories during the first half, a change from the large reduction made last year. This difference in inventory practices, taken to prepare for a better economic environment, accounted for the growth in sales volume.
- Factors underlying the improvement in volume included low interest rates, higher commodity prices and strong economic recoveries. Both construction spending and mining output improved.

- Brazil was the biggest contributor to higher sales volume. Construction increased 15 percent in the first quarter, the latest data available, and mine production increased 18 percent.

EAME – Sales increased $90 million, or 4 percent.

- Sales volume increased $111 million.
- Price realization decreased $36 million.
- Currency increased sales by $15 million.
- Sales volume increased due to a strong second quarter. Growth occurred because dealers reduced reported inventories much less than a year earlier. Better economic conditions encouraged dealers to alter their inventory practices.
- Sales volume increased in Europe and AME. In Europe low interest rates and some economic recovery contributed to the gain. An economic recovery in Turkey and higher oil prices led to growth in AME.

Asia/Pacific – Sales increased $1.131 billion, or 51 percent.

- Sales volume increased $952 million.
- Price realization increased $140 million.
- Currency increased sales by $39 million.
- Dealers reported modest increases in their inventories in the first half of 2010 in contrast to reductions last year. This change was a significant contributor to the increased sales volume.
- Dealers reported much higher deliveries to end users, further increasing sales volume. Asian economies were in strong economic recoveries, which benefited construction, and higher metals and coal prices encouraged investment in the mining industry. Sales volume increased in most countries.
- China had the largest increase in sales volume due to a strong economic recovery. The government's stimulus program, with its focus on infrastructure development, benefited construction.
- In Australia, higher coal prices caused mines to increase output, and housing benefited from better economic conditions. These factors contributed to the growth in sales volume.

Engines Sales – Sales of $5.279 billion decreased $805 million, or 13 percent, from the six months ended June 30, 2009.

- Sales volume decreased $951 million.
- Price realization increased $113 million.
- Currency increased sales by $33 million.
- Geographic mix between regions (included in price realization) was $8 million favorable.
- Dealer-reported inventories and months of supply were down, as dealer deliveries declined.

North America – Sales decreased $259 million, or 12 percent.

- Sales volume decreased $259 million.
- Price realization decreased $1 million.
- Currency increased sales by $1 million.

- Sales for petroleum applications decreased 28 percent primarily due to a decline in sales of engines used for gas compression and drilling, partially offset by higher turbine sales.

- Sales for electric power applications decreased 24 percent due to weak industry demand and lower turbine sales.

- Sales for industrial applications increased 10 percent based on higher construction and infrastructure activity.

Latin America – Sales increased $36 million, or 7 percent.

- Sales volume increased $19 million.

- Price realization increased $9 million.

- Currency increased sales by $8 million.

- Sales of electric power applications increased 59 percent due to higher turbine sales and increases in dealer inventories.

- Sales for petroleum applications decreased 17 percent due to lower turbine sales and a slowdown in demand for production power applications.

EAME — Sales decreased $583 million, or 25 percent.

- Sales volume decreased $658 million.

- Price realization increased $53 million.

- Currency increased sales by $22 million.

- Sales for electric power applications decreased 17 percent due to weak industry demand and dealer efforts to reduce inventory.

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

- Sales for marine applications decreased 34 percent due to weak industry demand and a declining order backlog.

- Sales for industrial applications decreased 3 percent due to lower demand in construction and agricultural applications.

Asia/Pacific – Sales increased $1 million.

- Sales volume decreased $45 million.

- Price realization increased $44 million.

- Currency increased sales by $2 million.

- Sales for electric power applications increased by 11 percent due to higher turbine sales.

- Sales for industrial applications increased 56 percent primarily due to increased demand from Original Equipment Manufacturers (OEMs).

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

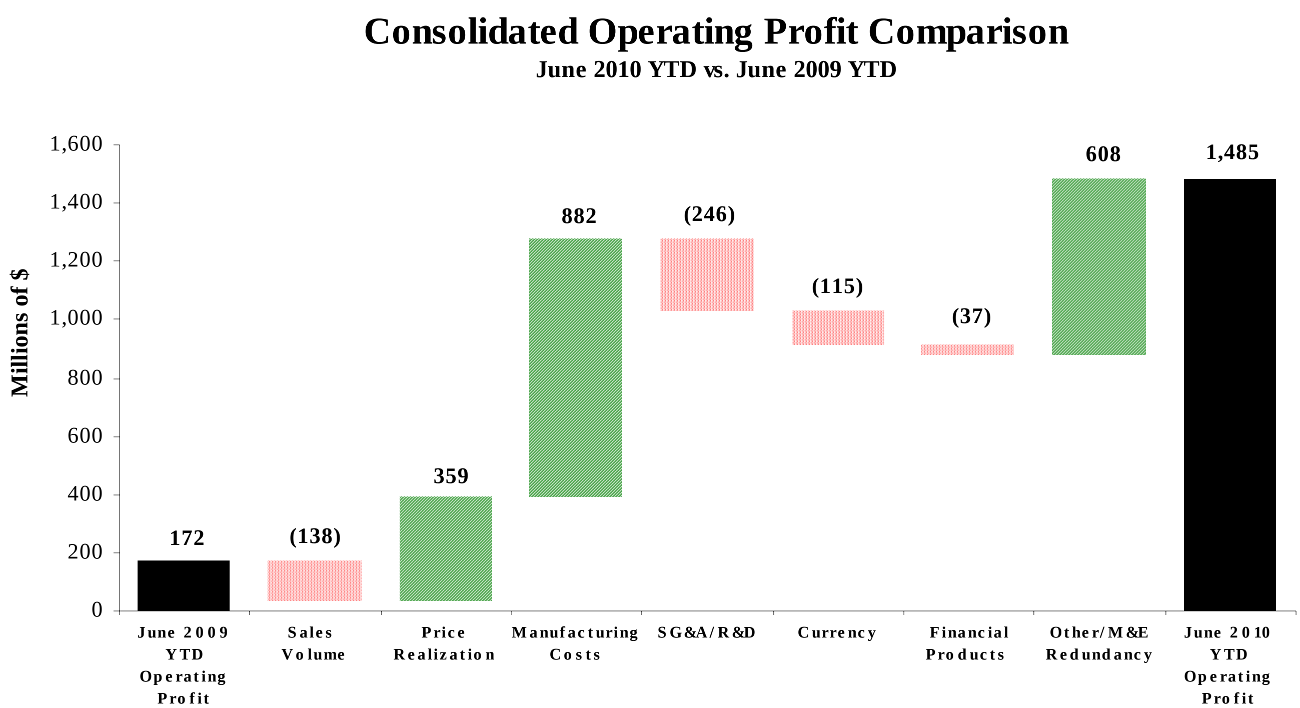
- Sales for petroleum applications decreased 4 percent primarily due to lower turbine sales and continued slowdown in Chinese land-based drill activity.

Financial Products Revenues - Revenues of $1.373 billion decreased $63 million, or 4 percent, from the six months ended June 30, 2009.

- Revenues decreased $112 million due to a decrease in average earning assets, partially offset by an increase of $30 million due to the favorable impact of higher interest rates on new and existing finance receivables.

- Other revenues at Cat Financial increased $14 million. The increase was due to the absence of $31 million in write-downs on retained interests related to the securitized asset portfolio in 2009, partially offset by the unfavorable impact from various other revenue items.

OPERATING PROFIT



The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between six months ended June 30, 2009 (at left) and six months ended June 30, 2010 (at right). Items favorably impacting operating profit appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting operating profit appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees. The bar entitled Other/M&E Redundancy includes the operating profit impact of consolidating adjustments and Machinery and Engines other operating (income) expenses, which include Machinery and Engines redundancy costs.

Operating profit for the six months ended June 30, 2010 was $1.485 billion compared to $172 million for the six months ended June 30, 2009. The improvement was primarily the result of lower manufacturing costs, absence of 2009 redundancy costs and better price realization. The improvements were partially offset by higher SG&A and R&D expenses, lower sales volume, which includes the impact of an unfavorable mix of products, and the negative impact of currency.

Manufacturing costs improved $882 million primarily due to lower labor and overhead, warranty and material costs, partially offset by the absence of LIFO inventory decrement benefits of $110 million.

SG&A and R&D expenses increased by $246 million primarily due to provisions related to incentive pay and increased expense to support product development programs related to EPA Tier 4 emissions requirements.

Currency had a $115 million negative impact on operating profit as the negative impact on costs more than offset the benefit to sales.

Redundancy costs were $643 million for the six months ended June 30, 2009.

Operating Profit (Loss) by Principal Line of Business (Millions of dollars)	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	$ Change	% Change
Machinery[1]	$671	$(761)	$1,432	—
Engines[1]	726	853	(127)	(15)%
Financial Products	189	226	(37)	(16)%
Consolidating Adjustments	(101)	(146)	45	
Consolidated Operating Profit	$1,485	$172	$1,313	763%

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

Operating Profit /Loss by Principal Line of Business

- **Machinery** operating profit was $671 million compared to an operating loss of $761 million for the six months ended June 30, 2009. Positive factors included lower manufacturing costs (despite the absence of LIFO decrement benefits), absence of 2009 redundancy costs, higher sales volume, which includes the impact of an unfavorable mix of products, and improved price realization. These improvements were partially offset by higher SG&A and R&D expenses and the negative impact of currency.

- **Engines** operating profit of $726 million was down $127 million from the six months ended June 30, 2009. Lower sales volume and higher SG&A and R&D expenses were partially offset by the absence of 2009 redundancy costs, lower manufacturing costs and improved price realization.

- **Financial Products** operating profit of $189 million was down $37 million from the six months ended June 30, 2009. The decrease was primarily attributable to a $51 million unfavorable impact from lower average earning assets, a $21 million increase in SG&A expenses (excluding the provision for credit losses) and a $14 million increase in the provision for credit losses at Cat Financial, offset by the absence of $31 million in write-downs on retained interests related to the securitized asset portfolio in 2009 and an $18 million favorable impact from increased net yield on average earning assets.

Other Profit/Loss Items

- **Interest expense excluding Financial Products** decreased $27 million from the six months ended June 30, 2009.

- **Other income/expense** was income of $113 million compared with income of $227 million in the six months ended June 30, 2009. The decrease was primarily driven by an unfavorable impact from currency exchange gains and losses.

- **The provision for income taxes** for the first six months of 2010 reflects an estimated annual effective tax rate of 29 percent, excluding the items discussed below, compared to an actual tax rate of negative 20.5 percent for the first six months of 2009. The 2010 estimated annual tax rate is expected to be less than the U.S. tax rate of 35 percent primarily due to profits in tax jurisdictions with rates lower than the U.S. rate. The 2010 estimated annual tax rate is based on current tax law and therefore does not include the U.S. research and development tax credit and other benefits that have not been extended past 2009.

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

  This deferred tax charge was offset by a $34 million benefit related to the recognition of refund claims for prior tax years and a $26 million benefit for the release of a valuation allowance against the deferred tax assets of certain non-U.S. entities due to tax planning actions implemented in the second quarter of 2010.

- **Profit (loss) attributable to noncontrolling interests** negatively impacted profit by $59 million from the six months ended June 30, 2009, primarily due to improved financial performance of Caterpillar Japan Ltd. (Cat Japan). We own two-thirds of Cat Japan, meaning one-third of its profits or losses are attributable to our partner, Mitsubishi Heavy Industries.

GLOSSARY OF TERMS

1. **Caterpillar Japan Ltd. (Cat Japan) –** A Caterpillar subsidiary formerly known as Shin Caterpillar Mitsubishi Ltd. (SCM). SCM was a 50/50 joint venture between Caterpillar and Mitsubishi Heavy Industries Ltd. (MHI) until SCM redeemed one half of MHI's shares on August 1, 2008. Caterpillar now owns 67 percent of the renamed entity. We began consolidating Cat Japan in the fourth quarter of 2008.

2. **Caterpillar Production System** – The Caterpillar Production System is the common Order-to-Delivery process being implemented enterprise-wide to achieve our safety, quality, velocity, earnings and growth goals for 2010 and beyond.

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

4. **Currency** – With respect to sales and revenues, currency represents the translation impact on sales resulting from changes in foreign currency exchange rates versus the U.S. dollar. With respect to operating profit, currency represents the net translation impact on sales and operating costs resulting from changes in foreign currency exchange rates versus the U.S. dollar. Currency includes the impact on sales and operating profit for the Machinery and Engines lines of business only; currency impacts on Financial Products revenues and operating profit are included in the Financial Products portions of the respective analyses. With respect to other income/expense, currency represents the effects of forward and option contracts entered into by the company to reduce the risk of fluctuations in exchange rates and the net effect of changes in foreign currency exchange rates on our foreign currency assets and liabilities for consolidated results.

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

6. **EAME** – Geographic region including Europe, Africa, the Middle East and the Commonwealth of Independent States (CIS).

7. **Earning Assets** – Assets consisting primarily of total finance receivables net of unearned income, plus equipment on operating leases, less accumulated depreciation at Cat Financial.

8. **Engines** – A principal line of business including the design, manufacture, marketing and sales of engines for Caterpillar machinery; electric power generation systems; locomotives; marine, petroleum, construction, industrial, agricultural and other applications and related parts. Also includes remanufacturing of Caterpillar engines and a variety of Caterpillar machinery and engine components and remanufacturing services for other companies. Reciprocating engines meet power needs ranging from 10 to 21,800 horsepower (8 to more than 16 000 kilowatts). Turbines range from 1,600 to 30,000 horsepower (1 200 to 22 000 kilowatts).

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

10. **Integrated Service Businesses –** A service business or a business containing an important service component. These businesses include, but are not limited to, aftermarket parts, Cat Financial, Cat Insurance, Cat Logistics, Cat Reman, Progress Rail, OEM Solutions and Solar Turbine Customer Services.

11. **Latin America –** Geographic region including Central and South American countries and Mexico.

12. **LIFO Inventory Decrement Benefits –** A significant portion of Caterpillar's inventory is valued using the last-in, first-out (LIFO) method. With this method, the cost of inventory is comprised of "layers" at cost levels for years when inventory increases occurred. A LIFO decrement occurs when inventory decreases, depleting layers added in earlier, generally lower cost, years. A

LIFO decrement benefit represents the impact on profit of charging cost of goods sold with prior-year cost levels rather than current period costs.

13. **Machinery –** A principal line of business which includes the design, manufacture, marketing and sales of construction, mining and forestry machinery—track and wheel tractors, track and wheel loaders, pipelayers, motor graders, wheel tractor-scrapers, track and wheel excavators, backhoe loaders, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, skid steer loaders, underground mining equipment, tunnel boring equipment and related parts. Also includes logistics services for other companies and the design, manufacture, remanufacture, maintenance and services of rail-related products.

14. **Machinery and Engines (M&E)** – Due to the highly integrated nature of operations, it represents the aggregate total of the Machinery and Engines lines of business and includes primarily our manufacturing, marketing and parts distribution operations.

15. **Machinery and Engines Other Operating (Income) Expenses** – Comprised primarily of gains/losses on disposal of long-lived assets, long-lived asset impairment charges and employee redundancy costs.

16. **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.

17. **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.

18. **Redundancy Costs** – Costs related to employment reduction including employee severance charges, pension and other postretirement benefit plan curtailments and settlements and health care and supplemental unemployment benefits.

19. **Sales Volume** – With respect to sales and revenues, sales volume represents the impact of changes in the quantities sold for machinery and engines as well as the incremental revenue impact of new product introductions. With respect to operating profit, sales volume represents the impact of changes in the quantities sold for machinery and engines combined with product mix—the net operating profit impact of changes in the relative weighting of machinery and engines sales with respect to total sales.

20. **6 Sigma –** On a technical level, 6 Sigma represents a measure of variation that achieves 3.4 defects per million opportunities. At Caterpillar, 6 Sigma represents a much broader cultural philosophy to drive continuous improvement throughout the value chain. It is a fact-based, data-driven methodology that we are using to improve processes, enhance quality, cut costs, grow our business and deliver greater value to our customers through black belt-led project teams. At Caterpillar, 6 Sigma goes beyond mere process improvement—it has become the way we work as teams to process business information, solve problems and manage our business successfully.

LIQUIDITY AND CAPITAL RESOURCES

Sources of funds

We generate significant capital resources from operating activities, which are the primary source of funding for our Machinery and Engines operations. Funding for these businesses is also provided by commercial paper and long-term debt issuances. Financial Products operations are funded primarily from commercial paper, term debt issuances and collections from their existing portfolio. Throughout the first half of 2010, we continued to experience favorable liquidity conditions in both our Machinery and Engines and Financial Products operations. On a consolidated basis, we ended the first half of 2010 with $3.6 billion of cash, a decrease of $1.3 billion from year-end 2009. Our cash balances are held in numerous locations throughout the world. Most of the amounts held outside the U.S. could be repatriated to the U.S. but generally would be subject to incremental U.S. income taxes.

Consolidated operating cash flow for the first half of 2010 was $1.74 billion, down from $2.80 billion for the same period a year ago. Improving economic conditions in the first half of 2010 compared with recessionary conditions a year ago have resulted in significant changes in the components of operating cash flow from 2009 to 2010. Operating cash flow in the first half of 2010 benefited from profit of consolidated and affiliated companies of $969 million and an increase in accounts payable, reflecting higher levels of material purchases for production ramp-up to meet increasing demand. Offsetting these items were higher receivables resulting from improved sales volume, and an increase in inventory, also related to production ramp-up. The first half of 2009 benefited from significant declines in receivables and inventory, partially offset by lower accounts payable and changes in other working capital items. See further discussion of operating cash flow under Machinery and Engines and Financial Products.

Total debt as of June 30, 2010, was $29.15 billion, a decrease of $2.48 billion from year-end 2009. Debt related to Machinery and Engines decreased $908 million in the first half of 2010. Debt related to Financial Products decreased $1.57 billion reflecting declining portfolio balances at Cat Financial.

We have three global credit facilities with a syndicate of banks totaling $6.99 billion (Credit Facility) available in the aggregate to both Caterpillar and Cat Financial to support their commercial paper programs in the event those programs become unavailable and for general liquidity purposes. Based on management's allocation decision, which can be revised from time to time, the portion of the Credit Facility available to Cat Financial as of June 30, 2010 was $5.49 billion.

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

At June 30, 2010, Caterpillar's consolidated net worth was $13.57 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, 2010, Cat Financial's covenant interest coverage ratio was 1.27 to 1. This is above the 1.15 to 1 minimum ratio of (1) profit excluding income taxes, interest expense and net gain/(loss) from interest rate derivatives to (2) interest expense calculated at the end of each calendar quarter for the rolling four quarter period then most recently ended.

In addition, at June 30, 2010, Cat Financial's covenant leverage ratio was 7.21 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, 2010, there were no borrowings under the Credit Facility.

Our total credit commitments as of June 30, 2010 were:

(Millions of dollars)	**Consolidated**	**Machinery and Engines**	**Financial Products**
Credit lines available:			
Global credit facilities	$6,988	$1,500	$5,488
Other external	3,897	370	3,527
Total credit lines available	10,885	1,870	9,015
Less: Global credit facilities supporting commercial paper	(2,164)	—	(2,164)
Less: Utilized credit	(2,141)	(143)	(1,998)
Available credit	$6,580	$1,727	$4,853

Other consolidated credit lines with banks as of June 30, 2010 totaled $3.90 billion. These credit lines, which may be eligible for renewal at various future dates or have no specified expiration date, are used primarily by our subsidiaries for local funding requirements. Caterpillar or Cat Financial may guarantee subsidiary borrowings under these lines.

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

Machinery and Engines

Net cash provided by operating activities was $2.36 billion in the first half of 2010 compared to $583 million in the first half of 2009. The change was primarily due to increased profit and a $600 million dividend from Cat Financial in the first quarter of 2010. Profit of consolidated and affiliated companies in the first half of 2010 was $964 million compared to $221 million for the same period a year ago. Improving economic conditions in the first half of 2010 compared with recessionary conditions a year ago have resulted in significant changes in the components of working capital from 2009 to 2010. During the first half of 2010, we experienced increased demand and a production ramp-up, resulting in an increase in accounts payable and customer advances, which was more than offset by increases in inventory and receivables. In the first half of 2009, we were executing our strategic "trough" plans as demand and production were decreasing. This resulted in significant decreases in inventory and receivables, which were partially offset by decreases in accounts payable and accrued expenses. Net cash used for investing activities in the first half of 2010 was $1.15 billion compared to $35 million for the same period in 2009. The change was due to loans to Cat Financial in 2010, compared with net payments from Cat Financial in 2009. Net cash used for financing activities in the first half of 2010 was $1.51 billion, primarily a result of payments on long-term debt and dividend payments. During the same period in 2009, net cash used for financing activities was $378 million, as proceeds from loans with Cat Financial of $1.02 billion were offset by payments on short-term borrowings and dividends.

Our priorities for the use of cash are maintaining a strong financial position that helps protect 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 Engines financial strength used by both management and our credit rating agencies is Machinery and Engines' debt-to-capital ratio. Debt-to-capital is defined as short-term borrowings, long-term debt due within one year, redeemable noncontrolling interest and long-term debt due after one year (debt) divided by the sum of debt (including redeemable noncontrolling interest) and stockholders' equity. Debt also includes borrowings from Financial Products. The debt-to-capital ratio for Machinery and Engines was 41.9 percent at June 30, 2010 compared to 53.1 percent at June 30, 2009, within our target range of 35 to 45 percent. This strengthening financial position was a significant factor in the recent decision to increase our dividend by 5 percent. In addition to the debt-to-capital ratios, certain rating agencies have increased their focus on the extent to which Caterpillar and Cat Financial have cash and cash equivalents and unused credit lines available to meet short-term debt requirements. Caterpillar and Cat Financial have been taking this focus into account when planning for liquidity needs. This focus has resulted in higher cash balances for Caterpillar and Cat Financial.

Capital to support growth – Capital expenditures during the first half of 2010 were $492 million, an increase of $50 million compared to the first half of 2009. We expect capital expenditures to be about $1.8 billion in 2010, up from $1.3 billion in 2009.

Appropriately funded employee benefit plans – We contributed $548 million to our pension plans in the first half of 2010 and we anticipate additional contributions of approximately $450 million during the remainder of the year. In addition, beginning in June 2009, the company began funding the 401(k) match with company stock. This equated to a contribution of $62 million (1 million shares) for the first half of 2010.

Paying dividends – Dividends paid totaled $527 million in the first half of 2010, representing 42 cents per share paid in the first and second quarters. Each quarter, our Board of Directors reviews the company's dividend and determines whether to increase, maintain or decrease the dividend for the applicable quarter. The Board evaluates the financial condition of the company and considers the economic outlook, corporate cash flow, the company's liquidity needs, and the health and stability of global credit markets to determine whether to maintain or change the quarterly dividend. On June 9, 2010, we increased the quarterly cash dividend 5 percent to 44 cents per share payable August 20, 2010 to stockholders of record at the close of business on July 20, 2010.

Common stock repurchases – Pursuant to the February 2007 Board-authorized stock repurchase program, which expires on December 31, 2011, $3.8 billion of the $7.5 billion authorized was spent through 2008. As a result of the global economic recession, our stock repurchase program has been temporarily suspended since the first quarter of 2009. Basic shares outstanding as of June 30, 2010 were 630 million.

Financial Products

Operating cash flow was $370 million through the first half of 2010, compared with $518 million for the same period a year ago. The decrease in operating cash flow was primarily related to the absence of cash proceeds from liquidated interest rate swaps. Net cash provided by investing activities was $354 million through the first half of 2010, compared to $1.98 billion for the same period in 2009. This change is primarily the result of lower collections of finance receivables, lower proceeds from the sale of finance receivables and higher additions to finance receivables at Cat Financial, partially offset by lower intercompany borrowings. Net cash used for financing activities was $1.57 billion through the first half of 2010, compared to $1.40 billion for the same period in 2009, primarily due to a $600 million dividend payment to Caterpillar Inc. and lower debt issuances, partially offset by higher intercompany borrowings.

During the second quarter, overall portfolio quality began to show signs of improvement, as economic conditions around the world continued to improve. At the end of the second quarter of 2010, past dues were 5.33 percent, down from 6.06 percent at the end of the first quarter and 5.54 percent at the end of 2009. At the end of the second quarter of 2009, past dues were 5.53 percent. The reduction in past dues from year end is primarily due to the general improvement in global economic conditions. We expect gradual improvement in past dues during the remainder of 2010.

Bad debt write-offs, net of recoveries, were $52 million for the second quarter of 2010, down $3 million from the second quarter of 2009. Second-quarter 2010 annualized losses were 0.91 percent of the average retail portfolio compared to 0.89 percent for the second quarter of 2009 and 1.03 percent for the full-year 2009.

At the end of the second quarter of 2010, Cat Financial's allowance for credit losses was 1.70 percent of net finance receivables, increasing from 1.64 percent on December 31, 2009, and 1.55 percent at the end of the second quarter of 2009. As a result of new accounting guidance implemented during the first quarter of 2010, Cat Financial began consolidating securitized assets which had previously been off balance sheet. On January 1, 2010, the consolidation of these assets had the impact of increasing the allowance for credit losses by $18 million and the total allowance as a percent of net finance receivables by 6 basis points. At the end of the second quarter of 2010, the allowance for credit losses totaled $383 million, compared with $377 million on December 31, 2009 and $378 million at the end of the second quarter of 2009. The increase of $5 million in allowance for credit losses year-over-year reflected a $34 million increase associated with the higher allowance rate, partially offset by a $29 million decrease due to a reduction in the overall net finance receivable portfolio.

Cat Financial continued to experience favorable liquidity conditions in all key global funding markets during the second quarter of 2010. Commercial Paper (CP) market liquidity and pricing continued to be favorable, with CP outstanding totaling $2.2 billion at quarter-end supported by a $5.5 billion revolving credit facility. During the second quarter of 2010, Cat Financial issued EUR 365 million, AUD 200 million and $300 million in medium-term notes. Our second quarter 2010 CP, term debt issuance and year-to-date portfolio cash receipts have provided sufficient liquidity for operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Postretirement benefits — Primary actuarial assumptions were determined as follows:

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

- The expected rate of compensation increase is used to develop benefit obligations using projected pay at retirement. It represents average long-term salary increases. This rate is influenced by our long-term compensation policies. An increase in the rate would increase our obligation and expense.
- 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 $692 million and $662 million as of June 30, 2010 and December 31, 2009 respectively. The reserve represents discounts that we expect to pay on previously sold units and is reviewed at least quarterly. The reserve is adjusted if discounts paid differ from those estimated. Historically, those adjustments have not been material.

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

The allowance for credit losses attributable to specific accounts is based on the most probable source of repayment, which is normally the liquidation of collateral. In determining collateral value we estimate current fair value of collateral and factor in credit enhancements such as additional collateral and third-party guarantees. The allowance for credit losses attributable to the remaining accounts is a general allowance based upon the risk in the portfolio, primarily using probabilities of default and an estimate of associated losses. In addition, qualitative factors not able to be fully captured in previous analysis including industry trends, macroeconomic factors and model imprecision are considered in the evaluation of the adequacy of the allowance for credit losses. These qualitative factors are subjective and require a degree of management judgment.

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

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

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

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

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

EMPLOYMENT

Caterpillar's worldwide employment was 97,487 at the end of the second quarter of 2010. Year to date in 2010 we have added about 3,650 employees, primarily due to increases in production. About 1,250 of the additional employees were in the United States, and about 2,400 were outside the United States.

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. Although it is not possible to predict with certainty the outcome of these unresolved legal actions, we believe that these actions will not individually or in the aggregate have a material adverse effect on our consolidated results of operations, financial position or liquidity.

On May 14, 2007, the U.S. Environmental Protection Agency (EPA) issued a Notice of Violation to Caterpillar Inc., alleging various violations of Clean Air Act Sections 203, 206 and 207. EPA claims that Caterpillar violated such sections by shipping engines and catalytic converter after-treatment devices separately, introducing into commerce a number of uncertified and/or misbuilt engines, and failing to timely report emissions-related defects. Caterpillar is currently engaged in negotiations with EPA and the U.S. Department of Justice to resolve these issues. 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. Caterpillar continues to cooperate with EPA and the Department of Justice and, while penalties will likely exceed $100,000, management does not believe that this issue will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

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

Retirement Benefits

We recognized pension expense of $154 million and $310 million for the three and six months ended June 30, 2010, as compared to $112 million and $369 million for the three and six months ended June 30, 2009. The increase in expense for the three months ended June 30, 2010 was the result of increased amortization of net actuarial losses due to significant asset losses in 2008 and lower discount rates at the end of 2009. The decrease in expense for the six months ended June 30, 2010 was the result of $139 million of curtailment, settlement and special termination benefit costs due to voluntary and involuntary separation programs (discussed below) recognized in 2009, partially offset by increased amortization of net actuarial losses due to significant asset losses in 2008 and lower discount rates at the end of 2009. Accounting guidance on retirement benefits requires companies to discount future benefit obligations back to today's dollars using a discount rate that is based on high-quality fixed-income investments. A decrease in the discount rate increases the pension benefit obligation, while an increase in the discount rate decreases the pension benefit obligation. This increase or decrease in the pension benefit obligation is recognized in Accumulated other comprehensive income (loss) and subsequently amortized into earnings as an actuarial gain or loss. The guidance also requires companies to use an expected long-term rate of asset return for computing current year pension expense. Differences between the actual and expected returns are also recognized in Accumulated other comprehensive income (loss) and subsequently amortized into earnings as actuarial gains and losses. As of June 30, 2010, total actuarial losses, recognized in Accumulated other comprehensive income (loss), related to pensions were $6.11 billion. The majority of the actuarial losses are due to significant asset losses during 2008 in addition to losses resulting from other demographic and economic assumptions over the past several years.

Other postretirement benefit expense was $50 million and $99 million for the three and six months ended June 30, 2010, as compared to $52 million and $180 million for the three and six months ended June 30, 2009. The decrease in expense for the six months ended June 30, 2010 is due to curtailment losses of $62 million recognized in 2009 as a result of employee separation programs (discussed below) and the impact of amendments to our U.S. support and management other postretirement benefit plan (discussed below) on 2010 expense. Actuarial losses, recognized in Accumulated other comprehensive income (loss), for other postretirement benefit plans were $643 million at June 30, 2010. These losses mainly reflect several years of declining discount rates and significant asset losses during 2008, partially offset by gains from lower than expected health care costs.

Actuarial losses for both pensions and other postretirement benefits will be impacted in future periods by actual asset returns, actual health care inflation, discount rate changes, actual demographic experience and other factors that impact these expenses. These losses, reported in Accumulated other comprehensive income (loss), will be amortized as a component of net periodic benefit cost on a straight-line basis over the average remaining service period of active employees expected to receive benefits under the benefit plans. At the end of 2009, the average remaining service period of active employees was 11 years for our U.S. pension plans, 11 years for our non-U.S. pension plans and 7 years for other postretirement benefit plans. We expect our amortization of net actuarial losses to increase approximately $150 million in 2010 as compared to 2009, primarily due to significant asset losses in 2008 and a decrease in the discount rate during 2009.

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

In March 2009, we amended our U.S. support and management other postretirement benefit plan. Beginning in 2010, certain retirees age 65 and older will enroll in individual health plans that work with Medicare and will no longer participate in a Caterpillar-sponsored group health plan. Instead, the retirees will be in individual health plans that work with Medicare, such as Medicare Advantage and Medicare Supplement plans. In addition, Caterpillar will fund a tax-advantaged Health Reimbursement Arrangement (HRA) to assist the retirees with medical expenses. The plan amendment required a plan re-measurement as of March 31, 2009, which resulted in a decrease in our Liability for postretirement benefits of $432 million and an increase in Accumulated other comprehensive income (loss) of $272 million net of tax. The plan was further amended in December 2009 to define the HRA benefit that active employees will receive once they are retired and reach age 65. The plan was re-measured at year-end 2009 and the December amendment resulted in a decrease in our Liability for postretirement benefits of $101 million and an increase in Accumulated other comprehensive income (loss) of $64 million net of tax. These decreases will be amortized into earnings on a straight-line basis over approximately 7 years, the average remaining service period of active employees in the plan. The amendments reduced other postretirement benefits expense by approximately $28 million and $55 million for the three and six months ended June 30, 2010 and reduced expense by approximately $20 million for the three and six months ended June 30, 2009.

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

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

We made $548 million of contributions to our U.S. and non-U.S. pension plans during the six months ended June 30, 2010 and we currently anticipate additional contributions of approximately $450 million during the remainder of the year, most of which are voluntary contributions. We believe we have adequate liquidity resources to fund both U.S. and non-U.S. plans. We made $953 million of contributions to our U.S. and non-U.S. pension plans during the six months ended June 30, 2009, including a voluntary contribution to our U.S. plans of 18.2 million shares ($650 million) in Caterpillar stock, held as treasury stock.

Employee Separation Charges

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

For the three and six months ended June 30, 2010, we recognized employee separation charges of $20 million in Other operating (income) expenses in the Consolidated Statement of Results of Operations primarily related to involuntary separations due to the streamlining of our corporate structure as announced in the second quarter. Also included in the second quarter of 2010 pretax stock-based compensation cost was $17 million relating to the modification of awards resulting from separations due to the streamlining of our corporate structure as announced in the second quarter.

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

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

	Machinery and Engines					
(Millions of dollars)	**North America**	**Latin America**	**EAME**	**Asia Pacific**	**Financial Products[1]**	**Total**
Liability balance at December 31, 2008	$4	$2	$5	$—	$—	$11
Increase in liability (separation charges)[2]	$323	$15	$102	$31	$10	$481
Reduction in liability (payments and other adjustments)	(313)	(17)	(78)	(25)	(10)	(443)
Liability balance at December 31, 2009	$14	$—	$29	$6	$—	$49
Increase in liability (separation charges).	$15	$—	$2	$3	$—	$20
Reduction in liability (payments and other adjustments)	(13)	—	(16)	(6)	—	(35)
Liability balance at June 30, 2010	$16	$—	$15	$3	$—	$34

1 Includes $8 million for North America and $2 million for EAME.
2 Includes $442 million for the six months ended June 30, 2009.

The remaining liability balances as of June 30, 2010 represent costs for employees that have either not yet separated from the Company or their full severance has not yet been paid. The majority of these remaining costs are expected to be paid during 2010.

In addition to the 2009 separation charges noted above, we reported $225 million ($201 million for the six months ended June 30, 2009) of costs associated with certain pension and other postretirement benefit plans, which were also recognized in Other operating (income) expenses in the Consolidated Statement of Results of Operations.

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

Order Backlog

The dollar amount of backlog believed to be firm was approximately $14.9 billion at June 30, 2010 and $9.6 billion at December 31, 2009. Of the total backlog, approximately $2.8 billion at June 30, 2010 and $2.5 billion at December 31, 2009 was not expected to be filled in the following twelve months. Our backlog is generally highest in the first and second quarters because of seasonal buying trends in our industry.

NON-GAAP FINANCIAL MEASURES

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

Profit Per Share Excluding Redundancy Costs

During the second quarter of 2009, we incurred redundancy costs of $85 million before tax related to employment reductions in response to the global recession. Full-year 2009 redundancy costs were $706 million before tax. We believe it is important to separately quantify the profit-per-share impact of redundancy costs in order for our 2009 results to be meaningful to our readers. Reconciliation of profit per share excluding redundancy costs to the most directly comparable GAAP measure, profit per share, is as follows:

	Second Quarter 2009	First Half 2009	Full Year 2009
Profit per share	$0.60	$0.42	$1.43
Per share redundancy costs	$0.12	$0.70	$0.75
Profit per share excluding redundancy costs	$0.72	$1.12	$2.18

SUPPLEMENTAL CONSOLIDATING DATA

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

Consolidated – Caterpillar Inc. and its subsidiaries.

Machinery and Engines – The Machinery and Engines data contained in the schedules on pages 70 to 77 are “non-GAAP financial measures” as defined by the Securities and Exchange Commission in Item 10(e) of Regulation S-K. These non-GAAP financial measures have no standardized meaning prescribed by U.S. GAAP, and therefore, are unlikely to be comparable with the calculation of similar measures for other companies. Management does not intend these items to be considered in isolation or as a substitute for the related GAAP measures. Caterpillar defines Machinery and Engines as it is presented in the supplemental data as Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis. Machinery and Engines information relates to our design, manufacturing, marketing and parts distribution operations. Financial Products information relates to the financing to customers and dealers for the purchase and lease of Caterpillar and other equipment. The nature of these businesses is different especially with regard to the financial position and cash flow items. Caterpillar management utilizes this presentation internally to highlight these differences. We also believe this presentation will assist readers in understanding our business.

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

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

Pages 70 to 77 reconcile Machinery and Engines 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, 2010
(Unaudited)
(Millions of dollars)

	Consolidated	Supplemental Consolidating Data Machinery and Engines[1]	Financial Products	Consolidating Adjustments
Sales and revenues:				
Sales of Machinery and Engines	$9,723	$9,723	$—	$—
Revenues of Financial Products	686	—	753	(67)[2]
Total sales and revenues	10,409	9,723	753	(67)
Operating costs:				
Cost of goods sold	7,372	7,372	—	—
Selling, general and administrative expenses	1,059	918	145	(4)[3]
Research and development expenses	450	450	—	—
Interest expense of Financial Products	234	—	234	—[4]
Other operating (income) expenses	317	44	282	(9)[3]
Total operating costs	9,432	8,784	661	(13)
Operating profit (loss)	977	939	92	(54)
Interest expense excluding Financial Products	81	102	—	(21)[4]
Other income (expense)	50	—	17	33[5]
Consolidated profit (loss) before taxes	946	837	109	—
Provision (benefit) for income taxes	209	193	16	—
Profit (loss) of consolidated companies	737	644	93	—
Equity in profit (loss) of unconsolidated affiliated companies	(4)	(4)	—	—
Equity in profit of Financial Products' subsidiaries	—	90	—	(90)[6]
Profit (loss) of consolidated and affiliated companies	733	730	93	(90)
Less: Profit (loss) attributable to noncontrolling interests	26	23	3	—
Profit (loss) [7]	$707	$707	$90	$(90)

1 Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.
2 Elimination of Financial Products' revenues earned from Machinery and Engines.
3 Elimination of net expenses recorded by Machinery and Engines paid to Financial Products.
4 Elimination of interest expense recorded between Financial Products and Machinery and Engines.
5 Elimination of discount recorded by Machinery and Engines on receivables sold to Financial Products and of interest earned between Machinery and Engines and Financial Products.
6 Elimination of Financial Products' profit due to equity method of accounting.
7 Profit (loss) attributable to common stockholders.

Caterpillar Inc.
Supplemental Data for Results of Operations
For The Three Months Ended June 30, 2009
(Unaudited)
(Millions of dollars)

		Supplemental Consolidating Data		
	Consolidated	Machinery and Engines[1]	Financial Products	Consolidating Adjustments
Sales and revenues:				
Sales of Machinery and Engines	$7,254	$7,254	$—	$—
Revenues of Financial Products	721	—	814	(93)[2]
Total sales and revenues	7,975	7,254	814	(93)
Operating costs:				
Cost of goods sold	5,752	5,752	—	—
Selling, general and administrative expenses	914	789	129	(4)[3]
Research and development expenses	351	351	—	—
Interest expense of Financial Products	272	—	272	—[4]
Other operating (income) expenses	339	59	286	(6)[3]
Total operating costs	7,628	6,951	687	(10)
Operating profit (loss)	347	303	127	(83)
Interest expense excluding Financial Products	109	139	—	(30)[4]
Other income (expense)	163	97	13	53[5]
Consolidated profit (loss) before taxes	401	261	140	—
Provision (benefit) for income taxes	40	6	34	—
Profit (loss) of consolidated companies	361	255	106	—
Equity in profit (loss) of unconsolidated affiliated companies	(1)	(1)	—	—
Equity in profit of Financial Products' subsidiaries	—	102	—	(102)[6]
Profit (loss) of consolidated and affiliated companies	360	356	106	(102)
Less: Profit (loss) attributable to noncontrolling interests	(11)	(15)	4	—
Profit (loss) [7]	$371	$371	$102	$(102)

1 Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.
2 Elimination of Financial Products' revenues earned from Machinery and Engines.
3 Elimination of net expenses recorded by Machinery and Engines paid to Financial Products.
4 Elimination of interest expense recorded between Financial Products and Machinery and Engines.
5 Elimination of discount recorded by Machinery and Engines on receivables sold to Financial Products and of interest earned between Machinery and Engines and Financial Products.
6 Elimination of Financial Products' profit due to equity method of accounting.
7 Profit (loss) attributable to common stockholders.

Caterpillar Inc.
Supplemental Data for Results of Operations
For The Six Months Ended June 30, 2010
(Unaudited)
(Millions of dollars)

		Supplemental Consolidating Data		
	Consolidated	Machinery and Engines[1]	Financial Products	Consolidating Adjustments
Sales and revenues:				
Sales of Machinery and Engines	$17,274	$17,274	$—	$—
Revenues of Financial Products	1,373	—	1,499	(126)[2]
Total sales and revenues	18,647	17,274	1,499	(126)
Operating costs:				
Cost of goods sold	13,266	13,266	—	—
Selling, general and administrative expenses	1,991	1,716	289	(14)[3]
Research and development expenses	852	852	—	—
Interest expense of Financial Products	467	—	468	(1)[4]
Other operating (income) expenses	586	43	553	(10)[3]
Total operating costs	17,162	15,877	1,310	(25)
Operating profit (loss)	1,485	1,397	189	(101)
Interest expense excluding Financial Products	183	224	—	(41)[4]
Other income (expense)	113	23	30	60[5]
Consolidated profit (loss) before taxes	1,415	1,196	219	—
Provision (benefit) for income taxes	440	395	45	—
Profit (loss) of consolidated companies	975	801	174	—
Equity in profit (loss) of unconsolidated affiliated companies	(6)	(6)	—	—
Equity in profit of Financial Products' subsidiaries	—	169	—	(169)[6]
Profit (loss) of consolidated and affiliated companies	969	964	174	(169)
Less: Profit (loss) attributable to noncontrolling interests	29	24	5	—
Profit (loss) [7]	$940	$940	$169	$(169)

1 Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.
2 Elimination of Financial Products' revenues earned from Machinery and Engines.
3 Elimination of net expenses recorded by Machinery and Engines paid to Financial Products.
4 Elimination of interest expense recorded between Financial Products and Machinery and Engines.
5 Elimination of discount recorded by Machinery and Engines on receivables sold to Financial Products and of interest earned between Machinery and Engines and Financial Products.
6 Elimination of Financial Products' profit due to equity method of accounting.
7 Profit (loss) attributable to common stockholders.

Caterpillar Inc.
Supplemental Data for Results of Operations
For The Six Months Ended June 30, 2009
(Unaudited)
(Millions of dollars)

		Supplemental Consolidating Data		
	Consolidated	Machinery and Engines[1]	Financial Products	Consolidating Adjustments
Sales and revenues:				
Sales of Machinery and Engines	$15,764	$15,764	$—	$—
Revenues of Financial Products	1,436	—	1,610	(174)[2]
Total sales and revenues	17,200	15,764	1,610	(174)
Operating costs:				
Cost of goods sold	12,779	12,779	—	—
Selling, general and administrative expenses	1,796	1,549	254	(7)[3]
Research and development expenses	739	739	—	—
Interest expense of Financial Products	551	—	554	(3)[4]
Other operating (income) expenses	1,163	605	576	(18)[3]
Total operating costs	17,028	15,672	1,384	(28)
Operating profit (loss)	172	92	226	(146)
Interest expense excluding Financial Products	210	253	—	(43)[4]
Other income (expense)	227	131	(7)	103[5]
Consolidated profit (loss) before taxes	189	(30)	219	—
Provision (benefit) for income taxes	(40)	(93)	53	—
Profit (loss) of consolidated companies	229	63	166	—
Equity in profit (loss) of unconsolidated affiliated companies	—	—	—	—
Equity in profit of Financial Products' subsidiaries	—	158	—	(158)[6]
Profit (loss) of consolidated and affiliated companies	229	221	166	(158)
Less: Profit (loss) attributable to noncontrolling interests	(30)	(38)	8	—
Profit (loss) [7]	$259	$259	$158	$(158)

1 Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.
2 Elimination of Financial Products' revenues earned from Machinery and Engines.
3 Elimination of net expenses recorded by Machinery and Engines paid to Financial Products.
4 Elimination of interest expense recorded between Financial Products and Machinery and Engines.
5 Elimination of discount recorded by Machinery and Engines on receivables sold to Financial Products and of interest earned between Machinery and Engines and Financial Products.
6 Elimination of Financial Products' profit due to equity method of accounting.
7 Profit (loss) attributable to common stockholders.

Caterpillar Inc.
Supplemental Data for Financial Position
At June 30, 2010
(Unaudited)
(Millions of dollars)

		Supplemental Consolidating Data		
	Consolidated	**Machinery and Engines[1]**	**Financial Products**	**Consolidating Adjustments**
Assets				
Current assets:				
Cash and short-term investments	$3,597	$1,900	$1,697	$—
Receivables – trade and other	6,348	4,861	1,105	382[2,3]
Receivables – finance	8,086	—	9,878	(1,792)[3]
Deferred and refundable income taxes	1,041	935	106	—
Prepaid expenses and other current assets	965	302	675	(12)[4]
Inventories	7,339	7,339	—	—
Total current assets	27,376	15,337	13,461	(1,422)
Property, plant and equipment – net	11,763	8,940	2,823	—
Long-term receivables – trade and other	1,150	274	266	610[2,3]
Long-term receivables – finance	11,585	—	12,247	(662)[3]
Investments in unconsolidated affiliated companies	154	146	8	—
Investments in Financial Products subsidiaries	—	3,762	—	(3,762)[5]
Noncurrent deferred and refundable income taxes	2,464	2,990	60	(586)[6]
Intangible assets	485	475	10	—
Goodwill	2,292	2,276	16	—
Other assets	1,524	309	1,215	—
Total assets	$58,793	$34,509	$30,106	$(5,822)
Liabilities				
Current liabilities:				
Short-term borrowings	$3,647	$933	$4,030	$(1,316)[7]
Accounts payable	3,975	3,877	186	(88)[8]
Accrued expenses	3,083	1,979	1,117	(13)[9]
Accrued wages, salaries and employee benefits	1,182	1,164	18	—
Customer advances	1,404	1,404	—	—
Dividends Payable	277	277	—	—
Other current liabilities	936	891	57	(12)[6]
Long-term debt due within one year	5,280	434	4,846	—
Total current liabilities	19,784	10,959	10,254	(1,429)
Long-term debt due after one year	20,226	4,886	15,398	(58)[7]
Liability for postemployment benefits	6,977	6,977	—	—
Other liabilities	2,102	1,983	692	(573)[6]
Total liabilities	49,089	24,805	26,344	(2,060)
Commitments and contingencies				
Redeemable noncontrolling interest	432	432	—	—
Stockholders' equity				
Common stock	3,636	3,636	902	(902)[5]
Treasury stock	(10,539)	(10,539)	—	—
Profit employed in the business	20,133	20,133	2,845	(2,845)[5]
Accumulated other comprehensive income (loss)	(4,045)	(4,045)	(61)	61[5]
Noncontrolling interests	87	87	76	(76)[5]
Total stockholders' equity	9,272	9,272	3,762	(3,762)
Total liabilities, redeemable noncontrolling interest and stockholders' equity	$58,793	$34,509	$30,106	$(5,822)

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

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

	Consolidated	Supplemental Consolidating Data: Machinery and Engines[1]	Supplemental Consolidating Data: Financial Products	Supplemental Consolidating Data: Consolidating Adjustments
Assets				
Current assets:				
Cash and short-term investments	$4,867	$2,239	$2,628	$—
Receivables – trade and other	5,611	3,705	1,464	442[2,3]
Receivables – finance	8,301	—	9,872	(1,571)[3]
Deferred and refundable income taxes	1,216	1,094	122	—
Prepaid expenses and other current assets	862	385	503	(26)[4]
Inventories	6,360	6,360	—	—
Total current assets	27,217	13,783	14,589	(1,155)
Property, plant and equipment – net	12,386	9,308	3,078	—
Long-term receivables – trade and other	971	381	182	408[2,3]
Long-term receivables – finance	12,279	—	12,717	(438)[3]
Investments in unconsolidated affiliated companies	105	97	8	—
Investments in Financial Products subsidiaries	—	4,514	—	(4,514)[5]
Noncurrent deferred and refundable income taxes	2,714	3,083	65	(434)[6]
Intangible assets	465	464	1	—
Goodwill	2,269	2,269	—	—
Other assets	1,632	297	1,335	—
Total assets	$60,038	$34,196	$31,975	$(6,133)
Liabilities				
Current liabilities:				
Short-term borrowings	$4,083	$1,433	$3,676	$(1,026)[7]
Accounts payable	2,993	2,862	229	(98)[8]
Accrued expenses	3,351	2,055	1,323	(27)[9]
Accrued wages, salaries and employee benefits	797	790	7	—
Customer advances	1,217	1,217	—	—
Dividends payable	262	262	—	—
Other current liabilities	888	808	101	(21)[6]
Long-term debt due within one year	5,701	302	5,399	—
Total current liabilities	19,292	9,729	10,735	(1,172)
Long-term debt due after one year	21,847	5,687	16,195	(35)[7]
Liability for postemployment benefits	7,420	7,420	—	—
Other liabilities	2,179	2,060	531	(412)[6]
Total liabilities	50,738	24,896	27,461	(1,619)
Commitments and contingencies				
Redeemable noncontrolling interest	477	477	—	—
Stockholders' equity				
Common stock	3,439	3,439	883	(883)[5]
Treasury stock	(10,646)	(10,646)	—	—
Profit employed in the business	19,711	19,711	3,282	(3,282)[5]
Accumulated other comprehensive income (loss)	(3,764)	(3,764)	279	(279)[5]
Noncontrolling interests	83	83	70	(70)[5]
Total stockholders' equity	8,823	8,823	4,514	(4,514)
Total liabilities, redeemable noncontrolling interest and stockholders' equity	$60,038	$34,196	$31,975	$(6,133)

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

2 Elimination of receivables between Machinery and Engines and Financial Products.

3 Reclassification of Machinery and Engines' trade receivables purchased by Cat Financial and Cat Financial's wholesale inventory receivables.

4 Elimination of Machinery and Engines' insurance premiums that are prepaid to Financial Products.

5 Elimination of Financial Products' equity which is accounted for by Machinery and Engines on the equity basis.

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

7 Elimination of debt between Machinery and Engines and Financial Products.

8 Elimination of payables between Machinery and Engines and Financial Products.

9 Elimination of prepaid insurance in Financial Products' accrued expenses.

Caterpillar Inc.
Supplemental Data for Cash Flow
For The Six Months Ended June 30, 2010
(Unaudited)
(Millions of dollars)

		Supplemental Consolidating Data		
	Consolidated	Machinery and Engines[1]	Financial Products	Consolidating Adjustments
Cash flow from operating activities:				
Profit (loss) of consolidated and affiliated companies	$969	$964	$174	$(169)[2]
Adjustments for non-cash items:				
Depreciation and amortization	1,116	750	366	—
Other	176	201	(95)	70[4]
Financial Products' dividend in excess of profit	—	431	—	(431)[3]
Changes in assets and liabilities:				
Receivables - trade and other	(1,096)	(701)	64	(459)[4,5]
Inventories	(1,020)	(1,018)	—	(2)[4]
Accounts payable	1,151	1,153	(9)	7[4]
Accrued expenses	(91)	(12)	(93)	14[4]
Customer advances	171	171	—	—
Other assets – net	288	142	8	138[4]
Other liabilities – net	79	276	(45)	(152)[4]
Net cash provided by (used for) operating activities	1,743	2,357	370	(984)
Cash flow from investing activities:				
Capital expenditures - excluding equipment leased to others	(484)	(492)	(1)	9[4]
Expenditures for equipment leased to others	(372)	—	(397)	25[4]
Proceeds from disposals of property, plant and equipment	755	47	724	(16)[4]
Additions to finance receivables	(4,017)	—	(11,689)	7,672[5]
Collections of finance receivables	4,161	—	11,467	(7,306)[5]
Proceeds from sale of finance receivables	5	—	5	—
Net intercompany borrowings	—	(574)	286	288[6]
Investments and acquisitions (net of cash acquired)	(170)	(138)	(32)	—
Proceeds from sale of available-for-sale securities	90	3	87	—
Investments in available-for-sale securities	(81)	(1)	(80)	—
Other – net	6	2	(16)	20[7]
Net cash provided by (used for) investing activities	(107)	(1,153)	354	692
Cash flow from financing activities:				
Dividends paid	(527)	(527)	(600)	600[8]
Common stock issued, including treasury shares reissued	84	84	20	(20)[7]
Excess tax benefit from stock-based compensation	39	39	—	—
Acquisitions of noncontrolling interests	(26)	(26)	—	—
Net intercompany borrowings	—	(286)	574	(288)[6]
Proceeds from debt issued (original maturities greater than three months)	4,251	126	4,125	—
Payments on debt (original maturities greater than three months)	(6,471)	(889)	(5,582)	—
Short-term borrowings – net (original maturities three months or less)	(136)	(30)	(106)	—
Net cash provided by (used for) financing activities	(2,786)	(1,509)	(1,569)	292
Effect of exchange rate changes on cash	(120)	(34)	(86)	—
Increase (decrease) in cash and short-term investments	(1,270)	(339)	(931)	—
Cash and short-term investments at beginning of period	4,867	2,239	2,628	—
Cash and short-term investments at end of period	$3,597	$1,900	$1,697	$—

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

2 Elimination of Financial Products' profit after tax due to equity method of accounting.

3 Elimination of Financial Products' dividend to Machinery and Engines in excess of Financial Products' profit.

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

5 Reclassification of Cat Financial's cash flow activity from investing to operating for receivables that arose from the sale of inventory.

6 Elimination of net proceeds and payments to/from Machinery and Engines and Financial Products.

7 Elimination of change in investment and common stock related to Financial Products.

8 Elimination of dividend from Financial Products to Machinery and Engines.

Caterpillar Inc.
Supplemental Data for Cash Flow
For The Six Months Ended June 30, 2009
(Unaudited)
(Millions of dollars)

		Supplemental Consolidating Data		
	Consolidated	Machinery and Engines[1]	Financial Products	Consolidating Adjustments
Cash flow from operating activities:				
Profit (loss) of consolidated and affiliated companies	$229	$221	$166	$(158)[2]
Adjustments for non-cash items:				
Depreciation and amortization	1,072	710	362	—
Undistributed profit of Financial Products	—	(158)	—	158[3]
Other	59	258	(270)	71[4]
Changes in assets and liabilities:				
Receivables - trade and other	3,133	1,446	102	1,585[4,5]
Inventories	1,631	1,631	—	—
Accounts payable	(2,181)	(2,151)	(74)	44[4]
Accrued expenses	(536)	(512)	(33)	9[4]
Customer advances	(338)	(338)	—	—
Other assets – net	168	(50)	241	(23)[4]
Other liabilities – net	(434)	(474)	24	16[4]
Net cash provided by (used for) operating activities	2,803	583	518	1,702
Cash flow from investing activities:				
Capital expenditures - excluding equipment leased to others	(443)	(442)	(1)	—
Expenditures for equipment leased to others	(441)	—	(442)	1[4]
Proceeds from disposals of property, plant and equipment	454	41	413	—
Additions to finance receivables	(3,800)	—	(10,939)	7,139[5]
Collections of finance receivables	5,119	—	13,170	(8,051)[5]
Proceeds from sale of finance receivables	93	—	884	(791)[5]
Net intercompany borrowings	—	430	(1,016)	586[6]
Investments and acquisitions (net of cash acquired)	—	—	—	—
Proceeds from sale of available-for-sale securities	170	3	167	—
Investments in available-for-sale securities	(251)	(4)	(247)	—
Other – net	(53)	(63)	(10)	20[7]
Net cash provided by (used for) investing activities	848	(35)	1,979	(1,096)
Cash flow from financing activities:				
Dividends paid	(505)	(505)	—	—
Common stock issued, including treasury shares reissued	31	31	20	(20)[7]
Excess tax benefit from stock-based compensation	2	2	—	—
Acquisitions of noncontrolling interests	(6)	(6)	—	—
Net intercompany borrowings	—	1,016	(430)	(586)[6]
Proceeds from debt issued (original maturities greater than three months)	9,029	872	8,157	—
Payments on debt (original maturities greater than three months)	(7,570)	(915)	(6,655)	—
Short-term borrowings – net (original maturities three months or less)	(3,365)	(873)	(2,492)	—
Net cash provided by (used for) financing activities	(2,384)	(378)	(1,400)	(606)
Effect of exchange rate changes on cash	(12)	(12)	—	—
Increase (decrease) in cash and short-term investments	1,255	158	1,097	—
Cash and short-term investments at beginning of period	2,736	1,517	1,219	—
Cash and short-term investments at end of period	$3,991	$1,675	$2,316	$—

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

2010 OUTLOOK

Economic Outlook

The worldwide economic recovery continued with strong growth in developing economies. We expect recovery to continue with worldwide economic growth of about 3.5 percent for 2010.

- Economic news in Europe and the United States has been less favorable recently, and concerns about a "double-dip" recession increased. However, this type of recession typically results from significant policy tightening very early in a recovery. We do not believe such a policy shift has occurred.

- Increased concern about the economic recovery should encourage central bankers to become even more cautious about tightening economic policies. As a result, we no longer expect central bankers to increase interest rates this year in the United States or the Euro-zone.

- Credit spreads have widened but remain well below averages sustained during the credit crisis. Spreads are generally consistent with continued economic recovery.

- We expect that developing economies will continue to drive the recovery and are forecasting economic growth in those regions of almost 7 percent in 2010. We also expect that developed economies will continue to lag and are forecasting economic growth of less than 2.5 percent in 2010.

Commodities

- Metals demand is increasingly concentrated in the developing economies, and their strong growth should keep prices favorable for increased production and investment. Our forecast is that copper prices will average more than $3.00 per pound this year.

- Increases in oil prices have resulted in about 3 percent higher world oil production and a significant increase in active drill rigs. We project the West Texas Intermediate crude oil price will average about $80 per barrel.

- The vigorous economic recovery in Asia, particularly China, has increased coal demand and supported a 40-percent increase in Australian coal prices compared to the first half of 2009. We forecast Australian thermal coal prices will average more than $95 per metric ton, and Central Appalachian coal prices will average more than $60 per ton. Coal prices at those levels should be high enough to encourage further increases in production.

Developing Economies

- Over the past several years, many developing countries have managed their economies well, achieving rapid economic growth without creating significant inflation problems. Most resumed economic growth in the second quarter of 2009, and we expect these countries to maintain continued growth through the end of the year.

- Asia/Pacific economies should continue to grow at the fastest pace, with growth of about 8.5 percent expected this year. Our forecast assumes China will grow 10.5 percent, India 8.5 percent and the remaining economies will average more than 6-percent growth.

- In response to concerns about slowing economic growth, China recently announced a program of more than $100 billion of infrastructure development. We also expect China's central bank will hold interest rates steady this year.

- Consumer price inflation has increased in India, and India's central bank has raised interest rates three times so far this year. We expect two more rate increases in 2010, but expect only a moderate slowing in economic growth and construction spending.

- We forecast the Africa/Middle East economies will grow 4.5 percent in 2010. Positives include favorable metals and energy prices, low interest rates and strengthening recoveries in both South Africa and Turkey.

- The CIS economy should grow 4.5 percent this year. Interest rates have dropped sharply over the past year, helping the recovery to strengthen. The region should also benefit from higher commodity prices.

- Recovery in Latin American economies continued to strengthen through the first half of 2010, and we expect the regional economy will grow 4.5 percent this year. Both construction and mining should continue to expand.

Developed Economies

- Very low inflation, weak credit demand, high unemployment and low capacity utilization indicate a low risk of growing inflation or asset price bubbles. As a result, we expect that central banks in the United States, the Euro-zone, the United Kingdom and Japan will hold interest rates steady for the remainder of the year.

- Our forecast of U.S. economic growth is 3 percent, and our estimate of housing starts is 675,000 units. Starts of that amount would be the second lowest since 1945. Nonresidential construction, which typically lags the economy, is expected to decline for the third consecutive year. Mining, largely benefiting from global commodity demand, should increase.

- We expect the Euro-zone will continue to lag behind other economies, with growth of more than 1 percent this year. While the government debt crisis has led to widening credit spreads, the European Central Bank appears to be providing enough liquidity to avoid a downturn. Construction, which peaked in late 2006, likely will be down for the year.

- The Bank of Japan continued to increase liquidity in the banking system, and the economy has grown 4.2 percent since the recession ended in the first quarter of 2009. That growth rate was the highest in nearly 20 years. We expect the central bank will increase liquidity further, fostering economic growth of more than 3 percent in 2010.

2010 Sales and Revenues Outlook

The outlook for sales and revenues is a range of $39 to $42 billion, up from the previous forecast of $38 to $42 billion. The increase in the sales outlook is a result of continuing improvement in end-user demand partially offset by the unfavorable impact of currency. Key elements of the 2010 sales and revenues outlook compared with 2009 include:

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

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

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

- We expect that price realization will be positive by more than 1 percent in 2010.

- While Machinery sales are expected to increase in 2010, at the midpoint of the outlook range, Engines sales are expected to be about flat. Turbine sales in 2010 are expected to be near the record levels of 2009.

2010 Profit Outlook

Profit is expected to be in a range of $3.15 to $3.85 per share. The previous outlook expected profit in a range of $2.50 to $3.25 per share.

Key positive elements of the profit outlook for 2010 compared to 2009 include:

- Higher sales volume.

- In 2009, employee redundancy costs were $706 million, or $0.75 per share. We do not anticipate significant redundancy costs in 2010.

- We expect that price realization will be positive by more than 1 percent in 2010.

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

- Material costs are expected to be favorable in 2010.

- Financial Products' profit before tax is expected to be up slightly from 2009.

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

- Product mix is expected to be unfavorable.

- Higher income taxes. We are forecasting income taxes to be an expense of about 29 percent of profit before tax plus the $90 million charge in the first quarter related to signing of the U.S. health care legislation and discrete benefits of about $60 million in the second quarter.

- Higher costs of about $600 million related to incentive compensation due to improving financial performance.

- R&D expense is expected to increase primarily to support product development programs related to EPA Tier 4 emissions requirements.

- We are not forecasting LIFO inventory decrement benefits for 2010. LIFO decrement benefits in 2009 were $300 million.

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

- Pension expense is expected to be higher in 2010.

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

- Diluted shares outstanding are expected to be higher than the 2009 full-year average. This is a result of stock contributed to our employee benefit plans, as well as increased dilution related to the increase in the share price.

During the second quarter of 2010, we signed a definitive agreement to acquire Electro-Motive Diesel (EMD). As this acquisition has not yet closed, our 2010 outlook does not include any sales and revenues or profit impact related to EMD.

Forward-looking Statements

Certain statements in this Form 10-Q relate to future events and expectations and, as such, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to known and unknown factors that may cause actual results of Caterpillar Inc. to be different from those expressed or implied in the forward-looking statements. Words such as "believe," "estimate," "will be," "will," "would," "expect," "anticipate," "plan," "project," "intend," "could," "should" or other similar words or expressions often identify forward-looking statements. All statements other than statements of historical fact are forward-looking statements, including, without limitation, statements regarding our outlook, projections, forecasts or trend descriptions. These statements do not guarantee future performance, and Caterpillar does not undertake to update its forward-looking statements.

It is important to note that actual results of the company may differ materially from those described or implied in such forward-looking statements based on a number of factors, including, but not limited to: (i) economic volatility in the global economy generally and in capital and credit markets; (ii) Caterpillar's ability to generate cash from operations, secure external funding for operations and manage liquidity needs; (iii) adverse changes in the economic conditions of the industries or markets Caterpillar serves; (iv) government regulations or policies, including those affecting interest rates, liquidity, access to capital and government spending on infrastructure development; (v) commodity price increases and/or limited availability of raw materials and component products, including steel; (vi) compliance costs associated with environmental laws and regulations; (vii) Caterpillar's and Cat Financial's ability to maintain their respective credit ratings, material increases in either company's cost of borrowing or an inability of either company to access capital markets; (viii) financial condition and credit worthiness of Cat Financial's customers; (ix) material adverse changes in our customers' access to liquidity and capital; (x) market acceptance of Caterpillar's products and services; (xi) effects of changes in the competitive environment, which may include decreased market share, lack of acceptance of price increases, and/or negative changes to our geographic and product mix of sales; (xii) Caterpillar's ability to successfully implement Caterpillar Production System or other productivity initiatives; (xiii) international trade and investment policies, such as import quotas, capital controls or tariffs; (xiv) failure of Caterpillar or Cat Financial to comply with financial covenants in their respective credit facilities; (xv) adverse changes in sourcing practices for our dealers or original equipment manufacturers; (xvi) additional tax expense or exposure; (xvii) political and economic risks associated with our global operations, including changes in laws, regulations or government policies, currency restrictions, restrictions on repatriation of earnings, burdensome tariffs or quotas, national and international conflict, including terrorist acts and political and economic instability or civil unrest in the countries in which Caterpillar operates; (xviii) currency fluctuations, particularly increases and decreases in the U.S. dollar against other currencies; (xix) increased payment obligations under our pension plans; (xx) inability to successfully integrate and realize expected benefits from acquisitions; (xxi) significant legal proceedings, claims, lawsuits or investigations; (xxii) imposition of significant costs or restrictions due to the enactment and implementation of health care reform legislation and proposed financial regulation legislation; (xxiii) changes in accounting standards or adoption of new accounting standards; (xxiv) adverse effects of natural disasters; and (xxv) other factors described in more detail under "Item 1A. Risk Factors" in Part I of our Form 10-K filed with the SEC on February 19, 2010 for the year ended December 31, 2009 and in Part II of our Form 10-Q filed with the SEC on May 3, 2010 for the quarter ended March 31, 2010. These filings are available on our website at www.cat.com/sec_filings.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information required by this Item is incorporated by reference from Note 4 — "Derivative 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 of the end of the period covered by this quarterly report. Based on that evaluation, the company's management, including the CEO and CFO, concluded that the company's disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

Changes in internal control over financial reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

Issuer Purchases of Equity Securities

No shares were repurchased during the second quarter 2010.

Other Purchases of Equity Securities

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased Under the Program	Approximate Dollar Value of Shares that may yet be Purchased under the Program
April 1-30, 2010	1,490	$59.13	NA	NA
May 1-31, 2010	1,629	$65.28	NA	NA
June 1-30, 2010	1,366	$60.43	NA	NA
Total	**4,485**	$61.76		

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

Non-U.S. Employee Stock Purchase Plans

We have 30 employee stock purchase plans administered outside the United States for our non-U.S. employees. As of June 30, 2010, those plans had approximately 10,700 active participants in the aggregate. During the second quarter of 2010, approximately 225,000 shares of Caterpillar common stock or foreign denominated equivalents were distributed under the plans. Participants in some foreign plans have the option of receiving non-U.S. share certificates (foreign-denominated equivalents) in lieu of U.S. shares of Caterpillar common stock upon withdrawal from the plan. These equivalent certificates are tradable only on the local stock market and are included in our determination of shares outstanding.

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

Item 6. Exhibits

3.1	Restated Certificate of Incorporation.
3.2	Bylaws amended and restated as of June 9, 2010.
4.1	Indenture dated as of May 1, 1987, between the Registrant and The First National Bank of Chicago, as Trustee (incorporated by reference from Exhibit 4.1 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).
4.2	First Supplemental Indenture, dated as of June 1, 1989, between Caterpillar Inc. and The First National Bank of Chicago, as Trustee (incorporated by reference from Exhibit 4.2 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).
4.3	Appointment of Citibank, N.A. as Successor Trustee, dated October 1, 1991, under the Indenture, as supplemented, dated as of May 1, 1987 (incorporated by reference from Exhibit 4.3 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).
4.4	Second Supplemental Indenture, dated as of May 15, 1992, between Caterpillar Inc. and Citibank, N.A., as Successor Trustee (incorporated by reference from Exhibit 4.4 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).
4.5	Third Supplemental Indenture, dated as of December 16, 1996, between Caterpillar Inc. and Citibank, N.A., as Successor Trustee (incorporated by reference from Exhibit 4.5 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).
4.6	Tri-Party Agreement, dated as of November 2, 2006, between Caterpillar Inc., Citibank, N.A. and U.S. Bank National Association appointing U.S. Bank as Successor Trustee under the Indenture dated as of May 1, 1987, as amended and supplemented (incorporated by reference from Exhibit 4.6 to the 2006 Form 10-K).
10.1	Separation and Release Agreement dated May 25, 2010.
10.2	Administrative Support and Home Security letter dated June 9, 2010.
10.3	Caterpillar Inc. 2006 Long-Term Incentive Plan (as amended and restated effective June 9, 2010).
11	Computations of Earnings per Share (included in Note 11 of this Form 10-Q filed for the quarter ended June 30, 2010).
14	Code of Ethics.
31.1	Certification of Douglas R. Oberhelman, 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, 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.

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.

July 30, 2010	*/s/ Douglas R. Oberhelman* (Douglas R. Oberhelman)	Chief Executive Officer
July 30, 2010	*/s/ Edward J. Rapp* (Edward J. Rapp)	Group President and Chief Financial Officer
July 30, 2010	*/s/ James B. Buda* (James B. Buda)	Vice President, Chief Legal Officer and Secretary
July 30, 2010	*/s/ Jananne A. Copeland* (Jananne A. Copeland)	Corporate Controller and Chief Accounting Officer

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 or the President, 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.

(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 James B. Buda, its Secretary, this 22nd day of July, 2010.

Caterpillar Inc.

By: *_/s/ Douglas R. Oberhelman_*
Name: Douglas R. Oberhelman
Title: Chief Executive Officer

ATTEST:

By: *_/s/ James B. Buda_*
Name: James B. Buda
Title: Secretary

CATERPILLAR INC.
BYLAWS

(as amended and restated as of June 9, 2010)

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 April 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, 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 45 days nor more than 90 days prior to the meeting; provided, however, that in the event that less than 60 days' notice of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the fifteenth (15th) day following the date on which such notice of the date of the annual meeting was mailed. 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, (b) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (c) the class and number of shares of the corporation which are beneficially owned by the stockholder and (d) any material interest of the stockholder in such business. Notwithstanding anything in the bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 1(b)(ii). 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. 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 or the vice chairman, 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.

(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 not later than (1) with respect to an election to be held at an annual meeting of stockholders, ninety (90) days in advance of such meeting, and (2) with respect to an election to be held at a special meeting of stockholders for the election of directors, the close of business on the tenth (10th) day following the date on which notice of such meeting is first given to stockholders. Each such notice shall set forth: (a) the name and address of the stockholder who intends to make the nomination 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) a description of all arrangements or understandings between the stockholder 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; (d) 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 (e) 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 the following times:

(i) 8:30 a.m. on the second Wednesday in February, April, June, August, October and December;

(ii) one-half hour prior to any special meeting of the stockholders, and immediately following the adjournment of any annual or special meeting of the stockholders.

Notice of all such regular meetings is hereby dispensed with.

(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. Notice of the time and place of special meetings shall be given by the secretary or an assistant secretary, or by any other officer authorized by the board. Such notice shall be given to each director personally or by mail, messenger, telephone or telegraph at his business or residence address. 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 telegraph 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.

(c) 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.

(d) Place of Meetings. Unless a resolution of the board of directors, or the written consent of all directors given either before or after the meeting and filed with the secretary, 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.

(e) Participation by Telephone. Members of the board may participate in a meeting through use of conference telephone or similar 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.

(f) 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 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, and the writing or writings 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 telegraph at his business or residence address at the times provided in subsection (b) 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 (c), (d) and (e) 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 so to do 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.

EXHIBIT 10.1

SEPARATION AND RELEASE AGREEMENT

THIS SEPARATION AND RELEASE AGREEMENT ("Agreement") is between David B. Burritt ("I," "me" or "my") and Caterpillar Inc. ("Employer"). Employer and I agree:

1. Employment through September 30, 2010. My employment with Employer will terminate effective October 1, 2010 (the "Termination Date"). My active service performing the function of Vice President, Global Finance & Strategic Services Division, and as Chief Financial Officer, will end effective June 1, 2010. I will continue as an active employee of Employer through September 30, 2010. During this period I have the opportunity to pursue full time employment opportunities with another employer without compromising my eligibility to receive the payments and benefits described in this Agreement. This provision in no way limits Employer's rights to enforce my obligations under Paragraph 6 of this Agreement. I agree that I will be available with appropriate advance notice (48 hours to the extent practicable) so as to not compromise any other employment obligations I may have, to perform such duties as required by the Chief Financial Officer through such date. From June 1, 2010 through September 30, 2010, I will continue to receive my current base salary and will be entitled to participate in the same employee benefit and incentive compensation plans/programs as other similarly situated employees, subject to any restrictions, limitations and discretionary authority specified in such plans and programs. By way of example but not limitation, I will be eligible to receive pro rata payments pursuant to the Caterpillar Inc. Short-Term Incentive Plan for Management, Salaried and Non-Bargained Hourly Employees ("STIP") and the Caterpillar Inc. Long-Term Cash Performance Plan ("LTCPP") to the extent of actual attainment of the respective STIP and LTCPP performance goals/metrics and in accordance with the terms and provisions of such plans. I understand that my final performance summary rating as an employee effective on October 1, 2010 will not negatively impact my receipt of STIP and LTCPP that I am eligible to receive as described in this Agreement. I further understand that after October 1, 2010 I will receive as part of my final wages payment for 22 days of vacation time that I will not have used during 2010 in the amount of $42,646.56.

2. Separation Payments and Benefits. Employer will provide me with the following separation payments and benefits, less applicable tax withholding and deductions, in addition to the compensation I will receive as an active employee through September 30, 2010:

A. A lump sum payment paid as soon as administratively practicable following October 1, 2010 of $857,027 in exchange for the promises set forth in paragraphs 3, 4, 5 and 11 of this Agreement. In no event shall such lump sum payment be paid later than December 31, 2010.

B. A lump sum payment paid as soon as administratively practicable following October 1, 2011 of $490,000, in exchange for the promises set forth in paragraph 6 of this Agreement. In no event shall such lump sum payment be paid later than December 31, 2011.

C. Outplacement services for a period of up to six months provided by Employer through the service provider Challenger, Gray, & Christmas, Inc. in exchange for any other promises made by me in this Agreement. I understand I may choose to commence these services in 2010 within 30 days of signing this agreement or on October 1, 2010. These services will continue for six (6) months after I choose to commence receipt of these services, or until I may be placed with another employer, whichever should occur first.

3. Release. I release the following parties from all claims I may have, known or unknown, against them:

- Employer;
- Employer's parent, subsidiary and affiliated companies;
- Employer's predecessors; and
- All of the above companies' agents, directors, officers, employees, representatives, fiduciaries, shareholders, successors and assigns.

My release of claims includes all claims related to my employment with Employer or the termination of my employment. For example, my release includes claims based on:

- Any federal statute, including: the False Claims Act (including any right to share in any recovery by the United States government); Title VII of the Civil Rights Act of 1964; the Civil Rights Act of 1866; the Civil Rights Act of 1874; the Age Discrimination in Employment Act (ADEA); the Equal Pay Act; the Americans with Disabilities Act; the Employee Retirement Income Security Act of 1974; and the National Labor Relations Act;
- Any state statute, including discrimination and whistleblower statutes;
- Any ordinance;
- Any express or implied contract between Employer and me;
- Any tort, such as defamation, misrepresentation, infliction of emotional distress, or fraud;
- Negligence; or
- Any other legal theory.

My release does not: (i) affect my right to obtain any vested and nonforfeitable balance in my accounts under any retirement plan; (ii) preclude me from exercising any conversion or continuation coverage rights I may have under Employer's welfare benefit plans; or (iii) waive my right to file an administrative charge with or participate in an administrative proceeding conducted by any governmental agency concerning my employment, although my release does waive my right to receive any individual remedy, including monetary damages, in connection with any charge.

4. Cooperation and Assistance. I agree that I will cooperate (i) with Employer in the investigation, prosecution or defense of any potential claims or concerns regarding Employer's or any affiliates' business about which I have relevant knowledge, including by providing truthful information and testimony as reasonably requested by Employer, and (ii) with all government authorities on matters pertaining to any investigation, litigation or administrative

proceeding concerning Employer or its affiliates. Employer will in turn cooperate and assist me with addressing any such matters and will reimburse me for any reasonable travel and out-of-pocket expenses I incur in providing such cooperation. I further agree to inform Employer of all subpoenas, correspondence, telephone calls, requests for information, inquiries or other contacts I may receive from third parties, including governmental agencies, concerning any fact or circumstances known to me during my employment with Employer. I agree to inform Employer within two (2) business days of each such contact. Employer will in accordance with its applicable bylaws and internal company policies indemnify me against any and all claims and losses that may arise as a result of acts or omissions by me in the scope of my employment, and/or my service as Vice President, Global Finance & Strategic Services Division, and as Chief Financial Officer.

5. Non-Disparagement. I agree not to make any negative comment about or otherwise disparage Employer or those associated with it orally or in writing, directly or by implication, to any person, including Employer's customers or agents. I further agree not to provide testimony as an expert or paid witness on behalf of a party adverse to Employer or its affiliates. This paragraph does not prohibit me from testifying pursuant to a subpoena or from accepting witness fees accompanying a subpoena, and this paragraph in no way limits my right to file a charge with or participate in any administrative proceeding conducted by a governmental agency relating to my employment.

6. Restrictive Covenants. For 12 months following my employment termination, I will not, directly or indirectly, without Employer's prior written consent, do any of the following:

a. Solicit any business competitive with any Caterpillar business from any person or entity who: (i) was a Caterpillar provider or customer within the 18 months before my employment termination and (ii) with whom I had contact to further Caterpillar's business or for whom I performed services, or supervised the provision of services for, during my employment;

b. Hire, employ, recruit or solicit any Caterpillar employee or consultant who possesses confidential information of Caterpillar;

c. Induce or influence any Caterpillar employee, consultant, customer or provider to terminate his, her or its employment or other relationship with Caterpillar;

d. Engage or participate in, or in any way render services or assistance to, any business that competes, directly or indirectly, with any Caterpillar product or service that I participated in, engaged in, or had Confidential Information regarding, in any geographic territory over which I had responsibilities, during the 18 months before my employment termination;

e. Assist anyone in any of the activities listed above.

If I violate the promises in this paragraph, in addition to all other remedies, I shall not be entitled to receive any further payments or benefits under this Agreement. However, my obligations, releases, and promises in this Agreement shall survive and be continuing. I specifically acknowledge and agree that that the consideration already provided by this Agreement is sufficient for the continuing obligations, releases and covenants herein.

7. Acknowledgment of Obligations. I acknowledge that during my employment, I developed and have been exposed to trade secrets or confidential information regarding Employer and its affiliates, including business strategies, operations, and actual and potential customers and suppliers ("Confidential Information"). Employer considers such Confidential Information to be valuable and proprietary. I agree that after my termination date I remain bound by the Intellectual Property Agreement that I signed during my employment with Employer. I acknowledge that I am under a continuing obligation to keep confidential, not disclose and not use any confidential information except as specifically authorized by Employer. I understand I will be required to sign an Exit Statement upon my separation from employment that reaffirms these obligations regarding trade secret and confidential information. Should I gain employment at other employers in the future, I understand that Employer has Conflict of Interest guidelines in effect that may impact its purchasing relationships and practices with such possible employers, as stated in Employer's Purchasing Practices No. 49. Both Employer and I agree that I should contact the Chief Financial Officer so that Employer may determine whether any such restriction on my future employment exists by operation of this Agreement, or whether any conflict of interest as contemplated by Purchasing Practices No.49 exists regarding my employment opportunities with such possible employers. Regarding the obligations of Purchasing Practices No.49, Employer and I agree that we will each use our best efforts to assess whether such conflict of interest may be avoided prior to my accepting employment with such other employers.

8. Disclosure. I have reviewed Employer's Worldwide Code of Business Conduct (the "Code") and I understand my obligations to Employer under the Code. I agree that I have been given an adequate opportunity to advise Employer, and that I have fully and truthfully advised Employer, of any facts that I am aware of that constitute or might constitute a violation of the Code, any other Employer policies, or any ethical, legal or contractual standards or obligations of Employer or its affiliates. If I learn of such facts in the future, I agree to report them to Employer by contacting Employer's Office of Business Practices.

9. Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights. Nothing in this Agreement is intended to or does supersede or otherwise affects the terms of any agreement, award document or certificate relating to a grant of stock options, restricted stock, restricted stock units or stock appreciation rights under the equity plans. My rights and obligations under any such agreement, award document or certificate, including but not limited to any restrictive covenants, remain in full force and effect according to their terms.

10. Reference. I agree that I will direct all inquiries regarding my employment, including those from prospective employers, to Employer's Chief Financial Officer.

11. Confidentiality of Agreement. Both Employer and I will keep this Agreement confidential except as required by law and I will not disclose its terms to anyone except my spouse or domestic partner, legal counsel, and financial or tax advisor, provided these individuals agree to be bound by the terms of this confidentiality provision, and as required by law.

12. Judicial Modification and Severability. If any of this Agreement's provisions is determined to be unenforceable, Both Employer and I agree that such provision should be modified so that it is enforceable or, if modification is not possible, that it should be severed, and the enforceability of the remaining provisions will not be affected by such modification or severance.

13. Period to Consider Signing Agreement. I have 45 days to consider whether to sign this Agreement.

14. Revocation Period. I may revoke this Agreement up to 7 days after I sign it. To be effective, my revocation must be: (i) in writing; (ii) sent to Alexander C. Giftos, Senior Corporate Counsel, 100 NE Adams Street, Peoria, IL 61629; and (iii) sent within the 7-day period in a manner that provides proof it was sent (e.g., postmarked within the 7-day period).

15. Consulting an Attorney. I understand that Employer has advised me to consult with an attorney prior to signing this Agreement, but that any legal consultation is at my own expense. I agree that I have had an adequate opportunity to consult with an attorney, I have read and understand this Agreement, and I am voluntarily signing this Agreement.

16. Internal Revenue Code Section 409A. I understand and agree that the separation payments made pursuant to this Agreement do not constitute deferred compensation for purposes of Section 409A of the Internal Revenue Code of 1986 and its accompanying regulations ("Section 409A"). Specifically, the payment described in Section 2.A. of this Agreement will be made in a manner that will cause it to be a short-term deferral as described in Treas. Reg. § 1.409A-1(b)(4) and the payment described in Section 2.B. constitutes separation pay due to involuntary separation from service as described in Treas. Reg. § 1.409A-1(b)(9)(iii). This Agreement shall be implemented and construed in a manner to give effect to the foregoing. In no event whatsoever shall Employer or any of its affiliates be liable for any tax, interest or penalties that may be imposed on me pursuant to Section 409A. Neither Employer nor any of its affiliates have any obligation to indemnify or otherwise hold me harmless from any such taxes, interest or penalties, or liability for any damages related thereto

17. Non-Admission. Nothing in this Agreement is intended to be an admission by Employer or myself that either party has violated any law or engaged in any wrongdoing.

18. Governing Law. This Agreement is governed by Illinois law.

19. Entire Agreement. This Agreement and any other documents referenced in it are the entire agreement between Employer and me regarding my employment termination. I agree that this Agreement may only be changed by a written amendment signed by both Employer and me. Any changes to this Agreement after it was first presented to me, whether material or immaterial, do not restart the decision period described in the Section entitled "Period to Consider Signing Agreement."

Date 5/24/10 *
/s/ David B. Burritt*
David B. Burritt

CATERPILLAR INC.

Date 5/25/10 *
/s/ Gregory S. Folley*
Gregory S. Folley
Vice President, Human Services Division

EXHIBIT 10.2

Caterpillar Inc.
100 NE Adams Street
Peoria, Illinois 61629

June 9, 2010

James W. Owens
Chairman and CEO
Caterpillar Inc.
100 NE Adams St.
Peoria, Illinois 61629

RE: Administrative Support & Home Security In Retirement

Jim:

The Compensation Committee recognizes the importance of having access to the tools and resources you'll need as you continue to represent and advocate for Caterpillar. Your role as a champion for the company in your retirement will be invaluable to our future success. The following outlines the terms of support provided by Caterpillar upon your retirement.

Peoria Office

An office will be made available to you for up to five (5) years following retirement at a Caterpillar facility in the Peoria area.

Administrative Assistant

Administrative assistant support will be provided by Caterpillar for up to five (5) years following your retirement. Administrative assistant support will be provided on an hourly basis up to, but not to exceed, 30 hours per week at a rate equal to the hourly rate paid to your current administrative assistant at the time of retirement for the first two (2) years. For the remaining three (3) years of the five-year period of administrative support, a reimbursement of $4,500 per month will be available for your use on any administrative needs you deem necessary. Per Caterpillar practice, the company will pay the administrative assistant monthly based on your sign-off on hours (first two years) or monthly reimbursement (last three years).

Home Security

Caterpillar will continue to provide home security, at your current level, through December 31, 2012. Following that, the company will continue to provide security on request at your current Peoria Heights residence on an out-of-pocket cost recovery basis to be paid by you.

IT support
A Caterpillar laptop computer, standard related home /office equipment/software and IT support will be provided for you and your Caterpillar administrative assistant for up to five (5) years following retirement. Starting with the date of your retirement, all e-mail communications will need to flow through personal e-mail accounts.

Travel Agent Support
You may continue to use BCD Travel or other company travel agencies for up to five (5) years, but of course will be responsible to pay for your own travel and related services.

If you feel any of these benefits become unnecessary before the specified dates above, you may elect to discontinue them at any time. Finally, please consult your tax advisor regarding the taxation of these benefits.

/s/ David R. Goode
David R. Goode
Chairman, Compensation Committee
Caterpillar Inc.

EXHIBIT 10.3

CATERPILLAR INC.
2006 LONG-TERM INCENTIVE PLAN

(as amended and restated effective June 9, 2010)

Section 1.
Establishment, Objectives and Duration

1.1. Establishment. With the approval of the stockholders of Caterpillar Inc., a Delaware corporation (the “Company”), the Company established the Caterpillar Inc. 2006 Long-Term Incentive Plan (the “Plan”) effective June 14, 2006. The Plan supersedes and replaces all prior equity and non-equity long-term incentive compensation plans or programs maintained by the Company; provided that, any prior plans of the Company shall remain in effect until all awards granted under such prior plans have been exercised, forfeited, canceled, expired or otherwise terminated in accordance with the terms of such grants.

1.2. Purpose. The Plan is intended to provide certain present and future employees and Directors cash-based incentives, stock-based incentives and other equity interests in the Company thereby giving them a stake in the growth and prosperity of the Company and encouraging the continuance of their services with the Company or its Subsidiaries.

1.3. Effective Date. The Plan was originally effective on June 14, 2006. This amendment and restatement of the Plan shall be effective as of the later of (a) the date the amendment and restatement of the Plan is adopted by the Board or (b) the date the Company’s stockholders approve the amendment and restatement of the Plan (the “Effective Date”). The amendment and restatement of the Plan will be deemed to be approved by the stockholders if it receives the affirmative vote of the holders of a majority of the shares of stock of the Company present or represented and entitled to vote at a meeting duly held in accordance with the applicable provisions of the Certificate of Incorporation or Bylaws of the Company.

1.4. Duration. The Plan shall remain in effect, subject to the right of the Company’s Board of Directors to amend or terminate the Plan at any time pursuant to Section 16, until all Shares subject to the Plan shall have been purchased or granted according to the Plan’s provisions. However, in no event may an Award be granted under the Plan on or after the tenth anniversary of the original effective date of the Plan, June 14, 2006. Upon termination of the Plan, no Awards may be granted but Awards previously granted shall remain outstanding in accordance with the terms of the Plan and the applicable Award Document.

Section 2.
Definitions and Construction

When a word or phrase appears in the Plan with the initial letter capitalized, and the word or phrase does not commence a sentence, the word or phrase shall generally be given the meaning ascribed to it in this Section unless a clearly different meaning is required by the context. The following words and phrases shall have the following meanings:

2.1. “Award” means, individually or collectively, a grant under the Plan of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Shares or Performance Units.

2.2. "Award Document" means any agreement, contract, or other written instrument that evidences an Award granted to the Participant under the Plan and sets forth the terms and provisions applicable to such Award.

2.3. "Award Gain" means (a) with respect to a given Option exercise, the product of (X) the excess of the Fair Market Value of a Share on the date of exercise over the Option Price times (Y) the number of shares as to which the Option was exercised at that date, and (b) with respect to any other settlement of an Award granted to the Participant, the Fair Market Value of the cash or Shares paid or payable to the Participant (regardless of any elective deferral pursuant to Section 13) less any cash or the Fair Market Value of any Shares or property (other than an Award that would have itself then been forfeitable hereunder and excluding any payment of tax withholding) paid by the Participant to the Company as a condition of or in connection with such settlement.

2.4. "Board" means the Board of Directors of the Company.

2.5. "Cause" means, except as otherwise provided in an Award Document, a willful engaging in gross misconduct materially and demonstrably injurious to the Company. For this purpose, "willful" means an act or omission in bad faith and without reasonable belief that such act or omission was in or not opposed to the best interests of the Company.

2.6. "Change of Control" means the occurrence of any of the following events: (a) any person becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the combined voting power of the Company's then outstanding common stock, unless the Board by resolution negates the effect of this provision in a particular circumstance, deeming that resolution to be in the best interests of Company stockholders; (b) during any period of two consecutive years, there shall cease to be a majority of the Board comprised of individuals who at the beginning of such period constituted the Board; (c) upon the consummation of a Company stockholder-approved merger or consolidation that results in the voting securities of the Company outstanding immediately prior thereto representing (either by remaining outstanding or by being converted into voting securities of the surviving entity) less than fifty percent of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (d) Company stockholders approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of its assets.

2.7. "Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor legislation thereto.

2.8. "Committee" means the Compensation Committee of the Board, appointed to administer the Plan, as provided in Section 3.

2.9. "Company" means Caterpillar Inc., a Delaware corporation, and any successor to such entity as provided in Section 18.

2.10. "Director" means any individual who is a member of the Board.

2.11. "Disability" means, unless otherwise provided for in an employment, change of control or similar agreement in effect between the Participant and the Company or a Subsidiary or in an Award Document, (a) in the case of an Employee, the Employee qualifying for long-term disability benefits under any long-term disability program sponsored by the Company or Subsidiary in which the Employee participates, and (b) in the case of a Director, the inability of the Director to engage in any substantial gainful business activity by reason of any medically determinable physical or mental impairment that can be expected to result in death, or which has lasted or can be expected to last for a continuous period of not less than 12 months, as determined by the Committee, based upon medical evidence.

2.12. "Effective Date" means the date specified in Section 1.3.

2.13. "Employee" means any employee of the Company or any Subsidiary.

2.14. "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

2.15. "Fair Market Value" means, as of any given date, the fair market value of a Share on a particular date determined by such methods or procedures as may be established from time to time by the Committee. Unless otherwise determined by the Committee, the Fair Market Value of a Share as of any date shall be the mean between the high and low prices at which the Share is traded on the New York Stock Exchange for that date or, if no prices are reported for that date, the prices on the next preceding date for which prices were reported. Notwithstanding the foregoing, unless otherwise determined by the Committee, for purposes of Section 6.5(d) of the Plan, Fair Market Value means the actual price at which the Shares used to acquire Shares are sold.

2.16. "Family Member" means any (a) child; (b) stepchild; (c) grandchild; (d) parent; (e) stepparent; (f) grandparent; (g) spouse; (h) former spouse; (i) sibling; (j) niece; (k) nephew; (l) mother-in-law; (m) father-in-law; (n) son-in-law; (o) daughter-in-law; (p) brother-in-law; or (q) sister-in-law of the Participant (including adoptive relationships). Family Member also shall mean any person sharing in the Participant's household (other than a tenant or an employee).

2.17. "Good Reason" means, except as otherwise provided in an Award Document, the occurrence of any of the following circumstances (unless such circumstances are fully corrected by the Company before a Participant's termination of employment):

(a) the Company's assignment of any duties materially inconsistent with the Participant's position within the Company, or which have a significant adverse alteration in the nature or status of the responsibilities of the Participant's employment; or

(b) a material reduction by the Company in the Participant's annual base salary, unless such reduction is part of a compensation reduction program affecting all similarly situated management employees.

2.18. "Incentive Stock Option" or "ISO" means the right to purchase Shares pursuant to terms and conditions that provide that such right will be treated as an incentive stock option within the meaning of Code Section 422, as described in Section 6.

2.19. "Long Service Separation" means, except as otherwise provided in an Award Document, a termination of employment with the Company or a Subsidiary after the attainment of age 55 and the completion of ten or more years of service with the Company and/or its Subsidiaries. Notwithstanding the foregoing and notwithstanding anything in an Award Document to the contrary, for purposes of determining whether a Participant has incurred a Long Service Separation, the last period of continuous service with Progress Rail Services, Inc. and/or its subsidiaries and affiliates ("Progress Rail") prior to May 16, 2006 shall be considered service with the Company and/or its Subsidiaries, subject to such administrative rules that the Committee (or its delegate) determines are appropriate and provided such participant was employed by Progress Rail on May 16, 2006.

2.20. "Named Executive Officer" means a Participant who is one of the group of covered employees as defined in the regulations promulgated under Code Section 162(m), or any successor provision or statute.

2.21. "Nonqualified Stock Option" or "NQSO" means the right to purchase Shares pursuant to terms and conditions that provide that such right will not be treated as an Incentive Stock Option, as described in Section 6.

2.22. "Option" means an Incentive Stock Option or a Nonqualified Stock Option, as described in Section 6.

2.23. "Option Price" means the per share price of a Share available for purchase pursuant to an Option.

2.24. "Participant" means an Employee, prospective Employee, Director, beneficiary or any other person who has outstanding an Award granted under the Plan, and includes those former Employees and Directors who have certain post-termination rights under the terms of an Award granted under the Plan.

2.25. "Performance-Based Exception" means the exception for performance-based compensation from the tax deductibility limitations of Code Section 162(m).

2.26. "Performance Period" means the time period during which performance goals must be achieved with respect to an Award, as determined by the Committee.

2.27. "Performance Share" means an Award granted to a Participant, as described in Section 9.

2.28. "Performance Unit" means an Award granted to a Participant, as described in Section 9.

2.29. "Period of Restriction" means the period during which the transfer of Shares of Restricted Stock is limited in some way, and the Shares are subject to a substantial risk of forfeiture, as provided in Section 8.

2.30. "Permitted Transferee" means any one or more of the following: (a) Family Members; (b) a trust in which the Participant and/or Family Members have more than fifty percent of the beneficial interest; (c) a foundation in which the Participant and/or Family Members control the management of the assets; or (d) any other entity in which the Participant and/or Family Members own more than fifty percent of the voting interests.

2.31. "Plan" means the Caterpillar Inc. 2006 Long-Term Incentive Plan, as set forth herein.

2.32. "Restricted Stock" means an Award of restricted stock or restricted stock units granted to a Participant pursuant to Section 8.

2.33. "Section 16 Officer" means any Employee who is considered an officer of the Company for purposes of Section 16 of the Exchange Act.

2.34. "Share" or "Shares" means shares of common stock of the Company.

2.35. "Stock Appreciation Right" or "SAR" means an Award, granted alone or in connection with a related Option, designated as a SAR, pursuant to the terms of Section 7.

2.36. "Subsidiary" means any partnership, limited liability company, corporation, trust or other entity or association, directly or indirectly, through one or more intermediaries, controlled by the Company. The term "control," as used in the immediately preceding sentence, means, with respect to a corporation or limited liability company, the right to exercise, directly or indirectly, more than fifty percent (50%) of the voting rights attributable to the controlled corporation or limited liability company, and, with respect to any partnership, trust, other entity or association, the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of the controlled entity.

2.37. "Tandem SAR" means a SAR that is granted in connection with a related Option pursuant to Section 7, the exercise of which shall require forfeiture of the right to purchase a Share under the related Option (and when a Share is purchased under the Option, the Tandem SAR shall similarly be forfeited).

2.38. "Non-Tandem SAR" means a SAR that is granted independently of any Options, as described in Section 7.

Section 3.
Administration

3.1. Plan Administration. The Committee, or any other committee appointed by the Board, shall administer the Plan. The Committee or other committee appointed to administer the Plan shall consist of not less than two non-Employee Directors of the Company, within the meaning of Rule 16b-3 of the Exchange Act and not less than two outside directors, within the meaning of Code Section 162(m). The Board may, from time to time, remove members from, or add members to, the Committee. Members of the Board shall fill any vacancies on the Committee. Acts of a majority of the Committee at a meeting at which a quorum is present, or acts reduced to or approved in writing by unanimous consent of the members of the Committee, shall be valid acts of the Committee.

3.2. Authority of the Committee. Except as limited by law or by the Certificate of Incorporation or Bylaws of the Company, and subject to the provisions herein, the Committee shall have full power to select Employees, prospective Employees and Directors who shall participate in the Plan; determine the sizes and types of Awards; determine the terms and conditions of Awards in a manner consistent with the Plan; construe and interpret the Plan and any agreement or instrument entered into under the Plan; establish, amend, or waive rules and regulations for the Plan's administration; and amend the terms and conditions of any outstanding Award to the extent such terms and conditions are within the sole discretion of the Committee as provided in the Plan and subject to Section 16. Further, the Committee shall make all other determinations, which may be necessary or advisable for the administration of the Plan. As permitted by law, the Committee may delegate the authority granted to it herein.

3.3. Electronic Administration. The Committee may, in its discretion, utilize a system for complete or partial electronic administration of the Plan and may replace any written documents described in the Plan with electronic counterparts, as appropriate.

3.4. Decisions Binding. All determinations and decisions made by the Committee pursuant to the provisions of the Plan and all related orders and resolutions of the Board shall be final, conclusive and binding on all persons, including the Company, its stockholders, Employees, Participants, and their estates and beneficiaries.

Section 4.
Shares Subject to the Plan and Maximum Awards

4.1. Shares Available for Awards.

(a) The Shares available for Awards may be either authorized and unissued Shares or Shares held in or acquired for the treasury of the Company. The aggregate number of Shares that may be issued or used for reference purposes under the Plan or with respect to which Awards may be granted shall not exceed forty million (40,000,000) Shares, subject to adjustment as provided in Section 4.3. In addition, seventeen million six hundred thousand (17,600,000) Shares authorized but unissued pursuant to the Caterpillar Inc. 1996 Stock Option and Long-Term Incentive Plan shall be reserved and available for grant under the Plan. Accordingly, the total Shares authorized and available for Awards under the Plan are fifty-seven million six hundred thousand (57,600,000) Shares. Notwithstanding the foregoing, the aggregate number of Shares with respect to which ISOs may be granted shall not exceed the number specified above, and provided further, that no more than an aggregate of thirty-five percent (35%) of the authorized Shares under the Plan may be issued with respect to Awards of Restricted Stock and Awards of Performance Shares.

(b) Upon:

(i) a payout of a Non-Tandem SAR or Tandem SAR in the form of cash;

(ii) a cancellation, termination, expiration, forfeiture, or lapse for any reason (with the exception of the termination of a Tandem SAR upon exercise of the related Options, or the termination of a related Option upon exercise of the corresponding Tandem SAR) of any Award; or

(iii) payment of an Option Price or payout of any Award with previously acquired Shares or by withholding Shares which otherwise would be acquired on exercise or issued upon such payout (excluding shares withheld for the payment of taxes),

the number of Shares underlying any such Award that were not issued as a result of any of the foregoing actions shall again be available for all purposes of Awards under the Plan (including, without limitation, for purposes of applying the limitations set forth in the last sentence of Section 4.1(a)). In addition, in the case of any Award granted in substitution for an award of a company or business acquired by the Company or a Subsidiary, Shares issued or issuable in connection with such substitute Award shall not be counted against the number of Shares reserved under the Plan, but shall be available under the Plan by virtue of the Company's assumption of the plan or arrangement of the acquired company or business.

4.2. Individual Participant Limitations. Unless and until the Committee determines that an Award to a Named Executive Officer shall not be designed to comply with the Performance-Based Exception, the following rules shall apply to grants of such Awards under the Plan:

(a) Subject to adjustment as provided in Section 4.3, the maximum aggregate number of Shares (including Options, SARs, Restricted Stock and Performance Shares to be paid out in Shares) that may be granted in any one fiscal year to a Participant shall be eight hundred thousand (800,000) Shares.

(b) Except as otherwise provided in Section 7.5(b) regarding SAR exercise, the maximum aggregate cash payout (including Performance Units and Performance Shares paid out in cash) with respect to Awards granted in any one fiscal year that may be made to any Participant shall be five million dollars ($5,000,000).

4.3. Adjustments in Authorized Shares. In the event of any change in corporate capitalization, such as a stock split, or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Company, any reorganization (whether or not such reorganization comes within the definition of such term in Code Section 368) or any partial or complete liquidation of the Company, an adjustment shall be made in the number and class of Shares available for Awards, the number and class of and/or price of Shares subject to outstanding Awards granted under the Plan and the number of Shares set forth in Sections 4.1 and 4.2, to prevent dilution or enlargement of rights. Such adjustment shall be made in a manner determined by the Committee, in its sole discretion, to be appropriate and equitable; provided, however, that (a) no such adjustment shall cause an increase in the fair value of an Award for purposes of Statement of Financial Accounting Standards No. 123 (revised 2004) or any successor thereto; and (b) the number of Shares subject to any Award shall always be a whole number by rounding any fractional Share (up or down) to the nearest whole Share.

Section 5.
Eligibility and Participation

5.1. Eligibility. Persons eligible to participate in the Plan include all current and future Employees (including officers), persons who have been offered employment by the Company or a Subsidiary (provided that such prospective Employee may not receive any payment or exercise any right relating to an Award until such person begins employment with the Company or Subsidiary), and Directors, as determined by the Committee.

5.2. Participation. Subject to the provisions of the Plan, the Committee shall determine and designate, from time to time, the Employees, prospective Employees, and Directors to whom Awards shall be granted, the terms of such Awards, and the number of Shares subject to such Award.

5.3. Foreign Participants. In order to assure the viability of Awards granted to Participants employed in foreign countries, the Committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy, or custom. Moreover, the Committee may approve such supplements to, or amendments, restatements, or alternative versions of the Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of the Plan as in effect for any other purpose; provided, however, that no such supplements, amendments, restatements, or alternative versions shall increase the share limitations contained in Section 4 of the Plan.

Section 6.
Stock Options

6.1. Grant of Options.

(a) Option Grant. Subject to the terms and provisions of the Plan, Options may be granted to one or more Participants in such number, upon such terms and provisions, and at any time and from time to time, as determined by the Committee, in its sole discretion. The Committee may grant either Nonqualified Stock Options or (in the case of Options granted to Employees) Incentive Stock Options, and shall have complete discretion in determining the number of Options of each granted to each Participant, subject to the limitations of Section 4. Each Option grant shall be evidenced by a resolution of the Committee approving the Option grant.

(b) Award Document. All Options shall be evidenced by an Award Document. The Award Document shall specify the Option Price, the term of the Option, the number of Shares subject to the Option, and such other provisions as the Committee shall determine, and which are not inconsistent with the terms and provisions of the Plan. The Award Document shall also specify whether the Option is to be treated as an ISO within the meaning of Code Section 422. If such Option is not designated as an ISO, such Option shall be a NQSO.

6.2. Option Price. The Committee shall designate the Option Price for each Share subject to an Option under the Plan, provided that such Option Price shall not be less than 100% of the Fair Market Value of Shares subject to an Option on the date the Option is granted. With respect to a Participant who owns, directly or indirectly, more than 10% of the total combined voting power of all classes of the stock of the Company or any Subsidiary, the Option Price of Shares subject to an ISO shall be at least 110% of the Fair Market Value of such Shares on the ISO's grant date.

6.3. Term of Options. Each Option granted to a Participant shall expire at such time as the Committee shall determine at the time of grant, but in no event shall be exercisable later than the 10th anniversary of the grant date. Notwithstanding the foregoing, with respect to ISOs, in the case of a Participant who owns, directly or indirectly, more than 10% of the total combined voting power of all classes of the stock of the Company or any Subsidiary, no such ISO shall be exercisable later than the fifth anniversary of the grant date.

6.4. Exercise of Options. Options granted under this Section 6 shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for each grant or for each Participant, and shall be set forth in the applicable Award Document. Notwithstanding the preceding sentence, the Fair Market Value of Shares to which ISOs are exercisable for the first time by any Participant during any calendar year (under all plans of the Company and its Subsidiaries) may not exceed $100,000. Any ISOs that become exercisable in excess of such amount shall be deemed NQSOs to the extent of such excess. If the Award Document does not specify the time or times at which the Option shall first become exercisable, such an Option shall become fully vested and exercisable by the Participant on the third anniversary of the grant date.

6.5. Payment. Options granted under this Section 6 shall be exercised by the delivery of a notice of exercise to the Company (or its designated agent(s)), setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares. The Option Price upon exercise of any Option shall be payable to the Company in full either:

(a) in cash or its equivalent, or

(b) by tendering previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the total Option Price, or

(c) by cashless exercise through delivery of irrevocable instructions to a broker to promptly deliver to the Company the amount of proceeds from a sale of shares having a Fair Market Value equal to the purchase price.

6.6. Termination of Employment or Service as a Director. The Committee, in its sole discretion, shall set forth in the applicable Award Document the extent to which a Participant shall have the right to exercise the Option or Options following termination of his or her employment with the Company or any Subsidiary or following termination of his or her service as a Director. Such provisions need not be uniform among all Options issued pursuant to the Plan, and may reflect distinctions based on the reasons for such termination, including, but not limited to, termination for Cause or for Good Reason, or reasons relating to the breach or threatened breach of restrictive covenants. Subject to Section 15, in the event that a Participant's Award Document does not set forth such provisions, the following provisions shall apply:

(a) Long Service Separation, Death or Disability. If a Participant's employment with the Company and/or any Subsidiary or service as a Director terminates by reason of Long Service Separation, death or Disability, to the extent that the Option is not exercisable, all Shares covered by his or her Options shall immediately become fully vested and shall remain exercisable until the earlier of (i) the remainder of the term of the Option, or (ii) 60 months from the date of such termination. In the case of the Participant's death, the Participant's beneficiary or estate may exercise the Option.

(b) Termination for Cause. If a Participant's employment with the Company and/or any Subsidiary or service as a Director terminates for Cause, all Options granted to such Participant shall expire immediately and all rights to purchase Shares (vested or nonvested) under the Options shall cease upon such termination.

(c) Other Termination. If a Participant's employment with the Company and/or any Subsidiary or service as a Director terminates for any reason other than Long Service Separation, death, Disability, or for Cause, all Options shall remain exercisable until the earlier of (i) the remainder of the term of the Option, or (ii) 60 days from the date of such termination. In such circumstance, the Option shall only be exercisable to the extent that it was exercisable as of such termination date and shall not be exercisable with respect to any additional Shares. Notwithstanding the foregoing or anything herein or in an Award Document to the contrary, the Committee, in its sole discretion, shall have the authority to extend the period during which an Option is exercisable pursuant to this Section 6.6(c) to a period that is no longer than the earlier of (A) the remainder of the term of the Option, or (B) 60 months from the date of the Participant's termination of employment.

6.7. Restrictions on Shares. The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option granted under this Section 6 as it may deem advisable, including, without limitation, restrictions under applicable Federal securities laws, under the requirements of any stock exchange or market upon which such Shares are then listed and/or traded, and under any blue sky or state or foreign securities laws applicable to such Shares.

6.8. Transferability of Options.

(a) Incentive Stock Options. No ISO granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all ISOs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant.

(b) Nonqualified Stock Options. NQSOs may only be transferred in accordance with this Section 6.8(b).

(i) Except as otherwise provided in paragraph (ii) below or in an Award Document, no NQSO shall be assignable or transferable by a Participant other than by will, by the laws of descent and distribution or pursuant to a Domestic Relations Order (as such term is defined in Section 414(p)(1)(B) of the Code).

(ii) NQSOs (whether vested or unvested) held by (A) Participants who are Section 16 Officers; (B) Participants who are Directors; or (C) any Participants who previously held the positions in clauses (A) and (B) may be transferred by gift or by domestic relations order to one or more Permitted Transferees. NQSOs (whether vested or unvested) held by all other Participants and by Permitted Transferees may be transferred by gift or by domestic relations order only to Permitted Transferees upon the prior written approval of the Company's Director of Compensation + Benefits.

6.9. Prohibition on Repricing. Except (a) as provided in Section 4.3 or (b) to the extent approved by the stockholders of the Company, the Option Price of an Option may not be changed following the date such Option is granted. Similarly, the exchange of an Option (an "Original Option") for cash, Shares, or other Awards at a time when the Option Price of such Original Option is equal to or greater than the Fair Market Value of a Share is prohibited. Notwithstanding the preceding sentence, the exchange of an Original Option for a SAR or another Option (a "New Option") shall be permitted only if: (a) the exchange is approved by the stockholders of the Company and (b) either (i) the grant price of the SAR is greater than the Option Price of the Original Option or (ii) the Option Price of the New Option is greater than the Option Price of the Original Option.

6.10. Acceleration of Vesting. Notwithstanding anything in this Section 6 to the contrary, the Committee, in its sole discretion, shall have the authority to accelerate the vesting of Options at any time.

Section 7.
Stock Appreciation Rights

7.1. <u>Grant of SARs</u>.

(a) <u>SAR Grant</u>. Subject to the terms and provisions of the Plan, SARs may be granted to Participants in such number, upon such terms and provisions, and at any time and from time to time, as determined by the Committee in its sole discretion. The Committee may grant Non-Tandem SARs, Tandem SARs, or any combination of these forms of SARs. The Committee shall have complete discretion in determining the number of SARs granted to each Participant (subject to Section 4) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such SARs. The Committee shall designate, at the time of grant, the grant price of a Non-Tandem SAR, which grant price shall not be less than 100% of the Fair Market Value of a Share on the grant date of the SAR. The grant price of Tandem SARs shall equal the Option Price of the related Option.

(b) <u>Award Document</u>. All SARs shall be evidenced by an Award Document. The Award Document shall specify the grant price, the term of the SAR, and such other provisions as the Committee shall determine, and which are not inconsistent with the terms and provisions of the Plan.

7.2. <u>Term of SARs</u>. The term of a SAR granted under the Plan shall be determined by the Committee, in its sole discretion; provided, however, that unless otherwise designated by the Committee, such term shall not exceed ten years from the grant date.

7.3. <u>Exercise of Tandem SARs</u>. Tandem SARs may be exercised for all or part of the Shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the Shares for which its related Option is then exercisable. Notwithstanding any other provision of the Plan to the contrary, with respect to a Tandem SAR granted in connection with an ISO: (i) the Tandem SAR will expire no later than the expiration of the underlying ISO; (ii) the value of the payout with respect to the Tandem SAR may be for no more than 100% of the difference between the Option Price of the underlying ISO and the Fair Market Value of the Shares subject to the underlying ISO at the time the Tandem SAR is exercised; and (iii) the Tandem SAR may be exercised only when the Fair Market Value of the Shares subject to the ISO exceeds the Option Price of the ISO.

7.4. <u>Exercise of Non-Tandem SARs</u>. Non-Tandem SARs may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes upon them.

7.5. <u>Payment of SAR Amount</u>.

(a) Upon exercise of a SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

(i) The excess of the Fair Market Value of a Share on the date of exercise over the grant price; by

(ii) The number of Shares with respect to which the SAR is exercised.

(b) Unless otherwise provided in the Award Document, the payment upon SAR exercise may be in cash, in Shares of equivalent value, or in some combination thereof. If, and to the extent that the payment upon SAR exercise is made in cash, such cash payment shall not be subject to the limitation of Section 4.2(b).

7.6. <u>Termination of Employment or Service as a Director</u>. The Committee, in its sole discretion, shall set forth in the applicable Award Document the extent to which a Participant shall have the right to exercise the SAR or SARs following termination of his or her employment with the Company or any Subsidiary or following termination of his or her service as a Director. Such provisions need not be uniform among all SARs issued pursuant to the Plan, and may reflect distinctions based on the reasons for such termination, including, but not limited to, termination for Cause or for Good Reason, or reasons relating to the breach or threatened breach of restrictive covenants. Subject to Section 15, in the event that a Participant's Award Document does not set forth such provisions, the following provisions shall apply:

(a) Long Service Separation, Death or Disability. If a Participant's employment with the Company and/or any Subsidiary or service as a Director terminates by reason of Long Service Separation, death or Disability, to the extent that the SARs are not exercisable, all of his or her SARs shall immediately become fully vested and shall remain exercisable until the earlier of (i) the remainder of the term of the SAR, or (ii) 60 months from the date of such termination. In the case of the Participant's death, the Participant's beneficiary or estate may exercise the SAR.

(b) Termination for Cause. If a Participant's employment with the Company and/or any Subsidiary or service as a Director terminates for Cause, all SARs shall expire immediately and all rights thereunder shall cease upon such termination.

(c) Other Termination. If a Participant's employment with the Company and/or any Subsidiary or service as a Director terminates for any reason other than Long Service Separation, death, Disability, or for Cause, all SARs shall remain exerciseable until the earlier of (i) the remainder of the term of the SAR, or (ii) 60 days from the date of such termination. In such circumstance, the SAR shall only be exercisable to the extent it was exercisable as of such termination date and shall not be exercisable with respect to any additional SARs. Notwithstanding the foregoing or anything herein or in an Award Document to the contrary, the Committee, in its sole discretion, shall have the authority to extend the period during which a SAR is exercisable pursuant to this Section 76.6(c) to a period that is no longer than the earlier of (A) the remainder of the term of the SAR, or (B) 60 months from the date of the Participant's termination of employment.

7.7. Transferability of SARs. SARs may only be transferred in accordance with this Section 7.7.

(a) Except as otherwise provided in paragraph (b) below or in an Award Document, no SAR shall be assignable or transferable by a Participant other than by will, by the laws of descent and distribution or pursuant to a Domestic Relations Order (as such term is defined in Section 414(p)(1)(B) of the Code).

(b) SARs held by (i) Participants who are Section 16 Officers; (ii) Participants who are Directors; or (iii) any Participants who previously held the positions in clauses (i) and (ii) may be transferred by gift or by domestic relations order to one or more Permitted Transferees. SARs held by all other Participants and by Permitted Transferees may be transferred by gift or by domestic relations order to Permitted Transferees only upon the prior written approval of the Company's Director of Compensation and Benefits.

(c) Notwithstanding the foregoing, with respect to a Tandem SAR granted in connection with an ISO, no such Tandem SAR may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution.

7.8. Prohibition on Repricing. Except (a) as provided in Section 4.3 or (b) to the extent approved by the stockholders of the Company, the grant price of a SAR may not be changed following the date the SAR is granted. Similarly, the exchange of a SAR (an "Original SAR") for cash, Shares, or other Awards at a time when the grant price of such Original SAR is equal to or greater than the Fair Market Value of a Share is prohibited. Notwithstanding the preceding sentence, the exchange of an Original SAR for an Option or another SAR (a "New SAR") shall be permitted only if: (a) the exchange is approved by the stockholders of the Company and (b) either (i) the Option Price amount is greater than the grant price of the Original SAR or (ii) the grant price of the New SAR is greater than the grant price of the Original SAR.

7.9. Acceleration of Vesting. Notwithstanding anything in this Section 7 to the contrary, the Committee, in its sole discretion, shall have the authority to accelerate the vesting of SARs at any time.

Section 8.
Restricted Stock

8.1. Grant of Restricted Stock.

(a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Restricted Stock to Participants in such amounts as the Committee shall determine.

(b) Award Document. All grants of Restricted Stock shall be evidenced by an Award Document. The Award Document shall specify the Period or Periods of Restriction, the number of shares of Restricted Stock granted, and such other provisions as the Committee shall determine pursuant to Section 8.2 or otherwise, and which shall not be inconsistent with the terms and provisions of the Plan. If no Period of Restriction is set forth in the Award Document, the transfer and any other restrictions shall lapse (i) to the extent of one-third of the shares (rounded to the nearest whole) covered by the Restricted Stock Award on the third anniversary of the grant date, (ii) to the extent of two-thirds of the shares (rounded to the nearest whole) covered by the Restricted Stock Award on the fourth anniversary of the grant date, and (iii) to the extent of 100% of the shares covered by the Restricted Stock Award on the fifth anniversary of the grant date.

(c) Limitation on the Committee. Notwithstanding the preceding provisions of Section 8.1(b) and subject to the provisions of the Plan, no more than five percent (5%) of the shares that may be issued as Restricted Stock pursuant to Section 4.1 may have a Period of Restriction as determined by the Committee at the time of grant that will lapse prior to the third anniversary of the grant date. All remaining shares that may be issued with respect to Awards of Restricted Stock pursuant to Section 4.1 shall have a Period of Restriction determined by the Committee at the time of grant that will not lapse until on or after the third anniversary of the grant date. For the avoidance of doubt, this Section 8.1(c) shall not impair the Committee's ability to accelerate the vesting of Restricted Stock pursuant to Section 8.6 or to make grants that provide that vesting is accelerated upon Long Service Separation, death or Disability pursuant to Section 8.5 and the shares of Restricted Stock for which such acceleration of vesting occurs shall not be considered in applying the limitations set forth in this Section 8.1(c).

8.2. Other Restrictions. Subject to Section 10 herein, the Committee may impose such other conditions and/or restrictions on any shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including without limitation, a requirement that Shares will not be issued until the end of the applicable Period of Restriction (i.e., a restricted stock unit), a requirement that Participants pay a stipulated purchase price for each share of Restricted Stock, restrictions based upon the achievement of specific performance goals (Company-wide, Subsidiary-wide, divisional, and/or individual), time-based restrictions on vesting, which may or may not be following the attainment of the performance goals, sales restrictions under applicable shareholder agreements or similar agreements, and/or restrictions under applicable Federal or state securities laws. The Company shall retain the certificates representing Shares of Restricted Stock in the Company's possession until such time as all conditions and/or restrictions applicable to such Shares have been satisfied. Except as otherwise provided in this Section 8 or in any Award Document, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan shall become freely transferable by the Participant after the last day of the applicable Period of Restriction.

8.3. Voting Rights. Unless otherwise designated by the Committee at the time of grant, Participants to whom Shares of Restricted Stock (but not restricted stock units) have been granted hereunder may exercise full voting rights with respect to those Shares during the Period of Restriction.

8.4. Dividends and Other Distributions. Unless otherwise designated by the Committee at the time of grant, Participants holding Shares of Restricted Stock (but not restricted stock units) granted hereunder shall be credited with regular cash dividends paid with respect to the underlying Shares while they are so held during the Period of Restriction. The Committee may apply any restrictions to the dividends that the Committee deems appropriate. Without limiting the generality of the preceding sentence, if the grant or vesting of Shares of Restricted Stock granted to a Named Executive Officer is designed to comply with the requirements of the Performance-Based Exception, the Committee may apply any restrictions it deems appropriate to the payment of dividends declared with respect to such Shares of Restricted Stock, such that the dividends and/or the Shares of Restricted Stock maintain eligibility for the Performance-Based Exception. In the event that any dividend constitutes a derivative security or an equity security pursuant to the rules under Section 16 of the Exchange Act, such dividend shall be subject to a vesting period equal to the remaining vesting period of the Shares of Restricted Stock with respect to which the dividend is paid.

8.5. Termination of Employment or Service as a Director. The Committee, in its sole discretion, shall set forth in the applicable Award Document the extent to which the Participant shall have the right to receive unvested Restricted Stock following termination of the Participant's employment with the Company and/or its Subsidiaries or termination of service as a Director. Such provisions need not be uniform among all shares of Restricted Stock issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination of employment including; but not limited to, termination of employment for Cause or for Good Reason, or reasons relating to the breach or threatened breach of restrictive covenants; provided, however that, except in the cases of terminations connected with a Change of Control and terminations by reason of death or Disability, the vesting of Restricted Stock that qualify for the Performance-Based Exception and that are held by Named Executive Officers shall not occur before the time they otherwise would have, but for the employment termination. Subject to Section 15, in the event that a Participant's Award Document does not set forth such termination provisions, the following termination provisions shall apply:

(a) Long-Service Separation, Death and Disability. Unless the Award qualifies for the Performance-Based Exception, if a Participant's employment with the Company and/or any Subsidiary or service as a Director is terminated due to Long Service Separation, death or Disability, all shares of Restricted Stock of such Participant shall immediately become fully vested on the date of such termination and any restrictions shall lapse.

(b) Other Termination. If a Participant's employment with the Company and/or any Subsidiary or service as a Director is terminated for any reason other than Long Service Separation, death or Disability, all shares of Restricted Stock that are unvested at the date of termination shall be forfeited to the Company.

8.6. Acceleration of Vesting. Notwithstanding anything in this Section 8 to the contrary, the Committee, in its sole discretion, shall have the authority to accelerate the vesting of shares of Restricted Stock at any time.

8.7. Transferability. Except as provided in this Section 8, the shares of Restricted Stock granted herein may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, voluntarily or involuntarily, until the end of the applicable Period of Restriction established by the Committee and specified in the Award Document, or upon earlier satisfaction of any other conditions, as specified by the Committee in its sole discretion and set forth in the Award Document. All rights with respect to the Restricted Stock granted to a Participant under the Plan shall be available during his or her lifetime only to such Participant.

Section 9.
Performance Units and Performance Shares

9.1. Grant of Performance Units/Shares.

(a) Grant of Performance Unit/Shares. Subject to the terms of the Plan, Performance Units and/or Performance Shares may be granted to Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee, which shall not be inconsistent with the terms and provisions of the Plan and shall be set forth in an Award Document.

(b) Award Document. All Performance Units and Performance Shares shall be evidenced by an Award Document. The Award Document shall specify the initial value of the Award, the performance goals and the Performance Period, as the Committee shall determine, and which are not inconsistent with the terms and provisions of the Plan.

9.2. Value of Performance Units/Shares. Each Performance Unit shall have an initial value (which may be $0) that is established by the Committee at the time of grant. Each Performance Share shall have an initial value equal to the Fair Market Value of a Share on the grant date. The Committee shall set performance goals in its sole discretion which, depending on the extent to which they are met will determine the number and/or value of Performance Units and/or Performance Shares that will be paid out to the Participant. For purposes of this Section 9, the time period during which the performance goals must be met shall be called a Performance Period. Performance Shares not in excess of five percent of the number of shares that may be issued with respect to Awards of Performance Shares, as provided in Section 4.1, may have a Performance Period as determined by the Committee in its sole discretion, and any other Performance Shares shall have a Performance Period, as determined by the Committee, of not less than one year.

9.3. Earning of Performance Units/Shares. Subject to the terms of the Plan, after the applicable Performance Period has ended, the holder of Performance Units and/or Performance Shares shall be entitled to receive payout on the number and value of Performance Units and/or Performance Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance goals have been achieved, as established by the Committee.

9.4. Form and Timing of Payment of Performance Units/Shares. Except as provided below, payment of earned Performance Units and/or Performance Shares shall be made in a single lump sum as soon as reasonably practicable following the close of the applicable Performance Period. Subject to the terms of the Plan, the Committee, in its sole discretion, may pay earned Performance Units and/or Performance Shares in the form of cash or in Shares (or in a combination thereof) which have an aggregate Fair Market Value equal to the value of the earned Performance Units and/or Performance Shares at the close of the applicable Performance Period. Such Shares may be granted subject to any restrictions deemed appropriate by the Committee. At the sole discretion of the Committee, Participants may be entitled to receive any dividends declared with respect to Shares which have been earned in connection with grants of Performance Units and/or Performance Shares which have been earned, but not yet distributed to Participants.

9.5. Termination of Employment or Service as a Director. The Committee, in its sole discretion, shall set forth in the applicable Award Document the extent to which the Participant shall have the right to receive payment for Performance Units and/or Performance Shares following termination of the Participant's employment with the Company and/or its Subsidiaries or termination of service as a Director. Such provisions need not be uniform among all Performance Units and/or Performance Shares granted pursuant to the Plan, and may reflect distinctions based on the reasons for such termination including; but not limited to, termination for Cause or for Good Reason, or reasons relating to the breach or threatened breach of restrictive covenants. Subject to Section 15, in the event that a Participant's Award Document does not set forth such termination provisions, the following termination provisions shall apply:

(a) Long Service Separation, Death or Disability. Subject to Section 15, if a Participant's employment with the Company and/or any Subsidiary or service as a Director is terminated during a Performance Period due to Long Service Termination, death or Disability, the Participant shall receive a prorated payout of the Performance Units and/or Performance Shares, unless the Committee determines otherwise. The prorated payout shall be determined by the Committee, shall be based upon the length of time that the Participant held the Performance Units and/or Performance Shares during the Performance Period, and shall further be adjusted based on the achievement of the pre-established performance goals. Unless the Committee determines otherwise in the event of a termination due to death, Disability or Long Service Separation, payment of earned Performance Units and/or Performance Shares shall be made at the same time as payments are made to Participants who did not terminate employment during the applicable Performance Period.

(b) Other Termination. If a Participant's employment with the Company and/or any Subsidiary or service as a Director is terminated during a Performance Period for any reason other than Long Service Termination, death or Disability all Performance Units and/or Performance Shares shall be forfeited by the Participant to the Company.

9.6. Nontransferability. Except as otherwise provided in a Participant's Award Document, Performance Units and/or Performance Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant's Award Document, a Participant's rights under the Plan shall be exercisable during the Participant's lifetime only by the Participant or the Participant's legal representative.

9.7. Acceleration of Vesting. Notwithstanding anything in this Section 9 to the contrary, the Committee, in its sole discretion, shall have the authority to accelerate the vesting of Performance Units and/or Performance Shares at any time.

Section 10.
Performance Measures

10.1. Performance Measures. Unless and until the Committee proposes for stockholder vote and stockholders approve a change in the general performance measures set forth in this Section 10, the attainment of which may determine the degree of payout and/or vesting with respect to Awards to Named Executive Officers that are designed to qualify for the Performance-Based Exception, the performance goals to be used for purposes of such grants shall be established by the Committee in writing and stated in terms of the attainment of specified levels of or percentage changes in any one or more of the following measurements: (a) revenue; (b) primary or fully-diluted earnings per Share; (c) earnings before interest, taxes, depreciation, and/or amortization; (d) pretax income; (e) cash flow from operations; (f) total cash flow; (g) return on equity; (h) return on invested capital; (i) return on assets; (j) net operating profits after taxes; (k) economic value added; (l) total stockholder return; (m) return on sales; or (n) any individual performance objective which is measured solely in terms of quantifiable targets related to the Company or the Company's business; or any combination thereof. In addition, such performance goals may be based in whole or in part upon the performance of the Company, a Subsidiary, division and/or other operational unit under one or more of such measures.

10.2. Performance Procedures. The degree of payout and/or vesting of such Awards designed to qualify for the Performance-Based Exception shall be determined based upon the written certification of the Committee as to the extent to which the performance goals and any other material terms and conditions precedent to such payment and/or vesting have been satisfied. The Committee shall have the sole discretion to adjust the determinations of the degree of attainment of the pre-established performance goals; provided, however, that the performance goals applicable to Awards which are designed to qualify for the Performance-Based Exception, and which are held by Named Executive Officers, may not be adjusted so as to increase the payment under the Award (the Committee shall retain the sole discretion to adjust such performance goals upward, or to otherwise reduce the amount of the payment and/or vesting of the Award relative to the pre-established performance goals). In the event that applicable tax and/or securities laws change to permit Committee sole discretion to alter the governing performance measures without obtaining stockholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining stockholder approval. In addition, in the event that the Committee determines that it is advisable to grant Awards which shall not qualify for the Performance-Based Exception, the Committee may make such grants without satisfying the requirements of Code Section 162(m) and, thus, which use performance measures other than those specified above.

Section 11.
Award Forfeitures

11.1. Forfeiture of Options and Other Awards. Each Award granted hereunder shall be subject to the following additional forfeiture conditions, to which the Participant, by accepting an Award hereunder, agrees. If any of the events specified in Section 11.2 occurs (a "Forfeiture Event"), all of the following forfeitures will result:

(a) The unexercised portion of any Option, whether or not vested, and any other Award not then settled (except for an Award that has not been settled solely due to an elective deferral pursuant to Section 13 by the Participant and otherwise is not forfeitable in the event of any termination of service of the Participant) will be immediately forfeited and canceled upon the occurrence of the Forfeiture Event; and

(b) The Participant will be obligated to repay to the Company, in cash, within five business days after demand is made therefor by the Company, the total amount of Award Gain (as defined herein) realized by the Participant upon each exercise of an Option or settlement of an Award (regardless of any elective deferral pursuant to Section 13) that occurred on or after (i) the date that is six months before the occurrence of the Forfeiture Event, if the Forfeiture Event occurred while the Participant was employed by the Company or a Subsidiary, or (ii) the date that is six months before the date the Participant's employment by, or service as a Director with the Company or a Subsidiary terminated, if the Forfeiture Event occurred after the Participant ceased to be so employed.

11.2. Events Triggering Forfeiture. The forfeitures specified in Section 11.1 will be triggered upon the occurrence of any one of the following Forfeiture Events at any time during the Participant's employment by or service as a Director with the Company or a Subsidiary or during the one-year period following termination of such employment or service:

(a) Non-Solicitation. The Participant, for his or her own benefit or for the benefit of any other person, company or entity, directly or indirectly, (i) induces or attempts to induce or hires or otherwise counsels, induces or attempts to induce or hire or otherwise counsel, advise, encourage or solicit any person to leave the employment of or the service for the Company or any Subsidiary, (ii) hires or in any manner employs or retains the services of any individual employed by or providing services to the Company or any Subsidiary as of the date of his or her termination of employment, or employed by or providing services to the Company or any Subsidiary subsequent to such termination, (iii) solicits, pursues, calls upon or takes away, any of the customers of the Company or any Subsidiary, (iv) solicits, pursues, calls upon or takes away, any potential customer of the Company or any Subsidiary that has been the subject of a bid, offer or proposal by the Company or any Subsidiary, or of substantial preparation with a view to making such a bid, proposal or offer, within six months before such Participant's termination of employment with the Company or any Subsidiary, or (v) otherwise interferes with the business or accounts of the Company or any Subsidiary.

(b) Confidential Information. The Participant discloses to any person or entity or makes use of any "confidential or proprietary information" (as defined below in this subparagraph (b)) for his or her own purpose or for the benefit of any person or entity, except as may be necessary in the ordinary course of employment with or other service to the Company or any Subsidiary. Such "confidential or proprietary information" of the Company or any Subsidiary, includes, but is not limited to, the design, development, operation, building or manufacturing of products manufactured and supplied by the Company and its Subsidiaries, the identity of the Company's or any Subsidiary's customers, the identity of representatives of customers with whom the Company or any Subsidiary has dealt, the kinds of services provided by the Company or any Subsidiary to customers and offered to be performed for potential customers, the manner in which such services are performed or offered to be performed, the service needs of actual or prospective customers, pricing information, information concerning the creation, acquisition or disposition of products and services, customer maintenance listings, computer software and hardware applications and other programs, personnel information, information identifying, relating to or concerning investors in the Company or any Subsidiary, joint venture partners of the Company or any Subsidiary, business partners of the Company or any Subsidiary or other entities providing financing to the Company or any Subsidiary, real estate and leasing opportunities, communications and telecommunications operations and processes, zoning and licensing matters, relationships with, or matters involving, landlords and/or property owners, and other trade secrets.

11.3. Agreement Does Not Prohibit Competition or Other Participant Activities. Although the conditions set forth in this Section 11 shall be deemed to be incorporated into an Award, the Plan does not thereby prohibit the Participant from engaging in any activity, including but not limited to competition with the Company and its Subsidiaries. Rather, the non-occurrence of the Forfeiture Events set forth in Section 11.2 is a condition to the Participant's right to realize and retain value from his or her compensatory Awards, and the consequence under the Plan if the Participant engages in an activity giving rise to any such Forfeiture Event are the forfeitures specified herein. This provision shall not preclude the Company and the Participant from entering into other written agreements concerning the subject matter of Sections 11.1 and 11.2 and, to the extent any terms of this Section 11 are inconsistent with any express terms of such agreement, this Section 11 shall not be deemed to modify or amend such terms.

11.4. Committee Discretion. The Committee may, in its sole discretion, waive in whole or in part the Company's right to forfeiture under this Section 11, but no such waiver shall be effective unless evidenced by a writing signed by a duly authorized officer of the Company. In addition, the Committee may impose additional conditions on Awards, by inclusion of appropriate provisions in the Award Document. Nothing contained herein shall require the Committee to enforce the forfeiture provisions of this Section 11. Failure to enforce these forfeiture provisions against any individual shall not be construed as a waiver of the Company's right to forfeiture under this Section 11.

11.5. Clawback Provision. Notwithstanding any other provision of the Plan to the contrary, including Section 16.1 which prohibits material and adverse changes to any outstanding Award, any Participant who is an officer of the Company whose negligent, intentional or gross misconduct contributes to the Company's having to restate all or a portion of its financial statements, will be required to forfeit Awards granted under this Plan and repay the Company the total amount of Award Gain realized by the Participant upon the exercise of an Option or settlement of an Award, as determined by the Board of Directors, an authorized committee, or its designee, pursuant to the Caterpillar Inc. Guidelines on Corporate Governance Issues, as adopted on February 14, 2007 and any subsequent amendments. Any Awards granted under this Plan prior to February 14, 2007 are subject to the provisions of this Section 11.5 only with the written consent of the Participant.

Section 12.
Beneficiary Designation

12.1. Beneficiary Designations. Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

Section 13.
Deferrals

13.1. Deferrals. The Committee may permit a Participant to defer such Participant's receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant upon the exercise of any Option or by virtue of the lapse or waiver of restrictions with respect to Restricted Stock, or the satisfaction of any requirements or goals with respect to Performance Units/Shares. If any such deferral election is required or permitted, the Committee shall, in its sole discretion, establish rules and procedures for such payment deferrals. All such deferrals (and rules and procedures) shall be consistent with Code Section 409A and any other applicable law.

Section 14.
Rights and Obligations of Parties

14.1. No Guarantee of Employment or Service Rights. Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment at any time, nor confer upon any Participant any right to continue in the employ of the Company or any Subsidiary.

14.2. Temporary Absence. For purposes of the Plan, temporary absence from employment because of illness, vacation, approved leaves of absence, and transfers of employment among the Company and its Subsidiaries, shall not be considered to terminate employment or to interrupt continuous employment.

14.3. Participation. No Employee or Director shall have the right to be selected to receive an Award under the Plan, or, having been so selected, to be selected to receive a future Award.

14.4. Right of Setoff. The Company or any Subsidiary may, to the extent permitted by applicable law, deduct from and set off against any amounts the Company or Subsidiary may owe to the Participant from time to time, including amounts payable in connection with any Award, owed as wages, fringe benefits, or other compensation owed to the Participant, such amounts as may be owed by the Participant to the Company, although the Participant shall remain liable for any part of the Participant's payment obligation not satisfied through such deduction and setoff. By accepting any Award granted hereunder, the Participant agrees to any deduction or setoff under this Section 14.

14.5. Section 83(b) Election. No election under Section 83(b) of the Code (to include in gross income in the year of transfer the amounts specified in Code Section 83(b)) or under a similar provision of the laws of a jurisdiction outside the United States may be made, unless expressly permitted by the terms of the Award Document or by action of the Committee in writing before the making of such election. In any case in which a Participant is permitted to make such an election in connection with an Award, the Participant shall notify the Company of such election within ten days of filing notice of the election with the Internal Revenue Service or other governmental authority, in addition to any filing and notification required pursuant to regulations issued under Code Section 83(b) or other applicable provision.

14.6. Disqualifying Disposition Notification. If any Participant shall make any disposition of Shares delivered pursuant to the exercise of an Incentive Stock Option under the circumstances described in Code Section 421(b) (relating to certain disqualifying dispositions), such Participant shall notify the Company of such disposition within ten days thereof.

Section 15.
Change of Control

15.1. Change of Control. If a Participant's employment or service with the Company and/or any Subsidiary terminates either without Cause or for Good Reason within the 12 month period following a Change of Control, unless otherwise specifically prohibited under applicable laws, or by the rules and regulations of any governing governmental agencies or national securities exchanges:

(a) Any and all Options and SARs granted hereunder shall become immediately exercisable, and shall remain exercisable throughout their entire term;

(b) Any Period of Restriction and other restrictions imposed on Restricted Stock shall lapse; and

(c) Unless otherwise specified in an Award Document, the maximum payout opportunities attainable under all outstanding Awards of Performance Units and Performance Shares shall be deemed to have been fully earned for the entire Performance Period(s) as of the effective date of the Change of Control. The vesting of all such Awards shall be accelerated as of the effective date of the Change of Control, and in full settlement of such Awards, there shall be paid out in cash to Participants within 30 days following the effective date of the Change of Control the maximum of payout opportunities associated with such outstanding Awards.

Section 16.
Amendment, Modification, and Termination

16.1. Amendment, Modification, and Termination. The Board may amend, suspend or terminate the Plan or the Committee's authority to grant Awards under the Plan without the consent of stockholders or Participants; provided, however, that any amendment to the Plan shall be submitted to the Company's stockholders for approval not later than the earliest annual meeting for which the record date is after the date of such Board action if such stockholder approval is required by any federal or state law or regulation or the rules of any stock exchange or automated quotation system on which the Shares may then be listed or quoted and the Board may otherwise, in its sole discretion, determine to submit other amendments to the Plan to stockholders for approval; and provided further, that, without the written consent of an affected Participant, no such Board action may materially and adversely affect the rights of such Participant under any outstanding Award. The Committee shall have no authority to waive or modify any other Award term after the Award has been granted to the extent that the waived or modified term was mandatory under the Plan.

Section 17.
Withholding

17.1. Tax Withholding. The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of the Plan.

17.2. Share Withholding. With respect to withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock, or upon any other taxable event arising as a result of Awards granted hereunder, the withholding requirement shall be satisfied by the Company withholding Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax which would be imposed on the transaction.

Section 18.
Miscellaneous

18.1. Unfunded Plan. The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant or obligation to deliver Shares pursuant to an Award, nothing contained in the Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Company; provided that the Committee may authorize the creation of trusts and deposit therein cash, Shares, other Awards or other property, or make other arrangements to meet the Company's obligations under the Plan. Such trusts or other arrangements shall be consistent with the "unfunded" status of the Plan unless the Committee otherwise determines with the consent of each affected Participant. No such funding shall be established that would cause an amount to be taxable under Code Section 409A before it is received by a Participant or cause an amount to be subject to additional tax under such Section.

18.2. Forfeitures; Fractional Shares. Unless otherwise determined by the Committee, in the event of a forfeiture of an Award with respect to which a Participant paid cash consideration, the Participant shall be repaid the amount of such cash consideration. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards or other property shall be issued or paid in lieu of such fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

18.3. Compliance with Code Section 162(m). The Company intends that Options and SARs granted to Named Executive Officers and other Awards designated as Awards to Named Executive Officers shall constitute qualified "performance-based compensation" within the meaning of Code Section 162(m) and regulations thereunder, unless otherwise determined by the Committee at the time of allocation of an Award. Accordingly, the terms of Sections 4.2, 6, 7, 8.5, 8.6, 9 and 10, including the definitions of Named Executive Officer and other terms used therein, shall be interpreted in a manner consistent with Code Section 162(m) and regulations thereunder. The foregoing notwithstanding, because the Committee cannot determine with certainty whether a given Participant will be a Named Executive Officer with respect to a fiscal year that has not yet been completed, the Committee may, in its discretion, extend the terms of such Sections to any Participant that the Committee deems appropriate. If any provision of the Plan or any Award Document relating to a Performance Award that is designated as intended to comply with Code Section 162(m) does not comply or is inconsistent with the requirements of Code Section 162(m) or regulations thereunder, such provision shall be construed or deemed amended to the extent necessary to conform to such requirements, and no provision shall be deemed to confer upon the Committee or any other person sole discretion to increase the amount of compensation otherwise payable in connection with any such Award upon attainment of the applicable performance objectives.

18.4. Gender and Number; Headings. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural. Headings are included for the convenience of reference only and shall not be used in the interpretation or construction of any such provision contained in the Plan.

18.5. Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

18.6. Successors. All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect merger, consolidation, purchase of all or substantially all of the business and/or assets of the Company or otherwise.

18.7. Requirements of Law. The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

18.8. Securities Law Compliance. With respect to "insiders," transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee. An "insider" includes any individual who is, on the relevant date, an officer, Director or more than 10% beneficial owner of any class of the Company's equity securities that is registered pursuant to Section 12 of the Exchange Act, all as defined under Section 16 of the Exchange Act.

18.9. Governing Law. To the extent not preempted by Federal law, the Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Illinois without regard to the conflict of law provisions thereof.

INTEGRITY EXCELLENCE TEAMWORK COMMITMENT

OUR VALUES IN ACTION

Caterpillar's Worldwide
Code of Conduct

CATERPILLAR®

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Revised 2010

THE WORLD IS CONTINUALLY CHANGING, AND SO IS OUR BUSINESS. BUT ONE THING THAT WILL NEVER CHANGE IS OUR COMMITMENT TO MAINTAINING THE HIGHEST ETHICAL STANDARDS. OUR REPUTATION IS ONE OF OUR GREATEST ASSETS. EACH OF US HAS A RESPONSIBILITY TO PROTECT IT—EVERYDAY.

When faced with challenges, how we respond defines us. Our decisions, and ultimately our actions, tell the world who we are at Caterpillar.

That's why our Worldwide Code of Conduct is so important. Since it was first published in 1974, it has put into words what it means to be part of the Caterpillar team. The Code documents and sets high expectations of what we stand for, what we believe in and how we put our values in action across our company.

Caterpillar people live and work in every corner of the world. Our collection of unique cultures and experiences, education and talents help make us a stronger, more innovative company. And while our diversity is critical, we also need something to tie us together to operate as one team. Our Code of Conduct doesn't restrict our individuality or give specific instructions to apply in every situation. Instead, the Code serves as a daily reminder of what is expected from every member of the Caterpillar team.

It reminds us that **Integrity** isn't just a nice word. It's something we live everyday when we hold ourselves accountable and deliver results.

It reminds us that as we strive for **Excellence** we must maintain a dedication to quality and an intense, acute focus on our customers. We have to listen to our customers, understand their needs and deliver value through our products, services and solutions to help them succeed.

It reminds us that it takes **Teamwork** to compete in today's global marketplace, requiring the best ideas and the discipline to deliver. When we leverage the diverse talents of our employees, dealers, distributors and suppliers, we can accomplish anything.

And finally, it reminds us of our **Commitment**—to safety, to our teams, to our customers and to the environment. We know that by focusing on providing sustainable solutions, we can be profitable while best serving our planet and its people.

Our reputation for acting with the highest values and principles is our legacy and the strong foundation for our future. When we first introduced Our Values in Action in 2005, I was proud of how quickly these values became part of our language and culture—but was not surprised, because they are the way we do business at Caterpillar.

Thank you for taking the time to read and understand our Code of Conduct. Our foundation of Integrity, Excellence, Teamwork and Commitment hasn't changed. Our values are more than just words. They define who we are and will remain at the forefront of everything we do.

Douglas R Oberhelman

DOUGLAS R. OBERHELMAN
Chairman and Chief Executive Officer

LIVING BY THE CODE

INTEGRITY. EXCELLENCE. TEAMWORK. COMMITMENT.

The words in this Code of Conduct define us. Despite our differences—in geography, culture, language and business—we are one Caterpillar, one company united by these common principles and a shared commitment to the highest standards of conduct.

While we conduct our business within the framework of applicable laws and regulations, for us, compliance with the law is not enough. We strive for more than that. Through our Code of Conduct, we envision a work environment all can take pride in, a company others respect and admire and a world made better by our actions. Together, we are laying the foundation for the values-based culture that will carry us forward to even higher levels of success. Together, we are upholding the reputation of one of the world's great companies—and strengthening it for tomorrow.

This Code of Conduct applies to the daily activities of employees of Caterpillar Inc. and its subsidiaries and affiliates worldwide and members of the Board of Directors of Caterpillar Inc. Each of us is personally responsible to read the Code of Conduct, understand what it means and apply it consistently. Those in our company who lead others hold a special position of responsibility to set the example of what it means to "live by the code."

REPORTING RIGHTS AND RESPONSIBILITIES

If you become aware of a circumstance or action that violates, or appears to violate, the Code of Conduct, enterprise policy or applicable law, contact your supervisor or local management as soon as possible. You have a further personal right and responsibility to report any circumstance or action that violates, or appears to violate, the Code of Conduct, enterprise policy or applicable law. You must use these reporting rights responsibly and must report issues only where you reasonably believe there has been a violation, and not where the report is intended to be harassing, is based on personal opinion only or is otherwise trivial. You can raise a question or concern, or make such a report, to your supervisor, local business unit management or the Office of Business Practices.

If you are not able to get an answer to a question, or resolve an issue, under the Code of Conduct by working with your supervisor or local management, you can contact the Office of Business Practices:

Direct Telephone: +1-309-494-4393 (English only)

Toll-free Helpline: Caterpillar maintains toll-free Helpline numbers in various countries. Inside Canada, the United States and the U.S. Virgin Islands the number is 1-800-300-7898. Toll-free numbers currently in effect for other countries are posted on the Caterpillar Intranet at https://codeofconduct.cat.com. Language translation is available for those numbers. You may remain anonymous when you call from a country in which anonymous reporting is allowed.

Call Collect Helpline: +1-770-582-5275 (language translation available)

Confidential Fax: +1-309-494-4818

E-Mail: BusinessPractices@cat.com

You can request a copy of the Office of Business Practices Data Privacy Statement using any of the methods listed above.

NO RETALIATION POLICY

Caterpillar will not take any action against you as a result of raising an ethical issue in good faith. Also, Caterpillar does not tolerate any reprisal by any individual against an employee for raising a concern or making a report in good faith.

OUR VALUES IN ACTION

Caterpillar's Worldwide
Code of Conduct

Integrity
The Power of Honesty

Excellence
The Power of Quality

Teamwork
The Power of Working Together

Commitment
The Power of Responsibility

INTEGRITY

The Power of Honesty

INTEGRITY IS THE FOUNDATION OF ALL WE DO.

It is a constant. Those with whom we work, live and serve can rely on us. We align our actions with our words and deliver what we promise. We build and strengthen our reputation through trust. We do not improperly influence others or let them improperly influence us. We are respectful and behave in an open and honest manner. In short, the reputation of the enterprise reflects the ethical performance of the people who work here.

We put Integrity in action when...

WE ARE HONEST AND ACT WITH INTEGRITY

We hold ourselves to the highest standard of integrity and ethical behavior. We tell the truth. We promise only what we can reasonably expect to deliver. We strive to keep our commitments. Our company's stockholders, customers, dealers, distributors, those with whom we do business and our fellow employees must be able to trust what we say and to believe that we will always keep our word.

WE AVOID AND MANAGE CONFLICTS AND POTENTIAL CONFLICTS OF INTEREST

We must not engage in activities that create, or even appear to create, conflict between our personal interests and the interests of the company. These situations arise where a personal interest or family or other relationship makes it difficult for an individual to represent the company fully and fairly. Conflicts of interest can arise in any part of Caterpillar's operations. The most serious conflicts of interest usually arise where an employee or former employee has authority to spend the company's money, has authority to hire or engage a person outside the company or has information that could be valuable to a person outside the company. A conflict of interest or the appearance of a conflict of interest very often arises when an employee is offered a gift, favor or entertainment. While some of this activity is part of a normal business relationship, we do not accept gifts, favors or entertainment that have a value greater than we could reasonably reciprocate or that obligate or appear to obligate us to act in any way contrary to the law, Caterpillar business interests or Caterpillar's ethical business practices.

WE COMPETE FAIRLY

Caterpillar believes that fair competition is fundamental to free enterprise. We observe antitrust and competition laws where we do business. In relationships with competitors, dealers, distributors, suppliers and customers, we avoid arrangements that restrict our ability to compete with others. We are not involved in any arrangements, understandings or agreements with competitors affecting prices, terms upon which products are sold, or the number and type of products manufactured or sold. We follow applicable import and export control laws when conducting business around the world.

WE ENSURE ACCURACY AND COMPLETENESS OF OUR FINANCIAL REPORTS AND ACCOUNTING RECORDS

Investors, creditors and others have a legitimate interest in our company's financial and accounting information. The integrity of Caterpillar's financial reports and accounting records is based on validity, accuracy, completeness, timeliness and understandability of basic information supporting entries to the company's books of account. We will ensure every accounting or financial entry accurately reflects what is described by the supporting information. We expect employees involved in creating, processing or recording such information to be personally responsible for its integrity. The same standards of integrity that apply to external financial reporting also apply to the financial statements that are used as internal management tools.

WE ARE FAIR, HONEST AND OPEN IN OUR COMMUNICATIONS

We communicate with each other in a respectful, fair, honest and open manner. We keep investors, creditors, securities trading markets, employees, dealers, distributors, suppliers and the general public informed on a timely basis through the public release of relevant and understandable financial and other information about our company. In releasing information about Caterpillar, we make every effort to ensure that full disclosure is made to everyone without preference or favoritism to any individual or group. We respond to public inquiries—including those from the news media, governments and others—with prompt, courteous, honest answers through members of our executive leadership and employees who are authorized to speak publicly on behalf of Caterpillar.

WE HANDLE "INSIDE INFORMATION" APPROPRIATELY AND LAWFULLY

Inside information may be defined as information about a company not known to the public. Such information—certain financial data, technical materials and future plans for example—may have significant value to others and therefore must be kept strictly confidential. Anyone who has "material" inside information about Caterpillar must not use it for personal gain or provide it to others. Information is "material" if an investor would consider it important in making an investment in Caterpillar or in another organization. A Caterpillar employee who has undisclosed information about a supplier, customer or competitor should not trade in that company's stock, nor should an employee advise others to do so. We expect all employees, their families and others whose relationships with Caterpillar give them access to such information to comply with these principles.

WE REFUSE TO MAKE IMPROPER PAYMENTS

In dealing with public officials, other corporations and private citizens, we firmly adhere to ethical business practices. We will not seek to influence others, either directly or indirectly, by paying bribes or kickbacks, or by any other measure that is unethical or that will tarnish our reputation for honesty and integrity. Even the appearance of such conduct must be avoided.

EXCELLENCE

The Power of Quality

WE SET AND ACHIEVE AMBITIOUS GOALS.

The quality of our products and services reflects the power and heritage of Caterpillar—the pride we take in what we do and what we make possible. We are passionate about people, process, product and service excellence. We are determined to serve our customers through innovation, continuous improvement, an intense focus on customer needs and a dedication to meet those needs with a sense of urgency. For us, Excellence is not only a value; it is a discipline and a means for making the world a better place.

We put Excellence in action when...

WE ACCEPT NOTHING BUT THE BEST QUALITY IN OUR PRODUCTS AND SERVICES

We are dedicated to quality and take personal pride in all the products and services we provide. Our acute focus on the needs of our customers continuously drives us to improve quality through 6 Sigma. Our continued success depends on exceeding the expectations of our customers and standing behind everything we do.

WE FOCUS ON DELIVERING THE HIGHEST VALUE TO OUR CUSTOMERS, ALWAYS WITH A SENSE OF URGENCY

We are driven to meet the needs of our customers. We have built a reputation for excellence by listening to our customers, understanding their needs and challenges, and delivering products, services and solutions that help them succeed. Our customers expect the best from Caterpillar, and each of us must ensure that our individual decisions and actions contribute to a positive perception of the company, enhance our customers' satisfaction and promote their loyalty. To do so, we act with a sense of urgency to deliver the highest possible value in the products and services we provide. Our commitment to quality, the Guiding Principles of the Caterpillar Production System and continuous improvement through 6 Sigma makes that possible.

WE ESTABLISH A WORK ENVIRONMENT THAT SUPPORTS EXCELLENCE

Caterpillar employees expect our work environment to promote personal achievement, continual learning and a feeling of self-worth. Employees have the right to express their good-faith opinions about how we can improve our own performance and the performance of the company. We actively listen, respond, encourage teamwork and make decisions based on facts and data.

WE SELECT, PLACE AND EVALUATE EMPLOYEES BASED ON THEIR QUALIFICATIONS AND PERFORMANCE

Caterpillar selects, places, evaluates and rewards employees based on their personal qualifications, skills for the job, demonstrated performance and the contributions they make to Caterpillar.

WE PROVIDE EMPLOYEES WITH OPPORTUNITIES TO DEVELOP

We ask employees to give their best efforts, learn from their successes and setbacks and pursue opportunities to improve their performance on their own initiative, as well as through continual learning programs offered by the company. We encourage self-development and will assist employees in mastering their current jobs and improving their job skills. We are committed to assuring opportunities for all employees to develop their abilities and contribute to Caterpillar's success.

WE SEE RISK AS SOMETHING TO BE MANAGED, *AND* AS POTENTIAL OPPORTUNITY

Because we realize that business and risk are inseparable, we proactively identify, assess and manage risks that have the most potential to impact our business. For us, managing risk also involves looking for opportunities for potential competitive advantage.

WE TAKE AN "ENTERPRISE POINT OF VIEW"

Taking an "enterprise point of view" means promoting the best interests of our company as a whole. Entrepreneurial thinking in our local business units is critical to our business success. We strive to ensure enterprise decisions do not put our local business units at a competitive disadvantage.

TEAMWORK

The Power of Working Together

WE HELP EACH OTHER SUCCEED.

We are a team, sharing our unique talents to help those with whom we work, live and serve. The diverse thinking and decision making of our people strengthens our team. We respect and value people with different opinions, experiences and backgrounds. We strive to understand the big picture, then do our part. We know that by working together, we can produce better results than any of us can achieve alone.

We put Teamwork in action when…

WE TREAT OTHERS WITH RESPECT AND DO NOT TOLERATE INTIMIDATION OR HARASSMENT

The full value of each individual's contribution can be realized only when we treat one another with the respect, trust and dignity we ourselves expect. Caterpillar insists on a work environment free of intimidation and harassment. As individual employees, we have the right to expect a positive working environment, along with the responsibility to speak out and ask for change if we observe conduct that runs contrary to this principle.

WE TREAT PEOPLE FAIRLY AND PROHIBIT DISCRIMINATION

We build and maintain a productive, motivated work force by treating all employees fairly and equitably. We respect and recognize the contributions of employees as well as other stakeholders. We will select and place employees on the basis of their qualifications for the work to be performed, considering accommodations as appropriate and needed—without regard to their race, religion, national origin, color, gender, gender identity, sexual orientation, age and/or physical or mental disability. We support and obey laws that prohibit discrimination everywhere we do business. We expect to conduct our business in such a way that employees will not feel the need for representation by unions or other third parties. Where employees have chosen such representation, or been required by law to do so, we will pursue an honest, business-like approach in working with those representatives.

WE FOSTER AN INCLUSIVE ENVIRONMENT

We understand and accept the uniqueness of individuals and are nonjudgmental regarding differences. We value the diversity of unique talents, skills, abilities, cultures and experiences that enable Caterpillar people to achieve superior business and personal results. We know that when we seek out and are receptive to various points of view this brings many benefits to Caterpillar—innovative solutions and approaches to decision-making that can strengthen the company and make us more successful.

WE CONDUCT BUSINESS WORLDWIDE WITH CONSISTENT GLOBAL STANDARDS

As a global company, we understand there are many differing economic and political philosophies and forms of government throughout the world. We acknowledge the wide diversity that exists among the social customs and cultural traditions in the countries in which we operate. We respect such differences, and to the extent that we can do so in keeping with the principles of our Code of Conduct, we will maintain the flexibility to adapt our business practices to them. We will leverage our global experience to achieve the best results for the enterprise.

WE COLLABORATE WITH KEY ENTITIES AND ORGANIZATIONS OUTSIDE OUR COMPANY

The company's strength and longevity are the result of our ability to sustain long-lasting, mutually rewarding relationships with our customers, dealers, distributors, suppliers, investors and others with whom we do business. We engage in meaningful dialogue with these business partners as well as appropriate governmental and nongovernmental organizations. We listen, learn and innovate, and we continuously work to strengthen these relationships through conscientious, trustworthy behavior.

WE BUILD OUTSTANDING RELATIONSHIPS WITH OUR DEALERS AND DISTRIBUTION CHANNEL MEMBERS

Our dealers and distributors serve as a critical link between our company and our customers worldwide. We rely on them to participate with us as partners in building and maintaining the long-standing customer relationships that have made Caterpillar successful. We value their positive contributions to our reputation and their deep commitment to the customers and communities they serve. We sustain our outstanding relationships with them through trust, communication and shared rewards. We work constantly with them to provide products, services and support solutions necessary to satisfy customer needs worldwide.

WE VIEW OUR SUPPLIERS AS OUR BUSINESS ALLIES

We seek strong, mutually rewarding business relationships with suppliers who enhance the value of our products and services through close collaboration throughout the entire life cycle. We view suppliers as extensions of our company and an essential part of our extended value chain. We look for suppliers and business allies who demonstrate strong values and ethical principles and who support our commitment to quality. We avoid those who violate the law or fail to comply with the sound business practices we embrace. No supplier is required to buy Caterpillar products in order to compete for business or to continue as a supplier. We do reserve the right, consistent with applicable law, to require suppliers to use Caterpillar equipment when performing work on Caterpillar premises and where Caterpillar offers a product appropriate for the work being performed. We encourage fair competition among our potential suppliers, contractors and other vendors, and work equitably and reasonably with all.

COMMITMENT

The Power of Responsibility

WE EMBRACE OUR RESPONSIBILITIES.

Individually and collectively we make meaningful commitments—first to each other, and then to those with whom we work, live and serve. We understand and focus on the needs of our customers. We are global citizens and responsible members of our communities who are dedicated to safety, care for our environment and manage our business ethically. We know it is both our duty and our honor to carry the Caterpillar heritage forward.

We put Commitment in action when…

WE PROTECT THE HEALTH AND SAFETY OF OTHERS AND OURSELVES

As a company, we strive to contribute toward a global environment in which all people can work safely and live healthy, productive lives, now and in the future. We actively promote the health and safety of everyone on our property with policies and practical programs that help individuals safeguard themselves and their co-workers. As employees, we put safety first by creating a work environment to protect the health and safety of others and ourselves. We actively promote safe practices throughout our value chain—from suppliers to end users. We are committed to providing our customers with products and services that are safe and reliable in the marketplace.

WE SUPPORT ENVIRONMENTAL RESPONSIBILITY THROUGH SUSTAINABLE DEVELOPMENT

We strive to create stockholder value by providing customers with solutions that improve the sustainability of their operations. We leverage technology and innovation to increase our efficiency and productivity while reducing environmental impact. We develop new business opportunities that help our customers, dealers, distributors and suppliers do the same. Our products and services will meet or exceed applicable regulations and standards wherever they are initially sold. We lead industry and community initiatives that share our commitment to making sustainable progress possible.

WE TAKE PERSONAL RESPONSIBILITY

We are committed to the success of Caterpillar. We are each personally accountable for meeting both individual and shared goals. We demonstrate leadership by holding ourselves individually responsible for enhancing stockholder value.

WE PROTECT OUR HARD ASSETS, OUR BRANDS AND OUR OTHER INTELLECTUAL PROPERTY

We go to extraordinary lengths to preserve, protect and responsibly use all of our assets. This includes tangible as well as intangible assets, such as our brands, technology, business information and intellectual capital. We will not make unauthorized disclosure of trade secrets or other sensitive information belonging to the company, our customers, dealers or suppliers—either during employment by our company or thereafter. When sharing company information with others, we ensure appropriate controls are in place to protect our interests. While we may hire individuals who have knowledge and experience in various technical areas, we do not employ people as a means of gaining access to trade secrets and sensitive information of others. We have a personal responsibility to use every appropriate means to safeguard our company's assets from loss, theft, damage or misuse.

WE SAFEGUARD OUR CONFIDENTIAL INFORMATION

We consider every piece of information we own an asset. Some of it we share with others through advertising, product documentation, news releases and public financial reporting. Everything else—including trade secrets, confidential financial information, new product or service development plans and other sensitive corporate and personal information—we protect through careful attention to Information Protection Guidelines and interpersonal communication, appropriate management of Corporate Records, the secure use of all communications media and, where applicable, legally enforceable agreements.

WE USE ELECTRONIC COMMUNICATIONS TECHNOLOGY RESPONSIBLY AND PROFESSIONALLY

Electronic communication technology plays a vital role in how we conduct our business every day. Access to the Internet and use of Caterpillar Intranet systems, e-mail, telephones, fax machines and mobile devices are important. The company's technology is maintained for legitimate business activities by authorized individuals, and to support a positive, professional business climate. As employees, we are expected to use such technology in a responsible and professional manner consistent with the Code and other company policies.

WE RECOGNIZE AND RESPECT PERSONAL PRIVACY

We recognize and respect the personal information privacy interest of individuals. We collect and process only relevant, accurate information needed or appropriate for business purposes, and do so only by lawful and fair means. We appropriately safeguard the security and confidentiality of company records containing personal information whether those records are held by Caterpillar or by a Caterpillar business partner, and limit access to such information only to those who have a legitimate business need for it when permitted by law.

WE ARE PRO-ACTIVE MEMBERS OF OUR COMMUNITIES

As individuals and as a company, we contribute significant time and resources to promoting the health, welfare and economic stability of our communities around the world. We encourage all employees to participate in community activities that promote the common good. We believe that our success should also contribute to the quality of life in, and the prosperity and sustainability of, communities where we work and live.

WE MAKE RESPONSIBLE OWNERSHIP AND INVESTMENT DECISIONS

Caterpillar investments must be compatible with social and economic priorities, local laws, customs and traditions of the countries where we do business. In all cases, our conduct should promote acceptance and respect for our company. We also expect that our host countries will recognize our need for stability, growth and business success, and that they will honor their agreements, including those relating to rights and properties of citizens of other nations.

WE PARTICIPATE IN PUBLIC MATTERS IN AN APPROPRIATE MANNER

Our employees should feel free to participate in public matters and political processes according to their individual beliefs and citizenship rights. Where we participate as individuals in public matters or the political process we must be mindful that such activity is done in our individual capacity as private citizens and not on behalf of our company, and we must make this clear to all involved. The company engages in public policy issues vital to Caterpillar's success and supports committees aimed at encouraging political contributions by individuals and, from time to time—with the approval of the Chairman—may make political contributions as laws allow.

ENTERPRISE POLICIES AND ADDITIONAL INFORMATION

Enterprise Policies and other more detailed company policies, as well as additional information and guidance on this Code of Conduct, are available to employees on the Caterpillar Intranet at https://codeofconduct.cat.com, or by contacting the Office of Business Practices using any of the methods listed previously. The Code of Conduct is also available to the public at http://www.cat.com/Code-of-Conduct. The Enterprise Policies in force at the time this Code of Conduct was published are:

- Antitrust
- Business Entertainment, Favors and Gifts
- Company Attitudes on Partisan Politics and Public Issues
- Conflicts of Interest
- Data Privacy
- Enterprise Facilities
- Free Trade
- Improper Payments
- Intellectual Property Rights
- Protection of Assets
- Public Communications

WAIVER

Those in our company who lead others hold a special position of responsibility to set the example of what it means to "live by the code." As a result, only the Board of Directors may waive a provision of the Code of Conduct for an Executive Officer or Director.

CATERPILLAR®

TODAY'S WORK. TOMORROW'S WORLD.™

YECX0001-05

EXHIBIT 31.1

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 we 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 registrants 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 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.

July 30, 2010	*/s/ Douglas R. Oberhelman* (Douglas R. Oberhelman)	Chief Executive Officer

EXHIBIT 31.2

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 we 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 registrants 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 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 controls over financial reporting.

July 30, 2010	*/s/ Edward J. Rapp* (Edward J. Rapp)	Group President and Chief Financial Officer

EXHIBIT 32

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, 2010 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 and 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.

July 30, 2010	*/s/ Douglas R. Oberhelman* (Douglas R. Oberhelman)	Chief Executive Officer
July 30, 2010	*/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.

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