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



**FORM 10-Q**

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

For the quarterly period ended September 30, 2012

OR

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

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

**Commission File Number: 1-768**

**CATERPILLAR INC.**

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

At September 30, 2012, 653,933,672 shares of common stock of the registrant were outstanding.

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

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

	<b>Three Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Sales and revenues:</b>		
Sales of Machinery and Power Systems.....	\$ 15,739	\$ 15,023
Revenues of Financial Products .....	706	693
Total sales and revenues .....	16,445	15,716
<b>Operating costs:</b>		
Cost of goods sold .....	11,639	11,455
Selling, general and administrative expenses .....	1,471	1,360
Research and development expenses .....	634	584
Interest expense of Financial Products .....	197	211
Other operating (income) expenses .....	(92)	347
Total operating costs .....	13,849	13,957
<b>Operating profit</b> .....	2,596	1,759
Interest expense excluding Financial Products .....	129	112
Other income (expense) .....	(17)	(13)
<b>Consolidated profit before taxes</b> .....	2,450	1,634
Provision for income taxes .....	753	474
Profit of consolidated companies .....	1,697	1,160
Equity in profit (loss) of unconsolidated affiliated companies .....	5	(6)
<b>Profit of consolidated and affiliated companies</b> .....	1,702	1,154
Less: Profit attributable to noncontrolling interests .....	3	13
<b>Profit</b> <sup>1</sup> .....	<u>\$ 1,699</u>	<u>\$ 1,141</u>
<b>Profit per common share</b> .....	\$ 2.60	\$ 1.76
<b>Profit per common share — diluted</b> <sup>2</sup> .....	\$ 2.54	\$ 1.71
<b>Weighted-average common shares outstanding (millions)</b>		
— Basic .....	653.6	646.6
— Diluted <sup>2</sup> .....	668.7	666.0
<b>Cash dividends declared per common share</b> .....	\$ —	\$ —

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

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

See accompanying notes to Consolidated Financial Statements.

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

	<b>Three Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
Profit of consolidated and affiliated companies .....	\$ 1,702	\$ 1,154
Other comprehensive income (loss), net of tax:		
Foreign currency translation, net of tax (expense)/benefit of: 2012 - \$11; 2011 - (\$69) .....	193	(534)
Pension and other postretirement benefits:		
Current year actuarial gain (loss), net of tax (expense)/benefit of: 2012 - \$91; 2011 - \$0 .....	(155)	—
Amortization of actuarial (gain) loss, net of tax (expense)/benefit of: 2012 - (\$61); 2011 - (\$46) .....	114	92
Current year prior service credit (cost), net of tax (expense)/benefit of: 2012 - (\$3); 2011 - \$0 .....	4	—
Amortization of prior service (credit) cost, net of tax (expense)/benefit of: 2012 - \$4; 2011 - \$3 .....	(8)	(5)
Amortization of transition (asset) obligation, net of tax (expense)/benefit of: 2012 - \$0; 2011 - (\$1) .....	1	—
Derivative financial instruments:		
Gains (losses) deferred, net of tax (expense)/benefit of: 2012 - \$5; 2011 - (\$21) .....	(7)	37
(Gains) losses reclassified to earnings, net of tax (expense)/benefit of: 2012 - (\$5); 2011 - \$14 .....	9	(25)
Available-for-sale securities:		
Gains (losses) deferred, net of tax (expense)/benefit of: 2012 - (\$8); 2011 - \$13 .....	12	(20)
(Gains) losses reclassified to earnings, net of tax (expense)/benefit of: 2012 - \$0; 2011 - \$0 .....	(1)	(1)
Total other comprehensive income (loss), net of tax .....	<u>162</u>	<u>(456)</u>
Comprehensive income .....	1,864	698
Less: comprehensive income attributable to the noncontrolling interests .....	(3)	(32)
Comprehensive income attributable to the company .....	<u>\$ 1,861</u>	<u>\$ 666</u>

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

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

	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Sales and revenues:</b>		
Sales of Machinery and Power Systems.....	\$ 47,711	\$ 40,835
Revenues of Financial Products .....	2,089	2,060
Total sales and revenues .....	49,800	42,895
<b>Operating costs:</b>		
Cost of goods sold .....	35,156	30,815
Selling, general and administrative expenses.....	4,328	3,716
Research and development expenses.....	1,853	1,693
Interest expense of Financial Products .....	599	623
Other operating (income) expenses .....	329	855
Total operating costs.....	42,265	37,702
<b>Operating profit</b> .....	7,535	5,193
Interest expense excluding Financial Products.....	352	289
Other income (expense).....	141	(157)
<b>Consolidated profit before taxes</b> .....	7,324	4,747
Provision for income taxes .....	2,314	1,304
Profit of consolidated companies .....	5,010	3,443
Equity in profit (loss) of unconsolidated affiliated companies.....	12	(24)
<b>Profit of consolidated and affiliated companies</b> .....	5,022	3,419
Less: Profit attributable to noncontrolling interests .....	38	38
<b>Profit</b> <sup>1</sup> .....	\$ 4,984	\$ 3,381
<b>Profit per common share</b> .....	\$ 7.64	\$ 5.25
<b>Profit per common share — diluted</b> <sup>2</sup> .....	\$ 7.44	\$ 5.08
<b>Weighted-average common shares outstanding (millions)</b>		
– Basic.....	652.0	644.3
– Diluted <sup>2</sup> .....	669.7	666.1
<b>Cash dividends declared per common share</b> .....	\$ 0.98	\$ 0.90

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

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

See accompanying notes to Consolidated Financial Statements.

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

	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
Profit of consolidated and affiliated companies .....	\$ 5,022	\$ 3,419
Other comprehensive income (loss), net of tax:		
Foreign currency translation, net of tax (expense)/benefit of: 2012 - (\$5); 2011 - \$15 .....	35	(212)
Pension and other postretirement benefits:		
Current year actuarial gain (loss), net of tax (expense)/benefit of: 2012 - \$83; 2011 - \$0.....	(140)	—
Amortization of actuarial (gain) loss, net of tax (expense)/benefit of: 2012 - (\$181); 2011 - (\$158).....	340	299
Current year prior service credit (cost), net of tax (expense)/benefit of: 2012 - (\$1); 2011 - \$0 .....	1	—
Amortization of prior service (credit) cost, net of tax (expense)/benefit of: 2012 - \$12; 2011 - \$9.....	(23)	(15)
Amortization of transition (asset) obligation, net of tax (expense)/benefit of: 2012 - \$0; 2011 - (\$1).....	2	1
Derivative financial instruments:		
Gains (losses) deferred, net of tax (expense)/benefit of: 2012 - \$21; 2011 - (\$15).....	(35)	24
(Gains) losses reclassified to earnings, net of tax (expense)/benefit of: 2012 - (\$6); 2011 - \$14 .....	10	(21)
Available-for-sale securities:		
Gains (losses) deferred, net of tax (expense)/benefit of: 2012 - (\$13); 2011 - \$8 .....	28	(11)
(Gains) losses reclassified to earnings, net of tax (expense)/benefit of: 2012 - \$0; 2011 - \$0 .....	(3)	(2)
Total other comprehensive income (loss), net of tax .....	<u>215</u>	<u>63</u>
Comprehensive income .....	5,237	3,482
Less: comprehensive income attributable to the noncontrolling interests .....	(20)	(69)
Comprehensive income attributable to the company .....	<u>\$ 5,217</u>	<u>\$ 3,413</u>

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

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

	September 30, 2012	December 31, 2011
<b>Assets</b>		
Current assets:		
Cash and short-term investments .....	\$ 5,689	\$ 3,057
Receivables – trade and other .....	9,814	10,285
Receivables – finance .....	8,865	7,668
Deferred and refundable income taxes .....	1,633	1,580
Prepaid expenses and other current assets .....	1,088	994
Inventories .....	17,550	14,544
<b>Total current assets</b> .....	<b>44,639</b>	<b>38,128</b>
Property, plant and equipment – net .....	15,509	14,395
Long-term receivables – trade and other .....	1,422	1,130
Long-term receivables – finance .....	13,156	11,948
Investments in unconsolidated affiliated companies .....	199	133
Noncurrent deferred and refundable income taxes .....	1,873	2,157
Intangible assets .....	4,166	4,368
Goodwill .....	7,372	7,080
Other assets .....	2,205	2,107
<b>Total assets</b> .....	<b>\$ 90,541</b>	<b>\$ 81,446</b>
<b>Liabilities</b>		
Current liabilities:		
Short-term borrowings:		
Machinery and Power Systems .....	\$ 607	\$ 93
Financial Products .....	4,460	3,895
Accounts payable .....	7,978	8,161
Accrued expenses .....	3,568	3,386
Accrued wages, salaries and employee benefits .....	1,764	2,410
Customer advances .....	3,035	2,691
Dividends payable .....	—	298
Other current liabilities .....	2,075	1,967
Long-term debt due within one year:		
Machinery and Power Systems .....	1,266	558
Financial Products .....	6,993	5,102
<b>Total current liabilities</b> .....	<b>31,746</b>	<b>28,561</b>
Long-term debt due after one year:		
Machinery and Power Systems .....	9,010	8,415
Financial Products .....	17,516	16,529
Liability for postemployment benefits .....	10,708	10,956
Other liabilities .....	3,625	3,583
<b>Total liabilities</b> .....	<b>72,605</b>	<b>68,044</b>
<b>Commitments and contingencies (Notes 10 and 12)</b>		
<b>Redeemable noncontrolling interest</b> .....	—	473
<b>Stockholders' equity</b>		
Common stock of \$1.00 par value:		
Authorized shares: 2,000,000,000		
Issued shares: (9/30/12 and 12/31/11 – 814,894,624) at paid-in amount .....	4,449	4,273
Treasury stock (9/30/12 – 160,960,952 shares; 12/31/11 – 167,361,280 shares) at cost .....	(10,118)	(10,281)
Profit employed in the business .....	29,541	25,219
Accumulated other comprehensive income (loss) .....	(5,988)	(6,328)
Noncontrolling interests .....	52	46
<b>Total stockholders' equity</b> .....	<b>17,936</b>	<b>12,929</b>
<b>Total liabilities, redeemable noncontrolling interest and stockholders' equity</b> .....	<b>\$ 90,541</b>	<b>\$ 81,446</b>

See accompanying notes to Consolidated Financial Statements.

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

	Common stock	Treasury stock	Profit employed in the business	Accumulated other comprehensive income (loss)	Noncontrolling interests	Total
<b><u>Nine Months Ended September 30, 2011</u></b>						
<b>Balance at December 31, 2010</b> .....	\$ 3,888	\$ (10,397)	\$ 21,384	\$ (4,051)	\$ 40	\$ 10,864
Profit of consolidated and affiliated companies .....	—	—	3,381	—	38	3,419
Foreign currency translation, net of tax .....	—	—	—	(244)	32	(212)
Pension and other postretirement benefits, net of tax .....	—	—	—	286	(1)	285
Derivative financial instruments, net of tax .....	—	—	—	3	—	3
Available-for-sale securities, net of tax .....	—	—	—	(13)	—	(13)
Change in ownership from noncontrolling interests .....	—	—	—	—	4	4
Dividends declared .....	—	—	(581)	—	—	(581)
Distribution to noncontrolling interests .....	—	—	—	—	(3)	(3)
Common shares issued from treasury stock for stock-based compensation: 7,797,655 .....	12	98	—	—	—	110
Stock-based compensation expense .....	163	—	—	—	—	163
Net excess tax benefits from stock-based compensation .....	166	—	—	—	—	166
Cat Japan share redemption <sup>1</sup> .....	—	—	67	—	(59)	8
<b>Balance at September 30, 2011</b> .....	<b>\$ 4,229</b>	<b>\$ (10,299)</b>	<b>\$ 24,251</b>	<b>\$ (4,019)</b>	<b>\$ 51</b>	<b>\$ 14,213</b>
<b><u>Nine Months Ended September 30, 2012</u></b>						
<b>Balance at December 31, 2011</b> .....	\$ 4,273	\$ (10,281)	\$ 25,219	\$ (6,328)	\$ 46	\$ 12,929
Profit of consolidated and affiliated companies .....	—	—	4,984	—	38	5,022
Foreign currency translation, net of tax .....	—	—	—	59	(24)	35
Pension and other postretirement benefits, net of tax .....	—	—	—	175	5	180
Derivative financial instruments, net of tax .....	—	—	—	(25)	—	(25)
Available-for-sale securities, net of tax .....	—	—	—	24	1	25
Change in ownership from noncontrolling interests .....	—	—	—	—	1	1
Dividends declared .....	—	—	(639)	—	—	(639)
Distribution to noncontrolling interests .....	—	—	—	—	(5)	(5)
Common shares issued from treasury stock for stock-based compensation: 6,400,328 .....	(122)	163	—	—	—	41
Stock-based compensation expense .....	208	—	—	—	—	208
Net excess tax benefits from stock-based compensation .....	164	—	—	—	—	164
Cat Japan share redemption <sup>1</sup> .....	(74)	—	(23)	107	(10)	—
<b>Balance at September 30, 2012</b> .....	<b>\$ 4,449</b>	<b>\$ (10,118)</b>	<b>\$ 29,541</b>	<b>\$ (5,988)</b>	<b>\$ 52</b>	<b>\$ 17,936</b>

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

See accompanying notes to Consolidated Financial Statements.



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

	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flow from operating activities:</b>		
Profit of consolidated and affiliated companies .....	\$ 5,022	\$ 3,419
Adjustments for non-cash items:		
Depreciation and amortization .....	2,070	1,832
Other .....	(267)	558
Changes in assets and liabilities, net of acquisitions and divestitures:		
Receivables – trade and other .....	136	(254)
Inventories .....	(3,118)	(2,716)
Accounts payable .....	(334)	1,308
Accrued expenses .....	76	134
Accrued wages, salaries and employee benefits .....	(643)	275
Customer advances .....	306	333
Other assets – net .....	(20)	(74)
Other liabilities – net .....	34	700
Net cash provided by (used for) operating activities .....	<u>3,262</u>	<u>5,515</u>
<b>Cash flow from investing activities:</b>		
Capital expenditures – excluding equipment leased to others .....	(2,270)	(1,515)
Expenditures for equipment leased to others .....	(1,256)	(984)
Proceeds from disposals of leased assets and property, plant and equipment .....	840	922
Additions to finance receivables .....	(8,835)	(7,091)
Collections of finance receivables .....	6,567	6,503
Proceeds from sale of finance receivables .....	109	106
Investments and acquisitions (net of cash acquired) .....	(542)	(7,413)
Proceeds from sale of businesses and investments (net of cash sold) .....	1,009	21
Proceeds from sale of available-for-sale securities .....	243	180
Investments in available-for-sale securities .....	(299)	(216)
Other – net .....	82	37
Net cash provided by (used for) investing activities .....	<u>(4,352)</u>	<u>(9,450)</u>
<b>Cash flow from financing activities:</b>		
Dividends paid .....	(937)	(862)
Distribution to noncontrolling interests .....	(5)	(3)
Common stock issued, including treasury shares reissued .....	41	110
Excess tax benefit from stock-based compensation .....	165	169
Acquisitions of redeemable noncontrolling interests .....	(444)	—
Proceeds from debt issued (original maturities greater than three months):		
Machinery and Power Systems .....	2,015	4,544
Financial Products .....	9,617	8,703
Payments on debt (original maturities greater than three months):		
Machinery and Power Systems .....	(485)	(2,203)
Financial Products .....	(6,283)	(6,080)
Short-term borrowings – net (original maturities three months or less) .....	163	(766)
Net cash provided by (used for) financing activities .....	<u>3,847</u>	<u>3,612</u>
Effect of exchange rate changes on cash .....	(125)	(40)
<b>Increase (decrease) in cash and short-term investments .....</b>	<b>2,632</b>	<b>(363)</b>
Cash and short-term investments at beginning of period .....	3,057	3,592
Cash and short-term investments at end of period .....	<u>\$ 5,689</u>	<u>\$ 3,229</u>

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

Non-cash activities: In 2012, \$1,325 million of debentures with varying interest rates and maturity dates were exchanged for \$1,722 million of 3.803% debentures due in 2042 and \$179 million of cash. The \$179 million of cash paid is included in Other liabilities – net in the operating activities section of the Consolidated Statement of Cash Flow.

**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 nine month periods ended September 30, 2012 and 2011, (b) the consolidated comprehensive income for the three and nine month periods ended September 30, 2012 and 2011, (c) the consolidated financial position at September 30, 2012 and December 31, 2011, (d) the consolidated changes in stockholders' equity for the nine month periods ended September 30, 2012 and 2011, and (e) the consolidated cash flow for the nine month periods ended September 30, 2012 and 2011. The financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission. Certain amounts for prior periods have been reclassified to conform to the current period financial statement presentation.

Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with the audited financial statements and notes thereto included in our Company's annual report on Form 10-K for the year ended December 31, 2011 (2011 Form 10-K).

The December 31, 2011 financial position data included herein is derived from the audited consolidated financial statements included in the 2011 Form 10-K but does not include all disclosures required by U.S. GAAP.

### B. Nature of Operations

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

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

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

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

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

(Millions of dollars)	September 30, 2012	September 30, 2011
Foreign currency translation .....	\$ 432	\$ 307
Pension and other postretirement benefits .....	(6,454)	(4,409)
Derivative financial instruments .....	(35)	48
Available-for-sale securities.....	69	35
Total accumulated other comprehensive income (loss).....	<u>\$ (5,988) <sup>1</sup></u>	<u>\$ (4,019)</u>

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

### 2. New Accounting Guidance

**Disclosures about the credit quality of financing receivables and the allowance for credit losses** – In July 2010, the Financial Accounting Standards Board (FASB) issued accounting guidance on disclosures about the credit quality of

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

**Presentation of comprehensive income** – In June 2011, the FASB issued accounting guidance on the presentation of comprehensive income. The guidance provides two options for presenting net income and other comprehensive income. The total of comprehensive income, the components of net income, and the components of other comprehensive income may be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. We elected to present two separate statements. This guidance was effective January 1, 2012.

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

**Disclosures about offsetting assets and liabilities** – In December 2011, the FASB issued accounting guidance on disclosures about offsetting assets and liabilities. The guidance requires entities to disclose both gross and net information about instruments and transactions that are offset in the statement of financial position, as well as instruments and transactions that are subject to an enforceable master netting arrangement or similar agreement. This guidance is effective January 1, 2013, with retrospective application required. We are currently reviewing the impact of this guidance on our financial statements and expect to complete this evaluation in 2012.

**Indefinite-lived intangible assets impairment testing** – In July 2012, the FASB issued accounting guidance on the testing of indefinite-lived intangible assets for impairment. The guidance allows entities to first perform a qualitative assessment to determine the likelihood of an impairment for an indefinite-lived intangible asset and whether it is necessary to perform the quantitative impairment assessment currently required. This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. We do not expect the adoption to have a material impact on our financial statements.

### **3. Stock-Based Compensation**

Accounting for stock-based compensation requires that the cost resulting from all stock-based payments be recognized in the financial statements based on the grant date fair value of the award. Stock-based compensation primarily consists of stock options, restricted stock units (RSUs) and stock-settled stock appreciation rights (SARs). We recognized pretax stock-based compensation cost in the amount of \$69 million and \$204 million for the three and nine months ended September 30, 2012, respectively; and \$52 million and \$163 million for the three and nine months ended September 30, 2011, respectively.

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

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

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

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

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

As of September 30, 2012, the total remaining unrecognized compensation cost related to nonvested stock-based compensation awards was \$218 million, which will be amortized over the weighted-average remaining requisite service periods of approximately 2.0 years.

#### 4. Derivative Financial Instruments and Risk Management

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

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

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

We also formally assess, both at the hedge's inception and on an ongoing basis, whether the designated derivatives that

are used in hedging transactions are highly effective in offsetting changes in fair values or cash flow of hedged items. When a derivative is determined not to be highly effective as a hedge or the underlying hedged transaction is no longer probable, we discontinue hedge accounting prospectively, in accordance with the derecognition criteria for hedge accounting.

#### Foreign Currency Exchange Rate Risk

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

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

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

As of September 30, 2012, \$9 million of deferred net losses, net of tax, included in equity (AOCI in the Consolidated Statement of Financial Position), are expected to be reclassified to current earnings (Other income (expense) in the Consolidated Statement of Results of Operations) over the next twelve months when earnings are affected by the hedged transactions. The actual amount recorded in Other income (expense) will vary based on exchange rates at the time the hedged transactions impact earnings.

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

#### Interest Rate Risk

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

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

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

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

As of September 30, 2012, \$3 million of deferred net losses, net of tax, included in equity (AOCI in the Consolidated Statement of Financial Position), related to Financial Products floating-to-fixed interest rate swaps, are expected to be reclassified to current earnings (Interest expense of Financial Products in the Consolidated Statement of Results of Operations) over the next twelve months. The actual amount recorded in Interest expense of Financial Products will vary based on interest rates at the time the hedged transactions impact earnings.

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

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

### Commodity Price Risk

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

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

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

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

(Millions of dollars)

		Consolidated Statement of Financial		Asset (Liability) Fair Value	
		Position	Location	September 30, 2012	December 31, 2011
<b>Designated derivatives</b>					
Foreign exchange contracts					
Machinery and Power Systems.....	Receivables – trade and other .....	\$	48	\$	54
Machinery and Power Systems.....	Long-term receivables – trade and other .....		1		19
Machinery and Power Systems.....	Accrued expenses.....		(63)		(73)
Machinery and Power Systems.....	Other liabilities.....		(10)		(10)
Interest rate contracts					
Financial Products.....	Receivables – trade and other .....		28		15
Financial Products.....	Long-term receivables – trade and other .....		224		233
Financial Products.....	Accrued expenses.....		(11)		(6)
		\$	217	\$	232
<b>Undesignated derivatives</b>					
Foreign exchange contracts					
Machinery and Power Systems.....	Receivables – trade and other .....	\$	14	\$	27
Machinery and Power Systems.....	Accrued expenses.....		(58)		(12)
Machinery and Power Systems.....	Other liabilities.....		(18)		(85)
Financial Products.....	Receivables – trade and other .....		9		7
Financial Products.....	Accrued expenses.....		(7)		(16)
Interest rate contracts					
Financial Products.....	Accrued expenses.....		(2)		(1)
Commodity contracts					
Machinery and Power Systems.....	Receivables – trade and other .....		2		2
Machinery and Power Systems.....	Accrued expenses.....		(1)		(9)
		\$	(61)	\$	(87)

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 September 30, 2012		Nine Months Ended September 30, 2012	
		Gains (Losses) on Derivatives	Gains (Losses) on Borrowings	Gains (Losses) on Derivatives	Gains (Losses) on Borrowings
<b>Classification</b>					
Interest rate contracts					
Financial Products.....	Other income (expense) .....	\$ 7	\$ (3)	\$ 4	\$ 7
		\$ 7	\$ (3)	\$ 4	\$ 7
<b>Classification</b>					
Interest rate contracts					
Machinery and Power Systems..	Other income (expense) .....	\$ —	\$ —	\$ (1)	\$ 1
Financial Products.....	Other income (expense) .....	70	(77)	59	(65)
		\$ 70	\$ (77)	\$ 58	\$ (64)



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

<b>Three Months Ended September 30, 2012</b>				
	<b>Amount of Gains (Losses) Recognized in AOCI (Effective Portion)</b>	<b>Classification of Gains (Losses)</b>	<b>Recognized in Earnings</b>	
			<b>Amount of Gains (Losses) Reclassified from AOCI (Effective Portion)</b>	<b>Recognized in Earnings (Ineffective Portion)</b>
Foreign exchange contracts				
Machinery and Power Systems...	\$ (6)	Other income (expense) .....	\$ (14)	\$ —
Interest rate contracts				
Machinery and Power Systems...	—	Other income (expense) .....	1	—
Financial Products.....	(6)	Interest expense of Financial Products ...	(1)	—
	<u>\$ (12)</u>		<u>\$ (14)</u>	<u>\$ —</u>
<b>Three Months Ended September 30, 2011</b>				
	<b>Amount of Gains (Losses) Recognized in AOCI (Effective Portion)</b>	<b>Classification of Gains (Losses)</b>	<b>Recognized in Earnings</b>	
			<b>Amount of Gains (Losses) Reclassified from AOCI (Effective Portion)</b>	<b>Recognized in Earnings (Ineffective Portion)</b>
Foreign exchange contracts				
Machinery and Power Systems...	\$ 62	Other income (expense) .....	\$ 43	\$ —
Interest rate contracts				
Machinery and Power Systems...	—	Other income (expense) .....	(1)	—
Financial Products.....	(4)	Interest expense of Financial Products ...	(3)	(2) <sup>1</sup>
	<u>\$ 58</u>		<u>\$ 39</u>	<u>\$ (2)</u>
<b>Nine Months Ended September 30, 2012</b>				
	<b>Amount of Gains (Losses) Recognized in AOCI (Effective Portion)</b>	<b>Classification of Gains (Losses)</b>	<b>Recognized in Earnings</b>	
			<b>Amount of Gains (Losses) Reclassified from AOCI (Effective Portion)</b>	<b>Recognized in Earnings (Ineffective Portion)</b>
Foreign exchange contracts				
Machinery and Power Systems..	\$ (48)	Other income (expense).....	\$ (13)	\$ —
Interest rate contracts				
Machinery and Power Systems..	—	Other income (expense).....	—	—
Financial Products.....	(8)	Interest expense of Financial Products ...	(3)	(1) <sup>1</sup>
	<u>\$ (56)</u>		<u>\$ (16)</u>	<u>\$ (1)</u>
<b>Nine Months Ended September 30, 2011</b>				
	<b>Amount of Gains (Losses) Recognized in AOCI (Effective Portion)</b>	<b>Classification of Gains (Losses)</b>	<b>Recognized in Earnings</b>	
			<b>Amount of Gains (Losses) Reclassified from AOCI (Effective Portion)</b>	<b>Recognized in Earnings (Ineffective Portion)</b>
Foreign exchange contracts				
Machinery and Power Systems ..	\$ 44	Other income (expense).....	\$ 52	\$ —
Interest rate contracts				
Machinery and Power Systems ..	—	Other income (expense).....	(2)	—
Financial Products .....	(5)	Interest expense of Financial Products ...	(15)	(1) <sup>1</sup>
	<u>\$ 39</u>		<u>\$ 35</u>	<u>\$ (1)</u>

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



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

(Millions of dollars)		Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
	Classification of Gains (Losses)		
Foreign exchange contracts			
Machinery and Power Systems .....	Other income (expense) .....	\$ (9)	\$ 21
Financial Products .....	Other income (expense) .....	5	7
Commodity contracts			
Machinery and Power Systems .....	Other income (expense) .....	3	3
		<u>\$ (1)</u>	<u>\$ 31</u>
	Classification of Gains (Losses)	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Foreign exchange contracts			
Machinery and Power Systems .....	Other income (expense) .....	\$ (1)	\$ 46
Financial Products .....	Other income (expense) .....	(10)	(12)
Interest rate contracts			
Machinery and Power Systems .....	Other income (expense) .....	—	(149)
Commodity contracts			
Machinery and Power Systems .....	Other income (expense) .....	(23)	(21)
		<u>\$ (34)</u>	<u>\$ (136)</u>

### Stock Repurchase Risk

Payments for stock repurchase derivatives are accounted for as a reduction in stockholders' equity. In February 2007, the Board of Directors authorized a \$7.5 billion stock repurchase program, expiring on December 31, 2011. In December 2011, the Board of Directors extended the \$7.5 billion stock repurchase program through December 31, 2015. The amount of Caterpillar stock that can be repurchased under the authorization is impacted by movements in the price of the stock. In August 2007, the Board of Directors authorized the use of derivative contracts to reduce stock repurchase price volatility. There were no stock repurchase derivatives outstanding for the three and nine months ended September 30, 2012 or 2011.

## 5. Inventories

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

(Millions of dollars)	September 30, 2012	December 31, 2011
Raw materials.....	\$ 4,018	\$ 3,766
Work-in-process.....	3,488	2,959
Finished goods .....	9,775	7,562
Supplies .....	269	257
Total inventories.....	<u>\$ 17,550</u>	<u>\$ 14,544</u>

## 6. Investments in Unconsolidated Affiliated Companies

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

**Results of Operations of unconsolidated affiliated companies:**  
**(Millions of dollars)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Sales.....	\$ 253	\$ 302	\$ 625	\$ 741
Cost of sales.....	206	257	492	616
Gross profit.....	<u>\$ 47</u>	<u>\$ 45</u>	<u>\$ 133</u>	<u>\$ 125</u>
Profit (loss) .....	<u>\$ 17</u>	<u>\$ (12)</u>	<u>\$ 39</u>	<u>\$ (46)</u>

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

	September 30, 2012	December 31, 2011
Assets:		
Current assets .....	\$ 569	\$ 345
Property, plant and equipment – net.....	523	200
Other assets.....	558	9
	<u>1,650</u>	<u>554</u>
Liabilities:		
Current liabilities.....	342	220
Long-term debt due after one year .....	724	72
Other liabilities.....	182	17
	<u>1,248</u>	<u>309</u>
Equity.....	<u>\$ 402</u>	<u>\$ 245</u>

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

	September 30, 2012	December 31, 2011
Investments in equity method companies .....	\$ 183	\$ 111
Plus: Investments in cost method companies.....	16	22
Total investments in unconsolidated affiliated companies.....	<u>\$ 199</u>	<u>\$ 133</u>

The increase in financial position and equity investments amounts noted above primarily relate to the sale of a majority interest in Caterpillar's third party logistics business, which occurred on July 31, 2012. Under the terms of the agreement, Caterpillar retained a 35 percent equity interest. See Note 19 for additional details.

## 7. Intangible Assets and Goodwill

### A. Intangible assets

Intangible assets are comprised of the following:

(Millions of dollars)	Weighted Amortizable Life (Years)	September 30, 2012		
		Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships .....	15	\$ 2,827	\$ (330)	\$ 2,497
Intellectual property .....	12	1,744	(303)	1,441
Other .....	10	300	(90)	210
Total finite-lived intangible assets .....	14	4,871	(723)	4,148
Indefinite-lived intangible assets - In-process research & development .....		18	—	18
Total intangible assets .....		<u>\$ 4,889</u>	<u>\$ (723)</u>	<u>\$ 4,166</u>

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

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

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

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

Amortization expense for the three and nine months ended September 30, 2012 was \$101 million and \$294 million, respectively. Amortization expense for the three and nine months ended September 30, 2011 was \$91 million and \$135 million, respectively. Amortization expense related to intangible assets is expected to be:

(Millions of dollars)					
2012	2013	2014	2015	2016	Thereafter
<u>\$390</u>	<u>\$383</u>	<u>\$377</u>	<u>\$372</u>	<u>\$364</u>	<u>\$2,574</u>

### B. Goodwill

During 2012, we recorded goodwill of \$476 million related to the acquisition of ERA Mining Machinery Limited and

\$19 million related to the acquisition of Cat Tohoku. See Note 18 for details on these business combinations.

Goodwill of \$152 million was reclassified to held for sale during 2012, primarily related to the divestiture of portions of the Bucyrus distribution business, and is not included in the September 30, 2012 balance in the table below. See Note 19 for additional information on assets held for sale.

We test goodwill for impairment annually and whenever events or circumstances make it more likely than not that an impairment may have occurred. We perform our annual goodwill impairment test as of October 1 and monitor for interim triggering events on an ongoing basis. Goodwill is reviewed for impairment utilizing a qualitative assessment or a two-step process. We have an option to make a qualitative assessment of a reporting unit's goodwill for impairment. If we choose to perform a qualitative assessment and determine the fair value more likely than not exceeds the carrying value, no further evaluation is necessary. For reporting units where we perform the two-step process, the first step requires us to compare the fair value of each reporting unit, which we primarily determine using an income approach based on the present value of discounted cash flows, to the respective carrying value, which includes goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is higher than the fair value, there is an indication that an impairment may exist and the second step is required. In step two, the implied fair value of goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss. No goodwill for reporting units was impaired during the three and nine months ended September 30, 2012 or 2011. See Note 19 for goodwill impairments relating to assets held for sale.

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

<b>(Millions of dollars)</b>					
	<b>Construction Industries</b>	<b>Resource Industries</b>	<b>Power Systems</b>	<b>Other</b>	<b>Consolidated Total</b>
Balance at December 31, 2011 .....	\$ 378	\$ 4,099	\$ 2,486	\$ 117	\$ 7,080
Business acquisitions <sup>1</sup> .....	19	476	—	—	495
Held for sale and business divestitures <sup>2</sup> .....	—	(152)	—	—	(152)
Other adjustments <sup>3</sup> .....	(3)	(28)	(20)	—	(51)
Balance at September 30, 2012 .....	<u>\$ 394</u>	<u>\$ 4,395</u>	<u>\$ 2,466</u>	<u>\$ 117</u>	<u>\$ 7,372</u>

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

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

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

## 8. Available-For-Sale Securities

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

(Millions of dollars)	September 30, 2012			December 31, 2011		
	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value
<b>Government debt</b>						
U.S. treasury bonds.....	\$ 10	\$ —	\$ 10	\$ 10	\$ —	\$ 10
Other U.S. and non-U.S. government bonds.	116	2	118	90	2	92
<b>Corporate bonds</b>						
Corporate bonds.....	630	42	672	542	30	572
Asset-backed securities .....	94	—	94	112	(1)	111
<b>Mortgage-backed debt securities</b>						
U.S. governmental agency.....	288	10	298	297	13	310
Residential .....	28	(1)	27	33	(3)	30
Commercial .....	123	8	131	142	3	145
<b>Equity securities</b>						
Large capitalization value.....	140	37	177	127	21	148
Smaller company growth.....	22	12	34	22	7	29
Total.....	<u>\$ 1,451</u>	<u>\$ 110</u>	<u>\$ 1,561</u>	<u>\$ 1,375</u>	<u>\$ 72</u>	<u>\$ 1,447</u>

During the three months ended September 30, 2012, there were no charges for other-than-temporary declines in the market value of securities. During the nine months ended September 30, 2012, charges for other-than-temporary declines in the market value of securities were \$1 million. During the three and nine months ended September 30, 2011, charges for other-than-temporary declines in the market value of securities were \$4 million. 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:**

		September 30, 2012					
		Less than 12 months <sup>1</sup>		12 months or more <sup>1</sup>		Total	
(Millions of dollars)		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Corporate bonds</b>							
Asset-backed securities.....	\$	—	\$ —	\$ 20	\$ 3	\$ 20	\$ 3
<b>Mortgage-backed debt securities</b>							
U.S. governmental agency.....		74	1	4	—	78	1
Residential .....		—	—	15	1	15	1
<b>Equity securities</b>							
Large capitalization value.....		22	2	13	2	35	4
Total.....	\$	96	\$ 3	\$ 52	\$ 6	\$ 148	\$ 9

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

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

**Corporate Bonds.** The unrealized losses on our investments in asset-backed securities relate primarily to changes in interest rates and credit-related yield spreads since time of purchase. We do not intend to sell the investments and it is not likely that we will be required to sell the investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of September 30, 2012.

**Mortgage-Backed Debt Securities.** The unrealized losses on our investments in mortgage-backed securities and mortgage-related asset-backed securities relate primarily to the continuation of elevated housing delinquencies and default rates, risk aversion and credit-related yield spreads since time of purchase. We do not intend to sell the investments and it is not likely that we will be required to sell these investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of September 30, 2012.

**Equity Securities.** Cat Insurance maintains a well-diversified equity portfolio consisting of two specific mandates: large capitalization value stocks and smaller company growth stocks. Overall U.S. equity valuations were higher during the third quarter of 2012 despite lingering concerns over Europe's debt crisis and on mixed economic data. We do not consider these investments to be other-than-temporarily impaired as of September 30, 2012.

The fair value of the available-for-sale debt securities at September 30, 2012, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay and creditors may have the right to call obligations.

(Millions of dollars)	September 30, 2012	
	Cost Basis	Fair Value
Due in one year or less .....	\$ 141	\$ 143
Due after one year through five years .....	530	551
Due after five years through ten years .....	135	157
Due after ten years.....	44	43
U.S. governmental agency mortgage-backed securities.....	288	298
Residential mortgage-backed securities .....	28	27
Commercial mortgage-backed securities .....	123	131
Total debt securities – available-for-sale.....	<u>\$ 1,289</u>	<u>\$ 1,350</u>

#### Sales of Securities

(Millions of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Proceeds from the sale of available-for-sale securities.....	\$ 66	\$ 58	\$ 243	\$ 180
Gross gains from the sale of available-for-sale securities .....	\$ 1	\$ 1	\$ 4	\$ 3
Gross losses from the sale of available-for-sale securities .....	\$ —	\$ —	\$ —	\$ 1

## 9. Postretirement Benefits

### A. Pension and postretirement benefit costs

In February 2012, we announced the closure of the Electro-Motive Diesel facility located in London, Ontario. As a result of the closure, we recognized a \$37 million other postretirement benefits curtailment gain in the first quarter. This excludes a \$21 million loss of a third-party receivable for other postretirement benefits that was eliminated due to the closure. In addition, a \$10 million special termination benefit expense was recognized related to statutory pension benefits required to be paid to certain affected employees. As a result, a net gain of \$6 million related to the facility closure was recognized in Other operating (income) expenses in the Consolidated Statement of Results of Operations. See Note 20 for additional information.

In August 2012, we announced changes to our U.S. hourly pension plan, which impacted certain hourly employees. For impacted employees, pension benefit accruals will freeze on January 1, 2013 or January 1, 2016, at which time employees will become eligible for various provisions of company sponsored 401(k) plans including a matching contribution and an annual employer contribution. The plan changes resulted in a curtailment and required a remeasurement as of August 31, 2012. The curtailment and the remeasurement resulted in a net increase in our Liability for postemployment benefits of \$243 million and a net loss of \$153 million, net of tax, recognized in Accumulated other comprehensive income (loss). The increase in the liability was primarily due to a decline in the discount rate. Also, the curtailment resulted in expense of \$7 million which was recognized in Other operating (income) expenses in the Consolidated Statement of Results of Operations.

(Millions of dollars)	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	September 30,		September 30,		September 30,	
	2012	2011	2012	2011	2012	2011
<b><u>For the three months ended:</u></b>						
<b>Components of net periodic benefit cost:</b>						
Service cost.....	\$ 46	\$ 41	\$ 26	\$ 28	\$ 23	\$ 21
Interest cost.....	152	164	44	45	55	64
Expected return on plan assets.....	(204)	(200)	(53)	(50)	(15)	(18)
Amortization of:						
Transition obligation (asset).....	—	—	—	—	1	1
Prior service cost (credit) <sup>1</sup> .....	5	5	1	1	(18)	(14)
Net actuarial loss (gain) <sup>1</sup> .....	126	112	24	18	25	27
Net periodic benefit cost.....	125	122	42	42	71	81
Curtailments, settlements and special termination benefits <sup>2</sup> ...	7	—	6	—	—	—
Total cost included in operating profit.....	<u>\$ 132</u>	<u>\$ 122</u>	<u>\$ 48</u>	<u>\$ 42</u>	<u>\$ 71</u>	<u>\$ 81</u>
<b><u>For the nine months ended:</u></b>						
<b>Components of net periodic benefit cost:</b>						
Service cost.....	\$ 138	\$ 118	\$ 82	\$ 83	\$ 69	\$ 62
Interest cost.....	460	488	135	132	166	190
Expected return on plan assets.....	(610)	(598)	(160)	(150)	(47)	(53)
Amortization of:						
Transition obligation (asset).....	—	—	—	—	2	2
Prior service cost (credit) <sup>1</sup> .....	15	15	1	2	(51)	(41)
Net actuarial loss (gain) <sup>1</sup> .....	374	338	72	54	75	81
Net periodic benefit cost.....	377	361	130	121	214	241
Curtailments, settlements and special termination benefits <sup>2</sup> ...	7	—	28	9	(40)	—
Total cost included in operating profit.....	<u>\$ 384</u>	<u>\$ 361</u>	<u>\$ 158</u>	<u>\$ 130</u>	<u>\$ 174</u>	<u>\$ 241</u>
<b>Weighted-average assumptions used to determine net cost:</b>						
Discount rate.....	4.3%	5.1%	4.3%	4.6%	4.3%	5.0%
Expected return on plan assets.....	8.0%	8.5%	7.1%	7.1%	8.0%	8.5%
Rate of compensation increase .....	4.5%	4.5%	3.9%	4.2%	4.4%	4.4%

<sup>1</sup> Prior service cost (credit) and net actuarial loss (gain) for both pension and other postretirement benefits are generally amortized using the straight-line method over the average remaining service period to the full retirement eligibility date of employees expected to receive benefits from the plan. For other postretirement benefit plans in which all or almost all of the plan's participants are fully eligible for benefits under the plan, prior service cost (credit) and net actuarial loss (gain) are amortized using the straight-line method over the remaining life expectancy of those participants.

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

We made \$195 million and \$488 million of contributions to our pension plans during the three and nine months ended September 30, 2012, respectively. We currently anticipate full-year 2012 contributions of approximately \$1 billion, of which \$625 million are required contributions. We made \$105 million and \$340 million of contributions to our pension plans during the three and nine months ended September 30, 2011, respectively.

## B. Defined contribution benefit costs

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



depending on years of service and age.

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

(Millions of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
U.S. Plans .....	\$ 62	\$ 3	\$ 196	\$ 135
Non-U.S. Plans .....	15	14	46	40
	<u>\$ 77</u>	<u>\$ 17</u>	<u>\$ 242</u>	<u>\$ 175</u>

## 10. Guarantees and Product Warranty

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

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

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

We have provided guarantees to third-party lessors for certain properties leased by Cat Logistics Services, LLC, in which we sold a 65 percent equity interest in the third quarter of 2012. See Note 19 for further discussion on this divestiture. The guarantees are for the possibility that the third party logistics business would default on real estate lease payments. The guarantees were granted at lease inception, which was prior to the divestiture, and generally will expire at the end of the lease terms.

No loss has been experienced or is anticipated under any of these guarantees. At September 30, 2012 and December 31, 2011, the related liability was \$17 million and \$7 million, respectively. The increase in the liability is primarily due to guarantees acquired through the purchase of ERA Mining Machinery Limited, as well as guarantees resulting from the divestiture of the third party logistics business. The maximum potential amount of future payments (undiscounted and without reduction for any amounts that may possibly be recovered under recourse or collateralized provisions) we could be required to make under the guarantees are as follows:

(Millions of dollars)	September 30, 2012	December 31, 2011
Guarantees with Caterpillar dealers .....	\$ 167	\$ 140
Guarantees with customers .....	176	186
Limited indemnity .....	1	11
Guarantees for third party logistics business .....	182	—
Guarantees – other .....	44	28
Total guarantees .....	<u>\$ 570</u>	<u>\$ 365</u>

Cat Financial provides guarantees to repurchase certain loans of Caterpillar dealers from a special-purpose corporation (SPC) that qualifies as a variable interest entity. The purpose of the SPC is to provide short-term working capital loans to Caterpillar dealers. This SPC issues commercial paper and uses the proceeds to fund its loan program. Cat Financial has a loan purchase agreement with the SPC that obligates Cat Financial to purchase certain loans that are not paid at maturity. Cat Financial receives a fee for providing this guarantee, which provides a source of liquidity for the SPC. Cat

Financial is the primary beneficiary of the SPC as their guarantees result in Cat Financial having both the power to direct the activities that most significantly impact the SPC's economic performance and the obligation to absorb losses, and therefore Cat Financial has consolidated the financial statements of the SPC. As of September 30, 2012 and December 31, 2011, the SPC's assets of \$940 million and \$586 million, respectively, are primarily comprised of loans to dealers and the SPC's liabilities of \$940 million and \$586 million, respectively, are primarily comprised of commercial paper. The assets of the SPC are not available to pay Cat Financial's creditors. Cat Financial may be obligated to perform under the guarantee if the SPC experiences losses. No loss has been experienced or is anticipated under this loan purchase agreement.

Our product warranty liability is determined by applying historical claim rate experience to the current field population and dealer inventory. Generally, historical claim rates are based on actual warranty experience for each product by machine model/engine size. Specific rates are developed for each product build month and are updated monthly based on actual warranty claim experience.

(Millions of dollars)	2012
Warranty liability, January 1.....	\$ 1,308
Reduction in liability (payments) .....	(672)
Increase in liability (new warranties).....	813
Warranty liability, September 30.....	<u>\$ 1,449</u>

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

## 11. Computations of Profit Per Share

(Dollars in millions except per share data)		Three Months Ended September 30,		Nine Months Ended September 30,	
		2012	2011	2012	2011
I.	Profit for the period (A) <sup>1</sup> .....	\$ 1,699	\$ 1,141	\$ 4,984	\$ 3,381
II.	Determination of shares (in millions):				
	Weighted-average number of common shares outstanding (B)...	653.6	646.6	652.0	644.3
	Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price .....	15.1	19.4	17.7	21.8
	Average common shares outstanding for fully diluted computation (C) <sup>2</sup> .....	<u>668.7</u>	<u>666.0</u>	<u>669.7</u>	<u>666.1</u>
III.	Profit per share of common stock:				
	Assuming no dilution (A/B) .....	\$ 2.60	\$ 1.76	\$ 7.64	\$ 5.25
	Assuming full dilution (A/C) <sup>2</sup> .....	\$ 2.54	\$ 1.71	\$ 7.44	\$ 5.08

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

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

SARs and stock options to purchase 6,073,271 common shares were outstanding for both the three and nine months ended September 30, 2012, respectively, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive. For both the three and nine months ended September 30, 2011, there were outstanding SARs and stock options to purchase 2,904,815 common shares, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

## **12. Environmental and Legal Matters**

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

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

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

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

On May 14, 2007, the U.S. Environmental Protection Agency (EPA) issued a Notice of Violation to Caterpillar Inc., alleging various violations of Clean Air Act Sections 203, 206 and 207. EPA claims that Caterpillar violated such sections by shipping engines and catalytic converter after-treatment devices separately, introducing into commerce a number of uncertified and/or misbuilt engines, and failing to timely report emissions-related defects. On July 9, 2010, the Department of Justice issued a penalty demand to Caterpillar seeking a civil penalty of \$3.2 million and implementation of injunctive relief involving expanded use of certain technologies. On July 28, 2011, EPA and the U.S. Department of Justice filed and lodged a civil complaint and consent decree with the U.S. District Court for the District of Columbia (Court) regarding the matter. Caterpillar agreed to the terms of the consent decree, which required payment of a civil penalty of \$2.55 million, retirement of a small number of emissions credits and expanded defect-related reporting. On September 7, 2011, the Court entered the consent decree, making it effective on that date, and Caterpillar paid \$2.04 million of the \$2.55 million penalty due to the United States in accordance with the decree terms. On July 9, 2012, under the terms of the consent decree, and subject to a settlement agreement executed on June 21, 2012 with the California Air Resources Board, Caterpillar paid the remaining \$0.51 million of the stipulated \$2.55 million penalty to the California Air Resources Board.

## **13. Income Taxes**

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

The 2012 tax provision also includes a negative impact of \$81 million from goodwill not deductible for tax purposes related to the divestiture of portions of the Bucyrus distribution business. A \$72 million net benefit was recorded in the first nine months of 2011 due to planned repatriation of non-U.S. earnings offset by an increase in unrecognized tax benefits.

## 14. Segment Information

### A. Basis for segment information

Our Executive Office is comprised of five Group Presidents and a CEO. Group Presidents are accountable for a related set of end-to-end businesses that they manage. The CEO allocates resources and manages performance at the Group President level. As such, the CEO serves as our Chief Operating Decision Maker and operating segments are primarily based on the Group President reporting structure.

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

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

### B. Description of segments

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

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

**Resource Industries:** A segment primarily responsible for supporting customers using machinery in mining and quarrying applications. Responsibilities include business strategy, product design, product management and development, manufacturing, marketing and sales and product support. The product portfolio includes large track-type tractors, large mining trucks, underground mining equipment, tunnel boring equipment, large wheel loaders, off-highway trucks, articulated trucks, wheel tractor scrapers, wheel dozers, compactors, select work tools, forestry products, paving products, machinery components and electronics and control systems. In addition, Resource Industries manages areas that provide services to other parts of the company, including integrated manufacturing, research and development and coordination of the Caterpillar Production System. On July 8, 2011, the acquisition of Bucyrus was completed. This added the responsibility for business strategy, product design, product management and development, manufacturing, marketing and sales and product support for electric rope shovels, draglines, hydraulic shovels, drills, highwall miners and electric drive off-highway trucks to Resource Industries. In addition, segment profit includes Bucyrus acquisition-related costs and the impact from divestiture of a portion of the Bucyrus distribution business. On June 6, 2012, the acquisition of ERA Mining Machinery Limited, including its wholly-owned subsidiary Zhengzhou Siwei Mechanical & Electrical Manufacturing Co., Ltd. was completed. This added the responsibility for business strategy, product design, product management and development, manufacturing, marketing and sales and product support for underground coal mining equipment to Resource Industries. Inter-segment sales are a source of revenue for this segment.

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

revenue for this segment.

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

**All Other:** Primarily includes activities such as: the remanufacturing of Cat engines and components and remanufacturing services for other companies as well as the business strategy, product management, development, manufacturing, marketing and product support of undercarriage, specialty products, hardened bar stock components and ground engaging tools primarily for Caterpillar products; logistics services for Caterpillar and other companies; the product management, development, marketing, sales and product support of on-highway vocational trucks for North America (U.S. and Canada only); distribution services responsible for dealer development and administration, dealer portfolio management and ensuring the most efficient and effective distribution of machines, engines and parts; and the 50/50 joint venture with Navistar (NC<sup>2</sup>) until it became a wholly owned subsidiary of Navistar effective September 29, 2011. On July 31, 2012, we sold a majority interest in Caterpillar's third party logistics business. Inter-segment sales are a source of revenue for this segment. Results for the All Other operating segment are included as a reconciling item between reportable segments and consolidated external reporting.

### C. Segment measurement and reconciliations

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

- Machinery and Power Systems segment net assets generally include inventories, receivables, property, plant and equipment, goodwill, intangibles and accounts payable. Liabilities other than accounts payable are generally managed at the corporate level and are not included in segment operations. Financial Products Segment assets generally include all categories of assets.
- Segment inventories and cost of sales are valued using a current cost methodology.
- Goodwill allocated to segments is amortized using a fixed amount based on a twenty year useful life. This methodology difference only impacts segment assets; no goodwill amortization expense is included in segment profit.
- The present value of future lease payments for certain Machinery and Power Systems operating leases is included in segment assets. The estimated financing component of the lease payments is excluded.
- Currency exposures for Machinery and Power Systems are generally managed at the corporate level and the effects of changes in exchange rates on results of operations within the year are not included in segment profit. The net difference created in the translation of revenues and costs between exchange rates used for U.S. GAAP reporting and exchange rates used for segment reporting are recorded as a methodology difference.
- Postretirement benefit expenses are split; segments are generally responsible for service and prior service costs, with the remaining elements of net periodic benefit cost included as a methodology difference.
- Machinery and Power Systems segment profit is determined on a pretax basis and excludes interest expense, gains and losses on interest rate swaps and other income/expense items. Financial Products Segment profit is determined on a pretax basis and includes other income/expense items.

Reconciling items are created based on accounting differences between segment reporting and our consolidated external reporting. Please refer to pages 30 to 37 for financial information regarding significant reconciling items. Most of our reconciling items are self-explanatory given the above explanations. For the reconciliation of profit, we have grouped the reconciling items as follows:

- **Corporate costs:** These costs are related to corporate requirements and strategies that are considered to be for the benefit of the entire organization.
- **Methodology differences:** See previous discussion of significant accounting differences between segment

reporting and consolidated external reporting.

- **Timing:** Timing differences in the recognition of costs between segment reporting and consolidated external reporting.

Reportable Segments Three Months Ended September 30, (Millions of dollars)							
2012							
	External sales and revenues	Inter- segment sales & revenues	Total sales and revenues	Depreciation and amortization	Segment profit	Segment assets at September 30	Capital expenditures
Construction Industries.....	\$ 4,904	\$ 102	\$ 5,006	\$ 144	\$ 459	\$ 9,681	\$ 247
Resource Industries.....	5,214	253	5,467	179	1,113	13,949	229
Power Systems.....	5,317	597	5,914	157	943	9,738	244
Machinery and Power Systems .....	\$ 15,435	\$ 952	\$ 16,387	\$ 480	\$ 2,515	\$ 33,368	\$ 720
Financial Products Segment .	776	—	776	179	190	35,662	432
Total .....	<u>\$ 16,211</u>	<u>\$ 952</u>	<u>\$ 17,163</u>	<u>\$ 659</u>	<u>\$ 2,705</u>	<u>\$ 69,030</u>	<u>\$ 1,152</u>
2011							
	External sales and revenues	Inter- segment sales & revenues	Total sales and revenues	Depreciation and amortization	Segment profit	Segment assets at December 31	Capital expenditures
Construction Industries.....	\$ 4,900	\$ 162	\$ 5,062	\$ 136	\$ 496	\$ 7,942	\$ 234
Resource Industries.....	4,599	290	4,889	155	745	12,292	159
Power Systems.....	5,075	600	5,675	133	794	8,748	279
Machinery and Power Systems .....	\$ 14,574	\$ 1,052	\$ 15,626	\$ 424	\$ 2,035	\$ 28,982	\$ 672
Financial Products Segment .	757	—	757	177	145	31,747	311
Total .....	<u>\$ 15,331</u>	<u>\$ 1,052</u>	<u>\$ 16,383</u>	<u>\$ 601</u>	<u>\$ 2,180</u>	<u>\$ 60,729</u>	<u>\$ 983</u>

**Reportable Segments**  
**Nine Months Ended September 30,**  
**(Millions of dollars)**

<b>2012</b>							
	<b>External sales and revenues</b>	<b>Inter-segment sales &amp; revenues</b>	<b>Total sales and revenues</b>	<b>Depreciation and amortization</b>	<b>Segment profit</b>	<b>Segment assets at September 30</b>	<b>Capital expenditures</b>
Construction Industries.....	\$ 15,306	\$ 355	\$ 15,661	\$ 414	\$ 1,763	\$ 9,681	\$ 597
Resource Industries.....	15,382	909	16,291	510	3,707	13,949	603
Power Systems.....	15,815	1,952	17,767	442	2,737	9,738	610
Machinery and Power Systems .....	\$ 46,503	\$ 3,216	\$ 49,719	\$ 1,366	\$ 8,207	\$ 33,368	\$ 1,810
Financial Products Segment .	2,301	—	2,301	530	583	35,662	1,232
Total .....	<u>\$ 48,804</u>	<u>\$ 3,216</u>	<u>\$ 52,020</u>	<u>\$ 1,896</u>	<u>\$ 8,790</u>	<u>\$ 69,030</u>	<u>\$ 3,042</u>

<b>2011</b>							
	<b>External sales and revenues</b>	<b>Inter-segment sales &amp; revenues</b>	<b>Total sales and revenues</b>	<b>Depreciation and amortization</b>	<b>Segment profit</b>	<b>Segment assets at December 31</b>	<b>Capital expenditures</b>
Construction Industries.....	\$ 14,312	\$ 433	\$ 14,745	\$ 382	\$ 1,522	\$ 7,942	\$ 471
Resource Industries.....	10,573	848	11,421	298	2,337	12,292	320
Power Systems.....	14,442	1,695	16,137	398	2,230	8,748	496
Machinery and Power Systems .....	\$ 39,327	\$ 2,976	\$ 42,303	\$ 1,078	\$ 6,089	\$ 28,982	\$ 1,287
Financial Products Segment .	2,251	—	2,251	535	453	31,747	830
Total .....	<u>\$ 41,578</u>	<u>\$ 2,976</u>	<u>\$ 44,554</u>	<u>\$ 1,613</u>	<u>\$ 6,542</u>	<u>\$ 60,729</u>	<u>\$ 2,117</u>



**Reconciliation of Sales and revenues:**

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidating Adjustments	Consolidated Total
<b><u>Three Months Ended September 30, 2012</u></b>				
Total external sales and revenues from reportable segments.....	\$ 15,435	\$ 776	\$ —	\$ 16,211
All Other operating segment .....	318	—	—	318
Other.....	(14)	20	(90) <sup>1</sup>	(84)
Total sales and revenues.....	<u>\$ 15,739</u>	<u>\$ 796</u>	<u>\$ (90)</u>	<u>\$ 16,445</u>
<b><u>Three Months Ended September 30, 2011</u></b>				
Total external sales and revenues from reportable segments.....	\$ 14,574	\$ 757	\$ —	\$ 15,331
All Other operating segment .....	461	—	—	461
Other.....	(12)	17	(81) <sup>1</sup>	(76)
Total sales and revenues.....	<u>\$ 15,023</u>	<u>\$ 774</u>	<u>\$ (81)</u>	<u>\$ 15,716</u>

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

**Reconciliation of Sales and revenues:**

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidating Adjustments	Consolidated Total
<b><u>Nine Months Ended September 30, 2012</u></b>				
Total external sales and revenues from reportable segments.....	\$ 46,503	\$ 2,301	\$ —	\$ 48,804
All Other operating segment .....	1,246	—	—	1,246
Other.....	(38)	52	(264) <sup>1</sup>	(250)
Total sales and revenues.....	<u>\$ 47,711</u>	<u>\$ 2,353</u>	<u>\$ (264)</u>	<u>\$ 49,800</u>
<b><u>Nine Months Ended September 30, 2011</u></b>				
Total external sales and revenues from reportable segments.....	\$ 39,327	\$ 2,251	\$ —	\$ 41,578
All Other operating segment .....	1,525	—	—	1,525
Other.....	(17)	40	(231) <sup>1</sup>	(208)
Total sales and revenues.....	<u>\$ 40,835</u>	<u>\$ 2,291</u>	<u>\$ (231)</u>	<u>\$ 42,895</u>

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



**Reconciliation of Consolidated profit before taxes:**

<b>(Millions of dollars)</b>	<b>Machinery and Power Systems</b>	<b>Financial Products</b>	<b>Consolidated Total</b>
<b><u>Three Months Ended September 30, 2012</u></b>			
Total profit from reportable segments .....	\$ 2,515	\$ 190	\$ 2,705
All Other operating segment .....	482	—	482
Cost centers .....	9	—	9
Corporate costs .....	(366)	—	(366)
Timing .....	(30)	—	(30)
Methodology differences:			
Inventory/cost of sales .....	9	—	9
Postretirement benefit expense .....	(177)	—	(177)
Financing costs .....	(130)	—	(130)
Equity in profit of unconsolidated affiliated companies .....	(5)	—	(5)
Currency .....	20	—	20
Interest rate swaps .....	2	—	2
Other income/expense methodology differences .....	(64)	—	(64)
Other methodology differences .....	(9)	4	(5)
Total profit before taxes .....	<u>\$ 2,256</u>	<u>\$ 194</u>	<u>\$ 2,450</u>
<b><u>Three Months Ended September 30, 2011</u></b>			
Total profit from reportable segments .....	\$ 2,035	\$ 145	\$ 2,180
All Other operating segment .....	234	—	234
Cost centers .....	29	—	29
Corporate costs .....	(330)	—	(330)
Timing .....	12	—	12
Methodology differences:			
Inventory/cost of sales .....	(21)	—	(21)
Postretirement benefit expense .....	(110)	—	(110)
Financing costs .....	(116)	—	(116)
Equity in profit of unconsolidated affiliated companies .....	6	—	6
Currency .....	(188)	—	(188)
Other income/expense methodology differences .....	(54)	—	(54)
Other methodology differences .....	(8)	—	(8)
Total profit before taxes .....	<u>\$ 1,489</u>	<u>\$ 145</u>	<u>\$ 1,634</u>

**Reconciliation of Consolidated profit before taxes:**

<b>(Millions of dollars)</b>	<b>Machinery and Power Systems</b>	<b>Financial Products</b>	<b>Consolidated Total</b>
<b><u>Nine Months Ended September 30, 2012</u></b>			
Total profit from reportable segments .....	\$ 8,207	\$ 583	\$ 8,790
All Other operating segment.....	888	—	888
Cost centers.....	32	—	32
Corporate costs .....	(1,126)	—	(1,126)
Timing.....	(318)	—	(318)
Methodology differences:			
Inventory/cost of sales.....	(26)	—	(26)
Postretirement benefit expense.....	(508)	—	(508)
Financing costs.....	(357)	—	(357)
Equity in profit of unconsolidated affiliated companies .....	(12)	—	(12)
Currency .....	160	—	160
Interest rate swaps .....	2	—	2
Other income/expense methodology differences .....	(199)	—	(199)
Other methodology differences.....	(3)	1	(2)
Total profit before taxes.....	<u>\$ 6,740</u>	<u>\$ 584</u>	<u>\$ 7,324</u>
<b><u>Nine Months Ended September 30, 2011</u></b>			
Total profit from reportable segments .....	\$ 6,089	\$ 453	\$ 6,542
All Other operating segment.....	601	—	601
Cost centers.....	30	—	30
Corporate costs .....	(901)	—	(901)
Timing.....	(157)	—	(157)
Methodology differences:			
Inventory/cost of sales.....	1	—	1
Postretirement benefit expense.....	(468)	—	(468)
Financing costs.....	(294)	—	(294)
Equity in profit of unconsolidated affiliated companies .....	24	—	24
Currency .....	(263)	—	(263)
Interest rate swaps .....	(149)	—	(149)
Other income/expense methodology differences .....	(210)	—	(210)
Other methodology differences.....	(12)	3	(9)
Total profit before taxes.....	<u>\$ 4,291</u>	<u>\$ 456</u>	<u>\$ 4,747</u>

**Reconciliation of Assets:**

<b>(Millions of dollars)</b>	<b>Machinery and Power Systems</b>	<b>Financial Products</b>	<b>Consolidating Adjustments</b>	<b>Consolidated Total</b>
<b><u>September 30, 2012</u></b>				
Total assets from reportable segments .....	\$ 33,368	\$ 35,662	\$ —	\$ 69,030
All Other operating segment .....	1,457	—	—	1,457
Items not included in segment assets:				
Cash and short-term investments .....	3,363	—	—	3,363
Intercompany receivables .....	280	—	(280)	—
Investment in Financial Products .....	4,251	—	(4,251)	—
Deferred income taxes .....	3,881	—	(538)	3,343
Goodwill, intangible assets and other assets .....	4,194	—	—	4,194
Operating lease methodology difference .....	(338)	—	—	(338)
Liabilities included in segment assets .....	12,541	—	—	12,541
Inventory methodology differences .....	(3,079)	—	—	(3,079)
Other .....	305	(143)	(132)	30
Total assets .....	<u>\$ 60,223</u>	<u>\$ 35,519</u>	<u>\$ (5,201)</u>	<u>\$ 90,541</u>
<b><u>December 31, 2011</u></b>				
Total assets from reportable segments .....	\$ 28,982	\$ 31,747	\$ —	\$ 60,729
All Other operating segment .....	2,035	—	—	2,035
Items not included in segment assets:				
Cash and short-term investments .....	1,829	—	—	1,829
Intercompany receivables .....	75	—	(75)	—
Investment in Financial Products .....	4,035	—	(4,035)	—
Deferred income taxes .....	4,109	—	(533)	3,576
Goodwill, intangible assets and other assets .....	4,461	—	—	4,461
Operating lease methodology difference .....	(511)	—	—	(511)
Liabilities included in segment assets .....	12,088	—	—	12,088
Inventory methodology differences .....	(2,786)	—	—	(2,786)
Other .....	362	(194)	(143)	25
Total assets .....	<u>\$ 54,679</u>	<u>\$ 31,553</u>	<u>\$ (4,786)</u>	<u>\$ 81,446</u>

**Reconciliations of Depreciation and amortization:**

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidated Total
<b><u>Three Months Ended September 30, 2012</u></b>			
Total depreciation and amortization from reportable segments .....	\$ 480	\$ 179	\$ 659
Items not included in segment depreciation and amortization:			
All Other operating segment .....	41	—	41
Cost centers .....	23	—	23
Other .....	(9)	6	(3)
Total depreciation and amortization .....	<u>\$ 535</u>	<u>\$ 185</u>	<u>\$ 720</u>
<b><u>Three Months Ended September 30, 2011</u></b>			
Total depreciation and amortization from reportable segments .....	\$ 424	\$ 177	\$ 601
Items not included in segment depreciation and amortization:			
All Other operating segment .....	42	—	42
Cost centers .....	20	—	20
Other .....	(9)	4	(5)
Total depreciation and amortization .....	<u>\$ 477</u>	<u>\$ 181</u>	<u>\$ 658</u>

**Reconciliations of Depreciation and amortization:**

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidated Total
<b><u>Nine Months Ended September 30, 2012</u></b>			
Total depreciation and amortization from reportable segments .....	\$ 1,366	\$ 530	\$ 1,896
Items not included in segment depreciation and amortization:			
All Other operating segment .....	125	—	125
Cost centers .....	64	—	64
Other .....	(32)	17	(15)
Total depreciation and amortization .....	<u>\$ 1,523</u>	<u>\$ 547</u>	<u>\$ 2,070</u>
<b><u>Nine Months Ended September 30, 2011</u></b>			
Total depreciation and amortization from reportable segments .....	\$ 1,078	\$ 535	\$ 1,613
Items not included in segment depreciation and amortization:			
All Other operating segment .....	128	—	128
Cost centers .....	57	—	57
Other .....	24	10	34
Total depreciation and amortization .....	<u>\$ 1,287</u>	<u>\$ 545</u>	<u>\$ 1,832</u>

**Reconciliations of Capital expenditures:**

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidating Adjustments	Consolidated Total
<b>Three Months Ended September 30, 2012</b>				
Total capital expenditures from reportable segments .....	\$ 720	\$ 432	\$ —	\$ 1,152
Items not included in segment capital expenditures:				
All Other operating segment.....	75	—	—	75
Cost centers.....	16	—	—	16
Timing.....	(40)	—	—	(40)
Other .....	8	35	(15)	28
Total capital expenditures .....	<u>\$ 779</u>	<u>\$ 467</u>	<u>\$ (15)</u>	<u>\$ 1,231</u>
<b>Three Months Ended September 30, 2011</b>				
Total capital expenditures from reportable segments .....	\$ 672	\$ 311	\$ —	\$ 983
Items not included in segment capital expenditures:				
All Other operating segment.....	84	—	—	84
Cost centers.....	20	—	—	20
Timing.....	(89)	—	—	(89)
Other .....	(77)	92	(18)	(3)
Total capital expenditures .....	<u>\$ 610</u>	<u>\$ 403</u>	<u>\$ (18)</u>	<u>\$ 995</u>

**Reconciliations of Capital expenditures:**

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidating Adjustments	Consolidated Total
<b>Nine Months Ended September 30, 2012</b>				
Total capital expenditures from reportable segments .....	\$ 1,810	\$ 1,232	\$ —	\$ 3,042
Items not included in segment capital expenditures:				
All Other operating segment.....	229	—	—	229
Cost centers.....	119	—	—	119
Timing.....	281	—	—	281
Other .....	(115)	109	(139)	(145)
Total capital expenditures .....	<u>\$ 2,324</u>	<u>\$ 1,341</u>	<u>\$ (139)</u>	<u>\$ 3,526</u>
<b>Nine Months Ended September 30, 2011</b>				
Total capital expenditures from reportable segments .....	\$ 1,287	\$ 830	\$ —	\$ 2,117
Items not included in segment capital expenditures:				
All Other operating segment.....	173	—	—	173
Cost centers.....	54	—	—	54
Timing.....	151	—	—	151
Other .....	(80)	147	(63)	4
Total capital expenditures .....	<u>\$ 1,585</u>	<u>\$ 977</u>	<u>\$ (63)</u>	<u>\$ 2,499</u>

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

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

- Customer - Finance receivables with retail customers.

- Dealer - Finance receivables with Caterpillar dealers.

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

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

#### **Impaired loans and finance leases**

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

There were no impaired loans or finance leases as of September 30, 2012 or December 31, 2011, for the Dealer portfolio segment. The average recorded investment for impaired loans and finance leases for the Dealer portfolio segment was zero for the three and nine months ended September 30, 2012 and 2011.

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

(Millions of dollars)	September 30, 2012			December 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
<b><u>Impaired Loans and Finance Leases With No Allowance Recorded</u></b>						
<b>Customer</b>						
North America .....	\$ 42	\$ 41	\$ —	\$ 83	\$ 80	\$ —
Europe .....	44	44	—	47	46	—
Asia Pacific .....	4	4	—	4	4	—
Mining .....	9	9	—	8	8	—
Latin America .....	7	7	—	9	9	—
Caterpillar Power Finance .....	269	268	—	175	170	—
<b>Total .....</b>	<b>\$ 375</b>	<b>\$ 373</b>	<b>\$ —</b>	<b>\$ 326</b>	<b>\$ 317</b>	<b>\$ —</b>
<b><u>Impaired Loans and Finance Leases With An Allowance Recorded</u></b>						
<b>Customer</b>						
North America .....	\$ 38	\$ 34	\$ 9	\$ 69	\$ 64	\$ 15
Europe .....	50	48	17	36	33	12
Asia Pacific .....	34	34	7	13	13	3
Mining .....	68	67	7	13	13	4
Latin America .....	53	53	17	25	25	6
Caterpillar Power Finance .....	112	110	18	93	92	16
<b>Total .....</b>	<b>\$ 355</b>	<b>\$ 346</b>	<b>\$ 75</b>	<b>\$ 249</b>	<b>\$ 240</b>	<b>\$ 56</b>
<b><u>Total Impaired Loans and Finance Leases</u></b>						
<b>Customer</b>						
North America .....	\$ 80	\$ 75	\$ 9	\$ 152	\$ 144	\$ 15
Europe .....	94	92	17	83	79	12
Asia Pacific .....	38	38	7	17	17	3
Mining .....	77	76	7	21	21	4
Latin America .....	60	60	17	34	34	6
Caterpillar Power Finance .....	381	378	18	268	262	16
<b>Total .....</b>	<b>\$ 730</b>	<b>\$ 719</b>	<b>\$ 75</b>	<b>\$ 575</b>	<b>\$ 557</b>	<b>\$ 56</b>

(Millions of dollars)	Three Months Ended September 30, 2012		Three Months Ended September 30, 2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b><u>Impaired Loans and Finance Leases With No Allowance Recorded</u></b>				
<b>Customer</b>				
North America.....	\$ 42	\$ 1	\$ 91	\$ 1
Europe .....	45	—	10	—
Asia Pacific .....	3	—	5	1
Mining.....	9	—	8	—
Latin America.....	6	—	11	—
Caterpillar Power Finance.....	220	1	240	—
<b>Total.....</b>	<b>\$ 325</b>	<b>\$ 2</b>	<b>\$ 365</b>	<b>\$ 2</b>
<b><u>Impaired Loans and Finance Leases With An Allowance Recorded</u></b>				
<b>Customer</b>				
North America.....	\$ 51	\$ —	\$ 126	\$ —
Europe .....	44	1	44	1
Asia Pacific .....	29	—	9	—
Mining.....	68	1	10	—
Latin America.....	58	1	40	—
Caterpillar Power Finance.....	110	—	126	—
<b>Total.....</b>	<b>\$ 360</b>	<b>\$ 3</b>	<b>\$ 355</b>	<b>\$ 1</b>
<b><u>Total Impaired Loans and Finance Leases</u></b>				
<b>Customer</b>				
North America.....	\$ 93	\$ 1	\$ 217	\$ 1
Europe .....	89	1	54	1
Asia Pacific .....	32	—	14	1
Mining.....	77	1	18	—
Latin America.....	64	1	51	—
Caterpillar Power Finance.....	330	1	366	—
<b>Total.....</b>	<b>\$ 685</b>	<b>\$ 5</b>	<b>\$ 720</b>	<b>\$ 3</b>



(Millions of dollars)	Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b><u>Impaired Loans and Finance Leases With No Allowance Recorded</u></b>				
<b>Customer</b>				
North America.....	\$ 56	\$ 2	\$ 93	\$ 3
Europe .....	45	—	8	—
Asia Pacific .....	3	—	5	1
Mining.....	8	—	8	—
Latin America.....	6	—	8	—
Caterpillar Power Finance.....	204	3	234	1
<b>Total.....</b>	<b>\$ 322</b>	<b>\$ 5</b>	<b>\$ 356</b>	<b>\$ 5</b>
<b><u>Impaired Loans and Finance Leases With An Allowance Recorded</u></b>				
<b>Customer</b>				
North America.....	\$ 63	\$ 1	\$ 160	\$ 4
Europe .....	42	1	53	2
Asia Pacific .....	24	1	18	1
Mining.....	41	2	4	—
Latin America.....	42	2	44	2
Caterpillar Power Finance.....	94	—	79	—
<b>Total.....</b>	<b>\$ 306</b>	<b>\$ 7</b>	<b>\$ 358</b>	<b>\$ 9</b>
<b><u>Total Impaired Loans and Finance Leases</u></b>				
<b>Customer</b>				
North America.....	\$ 119	\$ 3	\$ 253	\$ 7
Europe .....	87	1	61	2
Asia Pacific .....	27	1	23	2
Mining.....	49	2	12	—
Latin America.....	48	2	52	2
Caterpillar Power Finance.....	298	3	313	1
<b>Total.....</b>	<b>\$ 628</b>	<b>\$ 12</b>	<b>\$ 714</b>	<b>\$ 14</b>

#### **Non-accrual and past due loans and finance leases**

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

As of September 30, 2012 and December 31, 2011, there were no loans or finance leases on non-accrual status for the Dealer portfolio segment.

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

(Millions of dollars)		September 30, 2012	December 31, 2011
<b>Customer</b>			
North America.....	\$	77	\$ 112
Europe.....		44	58
Asia Pacific.....		40	24
Mining.....		12	12
Latin America.....		150	108
Caterpillar Power Finance.....		286	158
<b>Total.....</b>	<b>\$</b>	<b>609</b>	<b>\$ 472</b>

Aging related to loans and finance leases was as follows:

(Millions of dollars)		September 30, 2012						
		31-60 Days Past Due	61-90 Days Past Due	91+ Days Past Due	Total Past Due	Current	Total Finance Receivables	91+ Still Accruing
<b>Customer</b>								
North America.....	\$	35	\$ 9	\$ 76	\$ 120	\$ 5,665	\$ 5,785	\$ —
Europe.....		28	12	44	84	2,371	2,455	5
Asia Pacific.....		74	22	51	147	2,956	3,103	17
Mining.....		2	—	12	14	1,825	1,839	—
Latin America.....		57	25	136	218	2,478	2,696	—
Caterpillar Power Finance....		17	47	154	218	2,945	3,163	12
<b>Dealer</b>								
North America.....		—	—	—	—	1,970	1,970	—
Europe.....		—	—	—	—	78	78	—
Asia Pacific.....		—	—	—	—	642	642	—
Mining.....		—	—	—	—	1	1	—
Latin America.....		—	—	—	—	688	688	—
<b>Total.....</b>	<b>\$</b>	<b>213</b>	<b>\$ 115</b>	<b>\$ 473</b>	<b>\$ 801</b>	<b>\$ 21,619</b>	<b>\$ 22,420</b>	<b>\$ 34</b>

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

### Allowance for credit loss activity

In estimating the allowance for credit losses, Cat Financial reviews loans and finance leases that are past due, non-performing or in bankruptcy. The allowance for credit losses as of September 30, 2012 and December 31, 2011 was as follows:

(Millions of dollars)			
September 30, 2012			
Allowance for Credit Losses:	Customer	Dealer	Total
Balance at beginning of year .....	\$ 360	\$ 6	\$ 366
Receivables written off .....	(92)	—	(92)
Recoveries on receivables previously written off .....	36	—	36
Provision for credit losses .....	90	1	91
Balance at end of period .....	<u>\$ 394</u>	<u>\$ 7</u>	<u>\$ 401</u>
Allowance for Credit Losses:			
Individually evaluated for impairment .....	\$ 75	\$ —	\$ 75
Collectively evaluated for impairment .....	319	7	326
Ending Balance .....	<u>\$ 394</u>	<u>\$ 7</u>	<u>\$ 401</u>
Recorded Investment in Finance Receivables:			
Individually evaluated for impairment .....	\$ 730	\$ —	\$ 730
Collectively evaluated for impairment .....	18,311	3,379	21,690
Ending Balance .....	<u>\$ 19,041</u>	<u>\$ 3,379</u>	<u>\$ 22,420</u>
(Millions of dollars)			
December 31, 2011			
Allowance for Credit Losses:	Customer	Dealer	Total
Balance at beginning of year .....	\$ 357	\$ 5	\$ 362
Receivables written off .....	(210)	—	(210)
Recoveries on receivables previously written off .....	52	—	52
Provision for credit losses .....	167	1	168
Other .....	(6)	—	(6)
Balance at end of year .....	<u>\$ 360</u>	<u>\$ 6</u>	<u>\$ 366</u>
Allowance for Credit Losses:			
Individually evaluated for impairment .....	\$ 56	\$ —	\$ 56
Collectively evaluated for impairment .....	304	6	310
Ending Balance .....	<u>\$ 360</u>	<u>\$ 6</u>	<u>\$ 366</u>
Recorded Investment in Finance Receivables:			
Individually evaluated for impairment .....	\$ 575	\$ —	\$ 575
Collectively evaluated for impairment .....	17,018	2,387	19,405
Ending Balance .....	<u>\$ 17,593</u>	<u>\$ 2,387</u>	<u>\$ 19,980</u>

### Credit quality of finance receivables

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

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

(Millions of dollars)							
	September 30, 2012			December 31, 2011			
	Customer	Dealer	Total	Customer	Dealer	Total	
<b>Performing</b>							
North America.....	\$ 5,708	\$ 1,970	\$ 7,678	\$ 5,490	\$ 1,689	\$ 7,179	
Europe .....	2,411	78	2,489	2,166	57	2,223	
Asia Pacific .....	3,063	642	3,705	2,853	161	3,014	
Mining.....	1,827	1	1,828	1,473	—	1,473	
Latin America.....	2,546	688	3,234	2,377	480	2,857	
Caterpillar Power Finance.....	2,877	—	2,877	2,762	—	2,762	
<b>Total Performing</b> .....	<b>\$ 18,432</b>	<b>\$ 3,379</b>	<b>\$ 21,811</b>	<b>\$ 17,121</b>	<b>\$ 2,387</b>	<b>\$ 19,508</b>	
<b>Non-Performing</b>							
North America.....	\$ 77	\$ —	\$ 77	\$ 112	\$ —	\$ 112	
Europe .....	44	—	44	58	—	58	
Asia Pacific .....	40	—	40	24	—	24	
Mining.....	12	—	12	12	—	12	
Latin America.....	150	—	150	108	—	108	
Caterpillar Power Finance.....	286	—	286	158	—	158	
<b>Total Non-Performing</b> .....	<b>\$ 609</b>	<b>\$ —</b>	<b>\$ 609</b>	<b>\$ 472</b>	<b>\$ —</b>	<b>\$ 472</b>	
<b>Performing &amp; Non-Performing</b>							
North America.....	\$ 5,785	\$ 1,970	\$ 7,755	\$ 5,602	\$ 1,689	\$ 7,291	
Europe .....	2,455	78	2,533	2,224	57	2,281	
Asia Pacific .....	3,103	642	3,745	2,877	161	3,038	
Mining.....	1,839	1	1,840	1,485	—	1,485	
Latin America.....	2,696	688	3,384	2,485	480	2,965	
Caterpillar Power Finance.....	3,163	—	3,163	2,920	—	2,920	
<b>Total</b> .....	<b>\$ 19,041</b>	<b>\$ 3,379</b>	<b>\$ 22,420</b>	<b>\$ 17,593</b>	<b>\$ 2,387</b>	<b>\$ 19,980</b>	

### Troubled Debt Restructurings

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

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

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

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

(Dollars in millions)

	Three Months Ended September 30, 2012			Three Months Ended September 30, 2011		
	Number of Contracts	Pre-TDR Outstanding Recorded Investment	Post-TDR Outstanding Recorded Investment	Number of Contracts	Pre-TDR Outstanding Recorded Investment	Post-TDR Outstanding Recorded Investment
<b>Customer</b>						
North America .....	17	\$ 4	\$ 4	14	\$ 2	\$ 2
Europe .....	14	1	1	—	—	—
Asia Pacific .....	12	3	3	—	—	—
Caterpillar Power Finance <sup>1,2</sup> ...	15	151	151	—	—	—
<b>Total</b> <sup>4</sup> .....	58	\$ 159	\$ 159	14	\$ 2	\$ 2

	Nine Months Ended September 30, 2012			Nine Months Ended September 30, 2011		
	Number of Contracts	Pre-TDR Outstanding Recorded Investment	Post-TDR Outstanding Recorded Investment	Number of Contracts	Pre-TDR Outstanding Recorded Investment	Post-TDR Outstanding Recorded Investment
<b>Customer</b>						
North America .....	58	\$ 8	\$ 8	53	\$ 11	\$ 11
Europe .....	21	8	8	6	7	7
Asia Pacific .....	12	3	3	—	—	—
Latin America .....	—	—	—	12	10	10
Caterpillar Power Finance <sup>1,3</sup> ...	20	183	183	31	113	113
<b>Total</b> <sup>4</sup> .....	111	\$ 202	\$ 202	102	\$ 141	\$ 141

<sup>1</sup> During the three and nine months ended September 30, 2012, \$4 million and \$22 million, respectively, of additional funds were subsequently loaned to a borrower whose terms had been modified in a TDR. The additional funds loaned are not reflected in the table above as no incremental modifications have been made with the borrower during the periods presented. At September 30, 2012, remaining commitments to lend additional funds to a borrower whose terms have been modified in a TDR were \$3 million.

<sup>2</sup> Four customers comprise \$148 million of the \$151 million pre-TDR and post-TDR outstanding recorded investment for the three months ended September 30, 2012.

<sup>3</sup> Seven customers comprise \$180 million of the \$183 million pre-TDR and post-TDR outstanding recorded investment for the nine months ended September 30, 2012. Three customers comprise \$104 million of the \$113 million pre-TDR and post-TDR outstanding recorded investment for the nine months ended September 30, 2011.

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

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

(Dollars in millions)	Three Months Ended September 30, 2012		Three Months Ended September 30, 2011	
	Number of Contracts	Post-TDR Recorded Investment	Number of Contracts	Post-TDR Recorded Investment
<b>Customer</b>				
North America.....	8	\$ 1	3	\$ 16
Asia Pacific .....	2	1	—	—
Latin America .....	—	—	7	4
Caterpillar Power Finance .....	—	—	5	65
<b>Total</b> .....	<b>10</b>	<b>\$ 2</b>	<b>15</b>	<b>\$ 85</b>

	Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	Number of Contracts	Post-TDR Recorded Investment	Number of Contracts	Post-TDR Recorded Investment
<b>Customer</b>				
North America.....	39	\$ 3	44	\$ 25
Europe .....	—	—	1	1
Asia Pacific .....	2	1	—	—
Latin America .....	—	—	7	4
Caterpillar Power Finance .....	16	21	14	70
<b>Total</b> .....	<b>57</b>	<b>\$ 25</b>	<b>66</b>	<b>\$ 100</b>

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

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

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

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

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

## 17. Fair Value Measurements

### A. Fair value measurements

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

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

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

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

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

#### Available-for-sale securities

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

#### Derivative financial instruments

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

#### Guarantees

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

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

(Millions of dollars)	September 30, 2012			
	Level 1	Level 2	Level 3	Total Assets / Liabilities, at Fair Value
<b>Assets</b>				
Available-for-sale securities				
Government debt				
U.S. treasury bonds.....	\$ 10	\$ —	\$ —	\$ 10
Other U.S. and non-U.S. government bonds .....	—	118	—	118
Corporate bonds				
Corporate bonds.....	—	672	—	672
Asset-backed securities.....	—	94	—	94
Mortgage-backed debt securities				
U.S. governmental agency.....	—	298	—	298
Residential .....	—	27	—	27
Commercial.....	—	131	—	131
Equity securities				
Large capitalization value.....	177	—	—	177
Smaller company growth.....	34	—	—	34
Total available-for-sale securities.....	221	1,340	—	1,561
Derivative financial instruments, net.....	—	156	—	156
Total Assets.....	\$ 221	\$ 1,496	\$ —	\$ 1,717
<b>Liabilities</b>				
Guarantees.....	\$ —	\$ —	\$ 17	\$ 17
Total Liabilities.....	\$ —	\$ —	\$ 17	\$ 17

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

Below are roll-forwards of liabilities measured at fair value using Level 3 inputs for the nine months ended September 30,



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

(Millions of dollars)	Guarantees
Balance at December 31, 2011.....	\$ 7
Acquisitions.....	6
Issuance of guarantees.....	7
Expiration of guarantees.....	(3)
Balance at September 30, 2012.....	<u>\$ 17</u>
Balance at December 31, 2010 .....	\$ 10
Issuance of guarantees.....	2
Expiration of guarantees.....	(5)
Balance at September 30, 2011 .....	<u>\$ 7</u>

In addition to the amounts above, Cat Financial had impaired loans with a fair value of \$201 million and \$141 million as of September 30, 2012 and December 31, 2011, respectively. A loan is considered impaired when management determines that collection of contractual amounts due is not probable. In these cases, an allowance for credit losses is established based primarily on the fair value of associated collateral. As the collateral's fair value is based on observable market prices and/or current appraised values, the impaired loans are classified as Level 2 measurements.

## B. Fair values of financial instruments

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

### Cash and short-term investments

Carrying amount approximated fair value.

### Restricted cash and short-term investments

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

### Finance receivables

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

### Wholesale inventory receivables

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

### Short-term borrowings

Carrying amount approximated fair value.

### Long-term debt

Fair value for fixed and floating rate debt was estimated based on quoted market prices.

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

(Millions of dollars)	Fair Value of Financial Instruments				Fair Value Levels	Reference
	September 30, 2012		December 31, 2011			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value		
<b>Assets</b>						
Cash and short-term investments .....	\$ 5,689	\$ 5,689	\$ 3,057	\$ 3,057	1	
Restricted cash and short-term investments...	112	112	87	87	1	
Available-for-sale securities.....	1,561	1,561	1,447	1,447	1 & 2	Note 8
Finance receivables—net (excluding finance leases <sup>1</sup> ) .....	14,503	14,508	12,689	12,516	2	Note 15
Wholesale inventory receivables—net (excluding finance leases <sup>1</sup> ) .....	1,677	1,611	1,591	1,505	2	Note 15
Interest rate swaps—net.....	239	239	241	241	2	Note 4
Commodity contracts—net .....	1	1	—	—	2	Note 4
<b>Liabilities</b>						
Short-term borrowings .....	5,067	5,067	3,988	3,988	1	
Long-term debt (including amounts due within one year)						
Machinery and Power Systems.....	10,276	12,620	8,973	10,737	2	
Financial Products .....	24,509	25,607	21,631	22,674	2	
Foreign currency contracts—net.....	84	84	89	89	2	Note 4
Commodity contracts—net .....	—	—	7	7	2	Note 4
Guarantees.....	17	17	7	7	3	Note 10

<sup>1</sup> Total excluded items have a net carrying value at September 30, 2012 and December 31, 2011 of \$7,974 million and \$7,324 million, respectively.

<sup>1</sup> Total excluded items have a net carrying value at September 30, 2012 and December 31, 2011 of \$7,974 million and \$7,324 million, respectively.

## 18. Business Combinations

### ERA Mining Machinery Limited

During the second quarter of 2012, Caterpillar, through its wholly-owned subsidiary Caterpillar (Luxembourg) Investment Co. S.A., completed a tender offer to acquire the issued shares of ERA Mining Machinery Limited (Siwei), including its wholly-owned subsidiary Zhengzhou Siwei Mechanical Manufacturing Co., Ltd. Substantially all of the issued shares of Siwei, a public company listed on the Hong Kong Exchange, were acquired at the end of May 2012 and approximately one percent of the issued shares remained outstanding and unacquired as of September 30, 2012. Siwei primarily designs, manufactures, sells and supports underground coal mining equipment in mainland China and is known for its expertise in manufacturing mining roof support equipment. The acquisition supports Caterpillar's long-term commitment to invest in China in order to support our growing base of Chinese customers and will further expand our underground mining business both inside and outside of China.

The tender offer allowed Siwei shareholders to choose between two types of consideration in exchange for their shares. The alternatives were either cash consideration of HK\$0.88 or a HK\$1.00 loan note issued by Caterpillar (Luxembourg) Investment Co. S.A. to the former shareholders of Siwei that will entitle the holder to receive on redemption a minimum of HK\$0.75 up to a maximum of HK\$1.15 depending on Siwei's consolidated gross profit for 2012 and 2013. Approximately 4 billion Siwei shares were tendered for the cash alternative and approximately 1.6 billion Siwei shares were tendered for the loan note alternative. The preliminary purchase price of approximately \$690 million was comprised of net cash paid of approximately \$453 million (\$475 million in cash paid for shares and to cancel share options less cash acquired of \$22 million), the fair value of the loan notes of \$169 million, approximately \$155 million of assumed third-party short term borrowings, a loan and interest payable to Caterpillar from Siwei of \$51 million, less restricted cash acquired of approximately \$138 million. The noncontrolling interest for the outstanding shares not tendered was approximately \$7 million.

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

\$17 million in contingent consideration representing the portion of the redemption amount conditionally payable in April 2013 or April 2014. The contingent consideration will be remeasured each reporting period at its estimated fair value with any adjustment included in Other operating (income) expenses in the Consolidated Results of Operations. As of September 30, 2012, there has been no adjustment to the contingent consideration.

Tangible assets acquired of \$659 million, recorded at their fair values, primarily include cash of \$22 million, restricted cash of \$138 million, receivables of \$213 million, inventory of \$94 million and property, plant and equipment of \$112 million. Finite-lived intangible assets acquired of \$194 million were primarily related to customer relationships and also included trade names. The finite-lived intangible assets are being amortized on a straight-line basis over a weighted average amortization period of approximately 15 years. Liabilities assumed of \$592 million, recorded at their fair values, primarily included accounts payable of \$342 million, third-party short term borrowings of \$155 million and accrued expenses of \$50 million. Additionally, deferred tax liabilities were \$36 million. Goodwill of \$476 million, substantially all of which is non-deductible for income tax purposes, represents the excess of the consideration transferred over the net assets recognized and represents the estimated future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Goodwill will not be amortized, but will be tested for impairment at least annually. Factors that contributed to a purchase price resulting in the recognition of goodwill include expected cost savings primarily from increased purchasing power for raw materials and a reduction in other manufacturing input costs, expanded underground mining equipment sales opportunities in China and internationally, along with the acquired assembled workforce. These values represent a preliminary allocation of the purchase price subject to finalization of post-closing procedures. 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 Resource Industries 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.

In October 2012, the remaining shares of Siwei common stock were acquired for approximately \$7 million in cash.

#### **Caterpillar Tohoku Ltd.**

In March 2012, we acquired 100 percent of the stock of Caterpillar Tohoku Ltd. (Cat Tohoku). Cat Tohoku was an independently owned and operated dealership providing sales, rental, service and after market support for Caterpillar machines and engines in the northeastern part of Japan. The purchase price, net of \$18 million of acquired cash, was approximately \$206 million. The purchase price included the assumption of \$77 million in third-party debt, as well as \$64 million net trade payables due to Caterpillar. We paid approximately \$59 million at closing, \$22 million in July 2012, and recognized a payable of \$3 million for estimated consideration due in March 2013. The acquisition of Cat Tohoku supports Caterpillar's efforts to restructure its distribution network in Japan.

The transaction was financed with available cash. Tangible assets acquired of \$252 million primarily include cash of \$18 million, receivables of \$34 million, inventory of \$26 million, and property, plant and equipment of \$157 million. Finite-lived intangible assets acquired were \$8 million. Liabilities assumed of \$132 million, recorded at their fair values, primarily included debt of \$77 million and accounts payable of \$39 million. Goodwill of \$19 million, which is deductible for income tax purposes, represents the excess of cost over the fair value of net tangible assets acquired. These values represent a preliminary allocation of the purchase price subject to finalization of post-closing procedures. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and are reported in the Construction Industries segment 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.

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

#### **Bucyrus Distribution Business Divestiture**

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

As portions of the Bucyrus distribution business are sold or classified as held for sale, they will not qualify as discontinued operations because Caterpillar expects significant continuing direct cash flows from the Caterpillar dealers after the divestitures. The gain or loss on disposal, along with the continuing operations of these disposal groups, will be reported

in the Resource Industries segment. Goodwill will be allocated to each disposal group using the relative fair value method. The value of the customer relationship intangibles related to each portion of the Bucyrus distribution business to be sold will be included in the disposal groups. The disposal groups will be recorded at the lower of their carrying value or fair value less cost to sell. No impairments were recorded in the third quarter of 2012. In the second quarter of 2012, we recorded a goodwill impairment for \$27 million related to a disposal group being sold to one of the Caterpillar dealers. After the goodwill impairment, the carrying value of the disposal group was lower than its fair value less costs to sell. Fair value was determined based upon the negotiated sales price. The impairment was recorded in Other operating (income) expenses and included in the Resource Industries segment.

In the third quarter of 2012, four sale transactions were completed whereby we sold portions of the Bucyrus distribution business to Barloworld South Africa Proprietary Limited, Toromont Industries Ltd., Hewitt Equipment Limited, and Cavill Power Products Pty Ltd. for \$126 million, \$18 million, \$28 million and \$20 million, respectively, subject to certain working capital adjustments. After-tax profit was unfavorably impacted by \$18 million in the third quarter of 2012 as a result of the ongoing divestiture activities. This is comprised of \$31 million of income (included in Other operating (income) expenses) related to the sales transactions and an income tax benefit of \$1 million, offset by costs incurred related to the ongoing divestiture activities of \$50 million (included in Selling, general and administrative expenses).

Assets sold in the third quarter included customer relationship intangibles of \$30 million, other assets of \$50 million, which consisted primarily of inventory and fixed assets, and allocated goodwill of \$27 million related to the Bucyrus distribution divestiture activities.

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

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

As part of these divestitures, Cat Financial provided \$400 million of financing to WesTrac Pty Limited and \$75 million to Ferreyros S.A.A. These loans are included in Receivables – finance and Long-term receivables – finance in the Consolidated Statement of Financial Position. Additionally, Cavill Power Products Pty Ltd. paid \$5 million of the \$20 million purchase price at closing. The remaining \$15 million is due in the fourth quarter of 2013 and is included in Long-term receivables – trade and other in the Consolidated Statement of Financial Position.

For the first nine months of 2012, after-tax profit was unfavorably impacted by \$46 million as a result of the Bucyrus distribution divestiture activities. This is comprised of \$186 million of income (included in Other operating (income) expenses) related to the sales transactions, offset by costs incurred related to the Bucyrus distribution divestiture activities of \$133 million (included in Selling, general and administrative expenses) and income tax of \$99 million.

As of September 30, 2012, five divestiture transactions were classified as held for sale and are expected to close in the fourth quarter of 2012 and during 2013. Current assets held for sale were included in Prepaid expenses and other current assets and non-current assets held for sale were included in Other assets in the Consolidated Statement of Financial Position.

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

(Millions of dollars)	September 30, 2012	December 31, 2011
Receivables – trade and other .....	\$ —	\$ 25
Inventories .....	96	109
<b>Current assets</b> .....	<b>\$ 96</b>	<b>\$ 134</b>
Property, plant and equipment – net .....	\$ 36	\$ 28
Intangible assets .....	105	186
Goodwill .....	168	296
<b>Non-current assets</b> .....	<b>\$ 309</b>	<b>\$ 510</b>

Subsequent to September 30, 2012, two sale transactions were completed whereby we sold portions of the Bucyrus distribution business to Finning International and Boyd Company, LLC, which were classified as held for sale at September 30, 2012. Additionally, a portion of the distribution business that was classified as held and used at September 30, 2012 was sold to Wagner International, LLC in November 2012.

### Third Party Logistics Business Divestiture

On July 31, 2012, Platinum Equity acquired a 65 percent equity interest in Caterpillar Logistics Services LLC, the third party logistics division of our wholly owned subsidiary, Caterpillar Logistics Inc., for \$541 million subject to certain working capital adjustments. The purchase price of \$541 million was comprised of a \$122 million equity contribution from Platinum Equity to, and third party debt raised by, Caterpillar Logistics Services LLC. The sale of the third party logistics business supports Caterpillar's increased focus on the continuing growth opportunities in its core businesses. Under the terms of the agreement, Caterpillar retained a 35 percent equity interest.

As a result of the divestiture, we recorded a pretax gain of \$281 million (included in Other operating (income) expenses). In addition, we recognized \$8 million of incremental incentive compensation expense. The fair value of our retained noncontrolling interest was \$66 million, as determined by the \$122 million equity contribution from Platinum Equity, and was included in Investments in unconsolidated affiliated companies in the Consolidated Statement of Financial Position. The disposal did not qualify as discontinued operations because Caterpillar expects significant continuing involvement through its noncontrolling interest. The financial impact of the disposal was reported in the All Other operating segment. Future results for our remaining interest will be recorded in Equity in profit (loss) of unconsolidated affiliated companies and will be reported in the All Other operating segment.

The controlling financial interest in Caterpillar Logistics Services LLC was not material to our results of operations, financial position or cash flow.

The major classes of assets and liabilities, previously classified as held for sale, that were disposed of as part of this divestiture are summarized in the following table:

(Millions of dollars)	July 31, 2012
Cash and short-term investments .....	\$ 8
Receivables – trade and other .....	204
Prepaid expenses and other current assets .....	5
Inventories .....	8
<b>Current assets</b> .....	<b>\$ 225</b>
Property, plant and equipment – net .....	\$ 163
Intangible assets .....	1
Other assets .....	59
<b>Non-current assets</b> .....	<b>\$ 223</b>
Accounts payable .....	\$ 18
Accrued expenses .....	17
Accrued wages, salaries and employee benefits .....	15
<b>Current liabilities</b> .....	<b>\$ 50</b>
Liability for postemployment benefits .....	\$ 58
Other liabilities .....	40
<b>Long-term liabilities</b> .....	<b>\$ 98</b>

## 20. Employee separation charges

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

For the three and nine months ended September 30, 2012, we recognized employee separation charges of \$16 million and \$57 million, respectively, in Other operating (income) expenses in the Consolidated Statement of Results of Operations primarily related to the closure of the Electro-Motive Diesel facility located in London, Ontario and separation programs in Europe. The majority of the charges were assigned to the Power Systems segment.

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

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

The following table summarizes the 2011 and 2012 separation activity:

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**(Millions of dollars)**

	<b>Total</b>
Liability balance at December 31, 2010 .....	\$ 22
Increase in liability (separation charges) .....	\$ 112
Reduction in liability (payments and other adjustments).....	(44)
Liability balance at December 31, 2011 .....	\$ 90
Increase in liability (separation charges) .....	\$ 57
Reduction in liability (payments and other adjustments).....	(123)
Liability balance at September 30, 2012.....	\$ 24

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

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

### **Overview**

We reported third-quarter 2012 sales and revenues of \$16.445 billion, a 5 percent increase from third-quarter 2011 sales and revenues of \$15.716 billion. Profit per share for the third quarter of 2012 was \$2.54, a 49 percent increase from third-quarter 2011 profit per share of \$1.71. Third-quarter 2012 profit includes a pretax gain of \$273 million from the sale of a majority interest in Caterpillar's third party logistics business. Profit was \$1.699 billion in the quarter, an increase of 49 percent from \$1.141 billion in the third quarter of 2011.

Sales and revenues for the nine months ended September 30, 2012 were \$49.800 billion, up \$6.905 billion, or 16 percent, from \$42.895 billion for the nine months ended September 30, 2011. Profit per share for the nine months ended September 30, 2012 was \$7.44 per share, an increase of \$2.36 per share from a profit of \$5.08 per share for the nine months ended September 30, 2011. Profit of \$4.984 billion was 47 percent higher than profit of \$3.381 billion for the nine months ended September 30, 2011.

Highlights for the third quarter of 2012 include:

- Third-quarter sales and revenues of \$16.445 billion, an all-time third-quarter record, were 5 percent higher than the third quarter of 2011.
- Profit per share was \$2.54 in the third quarter of 2012, an all-time third-quarter record, and was an increase of \$0.83 from the third quarter of 2011.
- Third-quarter 2012 profit included a pretax gain of \$273 million related to the sale of a majority interest in Caterpillar's third party logistics business.
- ***Machinery and Power Systems (M&PS)*** operating cash flow was \$994 million in the third quarter of 2012, compared with \$2.037 billion in the third quarter of 2011. The decrease was primarily due to unfavorable changes in working capital.
- M&PS ***debt-to-capital ratio*** was 38.0 percent at the end of the third quarter of 2012, down from 40.9 percent at the end of the second quarter of 2012.
- The liquidity position remained strong in the third quarter. Total cash on a consolidated basis was \$5.7 billion, up from \$5.1 billion at the end of the second quarter of 2012.

#### *Notes:*

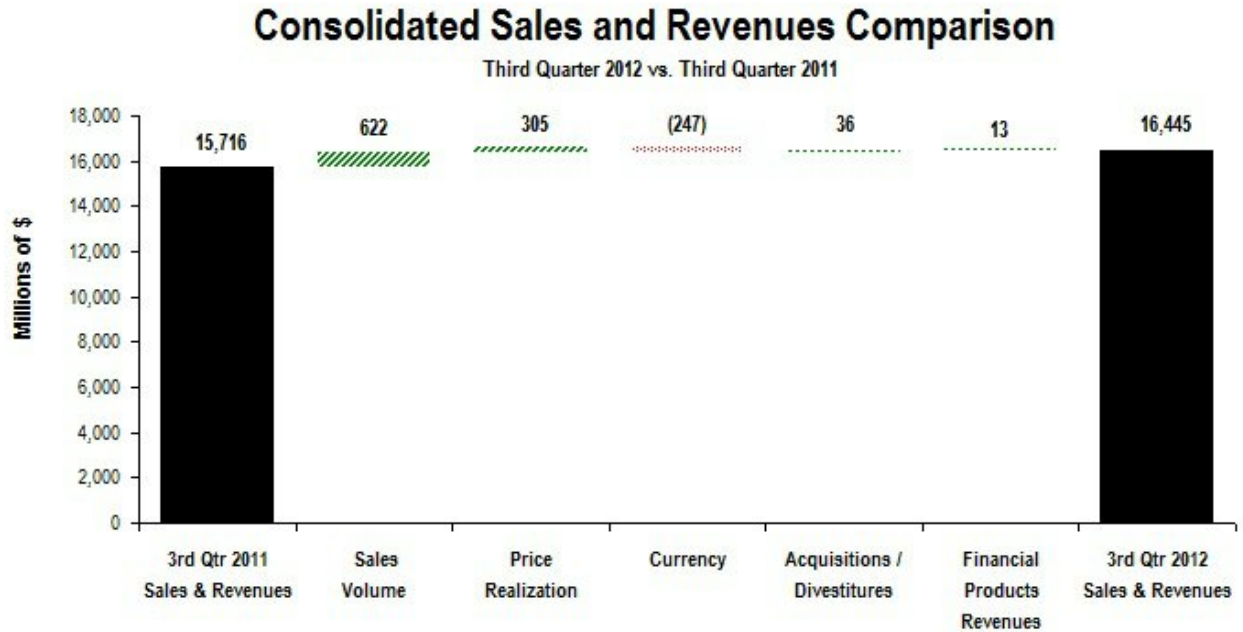
- Glossary of terms is included on pages 72-74; first occurrence of terms shown in bold italics.
- Information on non-GAAP financial measures is included on page 83.



## Consolidated Results of Operations

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

#### CONSOLIDATED SALES AND REVENUES



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

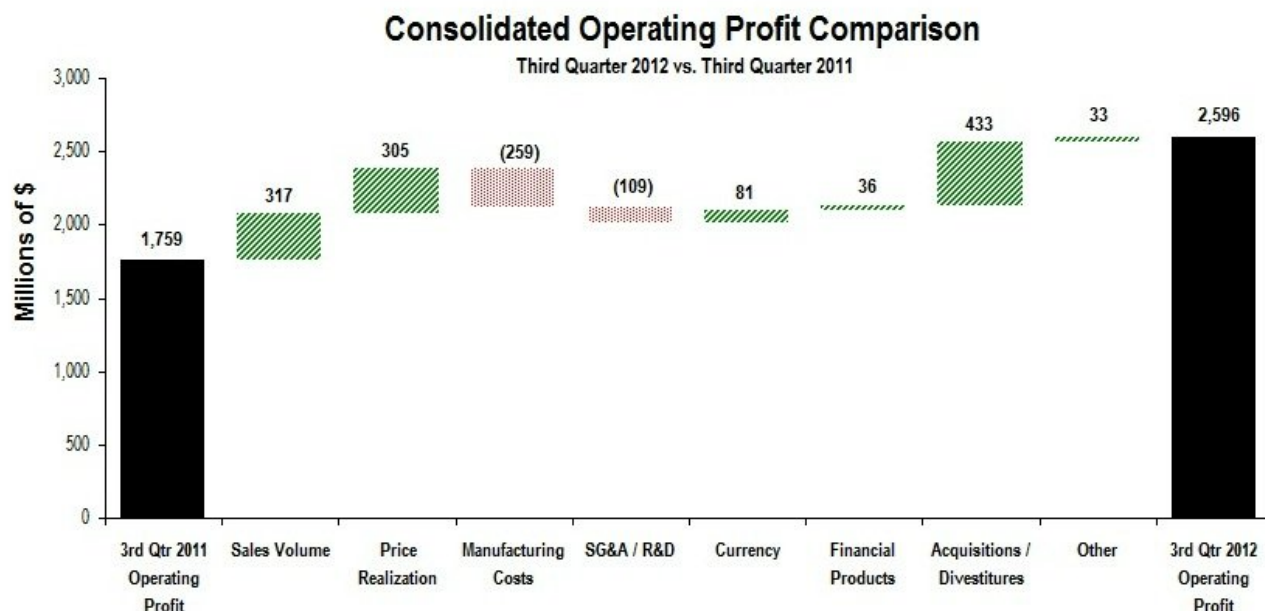
Sales and revenues were \$16.445 billion in the third quarter of 2012, an increase of \$729 million, or 5 percent, from the third quarter of 2011. When reviewing the change in sales and revenues, we focus on the following perspectives:

- Reason for the change: **Sales volume** improved \$622 million, **price realization** was favorable \$305 million, the net impact of acquisitions and divestitures added \$36 million, and Financial Products revenues were up \$13 million. **Currency** partially offset these increases by \$247 million, primarily due to the strengthening of the U.S. dollar relative to the euro and Brazilian real. Sales of new equipment increased, and sales of aftermarket parts were about flat.

Dealer reported new machine inventory increased about \$400 million during the third quarter of 2012 compared with an increase of about \$675 million during the third quarter of 2011. Dealer machine inventories at the end of the third quarter of 2012 are higher than historic averages relative to dealer deliveries to end users. Dealers have substantially lowered order rates below machine deliveries to end users, which we expect will result in dealer inventory reductions in the fourth quarter and continue into 2013. As a result of the anticipated reductions in dealer inventories as well as global economic conditions that are weaker than previously expected, we are lowering production in many facilities around the world. Lower production levels will continue until inventories decline and dealer order rates increase and are more in line with end-user demand.

- Sales by geographic region: Sales in North America were up 9 percent, sales in Asia/Pacific increased 8 percent and sales in **EAME** and **Latin America** were about flat. The increase in North America was primarily driven by improvements in the United States. Within Asia/Pacific, declines in China were more than offset by increases in Australia and other parts of Asia/Pacific. While sales in Europe were down, sales in Africa, the Middle East and CIS increased.
- Segment: Most of the sales and revenues increase was in **Resource Industries**, with sales up 13 percent from the third quarter of 2011. **Power Systems'** sales were up 5 percent, **Construction Industries'** sales were about flat, and Financial Products' revenues were up 3 percent. **All Other segment** sales were down 31 percent, primarily a result of the sale of a majority interest in our third party logistics business.

## CONSOLIDATED OPERATING PROFIT



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

Operating profit for the third quarter of 2012 was \$2.596 billion compared with \$1.759 billion for the third quarter of 2011. The increase was primarily the result of the impact of acquisitions and divestitures, higher sales volume and improved price realization.

The improvements were partially offset by higher *manufacturing costs* and increased SG&A and R&D expenses. Manufacturing costs were up \$259 million primarily due to higher period manufacturing costs. Period manufacturing costs include wages and benefits, depreciation and other period costs that support production. SG&A and R&D expenses increased \$109 million primarily due to growth-related initiatives, increased costs to support product programs and unfavorable changes in mark-to-market deferred compensation expense.

These cost increases were partially offset by lower incentive compensation expense. Short-term incentive compensation expense related to 2012 was \$130 million in the third quarter of 2012 compared with \$315 million in the third quarter of 2011.

The impact of currency was favorable to profit by \$81 million, as the benefit to costs of \$328 million more than offset the negative impact to sales of \$247 million.

The sale of a majority interest in our third party logistics business during the third quarter of 2012 resulted in a pre-tax gain, net of dealer-related costs and incremental short-term incentive compensation expense, of \$273 million. The following table summarizes the impact of Bucyrus on third-quarter 2012 and 2011 results.

## Impact of Bucyrus on Profit

(Millions of dollars)

<u>Impact Excluding Divestitures Gain/(Loss)</u>	<u>Third Quarter 2012</u>	<u>Third Quarter 2011</u>
Sales.....	\$ 1,090	\$ 1,135
Cost of goods sold .....	(853)	(1,019)
SG&A .....	(143)	(155)
R&D .....	(45)	(12)
Other operating income (costs) .....	3	(77)
Operating profit (loss) .....	52	(128)
Interest expense .....	(31)	(33)
Other income (expense).....	(16)	(24)
Profit (loss) before tax .....	5	(185)
Income tax (provision)/benefit .....	(2)	48
Profit (loss) after tax of consolidated companies .....	3	(137)
Less: Profit (loss) attributable to noncontrolling interest .....	1	—
Profit/(loss) .....	\$ 2	\$ (137)

### Distribution Business Divestitures Gain/(Loss)

SG&A .....	\$ (50)	\$ (15)
Other operating income (costs) .....	31	—
Impact on operating profit (loss) .....	(19)	(15)
Income tax (provision)/benefit .....	1	6
Profit/(loss) .....	\$ (18)	\$ (9)

### Other Profit/Loss Items

- **Interest expense excluding Financial Products** increased \$17 million from the third quarter of 2011 primarily due to underwriting expense related to our debt exchange in the third quarter of 2012 and higher average borrowings.
- **Other income/expense** was expense of \$17 million compared with expense of \$13 million in the third quarter of 2011.
- **The provision for income taxes** in the third quarter of 2012 reflects an estimated annual effective tax rate of 30.5 percent, excluding the item discussed below, compared with 29 percent for the third quarter of 2011 and 26.5 percent for the full-year 2011. The increase from 26.5 percent to 30.5 percent is primarily due to expected changes in our geographic mix of profits from a tax perspective and the expiration of the U.S. research and development tax credit.

The tax provision in the third quarter of 2012 also includes a negative impact of \$6 million from goodwill not deductible for tax purposes related to the divestiture of portions of the Bucyrus distribution business.

## Segment Information

### Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	Latin America	% Change	EAME	% Change	Asia/ Pacific	% Change
<b>Third Quarter 2012</b>										
Construction Industries <sup>1</sup> .....	\$ 4,904	— %	\$ 1,910	23 %	\$ 629	(23)%	\$ 1,186	7 %	\$ 1,179	(18)%
Resource Industries <sup>2</sup> .....	5,214	13 %	1,421	8 %	1,001	18 %	936	(4)%	1,856	27 %
Power Systems <sup>3</sup> .....	5,317	5 %	2,175	— %	543	2 %	1,564	2 %	1,035	24 %
All Other Segment <sup>4</sup> .....	318	(31)%	182	(3)%	11	(45)%	68	(55)%	57	(45)%
Corporate Items and Eliminations .....	(14)		(14)		—		—		—	
<b>Machinery &amp; Power Systems Sales ..</b>	<b>15,739</b>	<b>5 %</b>	<b>5,674</b>	<b>9 %</b>	<b>2,184</b>	<b>(1)%</b>	<b>3,754</b>	<b>— %</b>	<b>4,127</b>	<b>8 %</b>
Financial Products Segment .....	776	3 %	420	2 %	100	2 %	99	(10)%	157	15 %
Corporate Items and Eliminations .....	(70)		(46)		(7)		(6)		(11)	
<b>Financial Products Revenues .....</b>	<b>706</b>	<b>2 %</b>	<b>374</b>	<b>(1)%</b>	<b>93</b>	<b>8 %</b>	<b>93</b>	<b>(10)%</b>	<b>146</b>	<b>14 %</b>
<b>Consolidated Sales and Revenues .....</b>	<b>\$16,445</b>	<b>5 %</b>	<b>\$ 6,048</b>	<b>8 %</b>	<b>\$ 2,277</b>	<b>(1)%</b>	<b>\$ 3,847</b>	<b>(1)%</b>	<b>\$ 4,273</b>	<b>8 %</b>
<b>Third Quarter 2011</b>										
Construction Industries <sup>1</sup> .....	\$ 4,900		\$ 1,549		\$ 812		\$ 1,104		\$ 1,435	
Resource Industries <sup>2</sup> .....	4,599		1,318		845		980		1,456	
Power Systems <sup>3</sup> .....	5,075		2,173		534		1,536		832	
All Other Segment <sup>4</sup> .....	461		188		20		150		103	
Corporate Items and Eliminations .....	(12)		(12)		—		—		—	
<b>Machinery &amp; Power Systems Sales ..</b>	<b>15,023</b>		<b>5,216</b>		<b>2,211</b>		<b>3,770</b>		<b>3,826</b>	
Financial Products Segment .....	757		413		98		110		136	
Corporate Items and Eliminations .....	(64)		(37)		(12)		(7)		(8)	
<b>Financial Products Revenues .....</b>	<b>693</b>		<b>376</b>		<b>86</b>		<b>103</b>		<b>128</b>	
<b>Consolidated Sales and Revenues .....</b>	<b>\$15,716</b>		<b>\$ 5,592</b>		<b>\$ 2,297</b>		<b>\$ 3,873</b>		<b>\$ 3,954</b>	

<sup>1</sup> Does not include inter-segment sales of \$102 million and \$162 million in the third quarter 2012 and 2011, respectively.

<sup>2</sup> Does not include inter-segment sales of \$253 million and \$290 million in the third quarter 2012 and 2011, respectively.

<sup>3</sup> Does not include inter-segment sales of \$597 million and \$600 million in the third quarter 2012 and 2011, respectively.

<sup>4</sup> Does not include inter-segment sales of \$885 million and \$913 million in the third quarter 2012 and 2011, respectively.

### Sales and Revenues by Segment

(Millions of dollars)	Third Quarter 2011	Sales Volume	Price Realization	Currency	Acquisitions/ Divestitures	Other	Third Quarter 2012	\$ Change	% Change
Construction Industries .....	\$ 4,900	\$ 99	\$ 32	\$ (127)	\$ —	\$ —	\$ 4,904	\$ 4	— %
Resource Industries .....	4,599	471	169	(33)	8	—	5,214	615	13 %
Power Systems .....	5,075	101	79	(81)	143	—	5,317	242	5 %
All Other Segment .....	461	(22)	—	(6)	(115)	—	318	(143)	(31)%
Corporate Items and Eliminations ...	(12)	(27)	25	—	—	—	(14)	(2)	
<b>Machinery &amp; Power Systems Sales .....</b>	<b>15,023</b>	<b>622</b>	<b>305</b>	<b>(247)</b>	<b>36</b>	<b>—</b>	<b>15,739</b>	<b>716</b>	<b>5 %</b>
Financial Products Segment .....	757	—	—	—	—	19	776	19	3 %
Corporate Items and Eliminations ...	(64)	—	—	—	—	(6)	(70)	(6)	
<b>Financial Products Revenues .....</b>	<b>693</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>13</b>	<b>706</b>	<b>13</b>	<b>2 %</b>
<b>Consolidated Sales and Revenues ..</b>	<b>\$ 15,716</b>	<b>\$ 622</b>	<b>\$ 305</b>	<b>\$ (247)</b>	<b>\$ 36</b>	<b>\$ 13</b>	<b>\$ 16,445</b>	<b>\$ 729</b>	<b>5 %</b>

### Operating Profit by Segment

(Millions of dollars)	Third Quarter 2012	Third Quarter 2011	\$ Change	% Change
Construction Industries .....	\$ 459	\$ 496	\$ (37)	(7)%
Resource Industries .....	1,113	745	368	49 %
Power Systems .....	943	794	149	19 %
All Other Segment .....	482	234	248	106 %
Corporate Items and Eliminations .....	(512)	(589)	77	
<b>Machinery &amp; Power Systems .....</b>	<b>2,485</b>	<b>1,680</b>	<b>805</b>	<b>48 %</b>
Financial Products Segment .....	190	145	45	31 %
Corporate Items and Eliminations .....	(9)	—	(9)	
<b>Financial Products .....</b>	<b>181</b>	<b>145</b>	<b>36</b>	<b>25 %</b>
Consolidating Adjustments .....	(70)	(66)	(4)	
<b>Consolidated Operating Profit .....</b>	<b>\$ 2,596</b>	<b>\$ 1,759</b>	<b>\$ 837</b>	<b>48 %</b>

### Construction Industries

Construction Industries' sales were \$4.904 billion in the third quarter of 2012, about flat compared with the third quarter of 2011.

Higher sales in North America and EAME were about offset by declines in Asia/Pacific and Latin America. Sales for both new equipment and aftermarket parts were about flat.

While sales overall were about flat with the third quarter of 2011, volume and price realization were slightly favorable but were about offset by the unfavorable impact of currency.

Construction Industries' profit of \$459 million in the third quarter of 2012 was slightly lower than the \$496 million in the third quarter of 2011.

### Resource Industries

Resource Industries' sales were \$5.214 billion in the third quarter of 2012, an increase of \$615 million, or 13 percent, from the third quarter of 2011. The sales increase was primarily due to higher sales volume and improved price realization. Sales increases for new equipment more than offset slightly lower sales of aftermarket parts.

Over the past two years we have added capacity for mining products to better align production with expected demand. As a result of the increase in production capability, coupled with our existing mining order backlog, sales were higher than the third quarter of 2011. While sales were up in the quarter compared with the third quarter of 2011, new orders declined significantly. Slow global growth and commodity prices that are off their 2012 highs have resulted in some reductions, delays and cancellation of orders for mining products.

Bucyrus, which was acquired on July 8, 2011, had sales of \$1.090 billion in the third quarter of 2012 compared with \$1.135 billion in third quarter of 2011.

Resource Industries' profit of \$1.113 billion in the third quarter of 2012 was \$368 million higher than the third quarter of 2011. Acquisitions and divestitures were favorable \$150 million, primarily due to Bucyrus acquisition-related costs in the third quarter of 2011.

Excluding acquisitions and divestitures, Resource Industries' profit increased by \$218 million, primarily due to higher sales volume and improved price realization. The improvement was partially offset by higher manufacturing costs primarily related to increased production volume.

### **Power Systems**

Power Systems' sales were \$5.317 billion in the third quarter of 2012, an increase of \$242 million, or 5 percent, from the third quarter of 2011. The improvement was the result of the acquisition of MWM Holding GmbH (MWM), higher volume and improved price realization, partially offset by the impact of currency.

Excluding the acquisition of MWM, Power Systems' sales were about flat. Sales increased in Asia/Pacific and were partially offset by decreases in EAME. Worldwide demand for energy, at prices that encouraged investment, resulted in higher sales of engines and turbines for petroleum applications. Sales for electric power products also increased due to higher demand for large applications. These increases were offset by lower sales for industrial power applications.

Power Systems' profit was \$943 million in the third quarter of 2012 compared with \$794 million in the third quarter of 2011. The increase was primarily due to higher sales volume, which includes the impact of a favorable mix of products, and improved price realization. The improvements were partially offset by increased SG&A and R&D expenses. Manufacturing costs were about flat.

MWM, acquired during the fourth quarter of 2011, added sales of \$143 million, primarily in EAME, and increased segment profit by \$17 million.

### **Financial Products Segment**

Financial Products' revenues were \$776 million, an increase of \$19 million, or 3 percent, from the third quarter of 2011. The increase was primarily due to the favorable impact from higher average *earning assets*, partially offset by an unfavorable impact from lower average financing rates on new and existing finance receivables and operating leases.

Financial Products' profit was \$190 million in the third quarter of 2012, compared with \$145 million in the third quarter of 2011. The increase was primarily due to a \$26 million favorable impact from higher average earning assets and an \$18 million favorable impact due to lower claims experience at Cat Insurance.

At the end of the third quarter of 2012, past dues at Cat Financial were 2.80 percent compared with 3.35 percent at the end of the second quarter of 2012, 2.89 percent at the end of 2011 and 3.54 percent at the end of the third quarter of 2011. Past dues improved in all geographical regions. Write-offs, net of recoveries, were \$29 million for the third quarter of 2012, down from \$50 million for the third quarter of 2011.

As of September 30, 2012, Cat Financial's allowance for credit losses totaled \$404 million or 1.47 percent of net finance receivables, compared with \$369 million or 1.47 percent of net finance receivables at year-end 2011. The allowance for credit losses as of September 30, 2011, was \$362 million or 1.49 percent of net finance receivables.

### **All Other Segment**

All Other segment includes groups that provide services such as component manufacturing, remanufacturing and logistics to both Caterpillar and external customers. The increase in profit from the third quarter of 2011 was primarily due to the gain from the sale of a majority interest in our third party logistics business.

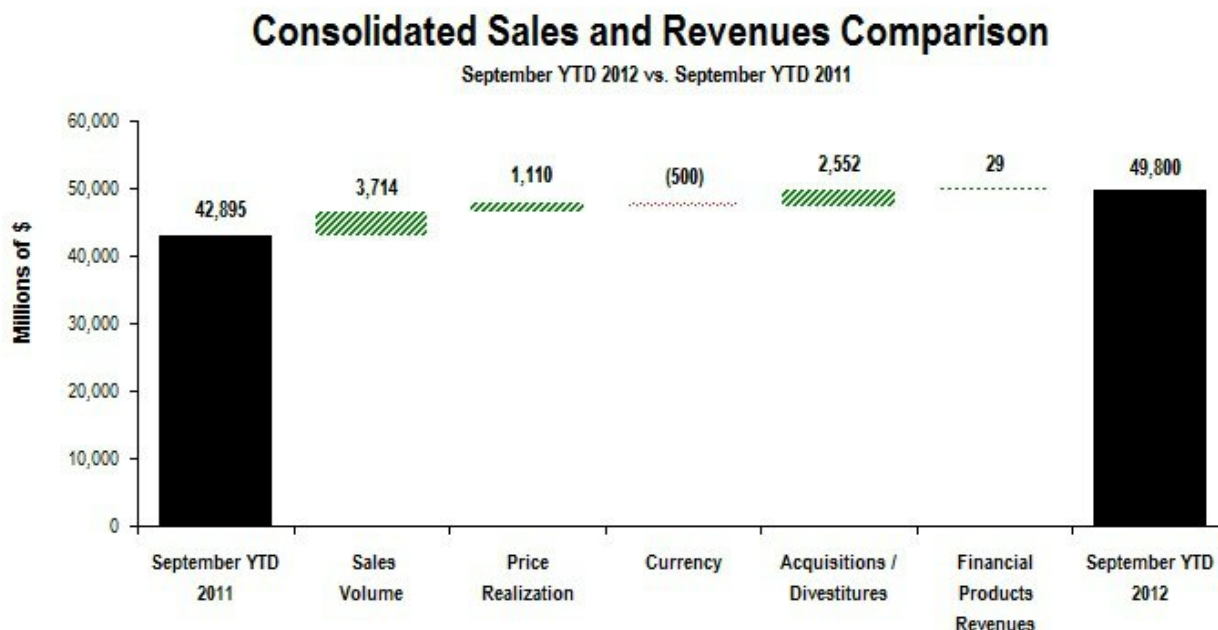
### **Corporate Items and Eliminations**

Expense for corporate items and eliminations was \$521 million in the third quarter of 2012, a decrease of \$68 million from the third quarter of 2011. Corporate items and eliminations include: corporate-level expenses; timing differences, as some expenses are reported in segment profit on a cash basis; retirement benefit costs other than service cost; currency differences, as segment profit is reported using annual fixed exchange rates; and inter-segment eliminations.

The decrease in expense from the third quarter of 2011 was primarily due to the favorable impact from currency differences, partially offset by unfavorable changes in mark-to-market deferred compensation expense, increased corporate costs and timing differences.

## **NINE MONTHS ENDED SEPTEMBER 30, 2012 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2011**

### **CONSOLIDATED SALES AND REVENUES**



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

Total sales and revenues were \$49.800 billion for the nine months ended September 30, 2012, an increase of \$6.905 billion, or 16 percent, from the nine months ended September 30, 2011. When reviewing the change in sales and revenues, we focus on the following perspectives:

- Reason for the change: Sales volume improved \$3.714 billion, the net impact of acquisitions and divestitures was \$2.552 billion, price realization was favorable \$1.110 billion and Financial Products revenues increased \$29 million. Currency partially offset these increases by \$500 million, primarily driven by the strengthening of the U.S. dollar relative to the euro and the Brazilian real. Sales for both new equipment and aftermarket parts increased.
- Sales by geographic region: Excluding acquisitions and divestitures, sales increased in all geographic regions except Latin America, with the most significant improvement in North America. Sales increased in North America 18 percent, sales in Asia/Pacific improved 12 percent, and sales in EAME were favorable 6 percent. Sales in Latin America were about flat. The sales increase in North America was primarily driven by improvements in the United States. Within Asia/Pacific, increases in Australia and other parts of Asia/Pacific more than offset decreases in China. While sales in Europe were down, sales in Africa, the Middle East and CIS increased.
- Segment: Excluding acquisitions and divestitures, a significant amount of the sales increase was in Resource Industries, with sales up 28 percent from the nine months ended September 30, 2011. Construction Industries' sales improved 7 percent, Power Systems' sales increased 6 percent, and Financial Products' revenues were about flat.



## CONSOLIDATED OPERATING PROFIT



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

Operating profit for the nine months ended September 30, 2012 was \$7.535 billion compared with \$5.193 billion for the nine months ended September 30, 2011. The increase was primarily the result of higher sales volume and improved price realization. Acquisitions and divestitures favorably impacted operating profit by \$716 million, primarily related to the Bucyrus acquisition and the sale of a majority interest in Caterpillar's third party logistics business.

The improvements were partially offset by higher manufacturing costs and increased SG&A and R&D expenses. Manufacturing costs were up \$668 million primarily due to higher period manufacturing costs related to production volume and capacity expansion programs and increased wage and benefit costs, partially offset by lower incentive compensation expense. Freight costs also increased from the nine months ended September 30, 2011. SG&A and R&D expenses increased \$284 million primarily due to growth-related initiatives, increased costs to support product programs and unfavorable changes to mark-to-market deferred compensation expense, partially offset by lower incentive compensation expense.

Short-term incentive compensation expense related to the nine months ended September 30, 2012 was about \$625 million compared with about \$840 million in the nine months ended September 30, 2011.

The amount of incremental operating profit we earn on incremental sales and revenues is an important performance metric. Sales and revenues increased \$6.905 billion from the nine months ended September 30, 2011, compared with the nine months ended September 30, 2012, and operating profit increased \$2.342 billion. The resulting incremental operating profit rate is 34 percent. Excluding acquisitions and divestitures, incremental margin was about 37 percent. Excluding acquisitions, divestitures and currency impacts, incremental margin was about 32 percent.

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



### Impact of Bucyrus on Profit

(Millions of dollars)

<u>Impact Excluding Divestitures Gain/(Loss)</u>	<u>Nine Months Ended September 30, 2012</u>	<u>Nine Months Ended September 30, 2011</u>
Sales.....	\$ 3,267	\$ 1,135
Cost of goods sold .....	(2,447)	(1,019)
SG&A .....	(474)	(190)
R&D.....	(113)	(12)
Other operating income (costs).....	(2)	(77)
Operating profit (loss).....	231	(163)
Interest expense .....	(102)	(44)
Other income (expense).....	(3)	(227)
Profit (loss) before tax .....	126	(434)
Income tax (provision)/benefit .....	(45)	136
Profit (loss) after tax of consolidated companies .....	81	(298)
Less: Profit (loss) attributable to noncontrolling interest .....	1	—
Profit/(loss) .....	<u>\$ 80</u>	<u>\$ (298)</u>
 <u>Distribution Business Divestitures Gain/(Loss)</u>		
SG&A .....	\$ (133)	\$ (15)
Other operating income (costs).....	186	—
Impact on operating profit (loss) .....	53	(15)
Income tax (provision)/benefit .....	(99)	6
Profit/(loss) .....	<u>\$ (46)</u>	<u>\$ (9)</u>

### Other Profit/Loss Items

- **Interest expense excluding Financial Products** increased \$63 million from the nine months ended September 30, 2011, due to long-term debt issued in 2011 relating to the acquisition of Bucyrus and underwriting expense related to our debt exchange in the third quarter of 2012.
- **Other income/expense** was income of \$141 million compared with expense of \$157 million in the nine months ended September 30, 2011. The change was primarily due to the absence of losses on interest rate swaps and credit facility fees associated with the debt issuance for the Bucyrus acquisition during the nine months ended September 30, 2011, and the favorable impact of commodity hedges.
- **The provision for income taxes** for the first nine months of 2012 reflects an estimated annual effective tax rate of 30.5 percent compared with 29 percent for the first nine months of 2011 and 26.5 percent for the full-year 2011, excluding the items discussed below. The increase from 26.5 percent to 30.5 percent is primarily due to expected changes in our geographic mix of profits from a tax perspective and the expiration of the U.S. research and development tax credit.

The 2012 tax provision also includes a negative impact of \$81 million from goodwill not deductible for tax purposes related to the divestiture of portions of the Bucyrus distribution business. A \$72 million net benefit was recorded for the first nine months of 2011 due to planned repatriation of non-U.S. earnings offset by an increase in unrecognized tax benefits.

## Segment Information

### Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	Latin America	% Change	EAME	% Change	Asia/ Pacific	% Change
<b><u>Nine months ended September 30, 2012</u></b>										
Construction Industries <sup>1</sup> .....	\$15,306	7 %	\$ 5,656	33 %	\$ 2,050	(10)%	\$ 3,751	6 %	\$ 3,849	(10)%
Resource Industries <sup>2</sup> .....	15,382	45 %	4,570	40 %	2,567	25 %	3,108	37 %	5,137	72 %
Power Systems <sup>3</sup> .....	15,815	10 %	6,726	10 %	1,652	1 %	4,415	9 %	3,022	16 %
All Other Segment <sup>4</sup> .....	1,246	(18)%	624	(15)%	49	(36)%	347	(21)%	226	(17)%
Corporate Items and Eliminations .....	(38)		(38)		—		—		—	
<b>Machinery &amp; Power Systems Sales..</b>	<b>47,711</b>	<b>17 %</b>	<b>17,538</b>	<b>22 %</b>	<b>6,318</b>	<b>4 %</b>	<b>11,621</b>	<b>13 %</b>	<b>12,234</b>	<b>21 %</b>
Financial Products Segment .....	2,301	2 %	1,253	(2)%	294	10 %	304	(7)%	450	18 %
Corporate Items and Eliminations .....	(212)		(140)		(22)		(21)		(29)	
<b>Financial Products Revenues.....</b>	<b>2,089</b>	<b>1 %</b>	<b>1,113</b>	<b>(2)%</b>	<b>272</b>	<b>11 %</b>	<b>283</b>	<b>(10)%</b>	<b>421</b>	<b>17 %</b>
<b>Consolidated Sales and Revenues ....</b>	<b><u>\$49,800</u></b>	<b>16 %</b>	<b><u>\$ 18,651</u></b>	<b>20 %</b>	<b><u>\$ 6,590</u></b>	<b>5 %</b>	<b><u>\$11,904</u></b>	<b>12 %</b>	<b><u>\$12,655</u></b>	<b>21 %</b>
<b><u>Nine months ended September 30, 2011</u></b>										
Construction Industries <sup>1</sup> .....	\$14,312		\$ 4,242		\$ 2,268		\$ 3,546		\$ 4,256	
Resource Industries <sup>2</sup> .....	10,573		3,269		2,060		2,266		2,978	
Power Systems <sup>3</sup> .....	14,442		6,128		1,641		4,059		2,614	
All Other Segment <sup>4</sup> .....	1,525		735		77		440		273	
Corporate Items and Eliminations .....	(17)		(17)		—		—		—	
<b>Machinery &amp; Power Systems Sales..</b>	<b>40,835</b>		<b>14,357</b>		<b>6,046</b>		<b>10,311</b>		<b>10,121</b>	
Financial Products Segment .....	2,251		1,274		267		328		382	
Corporate Items and Eliminations .....	(191)		(133)		(22)		(15)		(21)	
<b>Financial Products Revenues.....</b>	<b>2,060</b>		<b>1,141</b>		<b>245</b>		<b>313</b>		<b>361</b>	
<b>Consolidated Sales and Revenues ....</b>	<b><u>\$42,895</u></b>		<b><u>\$ 15,498</u></b>		<b><u>\$ 6,291</u></b>		<b><u>\$10,624</u></b>		<b><u>\$10,482</u></b>	

<sup>1</sup> Does not include inter-segment sales of \$355 million and \$433 million for the nine months ended September 30, 2012 and 2011, respectively.

<sup>2</sup> Does not include inter-segment sales of \$909 million and \$848 million for the nine months ended September 30, 2012 and 2011, respectively.

<sup>3</sup> Does not include inter-segment sales of \$1,952 million and \$1,695 million for the nine months ended September 30, 2012 and 2011, respectively.

<sup>4</sup> Does not include inter-segment sales of \$2,719 million and \$2,548 million for the nine months ended September 30, 2012 and 2011, respectively.

**Sales and Revenues by Segment**

(Millions of dollars)	Nine months ended Sept. 30, 2011	Sales Volume	Price Realization	Currency	Acquisitions/ Divestitures	Other	Nine months ended Sept. 30, 2012	\$ Change	% Change
Construction Industries.....	\$ 14,312	\$ 1,005	\$ 232	\$ (243)	\$ —	\$ —	\$ 15,306	\$ 994	7 %
Resource Industries .....	10,573	2,113	583	(72)	2,185	—	15,382	4,809	45 %
Power Systems .....	14,442	810	248	(167)	482	—	15,815	1,373	10 %
All Other Segment.....	1,525	(146)	(1)	(17)	(115)	—	1,246	(279)	(18)%
Corporate Items and Eliminations...	(17)	(68)	48	(1)	—	—	(38)	(21)	
<b>Machinery &amp; Power Systems Sales .....</b>	<b>40,835</b>	<b>3,714</b>	<b>1,110</b>	<b>(500)</b>	<b>2,552</b>	<b>—</b>	<b>47,711</b>	<b>6,876</b>	<b>17 %</b>
Financial Products Segment .....	2,251	—	—	—	—	50	2,301	50	2 %
Corporate Items and Eliminations...	(191)	—	—	—	—	(21)	(212)	(21)	
<b>Financial Products Revenues.....</b>	<b>2,060</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>29</b>	<b>2,089</b>	<b>29</b>	<b>1 %</b>
<b>Consolidated Sales and Revenues</b>	<b>\$ 42,895</b>	<b>\$ 3,714</b>	<b>\$ 1,110</b>	<b>\$ (500)</b>	<b>\$ 2,552</b>	<b>\$ 29</b>	<b>\$ 49,800</b>	<b>\$ 6,905</b>	<b>16 %</b>

**Operating Profit by Segment**

(Millions of dollars)	Nine months ended September 30, 2012	Nine months ended September 30, 2011	\$ Change	% Change
Construction Industries .....	\$ 1,763	\$ 1,522	\$ 241	16%
Resource Industries .....	3,707	2,337	1,370	59%
Power Systems .....	2,737	2,230	507	23%
All Other Segment .....	888	601	287	48%
Corporate Items and Eliminations .....	(1,907)	(1,736)	(171)	
<b>Machinery &amp; Power Systems .....</b>	<b>7,188</b>	<b>4,954</b>	<b>2,234</b>	<b>45%</b>
Financial Products Segment.....	583	453	130	29%
Corporate Items and Eliminations .....	(24)	(26)	2	
<b>Financial Products .....</b>	<b>559</b>	<b>427</b>	<b>132</b>	<b>31%</b>
<b>Consolidating Adjustments .....</b>	<b>(212)</b>	<b>(188)</b>	<b>(24)</b>	
<b>Consolidated Operating Profit.....</b>	<b>\$ 7,535</b>	<b>\$ 5,193</b>	<b>\$ 2,342</b>	<b>45%</b>

**Construction Industries**

Construction Industries' sales were \$15.306 billion in the nine months ended September 30, 2012, an increase of \$994 million, or 7 percent, from the nine months ended September 30, 2011. Sales increased in North America and EAME and declined in Asia/Pacific and Latin America. While sales for both new equipment and aftermarket parts improved, the more significant increase was for new equipment.

Improvements in construction activity, primarily in North America, led to higher sales of construction equipment. Despite the increase in our machine sales in North America, construction activity in the United States and other developed countries is still well below prior peaks.

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

Construction Industries' profit was \$1.763 billion in the nine months ended September 30, 2012 compared with \$1.522 billion in the nine months ended September 30, 2011. The increase in profit was primarily due to higher sales volume and improved price realization, partially offset by the negative impact of currency and higher period manufacturing costs.

**Resource Industries**

Resource Industries' sales were \$15.382 billion for the nine months ended September 30, 2012, an increase of \$4.809 billion, or

45 percent, from the nine months ended September 30, 2011. The sales increase was due to acquisitions, primarily Bucyrus, and higher sales volume in all regions of the world. While sales volume for both new equipment and aftermarket parts improved, the more significant increase was for new equipment.

Over the past two years we have added capacity for mining products to better align production with expected demand. As a result of the increase in production capability, coupled with our existing mining order backlog, sales in the nine months ended September 30, 2012 were higher than sales in the nine months ended September 30, 2011. While sales were up, new orders declined significantly. Slow global growth and commodity prices that are off their 2012 highs have resulted in some reductions, delays and cancellation of orders for mining products.

Bucyrus, which was acquired on July 8, 2011, had sales of \$3.267 billion for the nine months ended September 30, 2012, with \$913 million in North America, \$509 million in Latin America, \$606 million in EAME and \$1.239 billion in Asia/Pacific.

Resource Industries' profit of \$3.707 billion in the nine months ended September 30, 2012 was significantly higher than profit of \$2.337 billion for the nine months ended September 30, 2011. Acquisitions and divestitures were favorable \$491 million, primarily due to Bucyrus.

Excluding acquisitions and divestitures, Resource Industries' profit increased by \$879 million, primarily due to higher sales volume, which includes the impact of an unfavorable mix of products, and improved price realization. These improvements were partially offset by higher manufacturing costs primarily related to increased production volume.

### **Power Systems**

Power Systems' sales were \$15.815 billion in the nine months ended September 30, 2012, an increase of \$1.373 billion, or 10 percent, compared to the nine months ended September 30, 2011. The improvement was the result of higher sales volume, the acquisition of MWM and improved price realization. The sales volume increase occurred primarily in North America.

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

Power Systems' profit was \$2.737 billion in the nine months ended September 30, 2012, compared with \$2.230 billion in the nine months ended September 30, 2011. The increase was primarily due to higher sales volume, which includes the impact of a favorable mix of products, and improved price realization. The improvements were partially offset by increased manufacturing, SG&A and R&D expenses.

MWM, acquired during the fourth quarter of 2011, added sales of \$482 million, primarily in EAME, and was about neutral to profit.

### **Financial Products Segment**

Financial Products' revenues were \$2.301 billion in the first nine months of 2012, an increase of \$50 million, or 2 percent, from the first nine months of 2011. The increase was primarily due to the favorable impact from higher average earning assets and an increase in Cat Insurance revenues. These increases were partially offset by unfavorable impacts from lower average financing rates on new and existing finance receivables and operating leases and gains/losses on returned or repossessed equipment.

Financial Products' profit was \$583 million in the first nine months of 2012 compared with \$453 million in the first nine months of 2011. The increase was primarily due to a \$57 million favorable impact from higher average earning assets, a \$53 million favorable impact due to lower claims experience at Cat Insurance and a \$32 million decrease in provision expense at Cat Financial. These increases were partially offset by a \$21 million unfavorable impact from gains/losses on returned or repossessed equipment.

### **Corporate Items and Eliminations**

Expense for corporate items and eliminations was \$1.931 billion in the nine months ended September 30, 2012, an increase of \$169 million from the nine months ended September 30, 2011. Corporate items and eliminations include: corporate-level expenses; timing differences, as some expenses are reported in segment profit on a cash basis; retirement benefit costs other than service cost; currency differences, as segment profit is reported using annual fixed exchange rates; and inter-segment eliminations.

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

in the first nine months of 2012 being favorable compared with 2012 fixed exchange rates.

## **ACQUISITIONS AND DIVESTITURES**

### **ERA Mining Machinery Limited**

During the second quarter of 2012, Caterpillar, through its wholly-owned subsidiary Caterpillar (Luxembourg) Investment Co. S.A., completed a tender offer to acquire the issued shares of ERA Mining Machinery Limited (Siwei), including its wholly-owned subsidiary Zhengzhou Siwei Mechanical Manufacturing Co., Ltd. Substantially all of the issued shares of Siwei, a public company listed on the Hong Kong Exchange, were acquired at the end of May 2012 and approximately one percent of the issued shares remained outstanding and unacquired as of September 30, 2012. Siwei primarily designs, manufactures, sells and supports underground coal mining equipment in mainland China and is known for its expertise in manufacturing mining roof support equipment. The acquisition supports Caterpillar's long-term commitment to invest in China in order to support our growing base of Chinese customers and will further expand our underground mining business both inside and outside of China.

The tender offer allowed Siwei shareholders to choose between two types of consideration in exchange for their shares. The alternatives were either cash consideration of HK\$0.88 or a HK\$1.00 loan note issued by Caterpillar (Luxembourg) Investment Co. S.A. to the former shareholders of Siwei that will entitle the holder to receive on redemption a minimum of HK\$0.75 up to a maximum of HK\$1.15 depending on Siwei's consolidated gross profit for 2012 and 2013. Approximately 4 billion Siwei shares were tendered for the cash alternative and approximately 1.6 billion Siwei shares were tendered for the loan note alternative. The preliminary purchase price of approximately \$690 million was comprised of net cash paid of approximately \$453 million (\$475 million in cash paid for shares and to cancel share options less cash acquired of \$22 million), the fair value of the loan notes of \$169 million, approximately \$155 million of assumed third-party short term borrowings, a loan and interest payable to Caterpillar from Siwei of \$51 million, less restricted cash acquired of approximately \$138 million. The noncontrolling interest for the outstanding shares not tendered was approximately \$7 million.

The transaction was financed with available cash and included the issuance of loan notes to the former shareholders of Siwei, which have a debt component and a portion that is contingent consideration. The \$169 million fair value of the loan notes is comprised of \$152 million of debt representing the minimum redemption amount payable in April 2013 and \$17 million in contingent consideration representing the portion of the redemption amount conditionally payable in April 2013 or April 2014. The contingent consideration will be remeasured each reporting period at its estimated fair value with any adjustment included in Other operating (income) expenses in the Consolidated Results of Operations. As of September 30, 2012, there has been no adjustment to the contingent consideration.

Tangible assets acquired of \$659 million, recorded at their fair values, primarily include cash of \$22 million, restricted cash of \$138 million, receivables of \$213 million, inventory of \$94 million and property, plant and equipment of \$112 million. Finite-lived intangible assets acquired of \$194 million were primarily related to customer relationships and also included trade names. The finite-lived intangible assets are being amortized on a straight-line basis over a weighted average amortization period of approximately 15 years. Liabilities assumed of \$592 million, recorded at their fair values, primarily included accounts payable of \$342 million, third-party short term borrowings of \$155 million and accrued expenses of \$50 million. Additionally, deferred tax liabilities were \$36 million. Goodwill of \$476 million, substantially all of which is non-deductible for income tax purposes, represents the excess of the consideration transferred over the net assets recognized and represents the estimated future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Goodwill will not be amortized, but will be tested for impairment at least annually. Factors that contributed to a purchase price resulting in the recognition of goodwill include expected cost savings primarily from increased purchasing power for raw materials and a reduction in other manufacturing input costs, expanded underground mining equipment sales opportunities in China and internationally, along with the acquired assembled workforce. These values represent a preliminary allocation of the purchase price subject to finalization of post-closing procedures. 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 Resource Industries 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.

In October 2012, the remaining shares of Siwei common stock were acquired for approximately \$7 million in cash.

### **Bucyrus Distribution Business Divestiture**

In conjunction with our acquisition of Bucyrus in July 2011, we announced our intention to sell the Bucyrus distribution business to Caterpillar dealers that support mining customers around the world in a series of individual transactions. Bucyrus predominantly

employed a direct to end customer model to sell and support products. The intention is for Bucyrus products to be sold and serviced by Caterpillar dealers, consistent with our long-held distribution strategy. We expect these transitions will occur in phases based on the mining business opportunity within each dealer territory.

As portions of the Bucyrus distribution business are sold or classified as held for sale, they will not qualify as discontinued operations because Caterpillar expects significant continuing direct cash flows from the Caterpillar dealers after the divestitures. The gain or loss on disposal, along with the continuing operations of these disposal groups, will be reported in the Resource Industries segment. Goodwill will be allocated to each disposal group using the relative fair value method. The value of the customer relationship intangibles related to each portion of the Bucyrus distribution business to be sold will be included in the disposal groups. The disposal groups will be recorded at the lower of their carrying value or fair value less cost to sell. No impairments were recorded in the third quarter of 2012. In the second quarter of 2012, we recorded a goodwill impairment for \$27 million related to a disposal group being sold to one of the Caterpillar dealers. After the goodwill impairment, the carrying value of the disposal group was lower than its fair value less costs to sell. Fair value was determined based upon the negotiated sales price. The impairment was recorded in Other operating (income) expenses and included in the Resource Industries segment.

In the third quarter of 2012, four sale transactions were completed whereby we sold portions of the Bucyrus distribution business to Barloworld South Africa Proprietary Limited, Toromont Industries Ltd., Hewitt Equipment Limited, and Cavill Power Products Pty Ltd. for \$126 million, \$18 million, \$28 million and \$20 million, respectively, subject to certain working capital adjustments. After-tax profit was unfavorably impacted by \$18 million in the third quarter of 2012 as a result of the ongoing divestiture activities. This is comprised of \$31 million of income (included in Other operating (income) expenses) related to the sales transactions and an income tax benefit of \$1 million, offset by costs incurred related to the ongoing divestiture activities of \$50 million (included in Selling, general and administrative expenses).

Assets sold in the third quarter included customer relationship intangibles of \$30 million, other assets of \$50 million, which consisted primarily of inventory and fixed assets, and allocated goodwill of \$27 million related to the Bucyrus distribution divestiture activities.

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

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

As part of these divestitures, Cat Financial provided \$400 million of financing to WesTrac Pty Limited and \$75 million to Ferreyros S.A.A. These loans are included in Receivables – finance and Long-term receivables – finance in the Consolidated Statement of Financial Position. Additionally, Cavill Power Products Pty Ltd. paid \$5 million of the \$20 million purchase price at closing. The remaining \$15 million is due in the fourth quarter of 2013 and is included in Long-term receivables – trade and other in the Consolidated Statement of Financial Position.

For the first nine months of 2012, after-tax profit was unfavorably impacted by \$46 million as a result of the Bucyrus distribution divestiture activities. This is comprised of \$186 million of income (included in Other operating (income) expenses) related to the sales transactions, offset by costs incurred related to the Bucyrus distribution divestiture activities of \$133 million (included in Selling, general and administrative expenses) and income tax of \$99 million.

As of September 30, 2012, five divestiture transactions were classified as held for sale and are expected to close in the fourth quarter of 2012 and during 2013. Current assets held for sale were included in Prepaid expenses and other current assets and non-current assets held for sale were included in Other assets in the Consolidated Statement of Financial Position.

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



(Millions of dollars)	September 30, 2012	December 31, 2011
Receivables – trade and other.....	\$ —	\$ 25
Inventories.....	96	109
<b>Current assets</b> .....	<b>\$ 96</b>	<b>\$ 134</b>
Property, plant and equipment – net.....	\$ 36	\$ 28
Intangible assets .....	105	186
Goodwill.....	168	296
<b>Non-current assets</b> .....	<b>\$ 309</b>	<b>\$ 510</b>

Subsequent to September 30, 2012, two sale transactions were completed whereby we sold portions of the Bucyrus distribution business to Finning International and Boyd Company, LLC, which were classified as held for sale at September 30, 2012. Additionally, a portion of the distribution business that was classified as held and used at September 30, 2012 was sold to Wagner International, LLC in November 2012.

### Third Party Logistics Business Divestiture

On July 31, 2012, Platinum Equity acquired a 65 percent equity interest in Caterpillar Logistics Services LLC, the third party logistics division of our wholly owned subsidiary, Caterpillar Logistics Inc., for \$541 million subject to certain working capital adjustments. The purchase price of \$541 million was comprised of a \$122 million equity contribution from Platinum Equity to, and third party debt raised by, Caterpillar Logistics Services LLC. The sale of the third party logistics business supports Caterpillar's increased focus on the continuing growth opportunities in its core businesses. Under the terms of the agreement, Caterpillar retained a 35 percent equity interest.

As a result of the divestiture, we recorded a pretax gain of \$281 million (included in Other operating (income) expenses). In addition, we recognized \$8 million of incremental incentive compensation expense. The fair value of our retained noncontrolling interest was \$66 million, as determined by the \$122 million equity contribution from Platinum Equity, and was included in Investments in unconsolidated affiliated companies in the Consolidated Statement of Financial Position. The disposal did not qualify as discontinued operations because Caterpillar expects significant continuing involvement through its noncontrolling interest. The financial impact of the disposal was reported in the All Other operating segment. Future results for our remaining interest will be recorded in Equity in profit (loss) of unconsolidated affiliated companies and will be reported in the All Other operating segment.

The controlling financial interest in Caterpillar Logistics Services LLC was not material to our results of operations, financial position or cash flow.

The major classes of assets and liabilities, previously classified as held for sale, that were disposed of as part of this divestiture are summarized in the following table:

(Millions of dollars)	July 31, 2012
Cash and short-term investments .....	\$ 8
Receivables – trade and other .....	204
Prepaid expenses and other current assets .....	5
Inventories .....	8
<b>Current assets</b> .....	<b>\$ 225</b>
Property, plant and equipment – net .....	\$ 163
Intangible assets .....	1
Other assets .....	59
<b>Non-current assets</b> .....	<b>\$ 223</b>
Accounts payable .....	\$ 18
Accrued expenses .....	17
Accrued wages, salaries and employee benefits .....	15
<b>Current liabilities</b> .....	<b>\$ 50</b>
Liability for postemployment benefits .....	\$ 58
Other liabilities .....	40
<b>Long-term liabilities</b> .....	<b>\$ 98</b>

## **GLOSSARY OF TERMS**

- 1. All Other Segment** - Primarily includes activities such as: the remanufacturing of Cat engines and components and remanufacturing services for other companies as well as the product management, development, manufacturing, marketing and product support of undercarriage, specialty products, hardened bar stock components and ground engaging tools primarily for Caterpillar products; logistics services for Caterpillar and other companies; the product management, development, marketing, sales and product support of on-highway vocational trucks for North America (U.S. & Canada only); distribution services responsible for dealer development and administration, dealer portfolio management and ensuring the most efficient and effective distribution of machines, engines and parts; and the 50/50 joint venture with Navistar (NC<sup>2</sup>) until it became a wholly owned subsidiary of Navistar effective September 29, 2011. On July 31, 2012, we sold a majority interest in Caterpillar's third party logistics business.
- 2. Consolidating Adjustments** - Eliminations of transactions between Machinery and Power Systems and Financial Products.
- 3. Construction Industries** - A segment responsible for small and core construction machines. Responsibility includes business strategy, product design, product management and development, manufacturing, marketing, and sales and product support. The product portfolio includes backhoe loaders, small wheel loaders, small track-type tractors, skid steer loaders, multi-terrain loaders, mini excavators, compact wheel loaders, select work tools, small, medium and large track excavators, wheel excavators, medium wheel loaders, medium track-type tractors, track-type loaders, motor graders and pipe layers. In addition, Construction Industries has responsibility for Power Systems and components in Japan and an integrated manufacturing cost center that supports Machinery and Power Systems businesses.
- 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 Power Systems lines of business only; currency impacts on Financial Products revenues and operating profit are included in the Financial Products portions of the respective analyses. With respect to other income/expense, currency represents the effects of forward and option contracts entered into by the company to reduce the risk of fluctuations in exchange rates and the net effect of changes in foreign currency exchange rates on our foreign currency assets and liabilities for consolidated results.



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 Power Systems debt (short-term borrowings plus long-term debt) and redeemable noncontrolling interest to the sum of Machinery and Power Systems debt, redeemable noncontrolling interest and stockholders' equity.
6. **EAME** - A 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. **Financial Products Segment** - Provides financing to customers and dealers for the purchase and lease of Caterpillar and other equipment, as well as some financing for Caterpillar sales to dealers. Financing plans include operating and finance leases, installment sale contracts, working capital loans and wholesale financing plans. The segment also provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment.
9. **Latin America** - Geographic region including Central and South American countries and Mexico.
10. **Machinery and Power Systems (M&PS)** - Represents the aggregate total of Construction Industries, Resource Industries, Power Systems, and All Other Segment and related corporate items and eliminations.
11. **Machinery and Power Systems Other Operating (Income) Expenses** - Comprised primarily of gains/losses on disposal of long-lived assets, long-lived asset impairment charges, pension curtailment charges and employee redundancy costs.
12. **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.
13. **Power Systems** - A segment responsible for the product management, development, manufacturing, marketing, sales and product support of reciprocating engine powered generator sets, integrated systems used in the electric power generation industry, reciprocating engines and integrated systems and solutions for the marine and petroleum industries; reciprocating engines supplied to the industrial industry as well as Caterpillar machinery; the product management, development, manufacturing, marketing, sales and product support of turbines and turbine-related services; the development, manufacturing, remanufacturing, maintenance, leasing and service of diesel-electric locomotives and components and other rail-related products and services.
14. **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.
15. **Resource Industries** - A segment responsible for business strategy, product design, product management and development, manufacturing, marketing and sales and product support for large track-type tractors, large mining trucks, underground mining equipment, tunnel boring equipment, large wheel loaders, off-highway trucks, articulated trucks, wheel tractor scrapers, wheel dozers, compactors, select work tools, forestry products, paving products, machinery components and electronics and control systems. In addition, Resource Industries manages areas that provide services to other parts of the company, including integrated manufacturing, research and development and coordination of the Caterpillar Production System. On July 8, 2011, the acquisition of Bucyrus International, Inc. was completed. This added the responsibility for business strategy, product design, product management and development, manufacturing, marketing and sales and product support for electric rope shovels, draglines, hydraulic shovels, drills, highwall miners and electric drive off-highway trucks to Resource Industries. In addition, Resource Industries segment profit includes Bucyrus acquisition-related costs and the impact from divestiture of the former Bucyrus distribution businesses. On June 6, 2012, the acquisition of ERA Mining Machinery Limited, including its wholly-owned subsidiary Zhengzhou Siwei Mechanical & Electrical Manufacturing Co., Ltd., commonly known as ("Siwei"), was completed. This added the responsibility for business strategy, product design, product management and development, manufacturing, marketing and sales and product support for underground coal mining equipment to Resource Industries.

**16. Sales Volume** - With respect to sales and revenues, sales volume represents the impact of changes in the quantities sold for Machinery and Power Systems as well as the incremental revenue impact of new product introductions, including emissions-related product updates. With respect to operating profit, sales volume represents the impact of changes in the quantities sold for Machinery and Power Systems combined with product mix as well as the net operating profit impact of new product introductions, including emissions-related product updates. Product mix represents the net operating profit impact of changes in the relative weighting of Machinery and Power Systems sales with respect to total sales.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Sources of funds**

We generate significant capital resources from operating activities, which are the primary source of funding for our Machinery and Power Systems operations. Funding for these businesses is also provided by commercial paper and long-term debt issuances. Financial Products operations are funded primarily from commercial paper, term debt issuances and collections from the existing portfolio. Throughout the third quarter of 2012, we experienced favorable liquidity conditions globally in both our Machinery and Power Systems and Financial Products' operations. On a consolidated basis, we ended third quarter of 2012 with \$5.69 billion of cash, an increase of \$2.63 billion from year-end 2011. Our cash balances are held in numerous locations throughout the world. We expect to meet our United States funding needs without repatriating undistributed profits that are indefinitely reinvested outside the United States.

Consolidated operating cash flow for the first nine months of 2012 was \$3.26 billion, down from \$5.52 billion for the same period a year ago. The decrease was primarily due to unfavorable changes in accounts payable, taxes paid, short-term incentive compensation and inventory. Accounts payable in the first nine months of 2011 increased significantly due to higher material purchases for continued increases in production. Inventory continued to grow during the first nine months of 2012, which negatively impacted cash flow. However, during the third quarter of 2012, material purchases have declined due to our inventory reduction efforts resulting in lower accounts payable. Also, in the first nine months of 2012, we experienced higher tax payments and short-term incentive compensation payments. Partially offsetting these items was higher profit. See further discussion of operating cash flow under Machinery and Power Systems and Financial Products.

Total debt as of September 30, 2012 was \$39.85 billion, an increase of \$5.26 billion from year-end 2011. Debt related to Machinery and Power Systems increased \$1.82 billion in the first nine months of 2012, primarily due to the issuance of \$1.50 billion of long-term debt. On June 21, 2012, we issued \$500 million of 0.950% Senior Notes due in 2015, \$500 million of 1.500% Senior notes due in 2017, and \$500 million of 2.600% of Senior Notes due in 2022. The Notes are unsecured obligations of Caterpillar and rank equally with all other unsecured indebtedness. This debt was issued for general corporate purposes. In addition, during the third quarter of 2012, \$1.33 billion of debentures with varying interest rates and maturity dates were exchanged for \$1.72 billion of 3.803% debentures due in 2042 and \$179 million of cash. Debt related to Financial Products increased \$3.44 billion primarily at Cat Financial, reflecting increasing portfolio balances and a higher cash position.

We have three global credit facilities with a syndicate of banks totaling \$10 billion (Credit Facility) available in the aggregate to both Caterpillar and Cat Financial 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 Machinery and Power Systems as of September 30, 2012 was \$2.75 billion.

- In September 2012, we renewed the 364-day facility. The amount was increased from \$2.55 billion to \$3 billion (of which \$0.82 billion is available to Machinery and Power Systems) and the facility now expires in September 2013.
- In September 2012, we amended and extended the 2010 four-year facility. The amount was increased from \$2.09 billion to \$2.6 billion (of which \$0.72 billion is available to Machinery and Power Systems) and the facility now expires in September 2015.
- In September 2012, we amended and extended the 2011 five-year facility. The amount was increased from \$3.86 billion to \$4.4 billion (of which \$1.21 billion is available to Machinery and Power Systems) and the facility now expires in September 2017.

At September 30, 2012, Caterpillar's consolidated net worth was \$24.39 billion, which was above the \$9 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 September 30, 2012, Cat Financial's covenant interest coverage ratio was 1.69 to 1. This is above the 1.15 to 1 minimum ratio

calculated as (1) profit excluding income taxes, interest expense and net gain/(loss) from interest rate derivatives to (2) interest expense calculated at the end of each calendar quarter for the rolling four quarter period then most recently ended, required by the Credit Facility.

In addition, at September 30, 2012, Cat Financial's covenant leverage ratio was 8.70 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 September 30, 2012, there were no borrowings under the Credit Facility.

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

(Millions of dollars)	September 30, 2012		
	Consolidated	Machinery and Power Systems	Financial Products
Credit lines available:			
Global credit facilities.....	\$ 10,000	\$ 2,750	\$ 7,250
Other external .....	4,749	796	3,953
Total credit lines available.....	14,749	3,546	11,203
Less: Commercial paper outstanding .....	(3,544)	—	(3,544)
Less: Utilized credit.....	(2,440)	(434)	(2,006)
Available credit.....	<u>\$ 8,765</u>	<u>\$ 3,112</u>	<u>\$ 5,653</u>

Other consolidated credit lines with banks as of September 30, 2012 totaled \$4.75 billion. These committed and uncommitted credit lines, which may be eligible for renewal at various future dates or have no specified expiration date, are used primarily by our subsidiaries for local funding requirements. Caterpillar or Cat Financial may guarantee subsidiary borrowings under these lines.

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

### Machinery and Power Systems

Net cash provided by operating activities was \$2.51 billion in the first nine months of 2012, compared with \$6.15 billion for the same period in 2011. The decline was primarily due to unfavorable changes in accounts payable, receivables, taxes paid, short-term incentive compensation and inventory. Accounts payable in the first nine months of 2011 increased significantly due to higher material purchases for continued increases in production. Inventory continued to grow during the first nine months of 2012, which negatively impacted cash flow. However, during the third quarter of 2012, material purchases have declined due to our inventory reduction efforts resulting in lower accounts payable. Receivables decreased during the first nine months of 2011 due to increased sales of receivables to Cat Financial to support acquisitions. We continued to benefit from the sale of receivables in the first nine months of 2012, but the change was not significant. In the first nine months of 2012, we experienced higher tax payments and short-term incentive compensation payments. Partially offsetting these items was higher profit.

Net cash used for investing activities in the first nine months of 2012 was \$1.32 billion compared with net cash used for investing activities of \$7.97 billion in the first nine months of 2011. Cash used for acquisitions was higher during the first nine months of

2011 primarily due to the acquisition of Bucyrus. Cash proceeds from divestitures were higher during the first nine months of 2012 due to the sale of a majority interest in our third party logistics business and portions of the Bucyrus distribution business. Partially offsetting these items was the absence of 2011 loan repayments from Cat Financial and higher capital expenditures in the first nine months of 2012.

Net cash provided by financing activities in the first nine months of 2012 was \$371 million compared with net cash provided by financing activities of \$1.74 billion in the first nine months of 2011. The change was primarily due to higher net inflows related to the issuance and repayment of long-term debt associated with Bucyrus in 2011 and the redemption of the remaining 33 percent interest of Cat Japan in the second quarter of 2012.

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

**Strong financial position** - A key measure of Machinery and Power Systems' financial strength used by both management and our credit rating agencies is Machinery and Power Systems' debt-to-capital ratio. Debt-to-capital is defined as short-term borrowings, long-term debt due within one year, redeemable noncontrolling interest and long-term debt due after one year (debt) divided by the sum of debt (including redeemable noncontrolling interest) and stockholders' equity. Debt also includes borrowings from Financial Products. The debt-to-capital ratio for Machinery and Power Systems was 38.0 percent at September 30, 2012, within our target range of 30 to 45 percent, compared with 42.7 percent at December 31, 2011. Profit during the first nine months of 2012 was the primary contributor to the reduction in the debt-to-capital ratio, partially offset by the \$1.5 billion debt issuance in June 2012.

**Capital to support growth** - Capital expenditures during first nine months of 2012 were \$2.32 billion, an increase of \$739 million compared with the first nine months of 2011. We now expect capital expenditures for 2012 to be less than our initial expectations of \$4 billion. During the second quarter of 2012, we completed the acquisition of Siwei. The acquisition was funded with available cash and included the issuance of loan notes to the former shareholders of Siwei, which have a debt component and a portion that is contingent consideration. The preliminary purchase price of approximately \$690 million is comprised of net cash paid of approximately \$453 million (\$475 million in cash paid for shares and to cancel share options less cash acquired of \$22 million), the fair value of the loan notes of \$169 million, approximately \$155 million of assumed third-party short term borrowings, a loan and interest payable to Caterpillar from Siwei of \$51 million, less restricted cash acquired of approximately \$138 million.

**Appropriately funded employee benefit plans** - We made \$195 million and \$488 million of contributions to our pension plans during the three and nine months ended September 30, 2012, respectively. We currently anticipate full-year 2012 contributions of approximately \$1 billion, of which \$625 million are required contributions. We made \$105 million and \$340 million of contributions to our pension plans during the three months and nine months ended September 30, 2011, respectively.

**Paying dividends** - Dividends paid totaled \$937 million in the first nine months of 2012, representing 46 cents per share paid in the first and second quarters and 52 cents per share paid in the third quarter. Each quarter, our Board of Directors reviews the company's dividend for the applicable quarter. The Board evaluates the financial condition of the company and considers the economic outlook, corporate cash flow, the company's liquidity needs, and the health and stability of global credit markets to determine whether to maintain or change the quarterly dividend.

**Common stock repurchases** - Pursuant to the February 2007 Board-authorized stock repurchase program, \$3.8 billion of the \$7.5 billion authorized was spent through 2008. In December 2011, the Board of Directors extended the authorization for the \$7.5 billion stock repurchase program through December 31, 2015. We have not repurchased stock under the program since 2008. Basic shares outstanding as of September 30, 2012 were 654 million.

## **Financial Products**

Financial Products operating cash flow was \$898 million through the first nine months of 2012, compared with \$891 million for the same period a year ago. Net cash used for investing activities through the first nine months of 2012 was \$3.12 billion, compared with \$1.74 billion for the same period in 2011. The change was primarily due to more net cash used for finance receivables and expenditures for equipment leased to others due to increased growth in Cat Financial's portfolio. Net cash provided by financing activities was \$3.41 billion through the first nine months of 2012, compared with \$618 million for the same period in 2011. The change was primarily related to higher funding requirements, an increase in Cat Financial's cash position and the impact of net intercompany borrowings.

## **CRITICAL ACCOUNTING POLICIES**

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

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

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

Goodwill is reviewed for impairment utilizing a qualitative assessment or a two-step process. We have an option to make a qualitative assessment of a reporting unit's goodwill for impairment. If we choose to perform a qualitative assessment and determine the fair value more likely than not exceeds the carrying value, no further evaluation is necessary. For reporting units where we perform the two-step process, the first step requires us to compare the fair value of each reporting unit, which we primarily determine using an income approach based on the present value of discounted cash flows, to the respective carrying value, which includes goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is higher than the fair value, there is an indication that an impairment may exist and the second step is required. In step two, the implied fair value of goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss.

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

**Post-sale discount reserve** — We provide discounts to dealers through merchandising programs. We have numerous programs that are designed to promote the sale of our products. The most common dealer programs provide a discount when the dealer sells a product to a targeted end user. The amount of accrued post-sale discounts was \$1.05 billion and \$937 million as of September 30, 2012 and December 31, 2011 respectively. The reserve represents discounts that we expect to pay on previously sold units and is reviewed at least quarterly. The reserve is adjusted if discounts paid differ from those estimated. Historically, those adjustments have not been material.

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

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

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

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

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

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

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

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

## **Global Workforce**

Caterpillar worldwide full-time employment was 129,113 at the end of the third quarter of 2012 compared with 121,513 at the end of the third quarter of 2011, an increase of 7,600 full-time employees. The flexible workforce decreased by 2,954 for a net increase in the global workforce of 4,646.

The increase was a result of growth and acquisitions, partially offset by divestitures. Acquisitions, primarily Siwei and MWM, added 5,977 people to the global workforce. Divestitures related to the sale of Caterpillar's third party logistics business and a portion of the Bucyrus distribution business decreased the global workforce by 7,353.

## **OTHER MATTERS**

### **Environmental and Legal Matters**

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



global competitive position.

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

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

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

On May 14, 2007, the U.S. Environmental Protection Agency (EPA) issued a Notice of Violation to Caterpillar Inc., alleging various violations of Clean Air Act Sections 203, 206 and 207. EPA claims that Caterpillar violated such sections by shipping engines and catalytic converter after-treatment devices separately, introducing into commerce a number of uncertified and/or misbuilt engines, and failing to timely report emissions-related defects. On July 9, 2010, the Department of Justice issued a penalty demand to Caterpillar seeking a civil penalty of \$3.2 million and implementation of injunctive relief involving expanded use of certain technologies. On July 28, 2011, EPA and the U.S. Department of Justice filed and lodged a civil complaint and consent decree with the U.S. District Court for the District of Columbia (Court) regarding the matter. Caterpillar agreed to the terms of the consent decree, which required payment of a civil penalty of \$2.55 million, retirement of a small number of emissions credits and expanded defect-related reporting. On September 7, 2011, the Court entered the consent decree, making it effective on that date, and Caterpillar paid \$2.04 million of the \$2.55 million penalty due to the United States in accordance with the decree terms. On July 9, 2012, under the terms of the consent decree, and subject to a settlement agreement executed on June 21, 2012 with the California Air Resources Board, Caterpillar paid the remaining \$0.51 million of the stipulated \$2.55 million penalty to the California Air Resources Board.

### **Retirement Benefits**

We recognized pension expense of \$180 million and \$542 million for the three and nine months ended September 30, 2012, as compared to \$164 million and \$491 million for the three and nine months ended September 30, 2011. The increase in expense was due to higher amortization of net actuarial losses due to lower discount rates at the end of 2011 and asset losses in 2011. In addition, the 2012 expense includes \$10 million of special termination benefits recognized in February 2012 related to the closure of the Electro-Motive Diesel facility (discussed below), \$7 million of curtailment expense recognized in August 2012 due to changes in our hourly U.S. pension plan (discussed below) and \$6 million of settlement losses recognized in July 2012 due to the disposal of the third party logistics business. The increase in expense was partially offset by higher amortization of asset gains from 2009 and 2010. Accounting guidance on retirement benefits requires companies to discount future benefit obligations back to today's dollars using a discount rate that is based on high-quality fixed-income investments. A decrease in the discount rate increases the pension benefit obligation, while an increase in the discount rate decreases the pension benefit obligation. This increase or decrease in the pension benefit obligation is recognized in Accumulated other comprehensive income (loss) and subsequently amortized into earnings as an actuarial gain or loss. The guidance also requires companies to use an expected long-term rate of asset return for computing current year pension expense. Differences between the actual and expected returns are also recognized in Accumulated other comprehensive income (loss) and subsequently amortized into earnings as actuarial gains and losses. As of September 30, 2012, total actuarial losses, recognized in Accumulated other comprehensive income (loss), related to pensions were \$8.61 billion. The majority of the actuarial losses are due to lower discount rates, plan asset losses and losses from other demographic and economic assumptions over the past several years.

Other postretirement benefit expense was \$71 million and \$174 million for the three and nine months ended September 30, 2012, as compared to \$81 million and \$241 million for the three and nine months ended September 30, 2011. The decrease in expense

was primarily the result of curtailment gains of \$40 million of which \$37 million is related to the closure of the Electro-Motive Diesel facility discussed below. In addition, actuarial losses that were recognized in Accumulated other comprehensive income (loss) for other postretirement benefit plans were \$1.41 billion at September 30, 2012. These losses reflect several years of declining discount rates, changes in our health care trend assumption and plan asset losses, partially offset by gains from lower than expected health care costs.

Actuarial losses for both pensions and other postretirement benefits will be impacted in future periods by actual asset returns, actual health care inflation, discount rate changes, actual demographic experience and other factors that impact these expenses. These losses, reported in Accumulated other comprehensive income (loss), will generally be amortized as a component of net periodic benefit cost on a straight-line basis over the average remaining service period of active employees expected to receive benefits under the plans. For other postretirement benefit plans in which all or almost all of the plan's participants are fully eligible for benefits under the plan, the losses are amortized using the straight-line method over the remaining life expectancy of those participants. At the end of 2011, the average remaining service period of active employees or life expectancy for fully eligible employees was 11 years for our U.S. pension plans, 13 years for our non-U.S. pension plans and 10 years for other postretirement benefit plans. We expect our amortization of net actuarial losses to increase approximately \$70 million in 2012 as compared to 2011, primarily due to a decrease in discount rates and losses on plan assets during 2011, partially offset by higher amortization of plan asset gains from 2009 and 2010.

In February 2012, we announced the closure of the Electro-Motive Diesel facility located in London, Ontario. As a result of the closure, we recognized a \$37 million other postretirement benefits curtailment gain in the first quarter. This excludes a \$21 million loss of a third-party receivable for other postretirement benefits that was eliminated due to the closure. In addition, a \$10 million special termination benefit expense was recognized related to statutory pension benefits required to be paid to certain affected employees. As a result, a net gain of \$6 million related to the facility closure was recognized in Other operating (income) expenses in the Consolidated Statement of Results of Operations.

In August 2012, we announced changes to our U.S. hourly pension plan, which impacted certain hourly employees. For impacted employees, pension benefit accruals will freeze on January 1, 2013 or January 1, 2016, at which time employees will become eligible for various provisions of company sponsored 401(k) plans including a matching contribution and an annual employer contribution. The plan changes resulted in a curtailment and required a remeasurement as of August 31, 2012. The curtailment and the remeasurement resulted in a net increase in our Liability for postemployment benefits of \$243 million and a net loss of \$153 million, net of tax, recognized in Accumulated other comprehensive income (loss). The increase in the liability was primarily due to a decline in the discount rate. Also, the curtailment resulted in expense of \$7 million which was recognized in Other operating (income) expenses in the Consolidated Statement of Results of Operations.

Accounting guidance requires recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Based on lower discount rates (which are approximately 3.6 percent for our U.S. plans), we would be required to recognize an increase in our underfunded status of approximately \$1.9 billion at December 31, 2012. This would result in an increase in our Liability for postemployment benefits of approximately \$1.9 billion and a decrease in Accumulated other comprehensive income (loss) of approximately \$1.2 billion, net of tax. It is difficult to predict the adjustment amount, as it is dependent on several factors including the discount rate, actual returns on plan assets and other actuarial assumptions. Final determination will only be known on the measurement date, which is December 31, 2012.

We made \$195 million and \$488 million of contributions to our pension plans during the three and nine months ended September 30, 2012, respectively. We currently anticipate full-year 2012 contributions of approximately \$1 billion, of which \$625 million are required contributions. We made \$105 million and \$340 million of contributions to our pension plans during the three months and nine months ended September 30, 2011, respectively.

## **Order Backlog**

The dollar amount of backlog believed to be firm was approximately \$23.1 billion at September 30, 2012 and \$28.2 billion at June 30, 2012. The decline occurred in Construction Industries, Resource Industries and Power Systems, with the most significant decrease in Resource Industries. Although dealer deliveries to end users remain up compared with 2011, Cat dealers have lowered order rates well below end-user demand to reduce their inventories and are exercising caution in light of the economic uncertainty in the world today. The dollar amount of backlog believed to be firm was approximately \$29.8 billion at December 31, 2011. Of the total backlog, approximately \$5.2 billion at September 30, 2012, \$5.8 billion at June 30, 2012 and \$4.0 billion at December 31, 2011 was not expected to be filled in the following twelve months.

## **NON-GAAP FINANCIAL MEASURES**

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

### **Supplemental Consolidating Data**

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

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

**Machinery and Power Systems** – Caterpillar defines Machinery and Power Systems as it is presented in the supplemental data as Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis. Machinery and Power Systems information relates to the design, manufacture and marketing of our products. Financial Products information relates to the financing to customers and dealers for the purchase and lease of Caterpillar and other equipment. The nature of these businesses is different especially with regard to the financial position and cash flow items. Caterpillar management utilizes this presentation internally to highlight these differences. We also believe this presentation will assist readers in understanding our business.

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

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

Pages 84 to 91 reconcile Machinery and Power Systems with Financial Products on the equity basis to Caterpillar Inc. consolidated financial information.

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

	Supplemental Consolidating Data			
	Consolidated	Machinery and Power Systems <sup>1</sup>	Financial Products	Consolidating Adjustments
<b>Sales and revenues:</b>				
Sales of Machinery and Power Systems .....	\$ 15,739	\$ 15,739	\$ —	\$ —
Revenues of Financial Products .....	706	—	796	(90) <sup>2</sup>
Total sales and revenues .....	16,445	15,739	796	(90)
<b>Operating costs:</b>				
Cost of goods sold .....	11,639	11,639	—	—
Selling, general and administrative expenses .....	1,471	1,325	153	(7) <sup>3</sup>
Research and development expenses .....	634	634	—	—
Interest expense of Financial Products .....	197	—	200	(3) <sup>4</sup>
Other operating (income) expenses .....	(92)	(344)	262	(10) <sup>3</sup>
Total operating costs .....	13,849	13,254	615	(20)
<b>Operating profit</b> .....	2,596	2,485	181	(70)
Interest expense excluding Financial Products .....	129	140	—	(11) <sup>4</sup>
Other income (expense) .....	(17)	(89)	13	59 <sup>5</sup>
<b>Consolidated profit before taxes</b> .....	2,450	2,256	194	—
Provision for income taxes .....	753	697	56	—
Profit of consolidated companies .....	1,697	1,559	138	—
Equity in profit (loss) of unconsolidated affiliated companies...	5	5	—	—
Equity in profit of Financial Products' subsidiaries .....	—	135	—	(135) <sup>6</sup>
<b>Profit of consolidated and affiliated companies</b> .....	1,702	1,699	138	(135)
Less: Profit attributable to noncontrolling interests .....	3	—	3	—
<b>Profit</b> <sup>7</sup> .....	<u>\$ 1,699</u>	<u>\$ 1,699</u>	<u>\$ 135</u>	<u>\$ (135)</u>

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

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

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

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

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

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

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

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

	Supplemental Consolidating Data			
	Consolidated	Machinery and Power Systems <sup>1</sup>	Financial Products	Consolidating Adjustments
<b>Sales and revenues:</b>				
Sales of Machinery and Power Systems .....	\$ 47,711	\$ 47,711	\$ —	\$ —
Revenues of Financial Products .....	2,089	—	2,353	(264) <sup>2</sup>
Total sales and revenues .....	49,800	47,711	2,353	(264)
<b>Operating costs:</b>				
Cost of goods sold .....	35,156	35,156	—	—
Selling, general and administrative expenses .....	4,328	3,922	430	(24) <sup>3</sup>
Research and development expenses .....	1,853	1,853	—	—
Interest expense of Financial Products .....	599	—	602	(3) <sup>4</sup>
Other operating (income) expenses .....	329	(408)	762	(25) <sup>3</sup>
Total operating costs .....	42,265	40,523	1,794	(52)
<b>Operating profit</b> .....	7,535	7,188	559	(212)
Interest expense excluding Financial Products .....	352	386	—	(34) <sup>4</sup>
Other income (expense) .....	141	(62)	25	178 <sup>5</sup>
<b>Consolidated profit before taxes</b> .....	7,324	6,740	584	—
Provision for income taxes .....	2,314	2,146	168	—
Profit of consolidated companies .....	5,010	4,594	416	—
Equity in profit (loss) of unconsolidated affiliated companies...	12	12	—	—
Equity in profit of Financial Products' subsidiaries .....	—	408	—	(408) <sup>6</sup>
<b>Profit of consolidated and affiliated companies</b> .....	5,022	5,014	416	(408)
Less: Profit attributable to noncontrolling interests .....	38	30	8	—
<b>Profit</b> <sup>7</sup> .....	\$ 4,984	\$ 4,984	\$ 408	\$ (408)

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

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

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

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

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

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

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

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

	Supplemental Consolidating Data			
	Consolidated	Machinery and Power Systems <sup>1</sup>	Financial Products	Consolidating Adjustments
<b>Sales and revenues:</b>				
Sales of Machinery and Power Systems .....	\$ 15,023	\$ 15,023	\$ —	\$ —
Revenues of Financial Products .....	693	—	774	(81) <sup>2</sup>
Total sales and revenues.....	15,716	15,023	774	(81)
<b>Operating costs:</b>				
Cost of goods sold .....	11,455	11,455	—	—
Selling, general and administrative expenses.....	1,360	1,217	151	(8) <sup>3</sup>
Research and development expenses .....	584	584	—	—
Interest expense of Financial Products .....	211	—	211	— <sup>4</sup>
Other operating (income) expenses .....	347	87	267	(7) <sup>3</sup>
Total operating costs.....	13,957	13,343	629	(15)
<b>Operating profit</b> .....	1,759	1,680	145	(66)
Interest expense excluding Financial Products .....	112	123	—	(11) <sup>4</sup>
Other income (expense) .....	(13)	(68)	—	55 <sup>5</sup>
<b>Consolidated profit before taxes</b> .....	1,634	1,489	145	—
Provision for income taxes .....	474	437	37	—
Profit of consolidated companies .....	1,160	1,052	108	—
Equity in profit (loss) of unconsolidated affiliated companies ..	(6)	(6)	—	—
Equity in profit of Financial Products' subsidiaries.....	—	104	—	(104) <sup>6</sup>
<b>Profit of consolidated and affiliated companies</b> .....	1,154	1,150	108	(104)
Less: Profit attributable to noncontrolling interests .....	13	9	4	—
<b>Profit</b> <sup>7</sup> .....	\$ 1,141	\$ 1,141	\$ 104	\$ (104)

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

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

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

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

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

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

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

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

	Supplemental Consolidating Data			
	Consolidated	Machinery and Power Systems <sup>1</sup>	Financial Products	Consolidating Adjustments
<b>Sales and revenues:</b>				
Sales of Machinery and Power Systems .....	\$ 40,835	\$ 40,835	\$ —	\$ —
Revenues of Financial Products .....	2,060	—	2,291	(231) <sup>2</sup>
Total sales and revenues.....	42,895	40,835	2,291	(231)
<b>Operating costs:</b>				
Cost of goods sold .....	30,815	30,815	—	—
Selling, general and administrative expenses.....	3,716	3,287	444	(15) <sup>3</sup>
Research and development expenses .....	1,693	1,693	—	—
Interest expense of Financial Products .....	623	—	624	(1) <sup>4</sup>
Other operating (income) expenses .....	855	86	796	(27) <sup>3</sup>
Total operating costs.....	37,702	35,881	1,864	(43)
<b>Operating profit</b> .....	5,193	4,954	427	(188)
Interest expense excluding Financial Products .....	289	321	—	(32) <sup>4</sup>
Other income (expense) .....	(157)	(342)	29	156 <sup>5</sup>
<b>Consolidated profit before taxes</b> .....	4,747	4,291	456	—
Provision for income taxes .....	1,304	1,184	120	—
Profit of consolidated companies .....	3,443	3,107	336	—
Equity in profit (loss) of unconsolidated affiliated companies ..	(24)	(24)	—	—
Equity in profit of Financial Products' subsidiaries.....	—	324	—	(324) <sup>6</sup>
<b>Profit of consolidated and affiliated companies</b> .....	3,419	3,407	336	(324)
Less: Profit attributable to noncontrolling interests .....	38	26	12	—
<b>Profit</b> <sup>7</sup> .....	\$ 3,381	\$ 3,381	\$ 324	\$ (324)

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

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

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

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

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

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

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



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

	Supplemental Consolidating Data			
	Consolidated	Machinery and Power Systems <sup>1</sup>	Financial Products	Consolidating Adjustments
<b>Assets</b>				
Current assets:				
Cash and short-term investments .....	\$ 5,689	\$ 3,363	\$ 2,326	\$ — <sup>2,3</sup>
Receivables – trade and other .....	9,814	5,571	488	3,755 <sup>3</sup>
Receivables – finance .....	8,865	—	12,981	(4,116)
Deferred and refundable income taxes .....	1,633	1,563	70	— <sup>4</sup>
Prepaid expenses and other current assets .....	1,088	621	480	(13)
Inventories .....	17,550	17,550	—	—
Total current assets .....	44,639	28,668	16,345	(374)
Property, plant and equipment – net .....	15,509	12,217	3,292	— <sup>2,3</sup>
Long-term receivables – trade and other .....	1,422	197	285	940 <sup>3</sup>
Long-term receivables – finance .....	13,156	—	14,134	(978)
Investments in unconsolidated affiliated companies .....	199	199	—	— <sup>5</sup>
Investments in Financial Products subsidiaries .....	—	4,251	—	(4,251) <sup>6</sup>
Noncurrent deferred and refundable income taxes .....	1,873	2,315	96	(538)
Intangible assets .....	4,166	4,158	8	—
Goodwill .....	7,372	7,355	17	—
Other assets .....	2,205	863	1,342	—
<b>Total assets .....</b>	<b>\$ 90,541</b>	<b>\$ 60,223</b>	<b>\$ 35,519</b>	<b>\$ (5,201)</b>
<b>Liabilities</b>				
Current liabilities:				
Short-term borrowings .....	\$ 5,067	\$ 655	\$ 4,669	\$ (257) <sup>7</sup>
Accounts payable .....	7,978	7,892	186	(100) <sup>8</sup>
Accrued expenses .....	3,568	3,184	397	(13) <sup>9</sup>
Accrued wages, salaries and employee benefits .....	1,764	1,734	30	—
Customer advances .....	3,035	3,035	—	— <sup>6</sup>
Other current liabilities .....	2,075	1,575	508	(8)
Long-term debt due within one year .....	8,259	1,266	6,993	—
Total current liabilities .....	31,746	19,341	12,783	(378) <sup>7</sup>
Long-term debt due after one year .....	26,526	9,051	17,516	(41)
Liability for postemployment benefits .....	10,708	10,708	—	— <sup>6</sup>
Other liabilities .....	3,625	3,187	969	(531)
<b>Total liabilities .....</b>	<b>72,605</b>	<b>42,287</b>	<b>31,268</b>	<b>(950)</b>
<b>Commitments and contingencies</b>				
<b>Stockholders' equity</b>				
Common stock .....	4,449	4,449	906	(906) <sup>5</sup>
Treasury stock .....	(10,118)	(10,118)	—	— <sup>5</sup>
Profit employed in the business .....	29,541	29,541	3,038	(3,038) <sup>5</sup>
Accumulated other comprehensive income (loss) .....	(5,988)	(5,988)	205	(205) <sup>5</sup>
Noncontrolling interests .....	52	52	102	(102)
<b>Total stockholders' equity .....</b>	<b>17,936</b>	<b>17,936</b>	<b>4,251</b>	<b>(4,251)</b>
<b>Total liabilities and stockholders' equity .....</b>	<b>\$ 90,541</b>	<b>\$ 60,223</b>	<b>\$ 35,519</b>	<b>\$ (5,201)</b>

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

	Supplemental Consolidating Data			
	Consolidated	Machinery and Power Systems <sup>1</sup>	Financial Products	Consolidating Adjustments
<b>Cash flow from operating activities:</b>				
Profit of consolidated and affiliated companies .....	\$ 5,022	\$ 5,014	\$ 416	\$ (408) <sup>2</sup>
Adjustments for non-cash items:				
Depreciation and amortization .....	2,070	1,523	547	— <sup>3</sup>
Undistributed profit of Financial Products .....	—	(158)	—	158 <sup>4</sup>
Other .....	(267)	(295)	(112)	140 <sup>4</sup>
Changes in assets and liabilities, net of acquisitions and divestitures:				
Receivables - trade and other .....	136	191	(59)	4 <sup>4,5</sup>
Inventories .....	(3,118)	(3,069)	—	(49) <sup>4</sup>
Accounts payable .....	(334)	(342)	(2)	10 <sup>4</sup>
Accrued expenses .....	76	69	6	1 <sup>4</sup>
Accrued wages, salaries and employee benefits .....	(643)	(636)	(7)	—
Customer advances .....	306	306	—	— <sup>4</sup>
Other assets - net .....	(20)	(5)	(21)	6 <sup>4</sup>
Other liabilities - net .....	34	(89)	130	(7) <sup>4</sup>
Net cash provided by (used for) operating activities .....	<u>3,262</u>	<u>2,509</u>	<u>898</u>	<u>(145)</u>
<b>Cash flow from investing activities:</b>				
Capital expenditures - excluding equipment leased to others .....	(2,270)	(2,259)	(11)	— <sup>4,9</sup>
Expenditures for equipment leased to others .....	(1,256)	(65)	(1,330)	139 <sup>4</sup>
Proceeds from disposals of leased assets and property, plant and equipment .....	840	154	702	(16) <sup>5,8,9</sup>
Additions to finance receivables .....	(8,835)	—	(14,195)	5,360 <sup>5,9</sup>
Collections of finance receivables .....	6,567	—	11,253	(4,686) <sup>5</sup>
Net intercompany purchased receivables .....	—	—	366	(366) <sup>5</sup>
Proceeds from sale of finance receivables .....	109	—	109	— <sup>6</sup>
Net intercompany borrowings .....	—	(203)	17	186 <sup>9</sup>
Investments and acquisitions (net of cash acquired) .....	(542)	(486)	—	(56) <sup>8</sup>
Proceeds from sale of businesses and investments (net of cash sold) .....	1,009	1,489	—	(480) <sup>8</sup>
Proceeds from sale of available-for-sale securities .....	243	24	219	—
Investments in available-for-sale securities .....	(299)	(6)	(293)	—
Other - net .....	82	36	46	—
Net cash provided by (used for) investing activities .....	<u>(4,352)</u>	<u>(1,316)</u>	<u>(3,117)</u>	<u>81</u>
<b>Cash flow from financing activities:</b>				
Dividends paid .....	(937)	(937)	(250)	250 <sup>7</sup>
Distribution to noncontrolling interests .....	(5)	(5)	—	—
Common stock issued, including treasury shares reissued .....	41	41	—	—
Excess tax benefit from stock-based compensation .....	165	165	—	—
Acquisitions of redeemable noncontrolling interests .....	(444)	(444)	—	— <sup>6</sup>
Net intercompany borrowings .....	—	(17)	203	(186) <sup>6</sup>
Proceeds from debt issued (original maturities greater than three months) .....	11,632	2,015	9,617	—
Payments on debt (original maturities greater than three months) .....	(6,768)	(485)	(6,283)	—
Short-term borrowings - net (original maturities three months or less) .....	163	38	125	—
Net cash provided by (used for) financing activities .....	<u>3,847</u>	<u>371</u>	<u>3,412</u>	<u>64</u>
Effect of exchange rate changes on cash .....	<u>(125)</u>	<u>(30)</u>	<u>(95)</u>	<u>—</u>
<b>Increase (decrease) in cash and short-term investments .....</b>	<b>2,632</b>	<b>1,534</b>	<b>1,098</b>	<b>—</b>
Cash and short-term investments at beginning of period .....	<u>3,057</u>	<u>1,829</u>	<u>1,228</u>	<u>—</u>
Cash and short-term investments at end of period .....	<u>\$ 5,689</u>	<u>\$ 3,363</u>	<u>\$ 2,326</u>	<u>\$ —</u>

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

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

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

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

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

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

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

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

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

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

	Supplemental Consolidating Data			
	Consolidated	Machinery and Power Systems <sup>1</sup>	Financial Products	Consolidating Adjustments
<b>Cash flow from operating activities:</b>				
Profit of consolidated and affiliated companies.....	\$ 3,419	\$ 3,407	\$ 336	\$ (324) <sup>2</sup>
Adjustments for non-cash items:				
Depreciation and amortization.....	1,832	1,287	545	— <sup>4</sup>
Other.....	558	454	(74)	178 <sup>3</sup>
Financial Products' dividend in excess of profit.....	—	276	—	(276)
Changes in assets and liabilities, net of acquisitions and divestitures:				
Receivables - trade and other.....	(254)	764	26	(1,044) <sup>4,5</sup>
Inventories.....	(2,716)	(2,716)	—	— <sup>4</sup>
Accounts payable.....	1,308	1,351	12	(55) <sup>4</sup>
Accrued expenses.....	134	149	(13)	(2) <sup>4</sup>
Accrued wages, salaries and employee benefits.....	275	274	1	—
Customer advances.....	333	333	—	— <sup>4</sup>
Other assets - net.....	(74)	(92)	53	(35) <sup>4</sup>
Other liabilities - net.....	700	661	5	34 <sup>4</sup>
Net cash provided by (used for) operating activities.....	<u>5,515</u>	<u>6,148</u>	<u>891</u>	<u>(1,524)</u>
<b>Cash flow from investing activities:</b>				
Capital expenditures - excluding equipment leased to others.....	(1,515)	(1,510)	(5)	— <sup>4</sup>
Expenditures for equipment leased to others.....	(984)	(75)	(972)	63 <sup>4</sup>
Proceeds from disposals of leased assets and property, plant and equipment.....	922	107	886	(71) <sup>5,9</sup>
Additions to finance receivables.....	(7,091)	—	(12,192)	5,101 <sup>5</sup>
Collections of finance receivables.....	6,503	—	11,158	(4,655) <sup>5</sup>
Net intercompany purchased receivables.....	—	—	(833)	833
Proceeds from sale of finance receivables.....	106	—	106	— <sup>6</sup>
Net intercompany borrowings.....	—	600	62	(662) <sup>6</sup>
Investments and acquisitions (net of cash acquired).....	(7,413)	(7,413)	—	— <sup>9</sup>
Proceeds from sale of business and investments (net of cash sold).....	21	357	11	(347) <sup>9</sup>
Proceeds from sale of available-for-sale securities.....	180	10	170	—
Investments in available-for-sale securities.....	(216)	(9)	(207)	— <sup>7</sup>
Other - net.....	37	(39)	72	4 <sup>7</sup>
Net cash provided by (used for) investing activities.....	<u>(9,450)</u>	<u>(7,972)</u>	<u>(1,744)</u>	<u>266</u>
<b>Cash flow from financing activities:</b>				
Dividends paid.....	(862)	(862)	(600)	600 <sup>8</sup>
Distribution to noncontrolling interests.....	(3)	(3)	—	— <sup>7</sup>
Common stock issued, including treasury shares reissued.....	110	110	4	(4) <sup>7</sup>
Excess tax benefit from stock-based compensation.....	169	169	—	— <sup>6</sup>
Net intercompany borrowings.....	—	(62)	(600)	662 <sup>6</sup>
Proceeds from debt issued (original maturities greater than three months).....	13,247	4,544	8,703	—
Payments on debt (original maturities greater than three months).....	(8,283)	(2,203)	(6,080)	—
Short-term borrowings - net (original maturities three months or less).....	(766)	43	(809)	—
Net cash provided by (used for) financing activities.....	<u>3,612</u>	<u>1,736</u>	<u>618</u>	<u>1,258</u>
Effect of exchange rate changes on cash.....	(40)	(88)	48	—
<b>Increase (decrease) in cash and short-term investments.....</b>	<b>(363)</b>	<b>(176)</b>	<b>(187)</b>	<b>—</b>
Cash and short-term investments at beginning of period.....	3,592	1,825	1,767	—
Cash and short-term investments at end of period.....	<u>\$ 3,229</u>	<u>\$ 1,649</u>	<u>\$ 1,580</u>	<u>\$ —</u>

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

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

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

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

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

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

<sup>7</sup> Elimination of change in investment and common stock related to Financial Products.

<sup>8</sup> Elimination of dividend from Financial Products to Machinery and Power Systems.

<sup>9</sup> Elimination of proceeds received from Financial Products related to Machinery and Power Systems' sale of Carter Machinery.

## **Forward-looking Statements**

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

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

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

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

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

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

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

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

During the third quarter of 2012, 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 third quarter 2012.

#### *Other Purchases of Equity Securities*

Period	Total Number of Shares Purchased <sup>1</sup>	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
July 1-31, 2012.....	4,392	\$ 84.26	NA	NA
August 1-31, 2012.....	33,286	\$ 83.82	NA	NA
September 1-30, 2012.....	9,257	\$ 83.67	NA	NA
<b>Total</b> .....	<b>46,935</b>	<b>\$ 83.83</b>		

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

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

We have 27 employee stock purchase plans administered outside the United States for our non-U.S. employees. As of September 30, 2012, those plans had approximately 12,357 active participants in the aggregate. During the third quarter of 2012, approximately 204,791 shares of Caterpillar common stock or foreign denominated equivalents were distributed under the plans. Participants in some foreign plans have the option of receiving non-U.S. share certificates (foreign-denominated equivalents) in lieu of U.S. shares of Caterpillar common stock upon withdrawal from the plan. These equivalent certificates are tradable only on the local stock market and are included in our determination of shares outstanding.

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

### *Item 4. Mine Safety Disclosures*

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

**Item 6. Exhibits**

- 4.1 Form of 3.803% Rule 144A Global Debenture due 2042 (incorporated by reference from Exhibit 4.1 to Caterpillar Inc.'s Current Report on Form 8-K filed August 28, 2012).
- 4.2 Form of 3.803% Regulation S Global Debenture due 2042 (incorporated by reference from Exhibit 4.2 to Caterpillar Inc.'s Current Report on Form 8-K filed August 28, 2012).
- 4.3 Registration Rights Agreement, dated as of August 15, 2012, by and between Caterpillar Inc. and Barclays Capital Inc., Citigroup Global Markets Inc. and RBS Securities Inc. as lead dealer managers (incorporated by reference from Exhibit 4.3 to Caterpillar Inc.'s Current Report on Form 8-K filed on August 20, 2012).
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- 10.6 Caterpillar Inc. Supplemental Employees' Investment Plan, as amended and restated through second amendment effective July 31, 2012.
- 10.7 Caterpillar Inc. Supplemental Deferred Compensation Plan, as amended and restated through first amendment effective July 31, 2012.
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101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

## SIGNATURES

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

### CATERPILLAR INC.

November 2, 2012	<u>/s/Douglas R. Oberhelman</u> (Douglas R. Oberhelman)	Chairman and Chief Executive Officer
November 2, 2012	<u>/s/Edward J. Rapp</u> (Edward J. Rapp)	Group President and Chief Financial Officer
November 2, 2012	<u>/s/James B. Buda</u> (James B. Buda)	Executive Vice President, Law and Public Policy
November 2, 2012	<u>/s/Jananne A. Copeland</u> (Jananne A. Copeland)	Corporate Controller and Chief Accounting Officer



# EXHIBIT INDEX

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**Exhibit 10.6**

**CATERPILLAR INC.  
SUPPLEMENTAL EMPLOYEES'  
INVESTMENT PLAN**

**(As Amended and Restated Effective July 31, 2012)**

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**CATERPILLAR INC.**  
**SUPPLEMENTAL EMPLOYEES' INVESTMENT PLAN**

**PREAMBLE**

Effective October 14, 1987, Caterpillar Inc. (the "Company") established the Caterpillar Inc. Supplemental Employees' Investment Plan (the "Plan"). The Plan has been amended and restated on a number of occasions. By the execution of this document, the Company hereby amends and restates the Plan in its entirety, effective as of June 1, 2009.

**ARTICLE I**  
**DEFINITIONS**

**1.1 General.** When a word or phrase appears in the Plan with the initial letter capitalized, and the word or phrase does not begin a sentence, the word or phrase shall be a term defined in this Article I, unless a clearly different meaning is required by the context in which the word or phrase is used or the word or phrase is defined for a limited purpose elsewhere in the Plan document:

(a) **"401(k) Plan"** means the Caterpillar 401(k) Plan, as amended or any successor to such plan.

(b) **"Adopting Affiliate"** means any Affiliate that has been authorized by the Company to adopt the Plan and which has adopted the Plan. All Affiliates that adopted the Plan on or before the Effective Date and that had not terminated such adoption shall continue to be Adopting Affiliates but no Affiliate that was not an Adopting Affiliate as of the Effective Date shall be permitted to adopt the Plan.

(c) **"Affiliate"** means a parent business that controls, or a subsidiary business that is controlled by, the Company.

(d) **"Base Pay"** means the base salary paid to a Participant as determined in accordance with the established pay practices of the Company and Adopting Affiliates. Base Pay shall include any lump-sum base salary adjustment and any variable base pay.

(e) **"BFC"** means the Benefit Funds Committee of the Company, which is the committee formed by resolution of the Board of Directors of the Company, and which has the responsibility and authority to ensure the proper operation and management of the financial aspects of the 401(k) Plan.

(f) **"Board"** means the Board of Directors of the Company, or any authorized committee of the Board.

(g) **"Code"** means the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

(h) **"Company"** means Caterpillar Inc., and, to the extent provided in Section 10.8 (Successors) below, any successor corporation or other entity resulting from a merger or consolidation into or with the Company or a transfer or sale of substantially all of the assets of the Company.

(i) **"Company Stock"** means common stock issued by the Company.

(j) **"Company Stock Fund"** means the Investment Fund described in Section 5.3 (Special Company Stock Fund Provisions).

(k) **"Deferral Credits"** means the deferral credits allocated to a Participant in accordance with Section 3.2 (Deferral Credits).

- (l) **“Director”** means the Company’s Director of Compensation + Benefits.
- (m) **“Disability” or “Disabled”** means that a Participant is “totally and permanently disabled” and eligible to receive long-term disability benefits pursuant to the terms and provisions of the long-term disability plan sponsored by the Company or an Affiliate in which the Participant participates.
- (n) **“Effective Date”** means March 25, 2007.
- (o) **“Eligible Pay”** means Base Pay minus any deferral credits made pursuant to the Caterpillar Inc. Deferred Employees’ Investment Plan.
- (p) **“ERISA”** means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any regulations promulgated thereunder.
- (q) **“Investment Fund”** means the notional investment funds established by the terms of the Plan pursuant to Article V (Investment of Accounts).
- (r) **“Matching Credits”** means the matching credits allocated to a Participant in accordance with Section 3.3 (Matching Credits).
- (s) **“Participant”** means an employee of the Company or any Adopting Affiliate who had satisfied the eligibility requirements for participation in the Plan as of the Effective Date and who, as of such date, has amounts credited to his accounts under this Plan.
- (t) **“Plan”** means the Caterpillar Inc. Supplemental Employees’ Investment Plan, as set forth herein and as it may be amended from time to time.
- (u) **“Plan Administrator”** means the Director.
- (v) **“Plan Year”** means the calendar year.
- (w) **“Post-1996 Deferrals”** means the Deferral Credits made by a Participant on and after January 1, 1997 and before January 1, 2005 (including the earnings/losses thereon).
- (x) **“Post-2004 Deferrals”** means the Deferral Credits and Matching Credits made by a Participant on and after January 1, 2005 determined pursuant to Section 7.2 (Amounts Spun-Off).
- (y) **“SDCP”** means the Caterpillar Inc. Supplemental Deferred Compensation Plan, as amended.
- (z) **“Valuation Date”** means each day of the Plan Year on which the New York Stock Exchange is open for trading.
- (aa) **“GSCS”** means Caterpillar Logistics Services LLC (f/k/a Caterpillar Logistics Services, Inc.).
- (bb) **“GSCS Participant”** means a Participant who is employed by GSCS upon the closing of the sale of GSCS to an entity that is not an Affiliate.
- (cc) **“GSCS Closing Date”** means the date on which the sale of GSCS to an entity that is not an Affiliate is completed.

**1.2     Construction.** The masculine gender, when appearing in the Plan, shall include the feminine gender (and vice versa), and the singular shall include the plural, unless the Plan clearly states to the contrary. Headings and subheadings are for the purpose of reference only and are not to be considered in the construction of the Plan. If any provision of the Plan is determined to be for any reason invalid or unenforceable, the remaining provisions shall continue in full force and effect. All of the provisions of the Plan shall be construed and enforced according to the laws of the State of Illinois without regard to conflict of law principles and shall be administered according to the laws of such state, except as otherwise required by ERISA, the Code, or other Federal law.

## **ARTICLE II ELIGIBILITY AND PARTICIPATION**

**2.1     Existing Participants.** Each individual who was a Participant in the Plan as of the Effective Date shall continue as such, subject to the provisions hereof.

**2.2     New Participants.** No individual shall become eligible to participate in the Plan after the Effective Date.

## **ARTICLE III DEFERRAL CREDITS AND MATCHING CREDITS**

**3.1     Credits Ceased.** Effective as of March 26, 2007, all credits (other than credits associated with the adjustment of accounts pursuant to Section 5.1 (Adjustment of Accounts) to the Plan shall cease. Participants shall not be permitted to make Deferral Credits and the Plan Administrator shall no longer allocate Matching Credits to Participants' accounts.

**3.2     Deferral Credits.** Immediately prior to March 26, 2007, Participants were permitted to defer the receipt of 6% of the Eligible Pay otherwise payable to the Participant by the Company or an Adopting Affiliate in any Plan Year. A Participant's election to make Deferral Credits only applied to the Eligible Pay that was in excess of the dollar limit imposed by Section 401(a)(17) of the Code during that Plan Year. The deferrals made prior to March 26, 2007 were subject to the provisions of the Plan as in effect at the time the deferral election was made and such uniform and non-discriminatory rules as were adopted by the Plan Administrator in that regard.

**3.3     Matching Credits.** For periods ending on or before the Effective Date, the Plan Administrator allocated matching credits to the Participant's accounts in an amount equal to 100% of the Participant's Deferral Credits.

## **ARTICLE IV VESTING**

**4.1     Vesting.** Subject to Section 10.1 (Participant's Rights Unsecured), each Participant shall at all times be fully vested in all amounts credited to or allocable to his accounts hereunder and his rights and interest therein shall not be forfeitable.

## **ARTICLE V INVESTMENT OF ACCOUNTS**

**5.1     Adjustment of Accounts.** Except as otherwise provided elsewhere in the Plan, as of each Valuation Date, each Participant's accounts will be adjusted to reflect the positive or negative rate of return on the Investment Funds selected by the Participant pursuant to Section 5.2(b) (Investment Direction - Participant Directions). The rate of return will be determined by the Plan Administrator pursuant to Section 5.2(f) (Investment Direction – Investment Performance) and will be credited or charged in accordance with policies applied uniformly to all Participants.

## **5.2 Investment Direction.**

(a) **Investment Funds.** Each Participant may direct the notional investment of amounts credited to his Plan accounts in one or more of the Investment Funds. The Investment Funds shall, at all times, be notional funds that track the returns of the investment funds selected by the BFC for purposes of the 401(k) Plan and made available to 401(k) Plan participants. In addition, the Investment Funds shall, at all times, include a Company Stock Fund as described in Section 5.3 (Special Company Stock Fund Provisions). Neither the Company, each Adopting Affiliate, the Plan Administrator, the BFC, nor any other party shall have any responsibility, duty of care (whether express or implied) or liability to any Participant in regards to designation of the Investment Funds as set forth in this Section 5.2(a).

(b) **Participant Directions.** Each Participant may direct that all of the amounts attributable to his accounts be invested in a single Investment Fund or may direct that whole percentage increments of his accounts be invested in such fund or funds as he shall desire in accordance with such procedures as may be established by the Plan Administrator. Unless the Plan Administrator prescribes otherwise, such procedures generally shall mirror the procedures established under the 401(k) Plan for participant investment direction.

(c) **Changes and Intra-Fund Transfers.** Participant investment directions may be changed, and amounts may be transferred from one Investment Fund to another, in accordance with the procedures established by the Plan Administrator. The designation will remain in effect until changed by the timely submission of a new designation by the Participant.

(d) **Default Selection.** In the absence of a designation by the Participant, such Participant will be deemed to have directed the notional investment of his accounts in the Investment Fund that tracks the return of the 401(k) Plan investment fund that is designated by the BFC as the “default” investment fund for purposes of the 401(k) Plan.

(e) **Impact of Election.** The Participant’s selection of Investment Funds shall serve only as a measurement of the value of the Participant’s Accounts pursuant to Section 5.1 (Adjustment of Accounts) and this Section 5.2. None of the Company, the BFC, or the Plan Administrator are required to actually invest a Participant’s accounts in accordance with the Participant’s selections.

(f) **Investment Performance.** Accounts shall be adjusted on each Valuation Date to reflect investment gains and losses as if the accounts were invested in the Investment Funds selected by the Participants in accordance with this Section 5.2 and charged with any and all reasonable expenses as provided in paragraph (g) below. The earnings and losses determined by the Plan Administrator in good faith and in his discretion pursuant to this Section 5.2 shall be binding and conclusive on the Participant, the Participant’s beneficiary and all parties claiming through them.

(g) **Charges.** The Plan Administrator may (but is not required to) charge Participants’ accounts for the reasonable expenses of administration including, but not limited to, carrying out and/or accounting for investment instructions directly related to such accounts.

## **5.3 Special Company Stock Fund Provisions.**

(a) **General.** A Participant’s interest in the Company Stock Fund shall be expressed in whole and fractional notional units of the Company Stock Fund. The Company Stock Fund shall track an investment in Company Stock in the same manner as the 401(k) Plan’s company stock fund. Accordingly, the value of a unit in the Plan’s Company Stock Fund shall be the same as the value of a unit in the 401(k) Plan’s company stock fund. Notwithstanding the foregoing, if and to the extent that a company stock fund is no longer maintained under



the 401(k) Plan, the Plan Administrator shall establish such rules and procedures as are necessary to maintain the Company Stock Fund hereunder.

(b) **Investment Directions.** A Participant's ability to direct investments into or out of the Company Stock Fund shall be subject to such procedures as the Plan Administrator may prescribe from time to time to assure compliance with Rule 16b-3 promulgated under Section 16(b) of the Securities Exchange Act of 1934, as amended, and other applicable requirements. Such procedures also may limit or restrict a Participant's ability to make (or modify previously made) deferral and distribution elections pursuant to Articles III (Deferral Credits and Matching Credits) and VI (Distributions), respectively. In furtherance, and not in limitation, of the foregoing, to the extent a Participant acquires any interest in an equity security under the Plan for purposes of Section 16(b), the Participant shall not dispose of that interest within six months, unless specifically exempted by Section 16(b) or any rules or regulations promulgated thereunder.

(c) **Compliance with Securities Laws.** Any elections to transfer amounts from or to the Company Stock Fund to or from any other Investment Fund, shall be subject to all applicable securities law requirements, including but not limited to the last sentence of paragraph (b) above and Rule 16b-3 promulgated by the Securities Exchange Commission. To the extent that any election violates any securities law requirement or the Company's stock trading policies and procedures, the election shall be void.

(d) **Compliance with Company Trading Policies and Procedures.** Any elections to transfer amounts from or to the Company Stock Fund to or from any other Investment Fund, shall be subject to all Company Stock trading policies promulgated by the Company. To the extent that any election violates any such trading policy or procedures, the election shall be void.

**5.4 Application to Beneficiaries.** Following the death of a Participant, the term "Participant" in this Article V shall refer to the Participant's beneficiary described in Section 6.5 (Payment Upon Death).

## **ARTICLE VI DISTRIBUTIONS**

**6.1 General Right to Receive Distribution.** Following termination of employment with the Company, death or Disability, the Participant's accounts will be distributed in the manner and at the time provided in Sections 6.3 (Form of Distribution) and 6.4 (Timing of Distribution) or Section 6.5 (Payment Upon Death), as applicable. A transfer of a Participant from the Company or any Affiliate to any other Affiliate or the Company shall not be deemed to be a termination of employment with the Company for purposes of this Article VI.

**6.2 Amount of Distribution.** The amount distributed to a Participant shall be based on the vested amounts credited to the Participant's accounts as of the Valuation Date immediately preceding the date of the distribution. Amounts shall be valued at the fair market value on the relevant Valuation Date determined pursuant to uniform and non-discriminatory procedures established by the Plan Administrator.

### **6.3 Form of Distribution.**

(a) **Default Form of Distribution.** Accounts shall be distributed in cash in a single lump-sum payment.

(b) **Optional Form of Distribution.** A Participant may elect to receive his distribution in the form of quarterly, semi-annual or annual cash installments for a period of up to fifteen years by filing an election with the Plan Administrator before the last Company business day of November of the second year that precedes the year the distribution is scheduled to commence pursuant to Section 6.4 (Timing of Distribution). If an election pursuant to this paragraph (b) of this Section 6.3 cannot be honored because it was not timely filed, distributions shall be made in accordance with the most recent valid election made by the Participant that precedes

the invalid election. If no such election exists, distributions shall be made in a single Lump-Sum in accordance with paragraph (a) of this Section 6.3.

(c) **Change of Election.** A Participant may change an installment distribution election by filing a new installment distribution election with the Plan Administrator before the last Company business day of November of the second year that precedes the year the distribution is scheduled to commence pursuant to Section 6.4 (**Timing of Distribution**). There shall be no limitation on the number of times that a Participant may change his election in accordance with this paragraph (c).

#### **6.4 Timing of Distribution.**

(a) **Default Timing of Distribution.** Accounts shall be distributed within an administratively reasonable period of time following the Participant's termination of employment, death or Disability.

(b) **Deferral of Distribution.** A Participant may elect to defer the distribution of his accounts beyond his termination of employment, death or Disability by filing an election with the Plan Administrator: (1) while the Participant is employed by the Company or an Affiliate and (2) before the last Company business day of November in the year prior to the year during which the Participant's termination of employment, death or Disability occurs. If an election pursuant to this paragraph (b) cannot be honored because it was not timely filed, distributions shall be made in accordance with the most recent valid election made by the Participant that precedes the invalid election. If no such election exists, distributions shall be made within an administratively reasonable period of time following the Participant's termination of employment, death or Disability in accordance with paragraph (a) of this Section 6.4.

(c) **Change of Election.** An election made pursuant to paragraph (b) of this Section 6.4 or election made effective as a result of paragraph (e)(1) of this Section 6.4 may be changed by the Participant by filing a new election with the Plan Administrator: (1) while the Participant is employed by the Company or an Adopting Affiliate and (2) before the last Company business day of November in the year prior to the year during which the Participant's termination of employment, death or Disability occurs. There shall be no limitation on the number of times that a Participant may change his election in accordance with this paragraph (c).

(d) **Date Elected By Participant.** The date elected by a Participant pursuant to paragraphs (b) or (c) of this Section 6.4 must be the first day of any calendar quarter. Notwithstanding the foregoing, if as of the Effective Date, a Participant had made an election whereby the date of distribution elected is not the first day of a calendar quarter, such election shall be honored unless and until the Participant initiates a change to the timing of distribution pursuant to this Section 6.4 or the form of distribution pursuant to Section 6.3 (**Form of Distribution**).

#### **(e) Revocation of Election.**

(1) **Automatic Revocation.** If, as of the distribution date elected by the Participant pursuant to paragraphs (b) or (c) of this Section 6.4 the Participant, is: (i) employed by the Company or an Affiliate and (ii) not Disabled, such election shall be automatically revoked and distributions shall be made within an administratively reasonable period of time following the Participant's termination of employment, death or Disability in accordance with paragraph (a) of this Section 6.4. Notwithstanding the foregoing, if the distribution date is automatically revoked pursuant to this paragraph (e)(1) and the distribution was to be made in the form of cash installments pursuant to Section 6.3 (**Form of Distribution**), the date of distribution shall be the first day of the next calendar quarter that is within an administratively feasible period of time following the Participant's termination of employment, death or Disability in accordance with paragraph (a) of this Section 6.4. Nothing contained in this paragraph (e)(1) shall prevent a Participant from changing his election pursuant to paragraph (c) of this Section 6.4.

(2) **Election Irrevocable Following Termination of Employment.** At all times following the Participant's termination of employment with the Company or an Affiliate, the Participant's elections made pursuant to this Section 6.4 shall be irrevocable.

**6.5 Payment Upon Death.**

(a) **Beneficiary Designation.** If a Participant should die before receiving a full distribution of his Plan accounts, distribution shall be made to the beneficiary designated by the Participant, in accordance with such uniform rules and procedures as may be adopted by the Plan Administrator from time to time. If a Participant has not designated a beneficiary, or if no designated beneficiary is living on the date of distribution, then the Participant's beneficiary shall be that person or persons entitled to receive distributions of the Participant's accounts under the 401(k) Plan.

(b) **Timing and Form of Payment to Beneficiary.**

(1) **Payments Commenced at Time of Death.** If, at the time of the Participant's death, installment payments of the Participant's accounts have commenced pursuant to this Article VI, such payments shall continue to the Participant's beneficiary in the same time and the same form as if the Participant has remained alive until the last installment payment was scheduled to be made.

(2) **Payments Not Commenced at Time of Death.**

(i) **Default.** If, at the time of the Participant's death, payments of the Participant's accounts have not commenced pursuant to this Article VI, the distributions made pursuant to this Section 6.5 shall be made to the Participant's beneficiary in accordance with the then current and valid distribution elections (as to timing and form) made by the Participant (or, in the absence of such distribution elections, in accordance with the "default" provisions of this Article VI).

(ii) **Separate Election.** Notwithstanding the foregoing or anything herein to the contrary, a Participant may make separate elections regarding the timing and form of payments to his beneficiary upon his death. Such separate beneficiary elections shall be valid only if they meet the requirements of Section 6.3 (Form of Distribution) and Section 6.4 (Timing of Distribution). In addition, such separate beneficiary elections may be changed or revoked in accordance with Section 6.3 (Form of Distribution) and Section 6.4 (Timing of Distribution).

(3) **No Changes Permitted by Beneficiary.** In no event shall a beneficiary be permitted to change the time and/or form of payment relating to a Participant's accounts following such Participant's death either prior to or following such Participant's death.

**6.6 Scheduled Distributions.** The Plan as in effect prior to the Effective Date permitted a Participant to elect, at the time the Participant elected to make Deferral Credits, to schedule a distribution date for all or a portion of such Deferral Credits provided: (a) the distribution date scheduled by the Participant was the first day of any calendar quarter and (b) the distribution date scheduled by the Participant was at least four years later than the last day of the Plan Year that includes the Deferral Credits to which the election relates. As of the Effective Date, no Participant had such a scheduled distribution election on file with the Plan Administrator. Because Deferral Credits have ceased pursuant to Section 3.1 (Credits Ceased) and because there are no scheduled distribution elections on file, the scheduled distribution provisions of the Plan as in effect prior to the Effective Date are now without effect.

**6.7 Unscheduled Distributions.** Notwithstanding anything herein to the contrary, a Participant may elect to receive a lump-sum cash distribution of his Plan accounts at any time while employed by the Company or an Affiliate in accordance with this Section 6.7 and the uniform and non-discriminatory procedures adopted by the Plan Administrator.

(a) **Amount of Distribution.** A Participant may elect to receive five percent to one hundred percent (designated in whole percentages by the Participant) of his Post-1996 Deferrals. Notwithstanding the foregoing, in no event shall the amount of the distribution made pursuant to this Section 6.7 be less than \$10,000.00 (determined prior to the application of the forfeiture described in paragraph (b) below).

(b) **Forfeiture.** Any distribution made pursuant to this Section 6.7 shall be subject to a forfeiture equal to 10% of the amount elected.

(c) **Election Applies to DEIP.** An election for an unscheduled distribution pursuant to this Section 6.7 shall also apply as an election for an unscheduled distribution pursuant to the terms and provisions of the Caterpillar Inc. Deferred Employees' Investment Plan.

**6.8 Withholding.** All distributions will be subject to all applicable tax and withholding requirements.

## **ARTICLE VII SPIN-OFF TO SDCP**

**7.1 General.** In response to the enactment of Section 409A of the Code and pursuant to transitional guidance issued by the Internal Revenue Service and the Department of Treasury, Deferrals Credits and Matching Credits have been frozen and all amounts deferred and vested on and before December 31, 2004 are "grandfathered" and thus are not subject to the requirements of Section 409A. The Deferral Credits and Matching Credits made pursuant to the Plan from January 1, 2005 through the Effective Date (including the earnings/losses thereon) will be spun-off to SDCP as provided in this Article VII.

**7.2 Amounts Spun-Off.** All amounts credited to participant accounts pursuant to this Plan on or after January 1, 2005 and through the Effective Date and not fully distributed on or before April 1, 2007 shall be spun-off and allocated to Plan accounts as provided in Section 7.3 (Allocation of Amounts). The amounts deferred prior to January 1, 2005 shall be determined in accordance with Q&A-17 of I.R.S. Notice 2005-1 and any other applicable guidance issued by the Internal Revenue Service or the Department of Treasury.

**7.3 Allocation of Amounts.** A Participant's Post-2004 Deferrals shall be allocated to the Participant's accounts in SDCP as provided therein.

**7.4 Deferral Elections.** Deferral elections made by participants pursuant to the Plan for amounts to be deferred in 2007 following the Effective Date shall apply to SDCP as provided therein.

**7.5 Effective Date of Spin-Off.** The spin-off described in this Article VII shall be effective as of 11:59:59 P.M. on the Effective Date.

## **ARTICLE VIII ADMINISTRATION OF THE PLAN**

**8.1 General Powers and Duties.** The following list of powers and duties is not intended to be exhaustive, and the Plan Administrator shall, in addition, exercise such other powers and perform such other duties as he may deem advisable in the administration of the Plan, unless such powers or duties are expressly assigned to another pursuant to the provisions of the Plan.

(d) **General.** The Plan Administrator shall perform the duties and exercise the powers and discretion given to him in the Plan document and by applicable law and his decisions and actions shall be final and conclusive as to all persons affected thereby. The Company and the Adopting Affiliates shall furnish the Plan Administrator with all data and information that the Plan Administrator may reasonably require in order to perform his functions. The Plan Administrator may rely without question upon any such data or information.

(e) **Disputes.** Any and all disputes that may arise involving Participants or beneficiaries shall be referred to the Plan Administrator and his decision shall be final. Furthermore, if any question arises as to the meaning, interpretation or application of any provisions of the Plan, the decision of the Plan Administrator shall be final.

(f) **Agents.** The Plan Administrator may engage agents, including recordkeepers, to assist him and he may engage legal counsel who may be counsel for the Company. The Plan Administrator shall not be responsible for any action taken or omitted to be taken on the advice of such counsel, including written opinions or certificates of any agent, counsel, actuary or physician.

(g) **Insurance.** At the Director's request, the Company shall purchase liability insurance to cover the Director in his activities as the Plan Administrator.

(h) **Allocations.** The Plan Administrator is given specific authority to allocate responsibilities to others and to revoke such allocations. When the Plan Administrator has allocated authority pursuant to this paragraph, the Plan Administrator is not to be liable for the acts or omissions of the party to whom such responsibility has been allocated.

(i) **Records.** The Plan Administrator shall supervise the establishment and maintenance of records by its agents, the Company and each Adopting Affiliate containing all relevant data pertaining to any person affected hereby and his or her rights under the Plan.

(j) **Interpretations.** The Plan Administrator, in his sole discretion, shall interpret and construe the provisions of the Plan (and any underlying documents or policies).

(k) **Electronic Administration.** The Plan Administrator shall have the authority to employ alternative means (including, but not limited to, electronic, internet, intranet, voice response or telephonic) by which Participants may submit elections, directions and forms required for participation in, and the administration of, the Plan. If the Plan Administrator chooses to use these alternative means, any elections, directions or forms submitted in accordance with the rules and procedures promulgated by the Plan Administrator will be deemed to satisfy any provision of the Plan calling for the submission of a written election, direction or form.

(l) **Accounts.** The Plan Administrator shall combine the various accounts of a Participant if he deems such action appropriate. Furthermore, the Plan Administrator shall divide a Participant's accounts into sub-accounts if he deems such action appropriate.

(m) **Delegation.** The Plan Administrator may delegate his authority hereunder, in whole or in part, in his sole and absolute discretion.

**8.2 Certain Exercise of Discretion Prohibited.** Notwithstanding anything herein to the contrary, the Plan Administrator (or any other individual or entity to whom the power to exercise discretion hereunder is granted) shall not exercise the discretion granted in a manner that would create a "material modification" (as determined pursuant to Notice 2005-1 and any other applicable guidance issued by the Internal Revenue Service or the Department of Treasury) to the Plan as it was in effect on October 3, 2004.

**8.3 Claims Procedures.** Benefit claims under the Plan shall be resolved in accordance with uniform and nondiscriminatory procedures adopted by the Plan Administrator in accordance with Section 503 of ERISA.

## **ARTICLE IX AMENDMENT**

**9.1 Amendment.** The Company shall have the right at any time to amend, in whole or in part, any or all of the provisions of this Plan by action of the Board of Directors of the Company; provided, however, if

the amendment does not constitute a reallocation of fiduciary duties among those designated to act under the Plan or an allocation of fiduciary duties to committees and/or persons not previously designated to act under the Plan, then the Company's Vice President, Human Services Division, shall have the authority to amend the Plan, acting in consultation with the Company's Chairman of the Board and the appropriate Group President(s) of the Company (or in consultation with the full Board of Directors if the Chairman of the Board deems it necessary and appropriate). The Company's Vice President, Human Services Division, may designate any other officer(s) of the Company as having authority to amend the Plan in the Vice President's absence, which officer shall also act in consultation with the Company's Chairman of the Board and the appropriate Group President(s) of the Company (or in consultation with the full Board of Directors if the Chairman of the Board deems it necessary and appropriate).

**9.2 Effect of Amendment.** Any amendment of the Plan shall not directly or indirectly reduce the balance of any Plan account as of the effective date of such amendment. Notwithstanding the foregoing or anything in this Plan to the contrary, any amendment to the Plan effective on or after October 3, 2004 that creates a "material modification" (as determined pursuant to Notice 2005-1 and any other applicable guidance issued by the Internal Revenue Service or the Department of Treasury) shall only be effective if such amendment expressly states an intent by the Company to materially modify the Plan (and thus subject it to Section 409A of the Code).

**9.3 Termination.** To the extent permitted by applicable law, the Company expressly reserves the right to terminate the Plan at any time. Pursuant to the foregoing and the provisions of Sections 9.1 and 9.2, the Plan is irrevocably terminated with respect to all GSCS Participants upon the GSCS Closing Date and no GSCS Participant shall accrue any benefits under the Plan for any purpose after the GSCS Closing Date. Pursuant to termination of the Plan with respect to GSCS Participants pursuant to this Section 9.3, the balance in each GSCS Participant's account under the Plan shall be distributed to the GSCS Participant in a single lump-sum payment as soon as practicable after the GSCS Closing Date, but in no event later than December 31 next following the GSCS Closing Date. For purposes of the preceding sentence, the balance in each GSCS Participant's account shall be determined as of the Valuation Date occurring coincident with or next preceding the date of distribution.

## **ARTICLE X GENERAL PROVISIONS**

**10.1 Participant's Rights Unsecured.** The Plan at all times shall be entirely unfunded and no provision shall at any time be made with respect to segregating any assets of the Company for payment of any distributions hereunder. The right of a Participant or his or her designated beneficiary to receive a distribution hereunder shall be an unsecured claim against the general assets of the Company, and neither the Participant nor a designated beneficiary shall have any rights in or against any specific assets of the Company. All amounts credited to a Participant's accounts hereunder shall constitute general assets of the Company and may be disposed of by the Company at such time and for such purposes as it may deem appropriate. Nothing in this Section shall preclude the Company from establishing a "Rabbi Trust," but the assets in the Rabbi Trust must be available to pay the claims of the Company's general creditors in the event of the Company's insolvency.

**10.2 No Guaranty of Benefits.** Nothing contained in the Plan shall constitute a guaranty by the Company or any other person or entity that the assets of the Company will be sufficient to pay any benefit hereunder.

**10.3 No Enlargement of Employee Rights.** No Participant shall have any right to receive a distribution from the Plan except in accordance with the terms of the Plan. Participation in the Plan shall not be construed to give any Participant the right to be retained in the service of the Company or an Adopting Affiliate.

### **10.4 Section 409A.**

**(a) Material Modification.** Notwithstanding anything contained herein to the contrary, this amendment and restatement of the Plan does not, and is not intended to, create a "material modification" (as determined pursuant to Notice 2005-1 and any other applicable guidance issued by the Internal Revenue Service

or the Department of Treasury) to the Plan as it was in effect on October 3, 2004 which would subject the Plan to the requirements of Section 409A of the Code. This document shall be construed and interpreted in a manner consistent with that intention.

(b) **Good Faith Compliance.** The Deferral Credits and Matching Credits made from January 1, 2005 through the Effective Date (including the earnings/losses thereon) have been administered pursuant to the Plan in “good faith” compliance with Section 409A of the Code pursuant to transitional guidance issued by the Internal Revenue Service and the Department of Treasury.

**10.5 Spendthrift Provision.** No interest of any person or entity in, or right to receive a distribution under, the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor shall any such interest or right to receive a distribution be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including claims in bankruptcy proceedings. This Section shall not preclude arrangements for the withholding of taxes from deferrals, credits, or benefit payments, arrangements for the recovery of benefit overpayments, arrangements for the transfer of benefit rights to another plan, or arrangements for direct deposit of benefit payments to an account in a bank, savings and loan association or credit union (provided that such arrangement is not part of an arrangement constituting an assignment or alienation).

**10.6 Domestic Relations Orders.** Notwithstanding any provision of the Plan to the contrary, and to the extent permitted by law, the Participant’s accounts may be assigned or alienated pursuant to a “Domestic Relations Order” (as such term is defined in Section 414(p)(1)(B) of the Code), subject to such uniform rules and procedures as may be adopted by the Plan Administrator from time to time.

**10.7 Incapacity of Recipient.** If the Plan Administrator is served with a court order holding that a person entitled to a distribution under the Plan is incapable of personally receiving and giving a valid receipt for such distribution, the Plan Administrator shall postpone payment until such time as a claim therefore shall have been made by a duly appointed guardian or other legal representative of such person. The Plan Administrator is under no obligation to inquire or investigate as to the competency of any person entitled to a distribution. Any payment to an appointed guardian or other legal representative under this Section shall be a payment for the account of the incapacitated person and a complete discharge of any liability of the Company and the Plan therefore.

**10.8 Successors.** The Plan shall be binding upon the successors and assigns of the Company and upon the heirs, beneficiaries and personal representatives of the individuals who become Participants hereunder.

**10.9 Limitations on Liability.** Notwithstanding any of the preceding provisions of the Plan, neither the Plan Administrator, the Company, nor any individual acting as the Plan Administrator’s, or the Company’s employee, agent, or representative shall be liable to any Participant, former Participant, beneficiary or other person for any claim, loss, liability or expense incurred in connection with the Plan.

**10.10 Conflicts.** If any person holds a position under the Plan through which he or she is charged with making a decision about the administration of his or her own (or any immediate family member’s) Plan participation, including, without limitation, decisions regarding eligibility, or account valuation, or the administration of his or her Plan investments, then such person shall be recused and the decision shall be made by the Plan Administrator. If a decision is required regarding the administration of the Plan Administrator’s Plan participation, including without limitation, decisions regarding eligibility, or account valuation, or the administration of his or her Plan investments, such decision shall be made by the Company’s Vice President, Human Services Division. Nothing in this Section 10.10 shall be construed to limit a Participant’s or the Plan Administrator’s ability to make decisions or elections with regard to his or her participation in the Plan in the same manner as other Participants.

**Exhibit 10.7**

**CATERPILLAR INC.  
SUPPLEMENTAL DEFERRED  
COMPENSATION PLAN**

**(As Amended and Restated Effective July 31, 2012)**



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**CATERPILLAR INC.  
SUPPLEMENTAL DEFERRED COMPENSATION PLAN**

**PREAMBLE**

By a document executed March 21, 2007, Caterpillar Inc. (the “Company”) established the Caterpillar Inc. Supplemental Deferred Compensation Plan (the “Plan”), effective January 1, 2005. The purpose of the Plan is to provide additional income deferral and investment opportunities to a select group of management or highly compensated employees who are eligible to participate in certain tax-qualified 401(k) plans sponsored by the Company. Subsequent to the establishment of the Plan, final regulations were promulgated under Section 409A of the Code, necessitating changes to the Plan retroactive to its adoption which were reflected in a document executed by the Company on December 17, 2007. The Company now desires to amend the Plan to reflect certain changes to the tax-qualified 401(k) plans sponsored by the Company. By execution of this document, the Company hereby amends and restates the Plan in its entirety generally effective as of January 1, 2011.

**ARTICLE I  
DEFINITIONS**

**1.1 General.** When a word or phrase appears in the Plan with the initial letter capitalized, and the word or phrase does not begin a sentence, the word or phrase shall generally be a term defined in this Article I. The following words and phrases used in the Plan with the initial letter capitalized shall have the meanings set forth in this Article I, unless a clearly different meaning is required by the context in which the word or phrase is used or the word or phrase is defined for a limited purpose elsewhere in the Plan document:

(a) **“401(k) Plan”** means either: the 401(k) Retirement Plan or the 401(k) Savings Plan depending upon which plan the Participant is eligible to make elective deferrals (without regard to the limitations of Sections 402(g) or 401(a)(17) of the Code) or to receive Company non-elective contributions as of the date the Participant’s corresponding credits under this Plan are determined.

(b) **“401(k) Plan Compensation”** means the Base Pay and Incentive Compensation taken into account for purposes of the Company non-elective contributions under the 401(k) Plan.

(c) **“401(k) Retirement Plan”** means the Caterpillar 401(k) Retirement Plan, as such plan may be amended or any successor to such plan.

(d) **“401(k) Savings Plan”** means the Caterpillar 401(k) Savings Plan, as such plan may be amended or any successor to such plan.

(e) **“Adopting Affiliate”** means any Affiliate that has been authorized by the Company to adopt the Plan and which has adopted the Plan in accordance with Section 2.4. All Affiliates that adopted the Plan on or before the Effective Date and that had not terminated such adoption shall continue to be Adopting Affiliates of the Plan.

(f) **“Affiliate”** means a parent business that controls, or a subsidiary business that is controlled by, the Company.

(g) **“Base Pay”** means the base salary paid to a Participant as determined in accordance with the established pay practices of the Company and Adopting Affiliates. Base Pay shall include any lump-sum base salary adjustment and any variable base pay.

(h) **“BFC”** means the Benefit Funds Committee of the Company, which is the committee formed by resolution of the Board of Directors of the Company, and which has the responsibility and authority to ensure the proper operation and management of the financial aspects of the 401(k) Plan.

(i) **“Board”** means the Board of Directors of the Company, or any authorized committee of the Board.

(j) **“Code”** means the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

(k) **“Company”** means Caterpillar Inc., and, to the extent provided in Section 10.8 below, any successor corporation or other entity resulting from a merger or consolidation into or with the Company or a transfer or sale of substantially all of the assets of the Company.

(l) **“Company Stock”** means common stock issued by the Company.

(m) **“Company Stock Fund”** means the Investment Fund described in Section 5.3.

(n) **“Deferral Agreement”** means the deferral agreement(s) described in Section 3.1 that are entered into by a Participant pursuant to the Plan.

(o) **“DEIP”** means the Caterpillar Inc. Deferred Employees’ Investment Plan, as amended.

(p) **“Director”** means the Company’s Director of Compensation + Benefits.

(q) **“Disability” or “Disabled”** means that a Participant is determined to be totally disabled by the United States Social Security Administration.

(r) **“Distribution Election Form”** means the election form by which a Participant elects the time and manner in which his accounts shall be distributed pursuant to Sections 6.4 and 6.5. The Plan Administrator may, in his sole discretion, require two separate Distribution Election Forms for purposes of making distributions regarding the time and manner in which accounts will be distributed, respectively.

(s) **“Effective Date”** means January 1, 2011, except as otherwise provided herein.

(t) **“Eligible Pay”** means Base Pay minus any Supplemental Deferrals of Base Pay.

(u) **“Excess Deferral Account”** means the bookkeeping account maintained pursuant to the Plan to record amounts deferred under Section 3.3(b).

(v) **“Excess Deferrals”** means the deferrals allocated to a Participant’s Excess Deferral Account in accordance with Section 3.3(b).

(w) **“Excess Matching Credit Account”** means the bookkeeping account maintained pursuant to the Plan to record the amounts credited to a Participant in accordance with Section 3.4(b).

(x) **“Excess Matching Credits”** means the matching credits allocated to a Participant’s Excess Matching Credit Account in accordance with Section 3.4(b).

(y) **“ERISA”** means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any regulations promulgated thereunder.

(z) **“ESTIP”** means the Caterpillar Inc. Executive Short-Term Incentive Plan, as amended or any predecessor or successor to such plan.

(aa) **“Incentive Compensation”** means STIP Pay, LTCPP Pay and Lump-Sum Awards.

(bb) **“Investment Fund”** means the notional investment funds established by the terms of the Plan pursuant to Article V.

(cc) **“LTCPP Pay”** means the amounts designated by the Company as a cash-based performance award under the “Long-Term Cash Performance Plan” and paid pursuant to the terms of the Caterpillar Inc. 2006 Long-Term Incentive Plan (or any successor to such plan). Performance awards under the “Long-Term Cash Performance Plan” that are paid pursuant to the terms of the Caterpillar Inc. 2006 Long-Term Incentive Plan (or any successor to such plan) in the form of Company Stock are not LTCPP Pay hereunder.

(dd) **“Lump-Sum Award”** means the discretionary lump-sum cash awards paid to employees pursuant to the uniform and nondiscriminatory pay practices of the Company or an Affiliate, but not including any lump-sum base salary adjustment.

(ee) **“Maximum Matching Contribution Percentage”** means 100% if the Participant participates in the 401(k) Retirement Plan and 50% if the Participant participates in the 401(k) Savings Plan. For purposes of this Section 1.1(ee), an individual participates in a plan if such individual is eligible to make elective deferrals under such plan (without regard to the limitations of Sections 402(g) or 401(a)(17) of the Code).

(ff) **“NEC Eligible Pay”** means the sum of Base Pay and Incentive Compensation minus the sum of LTCPP Pay and 401(k) Plan Compensation. The Plan Administrator shall determine NEC Eligible Pay for all Participants in a uniform and non-discriminatory manner.

(gg) **“Non-Elective Contribution Account”** means the bookkeeping account maintained pursuant to the Plan to record amounts credited under Section 3.5.

(hh) **“Non-Elective Contribution Credits”** means the non-elective contribution credits allocated to a Participant’s Non-Elective Contribution Account in accordance with Section 3.5.

(ii) **“Participant”** means an employee of the Company or any Adopting Affiliate who satisfies the eligibility requirements for participation in the Plan and who affirmatively elects to participate in the Plan pursuant to Section 2.1, or who becomes a Participant pursuant to Section 3.2(c)(2) or Section 3.9(c).

(jj) **“Plan”** means the Caterpillar Inc. Supplemental Deferred Compensation Plan, as set forth herein and as it may be amended from time to time.

(kk) **“Plan Administrator”** means the Director.

(ll) **“Plan Year”** means the calendar year.

(mm) **“Points”** means “Points” as such term is defined under the 401(k) Plan.

(nn) **“Qualified Military Service”** means service by a Participant or employee in the armed forces of the United States of a character that entitles the Participant or employee to re-employment under the Uniformed Services Employment and Reemployment Rights Act of 1994, but only if the Participant or employee is re-employed during the period following such service in which his right of re-employment is protected by such Act.

(oo) **“SEIP”** means the Caterpillar Inc. Supplemental Employees’ Investment Plan, as amended.

(pp) **“Separation from Service”** means separation from service as determined in accordance with any regulations, rulings or other guidance issued by the Department of the Treasury pursuant to Section 409A(a)(2)(A)(i) of the Code, as it may be amended or replaced from time to time.

(qq) **“Specified Employee”** means a “key employee” as defined in Section 416(i) of the Code without regard to Section 416(i)(5) and determined in accordance with Section 409A(a)(2)(B)(i) of the Code.

(rr) **“Supplemental Deferral Account”** means the bookkeeping account maintained pursuant to the Plan to record amounts deferred under Section 3.3(a).

(ss) **“Supplemental Deferrals”** means the deferrals allocated to a Participant’s Supplemental Deferral Account in accordance with Section 3.3(a).

(tt) **“Supplemental Matching Credit Account”** means the bookkeeping account maintained pursuant to the Plan to record the amounts credited to a Participant in accordance with Section 3.4(a).

(uu) **“Supplemental Matching Credits”** means the matching credits allocated to a Participant’s Supplemental Matching Credit Account in accordance with Section 3.4(a).

(vv) **“STIP”** means the Caterpillar Inc. Short-Term Incentive Plan, as amended or any successor to such plan.

(ww) **“STIP Pay”** means amounts paid to employees of the Company or an Adopting Affiliate pursuant to the terms of STIP and/or ESTIP.

(xx) **“Unforeseeable Emergency”** means a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant’s spouse, or a dependent (as defined in Section 152(a) of the Code) of the Participant, loss of the Participant’s property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. For purposes of the Plan, an “Unforeseeable Emergency” shall not include a Participant’s need to send his or her child to college or a Participant’s desire to purchase a home. Any determination as to whether a Participant has incurred an Unforeseeable Emergency shall be made in the sole discretion of the Plan Administrator in accordance with rules prescribed pursuant to Section 409A of the Code.

(yy) **“Valuation Date”** means each day of the Plan Year on which the New York Stock Exchange is open for trading.

(zz) **“GSCS”** means Caterpillar Logistics Services LLC (f/k/a Caterpillar Logistics Services, Inc.).

(aaa) **“GSCS Participant”** means a Participant who is employed by GSCS upon the closing of the sale of GSCS to an entity that is not an Affiliate.

(bbb) **“GSCS Closing Date”** means the date on which the sale of GSCS to an entity that is not an Affiliate is completed.

**1.2 Construction.** The masculine gender, when appearing in the Plan, shall include the feminine gender (and vice versa), and the singular shall include the plural, unless the Plan clearly states to the contrary. Headings and subheadings are for the purpose of reference only and are not to be considered in the construction of the Plan. If any provision of the Plan is determined to be for any reason invalid or unenforceable, the remaining provisions shall continue in full force and effect. All of the provisions of the Plan shall be construed and enforced according to the laws of the State of Illinois without regard to conflict of law principles and shall be administered according to the laws of such state, except as otherwise required by ERISA, the Code, or other Federal law.

## **ARTICLE II ELIGIBILITY; ADOPTION BY AFFILIATES**

**2.1 Eligibility and Participation.** An employee shall be eligible to participate in the Plan as of the first day of the month next following the date that he (a) is in salary grade 28 or higher pursuant to the Company’s standard salary grades; and (b) is eligible to make elective deferrals to either the 401(k) Retirement Plan or the 401(k) Savings Plan, provided, that, (i) for an employee first promoted to salary grade 28 or higher, clause (a) shall be satisfied after the employee’s supervisor has completed all administrative requirements to effect such promotion; and (ii) clause (b) shall not apply if he had already made elective deferrals equal to or in excess of the applicable dollar amount for purposes of Section 402(g) of the Code and (if applicable) catch-up contributions equal to or in excess of the applicable dollar amount for purposes of Sections 402(g) and 414(v)(2)(B) of the Code or he had already received compensation in excess of the applicable dollar limitation under Section 401(a)(17) of the Code, for such calendar year. Notwithstanding the foregoing, if an employee is employed in a division of the Company or by an Affiliate that does not use the Company’s standard salary grades, such employee shall be eligible to participate in the Plan if he (1) is in a salary grade that is considered in all respects to be the equivalent of a salary grade 28 or higher pursuant to the Company’s standard salary grades; and (2) is eligible to make elective deferrals to either the 401(k) Retirement Plan or the 401(k) Savings Plan, provided, that, clauses (1) and (2) shall be subject to the rules

described in clauses (a) and (b) of this Section 2.1. The Plan Administrator shall determine in a uniform and nondiscriminatory manner whether a salary grade is equivalent for this purpose.

**2.2     Discontinuance of Participation.** The Plan Administrator shall discontinue an individual's active participation in the Plan if the individual is no longer in a salary grade of 28 or higher (or the equivalent, as described above), or no longer is eligible to make elective deferrals to either the 401(k) Retirement Plan or the 401(k) Savings Plan (other than by reason of the individual's elective deferrals during a calendar year reaching the applicable dollar limitation under Section 402(g)(1) of the Code or the individual's receiving compensation for the calendar year in excess of the applicable dollar limitation under Section 401(a)(17) of the Code). If an individual's active participation is discontinued, the individual's Deferral Agreements shall be cancelled and the individual will not be entitled to make Deferrals or to receive Matching Credits or Non-Elective Contribution Credits under the Plan. The individual will not be entitled to receive a distribution, however, until the occurrence of another event (*e.g.*, death or Separation from Service) that entitles the Participant to receive a distribution. The Participant's accounts will continue to be adjusted to reflect investment earnings or losses in accordance with Section 5.1 until the accounts are distributed.

**2.3     Resumption of Participation.** With respect to an individual whose participation in the Plan was discontinued and who subsequently meets the eligibility requirements to resume active participation in the Plan, such employee shall (1) be permitted to complete a new Deferral Agreement during the annual election period described in Section 3.1(a) in accordance with procedures established by the Plan Administrator, subject to the applicable restrictions in Sections 3.1 and 3.2, and (2) be entitled to receive Non-Elective Contribution Credits subject to Section 3.5 with respect to NEC Eligible Pay for services to be performed beginning as of the first day of the month next following the date that the individual meets the eligibility requirements to resume active participation in the Plan.

**2.4     Adoption by Affiliates.** An employee of an Affiliate may not become a Participant in the Plan unless the Affiliate has previously adopted the Plan. An Affiliate of the Company may adopt the Plan only with the approval of the Company. By adopting the Plan, the Affiliate shall be deemed to have agreed to assume the obligations and liabilities imposed upon it by the Plan, agreed to comply with all of the other terms and provisions of the Plan, delegated to the Plan Administrator (and the BFC as applicable) the power and responsibility to administer the Plan with respect to the Affiliate's employees, and delegated to the Company the full power to amend or terminate the Plan with respect to the Affiliate's employees. Notwithstanding the foregoing, an Affiliate that has previously adopted the Plan may terminate its participation in the Plan in accordance with such rules and procedures that are promulgated by the Company.

### **ARTICLE III**

#### **DEFERRALS, MATCHING AND NON-ELECTIVE CONTRIBUTION CREDITS**

##### **3.1     Deferral Agreement.**

**(a)     General.** In order to make Supplemental Deferrals and/or Excess Deferrals, a Participant must complete a Deferral Agreement in the form and during the election period prescribed by the Plan Administrator. In the Deferral Agreement, the Participant shall agree to reduce his compensation in exchange for Supplemental Deferrals and/or Excess Deferrals. The Deferral Agreement shall be delivered to the Plan Administrator by the time specified in Section 3.2. At the end of the election period prescribed by the Plan Administrator, an election made by a Participant pursuant to a Deferral Agreement shall be irrevocable with respect to the Plan Year covered by the election.

**(b) Initial Deferral Agreement.**

**(1) Deferrals Prior to March 26, 2007.** Except as otherwise provided in paragraph (b)(2) below, a Participant shall not be permitted to make Supplemental Deferrals and/or Excess Deferrals pursuant to this Plan prior to March 26, 2007.

**(2) SEIP and DEIP.** The deferral elections made pursuant to SEIP and DEIP relating to amounts to be deferred in 2007 on and after March 26, 2007 shall apply to the Plan as provided in Section 7.4.

**(c) Revocation.** The Plan Administrator shall terminate a Participant's election to make Supplemental Deferrals and/or Excess Deferrals if the Participant has made a withdrawal due to Unforeseeable Emergency as provided in Section 6.10, but only to the extent that terminating the election would help the Participant to meet the related emergency need; provided that, any such Participant shall be permitted to complete a new Deferral Agreement during the annual election period described in Section 3.1 (a), subject to the applicable restrictions in this Section 3.1 and Section 3.2. Similarly, a Participant shall terminate an election to make Supplemental Deferrals and/or Excess Deferrals if such termination is required for the Participant to obtain a hardship distribution from the 401(k) Plan and permitted under Section 409A of the Code; provided that, (1) notwithstanding the foregoing, such termination shall apply only to the Participant's Supplemental Deferrals and/or Excess Deferrals that would have been made during the six-month period following receipt of the hardship distribution, and (2) following such termination, unless the Participant makes a different deferral election during the annual election period described in Section 3.1(a), the Plan Administrator shall automatically reinstate the Participant's deferral election to make Supplemental Deferrals and/or Excess Deferrals in effect immediately prior to receipt of the hardship distribution as soon as administratively practicable after the end of such six-month period.

**3.2 Timing of Deferral Elections and Automatic Participation.**

**(a) Deferral of Base Pay.** Except as provided in Section 3.2(c), Deferral Agreements that relate to the deferral of Base Pay (including Supplemental Deferrals pursuant to Section 3.3(a) and Excess Deferrals pursuant to Section 3.3(b)) shall be completed by the Participant and delivered to the Plan Administrator prior to the beginning of the Plan Year in which the Base Pay to be deferred is otherwise payable to the Participant. The Deferral Agreement will remain in effect from year-to-year until changed by the Participant in accordance with the preceding sentence. The Plan Administrator, in his discretion, may require an earlier time by which the election to defer Base Pay must be completed. Notwithstanding any provision of the Plan to the contrary, a Deferral Agreement shall also apply to Base Pay paid to a Participant after the Participant's Separation from Service but within a time period identified by the Plan Administrator in its sole discretion and in a uniform and non-discriminatory manner, which time period shall not exceed two and one-half months from the date of the Participant's Separation from Service.

**(b) Deferral of Incentive Compensation.** Deferral Agreements that relate to the deferral of Incentive Compensation shall be completed by the Participant and delivered to the Plan Administrator prior to the date that is six months before the end of the performance period to which the Incentive Compensation relates. The Deferral Agreement will remain in effect with respect to all future Incentive Compensation until changed by the Participant in accordance with the preceding sentence.



The Plan Administrator, in his discretion, may require an earlier time by which the election to defer Incentive Compensation must be completed. In addition, the Plan Administrator, in his discretion, may require that Participants make separate elections for one or more different types of Incentive Compensation (*e.g.*, STIP Pay, LTCPP Pay and Lump-Sum Awards). Notwithstanding any provision of the Plan to the contrary, a Deferral Agreement shall also apply to Incentive Compensation paid to a Participant after the Participant's Separation from Service but within a time period identified by the Plan Administrator in its sole discretion and in a uniform and non-discriminatory manner, which time period shall not exceed two and one-half months from the date of the Participant's Separation from Service.

**(c) Initial Deferral Election.**

**(1) General.** For the Plan Year in which an eligible employee first becomes eligible to participate in the Plan (but only if the eligible employee has never been eligible to participate in another "account balance plan," other than a separation pay plan, of the Company or an Affiliate that is aggregated with the Plan under Section 409A of the Code), the Participant may elect to make Supplemental Deferrals and Excess Deferrals by completing and delivering a Deferral Agreement within 28 days commencing with the date the Participant first becomes eligible to participate in the Plan pursuant to Section 2.1. Any such Deferral Agreement shall take effect with respect to compensation for services to be performed beginning as of the first day of the month immediately following the date of any such election.

**(2) Automatic Participation and Default Elections for Certain Eligible Employees.** Any eligible employee described in paragraph (1) of this Section 3.2(c) who does not complete and deliver a Deferral Agreement within 28 days commencing with the date that the employee first becomes eligible to participate in the Plan pursuant to Section 2.1 will become a Participant as of the first day of the next month. Any such Participant will be eligible for Non-Elective Contribution Credits under Section 3.5 but will not make Deferrals under Section 3.3 or receive Matching Credits under Section 3.4 until such Participant makes an election in accordance with Section 3.2(a) or 3.2(b), as applicable. The investment elections and distribution elections of any such Participant shall be determined pursuant to the applicable provisions of Sections 5.2 and Article VI, respectively. The provisions of this Section shall also apply to an employee who becomes eligible to participate in the Plan from September 26, 2010 through December 31, 2010 who fails to complete and deliver a Deferral Agreement within 30 days commencing with the date the employee first becomes eligible under the terms of the Plan in effect immediately prior to January 1, 2011.

**(3) Re-Employment.** The provisions of this paragraph (c) permitting an eligible employee to elect to make Supplemental Deferrals and Excess Deferrals shall not apply to a Participant who: (i) incurs a Separation from Service; (ii) is subsequently re-employed by the Company or an Affiliate; and (iii) at any time during such period of re-employment meets the eligibility requirements for active participation in the Plan pursuant to Section 2.1. However, an eligible employee described in this paragraph (c) will be permitted to, within the applicable period described in this paragraph (c), make a distribution election in accordance with Article VI.

**(d) Deferral Elections Upon Re-Employment.** A Participant who: (1) incurs a Separation from Service; (2) is subsequently re-employed by the Company or an Affiliate; and (3) at any time during such period of re-employment meets the eligibility requirements for active participation in the Plan pursuant to Section 2.1 shall be only permitted to make a deferral election of Base Pay (including Supplemental Deferrals pursuant to Section 3.3(a) and Excess Deferrals pursuant to Section 3.3(b)) or a deferral election of Incentive Compensation during such period of re-employment by completing a Deferral

Agreement in accordance with procedures established by the Plan Administrator, subject to the applicable restrictions in Section 3.1 and this Section 3.2.

### **3.3 Deferrals.**

(a) **Supplemental Deferrals.** Any Participant may elect to supplement the deferrals made pursuant to the 401(k) Plan by deferring, pursuant to a Deferral Agreement, the receipt of up to 70% (designated in whole percentages) of the Base Pay and/or up to 70% (designated in whole percentages) of the Incentive Compensation, otherwise payable to the Participant by the Company or an Adopting Affiliate in any Plan Year. The amount deferred pursuant to this paragraph (a) shall be allocated to the Supplemental Deferral Account maintained for the Participant.

(b) **Excess Deferrals.** Any Participant may elect to defer, pursuant to a Deferral Agreement, the receipt of 6% of the Eligible Pay otherwise payable to him by the Company or an Adopting Affiliate in any Plan Year. A Participant's election to receive Excess Deferrals shall only apply to the Eligible Pay not recognized in 401(k) Plan Compensation during the Plan Year. The amount deferred pursuant to this paragraph (b) shall be allocated to the Excess Deferral Account maintained for the Participant.

**3.4 Matching Credits.** As soon as administratively practicable following the last day of each Plan Year (or more frequently in the sole discretion of the Plan Administrator), the Plan Administrator shall allocate matching credits to the Participant's accounts for that Plan Year as follows:

(a) **Supplemental Matching Credit.** The Supplemental Matching Credit shall be in an amount equal to: (1) 6% times the Maximum Matching Contribution Percentage of Base Pay deferred by the Participant as Supplemental Deferrals and (2) the Maximum Matching Contribution Percentage of the STIP Pay and Lump-Sum Awards deferred by the Participant as Supplemental Deferrals (up to the a maximum deferral of 6% of the Participant's STIP Pay and Lump-Sum Awards for the Plan Year). LTCPP Pay deferred by the Participant as Supplemental Deferrals shall not be considered when determining Supplemental Matching Credits. The amount credited pursuant to this paragraph (a) shall be allocated to the Supplemental Matching Credit Account maintained for the Participant.

(b) **Excess Matching Credit.** The Excess Matching Credit shall be in an amount equal to the Maximum Matching Contribution Percentage of the Participant's Excess Deferrals. The amount credited pursuant to this paragraph (b) shall be allocated to the Excess Matching Credit Account maintained for the Participant.

### **3.5 Non-Elective Contribution Credits.**

(a) **Amount and Eligibility Requirements for Non-Elective Contribution Credits.** Effective January 1, 2011, if the Participant is eligible to receive the Company non-elective contributions under the 401(k) Plan (i.e., the 3%/4%/5% non-elective contributions under the 401(k) Plan), then as soon as administratively practicable following the last day of each Plan Year (or more frequently in the sole discretion of the Plan Administrator), the Plan Administrator shall allocate non-elective contribution credits to the Participant's accounts for that Plan Year based on the Participant's Points in an amount equal to the product of the applicable percentage specified below multiplied by the Participant's NEC Eligible Pay:

<u>Points</u>	<u>Applicable Percentage</u>
44 or less	3%
45 to 64	4%
65 or more	5%

A Participant shall only receive a Non-Elective Contribution Credit for a Plan Year if: (a) such Participant is employed by the Company or an Affiliate on the last day of the plan year for which the Company non-elective contributions are made under the 401(k) Plan and (2) such Participant is credited with a “Year of Benefit Service” (as such term is defined under the 401(k) Plan) during the Plan Year.

**(b) Non-Elective Contribution Credits Upon Re-Employment.** A Participant who: (1) incurs a Separation from Service; (2) is subsequently re-employed by the Company or an Affiliate; and (3) at any time during such period of re-employment meets the eligibility requirements for active participation in the Plan pursuant to Section 2.1 shall be entitled to receive Non-Elective Contribution Credits with respect to NEC Eligible Pay for services to be performed beginning as of the first day of the month next following the date that the individual meets the eligibility requirements to resume active participation in the Plan. Notwithstanding any provision of the Plan, each GSCS Participant who is entitled to receive Company non-elective contributions under the 401(k) Plan for the Plan Year in which the GSCS Closing Date occurs shall receive a Non-Elective Contribution Credit based on (a) the NEC Eligible Pay earned by such GSCS Participant prior to the GSCS Closing Date during the Plan Year in which the GSCS Closing Date occurs, and (b) such GSCS Participant’s Points determined as of the GSCS Closing Date.

**3.6 Certain Deferrals and Matching Credits.** Supplemental Deferrals, Excess Deferrals, Supplemental Matching Credits and Excess Matching Credits allocated to Participants for the 2005, 2006 and 2007 Plan Years prior to the Spin-Off described in Article VII shall have been made initially to SEIP and DEIP but shall be transferred to this Plan and become subject hereto by virtue of such Spin-Off. For periods beginning on and after such Spin-Off, Supplemental Deferrals, Excess Deferrals, Supplemental Matching Credits and Excess Matching Credits shall be made pursuant to the terms of this Article III.

**3.7 Allocation Among Affiliates.** Each Adopting Affiliate may be required to bear the costs and expenses of providing benefits accrued by Participants that are currently or were previously employees of such Adopting Affiliate. Such costs and expenses will be allocated among the Adopting Affiliates in accordance with (a) agreements entered into between the Company and any Adopting Affiliate, or (b) in the absence of such an agreement, reasonable procedures adopted by the Company.

**3.8 Deferrals Attributable to Qualified Military Service.** An employee who was, or was eligible to become, a Participant immediately before commencing Qualified Military Service and who is re-employed following such Qualified Military Service shall, upon his returning from Qualified Military Service, have the right to elect additional Supplemental Deferrals and/or Excess Deferrals (“Additional Deferrals”) in accordance with Section 3.1, over a period of time equal to the lesser of (a) three times the length of his Qualified Military Service, or (b) five years. Such Participant shall also be entitled to receive Supplemental Matching Credits and/or Excess Matching Credits (“Additional Credits”) attributable to such

Additional Deferrals, in accordance with Section 3.4, in the amount he would have received had such Additional Deferrals been made during his period of Qualified Military Service. All such Additional Deferrals and Additional Credits shall be deemed to have been received during the period of Qualified Military Service for purposes of applying all limitations under this Plan, but shall otherwise be subject to the terms of the Plan, including but not limited to the provisions of Section 3.1, Section 3.2, Section 3.3, and Section 3.4. For purposes of this Section 3.8, a Participant shall be deemed to have received Base Pay and Incentive Compensation during his period of Qualified Military Service based on the rate of Base Pay and Incentive Compensation he would have received had he been an employee during such period or, if such rate cannot be determined with reasonable accuracy, based on his average Base Pay and Incentive Compensation received during the 12-month period (or his entire period of employment, if shorter) immediately prior to the period of military service. The provisions of this Section 3.8 shall be interpreted and applied in accordance with Section 414(u) of the Code.

**3.9 Additional Deferral Election Period in 2010.** In anticipation of the changes to the Plan effective January 1, 2011, an additional deferral election period, as permitted by Sections 3.1 and 3.2 and as described in this Section 3.9, shall be held.

**(a) Election Period.** The election period described in this Section 3.9 shall begin on October 26, 2010 and end on November 30, 2010, unless extended to a later date by the Plan Administrator in a uniform and non-discriminatory manner. In no event, however, shall such special election period extend beyond December 31, 2010.

**(b) Application of Election Period.** The deferral election period described in this Section 3.9 applies to: (1) all Participants and (2) those eligible employees as of September 25, 2010 who are not yet Participants and, who as a result, have never (i) made Supplemental Deferrals or Excess Deferrals under the Plan and, thus, have never submitted Distribution Election Forms hereunder or (ii) otherwise participated in another “account balance plan” other than a separation pay plan, of the Company or an Affiliate that is aggregated with the Plan under Section 409A of the Code.

**(c) Default Provisions.** If an individual identified in clause (2) of paragraph (b) above fails to make a deferral election during the special election period, the applicable provisions of Section 3.2 (c)(2) shall apply.

## **ARTICLE IV VESTING**

**4.1 Vesting of Non-Elective Contribution Account.** Subject to Section 10.1, amounts credited to or allocable to a Participant’s Non-Elective Contribution Account shall become fully vested and the rights and interests therein shall not be forfeitable to the same extent that the Participant is vested in his or her Company non-elective contributions, if any, under the 401(k) Plan. To the extent any amounts are forfeited pursuant to this Section 4.1, such amounts shall be subject to restoration to the Participant’s Non-Elective Contribution Account in a similar manner to which Company non-elective contributions forfeited under the 401(k) Plan are subject to restoration. Notwithstanding the foregoing provisions of this Section 4.1, amounts credited to or allocable to a GSCS Participant’s Non-Elective Contribution Account shall be fully vested at all times from and after the GSCS Closing Date and, from and after the GSCS Closing Date, the GSCS Participant’s rights and interests therein shall not be forfeitable.

**4.2 Vesting of All Other Accounts.** Subject to Section 10.1, amounts credited to or allocable to a Participant's Supplemental Deferral Account, Excess Deferral Account, Supplemental Matching Credit Account, and Excess Matching Credit Account shall be fully vested at all times and the rights and interests therein shall not be forfeitable

## **ARTICLE V INVESTMENT OF ACCOUNTS**

**5.1 Adjustment of Accounts.** Except as otherwise provided elsewhere in the Plan, as of each Valuation Date, each Participant's accounts will be adjusted to reflect credits under Article III and the positive or negative rate of return on the Investment Funds selected by the Participant pursuant to Section 5.2(b). The rate of return will be determined by the Plan Administrator pursuant to Section 5.2(f) and will be credited or charged in accordance with policies applied uniformly to all Participants.

**5.2 Investment Direction.**

**(c) Investment Funds.** Each Participant may direct the notional investment of amounts credited to his Plan accounts in one or more of the Investment Funds. The Investment Funds shall, at all times, be notional funds that track the returns of the investment funds selected by the BFC for purposes of the 401(k) Retirement Plan and made available to 401(k) Retirement Plan participants. In addition, the Investment Funds shall, at all times, include a Company Stock Fund as described in Section 5.3. Neither the Company, each Adopting Affiliate, the Plan Administrator, the BFC, nor any other party shall have any responsibility, duty of care (whether express or implied) or liability to any Participant in regards to designation of the Investment Funds as set forth in Section 5.2(a).

**(d) Participant Directions.**

**(1) General.** Each Participant may direct that all of the amounts attributable to his accounts be invested in a single Investment Fund or may direct that whole percentage increments of his accounts be invested in such fund or funds as he shall desire in accordance with such procedures as may be established by the Plan Administrator. Unless the Plan Administrator prescribes otherwise, such procedures generally shall mirror the procedures established under the 401(k) Retirement Plan for participant investment direction.

**(2) Spin-Off from SEIP and DEIP.** Each Participant who became a Participant in the Plan as a result of the Spin-Off described in Article VII or by reason of Section 3.1(b)(2) shall be conclusively deemed to have directed the Plan Administrator to invest all of the amounts attributable to his accounts in the same manner as the Participant's accounts were invested in SEIP and/or DEIP as of the effective date of the Spin-Off and, in the absence of an affirmative direction by the Spin-Off Participant regarding future deferrals pursuant to paragraph (b)(1) above, such Participant shall be conclusively deemed to have directed the Plan Administrator to invest such deferrals in the same manner as the Participant's deferrals were directed to be invested in SEIP and/or DEIP as of the effective date of the Spin-Off. If a Participant participated in both SEIP and DEIP as of the effective date of the Spin-Off and his investment elections for future deferrals were different among plans, the Participant shall be conclusively deemed to have directed the Plan Administrator to invest future deferrals in the same manner as the Participant's deferral elections pursuant to DEIP. The Participant may change his directions at any time in accordance with the provisions of the Plan.

(e) **Changes and Intra-Fund Transfers.** Participant investment directions may be changed, and amounts may be transferred from one Investment Fund to another, in accordance with the procedures established by the Plan Administrator. The designation will remain in effect until changed by the timely submission of a new designation by the Participant.

(f) **Default Selection.** In the absence of a designation by the Participant, such Participant will be deemed to have directed the notional investment of his accounts in the Investment Fund that tracks the return of the 401(k) Retirement Plan investment fund that is designated by the BFC as the “default” investment fund for purposes of the 401(k) Retirement Plan.

(g) **Impact of Election.** The Participant’s selection of Investment Funds shall serve only as a measurement of the value of the Participant’s Accounts pursuant to Section 5.1 and this Section 5.2. None of the Company, the BFC, or the Plan Administrator are required to actually invest a Participant’s accounts in accordance with the Participant’s selections.

(h) **Investment Performance.** Accounts shall be adjusted on each Valuation Date to reflect investment gains and losses as if the accounts were invested in the Investment Funds selected by the Participants in accordance with this Section 5.2 and charged with any and all reasonable expenses as provided in paragraph (g) below. The earnings and losses determined by the Plan Administrator in good faith and in his discretion pursuant to this Section shall be binding and conclusive on the Participant, the Participant’s beneficiary and all parties claiming through them.

(i) **Charges.** The Plan Administrator may (but is not required to) charge Participants’ accounts for the reasonable expenses of administration including, but not limited to, carrying out and/or accounting for investment instructions directly related to such accounts.

(j) **Investment of Matching Credits.** Supplemental Matching Credits and Excess Matching Credits allocated to a Participant’s Supplemental Matching Credit Account and/or Excess Matching Credit Account during the period beginning on June 1, 2009 and ending on October 14, 2010 were notionally invested in the Company Stock Fund. A Participant may diversify the Supplemental Matching Credits and/or Excess Matching Credits that were notionally invested in the Company Stock Fund as described in this Section 5.2(h) by directing the notional investment of the value of such matching credits to any other Investment Fund as permitted by Section 5.2(b)(1). If a Participant fails to diversify the value of the Supplemental Matching Credits and/or Excess Matching Credits notionally invested in the Company Stock Fund as described in this Section 5.2(h), he shall be deemed to have directed the notional investment of such matching credits in the Company Stock Fund.

### **5.3 Special Company Stock Fund Provisions.**

(c) **General.** A Participant’s interest in the Company Stock Fund shall be expressed in whole and fractional notional units of the Company Stock Fund. The Company Stock Fund shall track an investment in Company Stock in the same manner as the 401(k) Retirement Plan’s company stock fund. Accordingly, the value of the unit in the Plan’s Company Stock Fund shall be the same as the value of a unit in the 401(k) plan’s company stock fund. Notwithstanding the foregoing, if and to the extent that a company stock fund is no longer maintained under the 401(k) Retirement Plan, the Plan Administrator shall establish such rules and procedures as are necessary to maintain the Company Stock Fund hereunder.

(d) **Investment Directions.** A Participant’s ability to direct investments into or out of the Company Stock Fund shall be subject to such procedures as the Plan Administrator may prescribe from

time to time to assure compliance with Rule 16b-3 promulgated under Section 16(b) of the Securities Exchange Act of 1934, as amended, and other applicable requirements. Such procedures also may limit or restrict a Participant's ability to make (or modify previously made) deferral and distribution elections pursuant to Articles III and VI, respectively. In furtherance, and not in limitation, of the foregoing, to the extent a Participant acquires any interest in an equity security under the Plan for purposes of Section 16(b), the Participant shall not dispose of that interest within six months, unless specifically exempted by Section 16(b) or any rules or regulations promulgated thereunder.

(e) **Compliance with Securities Laws.** Any election by a Participant to hypothetically invest any amount in the Company Stock Fund, and any elections to transfer amounts from or to the Company Stock Fund to or from any other Investment Fund, shall be subject to all applicable securities law requirements, including but not limited to the last sentence of paragraph (b) above and Rule 16b-3 promulgated by the Securities Exchange Commission. To the extent that any election violates any securities law requirement or the Company's stock trading policies and procedures, the election shall be void.

(f) **Compliance with Company Trading Policies and Procedures.** Any election by a Participant to hypothetically invest any amount in the Company Stock Fund, and any elections to transfer amounts from or to the Company Stock Fund to or from any other Investment Fund, shall be subject to all Company Stock trading policies promulgated by the Company. To the extent that any election violates any such trading policy or procedures, the election shall be void.

**5.4 Application to Beneficiaries.** Following the death of a Participant, the term "Participant" in this Article V shall refer to the Participant's beneficiary described in Section 6.9.

## **ARTICLE VI DISTRIBUTIONS**

**6.1 Limitation on Right to Receive Distribution.** A Participant shall not be entitled to receive a distribution prior to the first to occur of the following events:

(k) The Participant's Separation from Service, or in the case of a Participant who is a Specified Employee, the date which is six months after the Participant's Separation from Service;

(l) The date the Participant becomes Disabled;

(m) The Participant's death;

(n) A specified time (or pursuant to a fixed schedule) specified at the date of deferral of compensation;

(o) An Unforeseeable Emergency; or

(p) To the extent provided by the Secretary of the Treasury, a change in the ownership or effective control of the Company or an Adopting Affiliate or in the ownership of a substantial portion of the assets of the Company or an Adopting Affiliate.

This Section 6.1 restates the restrictions on distributions set forth in Section 409A of the Code and is intended to impose restrictions on distributions pursuant to the Plan accordingly. This Section 6.1 does not describe

the instances in which distributions actually will be made. Rather, distributions will be made only if and when permitted both by this Section 6.1 and another provision of the Plan.

**6.2 General Right to Receive Distribution.** Following a Participant's termination of employment or death, the Participant's Plan accounts will be distributed to the Participant in the manner and at the time provided in Sections 6.4 and 6.5 or Section 6.9, as applicable. A transfer of a Participant from the Company or any Affiliate to any other Affiliate or the Company shall not be deemed to be a termination of employment for purposes of this Section 6.2.

**6.3 Amount of Distribution.** The amount distributed to a Participant shall be based on the vested amounts credited to the Participant's accounts as of the Valuation Date immediately preceding the date of the distribution. Amounts shall be valued at the fair market value on the relevant Valuation Date determined pursuant to uniform and non-discriminatory rules established by the Plan Administrator.

**6.4 Form of Distribution.** Accounts shall be distributed in cash in a single lump-sum payment or in quarterly, semi-annual or annual installments. Distributions shall be subject to such uniform rules and procedures as may be adopted by the Plan Administrator from time to time, consistent with Section 409A of the Code. The form of payment shall be selected by the Participant in the initial Distribution Election Form (which may be contained in and be a part of a Deferral Agreement) submitted by the Participant to the Plan Administrator on entry into the Plan. A Participant may change his election by filing a new Distribution Election Form with the Plan Administrator in accordance with Section 6.6. If a revised Distribution Election Form is not honored because it was not timely filed, distributions shall be made in the form specified in the most recent valid Distribution Election Form filed by the Participant. If no valid Distribution Election Form exists, the Participant's accounts will be distributed in a single lump-sum.

**6.5 Timing of Distribution.** Except as provided in the next sentence, funds will be distributed within an administratively reasonable period of time following the six-month anniversary of the Participant's Separation from Service. Notwithstanding the foregoing, a Participant may elect to further defer the distribution of his accounts by filing a Distribution Election with the Plan Administrator in accordance with Section 6.6. If a revised Distribution Election Form is not honored because it was not timely filed, distributions shall be made pursuant to the most recent valid Distribution Election Form filed by the Participant. If no valid Distribution Election Form exists, the Participant's accounts will be distributed in accordance with the first sentence of this Section 6.5. If a Participant's Separation from Service is caused by his death, or a Participant dies after Separation from Service, then funds will be distributed as described in Section 6.9.

**6.6 Changes in Time and Form of Distribution.** A new Distribution Election Form that delays the time of a payment elected by a Participant or the form of payment selected by a Participant may be filed with the Plan Administrator at any time, will be subject to such uniform rules and procedures as may be adopted by the Plan Administrator from time to time, and only will be honored in accordance with the following:

(d) The new form will not take effect until at least 12 months after the date on which the new form is filed with the Plan Administrator; and

(e) The election may not be made less than 12 months prior to the date the payment is scheduled to be made, is commenced or otherwise would be made; and

(f) The first payment with respect to which the election is made must be deferred for a period of not less than five years from the date such payment would otherwise be made.



The provisions of this Section 6.6 are intended to comply with Section 409A(a)(4)(C) of the Code and shall be interpreted in a manner consistent with the requirements of such section and any regulations, rulings or other guidance issued pursuant thereto.

**6.7 Special Election Period for 2007.** Pursuant to the transitional guidance issued by the Internal Revenue Service and the Department of Treasury in Section 3.02 of IRS Notice 2006-79, Participants may make distribution elections in regards to their Plan accounts in accordance with this Section 6.7.

**(a) Election Period.** The election period described in this Section 6.7 shall begin on April 1, 2007 and end on May 7, 2007 unless extended to a later date by the Plan Administrator in a uniform and non-discriminatory manner, in his sole discretion. In no event, however, shall such special election period extend beyond December 31, 2007.

**(b) Application of Election Period.** The special election period described in this Section 6.7 shall apply to Participants as provided in this paragraph (b).

**(1) Participants to Whom Election Period Applies.** The special election period shall only apply to the following Participants:

**(i) Active Participants.** Individuals who are Participants in the Plan by reason of the Spin-Off described in Article VII or by reason of Section 3.1(b)(2) and who, as of the first day of the special election period, have not incurred a Separation of Service, have not died and are not Disabled;

**(ii) Separated Participants.** Individuals who are Participants in the Plan by reason of the Spin-Off described in Article VII and who, as of the first day of the special election period, have incurred a Separation from Service and distributions pursuant to the Plan have not yet commenced; and

**(iii) Beneficiaries.** Beneficiaries described in Section 6.9 of Participants who, as of the first day of the special election period had deceased if, as of such date, distributions pursuant to the Plan have not yet commenced with respect to the Participant.

**(2) Participants to Whom Election Period Does Not Apply.** The special election period shall not apply to the following Participants:

**(i) Participants in Pay Status.** Individuals who are Participants in the Plan by reason of the Spin-Off described in Article VII and who, as of the first day of the special election period, are receiving distributions pursuant to the Plan;

**(ii) Other Participants.** Any other Participants not described in paragraphs (b)(1) and (b)(2)(i) of this Section 6.7; and

**(iii) Beneficiaries.** Any beneficiary not described in paragraph (b)(1) (iii) of this Section 6.7.

**(c) Default Provisions.** If a Participant to whom the special election period applies fails to make a distribution election during the special election period the following rules shall apply:

(1) **Active Participants.** If a Participant identified in paragraph (b)(1)(i) above fails to make an election during the special election period, the default provisions of Section 6.4 and Section 6.5 shall apply (subject to the Participant's ability to change his distribution elections pursuant to Section 6.6).

(2) **Separated Participants and Beneficiaries.** If a Participant identified in paragraph (b)(1)(ii) above or a beneficiary described in paragraph (b)(1)(iii) above fails to affirmatively make an election during the special election period, such individual shall be deemed to have made an election pursuant to the Plan that is identical to the distribution elections made pursuant to SEIP and/or DEIP in good faith compliance with Section 409A of the Code (subject to the individual's ability to change his distribution elections pursuant to Section 6.6).

(d) **April 1, 2007 Commencements.** Notwithstanding anything in this Section 6.7 to the contrary, the special election period shall not apply to a Participant or beneficiary described in Section 6.9 who had previously made an election (and, therefore, for whom a default election is not in effect) pursuant to SEIP and/or DEIP whereby a lump-sum distribution or installment payments are scheduled to commence as of April 1, 2007. In the case of these Participants and beneficiaries, such lump sum distribution or installment payments shall commence as of April 1, 2007 as previously elected (i.e., in accordance with the distribution elections made pursuant to SEIP and/or DEIP in good faith compliance with Section 409A of the Code).

**6.8 Default Provisions for Certain Participants Relating to 2010 Election Period.** If an individual identified in clause (2) of Section 3.9(b) fails to complete an initial Distribution Election Form during the election period described Section 3.9, the default provisions of Section 6.4 and Section 6.5 shall apply to such individual's Plan accounts (subject to the ability to change distribution elections pursuant to Section 6.6).

## **6.9 Payment Upon Death.**

(a) **Beneficiary Designation.** If a Participant should die before receiving a full distribution of his Plan accounts, distribution shall be made to the beneficiary designated by the Participant, in accordance with such uniform rules and procedures as may be adopted by the Plan Administrator from time to time. If a Participant has not designated a beneficiary, or if no designated beneficiary is living on the date of distribution, then the Participant's beneficiary shall be that person or persons entitled to receive distributions of the Participant's accounts under the 401(k) Plan.

### **(b) Timing and Form of Payment to Beneficiary.**

(1) **Payments Commenced at Time of Death.** If, at the time of the Participant's death, installment payments of the Participant's accounts have commenced pursuant to this Article VI, such payments shall continue to the Participant's beneficiary in the same time and the same form as if the Participant has remained alive until the last installment payment was scheduled to be made. Notwithstanding the foregoing, a beneficiary may take a withdrawal upon an Unforeseeable Emergency

pursuant to Section 6.10, applying the provisions of such Section by substituting the term "beneficiary" for "Participant."

(2) **Payments Not Commenced at Time of Death.** If, at the time of the Participant's death, payments of the Participant's accounts has not commenced pursuant to this Article VI,

the distributions made pursuant to this Section 6.9 shall be made to the Participant's beneficiary in accordance with the then current and valid distribution election made by the Participant (or, in the absence of such a distribution election, in accordance with the "default" provisions of Section 6.4). If the distribution election applicable to the Participant provided for payment to commence within an administratively reasonable period of time following the six-month anniversary of the Participant's Separation from Service, this six-month anniversary shall be disregarded in the event of the Participant's death, and payments shall commence within an administratively reasonable period of time following the Participant's death. Notwithstanding the foregoing, a beneficiary may take a withdrawal upon an Unforeseeable Emergency pursuant to Section 6.10 or change the timing and form of payment pursuant to Section 6.6 applying the provisions of such Sections by substituting the term "beneficiary" for "Participant" as the context requires, thereunder.

#### **6.10 Payment Upon Unforeseeable Emergency.**

(a) **General.** Notwithstanding any provision of the Plan to the contrary, if a Participant incurs an Unforeseeable Emergency, the Participant may elect to make a withdrawal from the Participant's account (even after distribution of the Participant's accounts has commenced pursuant to Section 6.2). A withdrawal on account of Unforeseeable Emergency may be made if, as determined under regulations of the Secretary of the Treasury, the amounts withdrawn with respect to an emergency do not exceed the amounts necessary to satisfy such emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the withdrawal, after taking into account the extent to which such hardship is or may be relieved: (1) through reimbursement or compensation by insurance or otherwise; (2) by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship; or (3) by cessation of deferrals under the Plan.

(b) **Information Required.** A Participant who wishes to receive a distribution pursuant to this Section 6.10 shall apply for such distribution to the Plan Administrator and shall provide information to the Plan Administrator reasonably necessary to permit the Plan Administrator to determine whether an Unforeseeable Emergency exists and the amount of the distribution reasonably needed to satisfy the emergency need.

**6.11 Payment Upon Re-Employment.** This Section 6.11 shall apply to an individual who incurs a Separation from Service (if, at the time of such Separation from Service, such individual is a Participant), who is subsequently re-employed by the Company or an Affiliate and with respect to whom all amounts allocated to such Participant's accounts have not been paid out at the time of re-employment. Distributions of the amounts allocated to such Participant's accounts with respect to the Participant's participation before such re-employment shall be made in accordance with the distribution elections in effect immediately prior to such re-employment without regard to any subsequent Separation from Service, subject to the other provisions of this Article VI. If, pursuant to Section 3.2(d) or Section 3.5(b), a Participant elects to make Deferrals or is eligible to receive Non-Elective Contribution Credits following such re-employment, such post-re-employment Deferrals and Non-Elective Contribution Credits shall be subject to their own distribution elections made in accordance with Section 3.2(c)(3) and this Article VI.

**6.12 Withholding.** All distributions will be subject to all applicable tax and withholding requirements.

**6.13 Ban on Acceleration of Benefits.** Neither the time nor the schedule of any payment under the Plan may be accelerated except as permitted in regulations or other guidance issued by the Internal Revenue Service or the Department of the Treasury and as incorporated herein.

## **ARTICLE VII**

### **SPIN-OFF FROM SEIP AND DEIP**

**7.1 General.** In response to the enactment of Section 409A of the Code and pursuant to transitional guidance issued by the Internal Revenue Service and the Department of Treasury, deferrals and matching credits under SEIP and DEIP have been frozen and all amounts deferred and vested in those plans prior to January 1, 2005 have been “grandfathered” and thus are not subject to the requirements of Section 409A. The deferrals and matching credits made pursuant to SEIP and DEIP from January 1, 2005 through March 25, 2007, (and the earnings/losses thereon) were spun-off to the Plan as provided in this Article VII.

**7.2 Amounts Spun-Off.** All amounts credited to participant accounts in SEIP and DEIP on or after January 1, 2005 through March 25, 2007 and not fully distributed on or before April 1, 2007 were spun-off and allocated to Plan accounts, and were invested, as provided in Section 7.3. The amounts deferred prior to January 1, 2005 were determined in accordance with Q&A- 17 of IRS Notice 2005-1, proposed and final regulations, and any other applicable guidance issued by the Internal Revenue Service or the Department of Treasury.

**7.3 Allocation and Investment of SEIP and DEIP Amounts.** Amounts spun-off from SEIP and DEIP are allocated to accounts under the Plan in accordance with this Section 7.3.

(a) **SEIP.** Amounts deferred by participants under SEIP are allocated to the Participant’s Excess Deferral Account in the Plan. Matching credits made by the Company under SEIP are allocated to the Participant’s Excess Matching Credit Account in the Plan.

(b) **DEIP.** Amounts deferred by participants under DEIP are allocated to the Participant’s Supplemental Deferral Account in the Plan. Matching credits made by the Company under DEIP are allocated to the Participant’s Supplemental Matching Credit Account in the Plan.

(c) **Investments.** The amounts spun-off to the Plan in accordance with Section 7.2 are invested in accordance with Section 5.2(b)(2).

**7.4 Deferral Elections.** Deferral elections made by participants in DEIP and SEIP for amounts deferred in 2007 on and after March 26, 2007 shall apply to the Plan as provided in this Section 7.4.

(a) **SEIP.** Elections to defer Eligible Pay in 2007 under SEIP are considered Excess Deferral elections pursuant to the Plan, provided such elections otherwise comply with Section 409A of the Code and any transitional guidance issued by the Internal Revenue Service or the Department of Treasury.

(b) **DEIP.** Elections to defer Base Pay in 2007 and elections to defer Incentive Compensation paid in 2007 for any performance periods ending between July 1, 2006 and December 31, 2006 under DEIP are considered Supplemental Deferral elections pursuant to the Plan, provided such elections otherwise comply with Section 409A of the Code and any transitional guidance issued by the Internal Revenue Service or the Department of Treasury.

(c) **Investments.** The amounts deferred in accordance with this Section 7.4 are invested in accordance with Section 5.2(b)(2).

**7.5     Distribution Elections.**

(g)     **Participants in Pay Status.** The distribution elections made pursuant to SEIP and/or DEIP in good faith compliance with Section 409A by the Participants identified in Section 6.7(b)(2)(i) shall continue to apply.

(h)     **Other Participants.** All other individuals whom become Participants by virtue of the Spin-Off described in this Article VII shall make elections regarding the timing and form of distributions in accordance with Section 6.7.

**7.6     Effective Date of Spin-Off.** The Spin-Off described in this Article VII shall be effective as of 11:59:59 P.M. on March 25, 2007.

**ARTICLE VIII  
ADMINISTRATION OF THE PLAN**

**8.1     General Powers and Duties.** The following list of powers and duties is not intended to be exhaustive, and the Plan Administrator shall, in addition, exercise such other powers and perform such other duties as he may deem advisable in the administration of the Plan, unless such powers or duties are expressly assigned to another pursuant to the provisions of the Plan.

(a)     **General.** The Plan Administrator shall perform the duties and exercise the powers and discretion given to him in the Plan document and by applicable law and his decisions and actions shall be final and conclusive as to all persons affected thereby. The Company and the Adopting Affiliates shall furnish the Plan Administrator with all data and information that the Plan Administrator may reasonably require in order to perform his functions. The Plan Administrator may rely without question upon any such data or information.

(b)     **Disputes.** Any and all disputes that may arise involving Participants or beneficiaries shall be referred to the Plan Administrator and his decision shall be final. Furthermore, if any question arises as to the meaning, interpretation or application of any provisions of the Plan, the decision of the Plan Administrator shall be final.

(c)     **Agents.** The Plan Administrator may engage agents, including recordkeepers, to assist him and he may engage legal counsel who may be counsel for the Company. The Plan Administrator shall not be responsible for any action taken or omitted to be taken on the advice of such counsel, including written opinions or certificates of any agent, counsel, actuary or physician.

(d)     **Insurance.** At the Director's request, the Company shall purchase liability insurance to cover the Director in his activities as the Plan Administrator.

(e)     **Allocations.** The Plan Administrator is given specific authority to allocate responsibilities to others and to revoke such allocations. When the Plan Administrator has allocated authority pursuant to this paragraph, the Plan Administrator is not to be liable for the acts or omissions of the party to whom such responsibility has been allocated.

(f)     **Records.** The Plan Administrator shall supervise the establishment and maintenance of records by its agents, the Company and each Adopting Affiliate containing all relevant data pertaining to any person affected hereby and his or her rights under the Plan.

(g) **Interpretations.** The Plan Administrator, in his sole discretion, shall interpret and construe the provisions of the Plan (and any underlying documents or policies).

(h) **Electronic Administration.** The Plan Administrator shall have the authority to employ alternative means (including, but not limited to, electronic, internet, intranet, voice response or telephonic) by which Participants may submit elections, directions and forms required for participation in, and the administration of, the Plan. If the Plan Administrator chooses to use these alternative means, any elections, directions or forms submitted in accordance with the rules and procedures promulgated by the Plan Administrator will be deemed to satisfy any provision of the Plan calling for the submission of a written election, direction or form.

(i) **Accounts.** The Plan Administrator shall combine the various accounts of a Participant if he deems such action appropriate. Furthermore, the Plan Administrator shall divide a Participant's accounts into sub-accounts if he deems such action appropriate.

(j) **Delegation.** The Plan Administrator may delegate his authority hereunder, in whole or in part, in his sole and absolute discretion.

**8.2 Claims Procedures.** Benefit claims under the Plan shall be resolved in accordance with Code Section 409A and uniform and nondiscriminatory procedures adopted by the Plan Administrator in accordance with Section 503 of ERISA.

## **ARTICLE IX AMENDMENT**

**9.1 Amendment.** The Company shall have the right at any time to amend, in whole or in part, any or all of the provisions of this Plan by action of the Board of Directors of the Company; provided, however, if the amendment does not constitute a reallocation of fiduciary duties among those designated to act under the Plan or an allocation of fiduciary duties to committees and/or persons not previously designated to act under the Plan, then the Company's Vice President, Human Services Division, shall have the authority to amend the Plan, acting in consultation with the Company's Chairman of the Board and the appropriate Group President(s) of the Company (or in consultation with the full Board of Directors if the Chairman of the Board deems it necessary and appropriate). The Company's Vice President, Human Services Division, may designate any other officer(s) of the Company as having authority to amend the Plan in the Vice President's absence, which officer shall also act in consultation with the Company's Chairman of the Board and the appropriate Group President(s) of the Company (or in consultation with the full Board of Directors if the Chairman of the Board deems it necessary and appropriate).

**9.2 Effect of Amendment.** Any amendment of the Plan shall not directly or indirectly reduce the balance of any Plan account as of the effective date of such amendment.

**9.3 Termination.** The Company expressly reserves the right to terminate the Plan.

(i) **General.** In the event of termination, the Company shall specify whether termination will change the time at which distributions are made; provided that any acceleration of a distribution is consistent with Section 409A of the Code. In the absence of such specification, the timing of distributions shall be unaffected by termination.

(b) **GSCS Termination.** Pursuant to the Company's authority to terminate the Plan, the Plan is irrevocably terminated with respect to all GSCS Participants upon the GSCS Closing Date and no GSCS Participant shall accrue any benefits under the Plan for any purpose after the GSCS Closing Date. Pursuant to termination of the Plan with respect to GSCS Participants pursuant to this Section 9.3, the balance in each GSCS Participant's account under the Plan shall be distributed to the GSCS Participant in a single lump-sum payment as soon as practicable after the GSCS Closing Date, but in no event later than December 31 next following the GSCS Closing Date. For purposes of the preceding sentence, the balance in each GSCS Participant's account shall be determined as of the Valuation Date occurring coincident with or next preceding the date of distribution. Termination of the Plan with respect to GSCS Participants will change the time at which distributions are made to GSCS Participants. Payments to GSCS Participants pursuant to this Section 9.3(b) are intended to comply with section 409A of the Code and applicable guidance issued thereunder.

## **ARTICLE X GENERAL PROVISIONS**

**10.1 Participant's Rights Unsecured.** The Plan at all times shall be entirely unfunded and no provision shall at any time be made with respect to segregating any assets of the Company for payment of any distributions hereunder. The right of a Participant or his or her designated beneficiary to receive a distribution hereunder shall be an unsecured claim against the general assets of the Company, and neither the Participant nor a designated beneficiary shall have any rights in or against any specific assets of the Company. All amounts credited to a Participant's accounts hereunder shall constitute general assets of the Company and may be disposed of by the Company at such time and for such purposes as it may deem appropriate. Nothing in this Section shall preclude the Company from establishing a "Rabbi Trust," but the assets in the Rabbi Trust must be available to pay the claims of the Company's general creditors in the event of the Company's insolvency.

**10.2 No Guaranty of Benefits.** Nothing contained in the Plan shall constitute a guaranty by the Company or any other person or entity that the assets of the Company will be sufficient to pay any benefit hereunder.

**10.3 No Enlargement of Employee Rights.** No Participant shall have any right to receive a distribution from the Plan except in accordance with the terms of the Plan. Participation in the Plan shall not be construed to give any Participant the right to be retained in the service of the Company or an Adopting Affiliate.

**10.4 Section 409A Compliance.** The Company intends that the Plan meet the requirements of Section 409A of the Code and the guidance issued thereunder. The Plan shall be administered, construed and interpreted in a manner consistent with that intention.

**10.5 Spendthrift Provision.** No interest of any person or entity in, or right to receive a distribution under, the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor shall any such interest or right to receive a distribution be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims

against, such person or entity, including claims in bankruptcy proceedings. This Section shall not preclude arrangements for the withholding of taxes from deferrals, credits, or benefit payments, arrangements for the recovery of benefit overpayments, arrangements for the transfer of benefit rights to another plan, or arrangements for direct deposit of benefit payments to an account in a bank, savings and loan association or

credit union (provided that such arrangement is not part of an arrangement constituting an assignment or alienation).

**10.6 Domestic Relations Orders.** Notwithstanding any provision of the Plan to the contrary, and to the extent permitted by law, a Participant's accounts may be assigned or alienated pursuant to a "Domestic Relations Order" (as such term is defined in Section 414(p)(1)(B) of the Code), subject to such uniform rules and procedures as may be adopted by the Plan Administrator from time to time. Any amount subject to a Domestic Relations Order shall be distributed as soon as practicable.

**10.7 Incapacity of Recipient.** If the Plan Administrator is served with a court order holding that a person entitled to a distribution under the Plan is incapable of personally receiving and giving a valid receipt for such distribution, the Plan Administrator shall postpone payment until such time as a claim therefore shall have been made by a duly appointed guardian or other legal representative of such person. The Plan Administrator is under no obligation to inquire or investigate as to the competency of any person entitled to a distribution. Any payment to an appointed guardian or other legal representative under this Section shall be a payment for the account of the incapacitated person and a complete discharge of any liability of the Company and the Plan therefor.

**10.8 Successors.** The Plan shall be binding upon the successors and assigns of the Company and upon the heirs, beneficiaries and personal representatives of the individuals who become Participants hereunder.

**10.9 Limitations on Liability.** Notwithstanding any of the preceding provisions of the Plan, neither the Plan Administrator, the Director, or the Company, nor any individual acting as the Plan Administrator's, the Director's, or the Company's employee, agent, or representative shall be liable to any Participant, former Participant, beneficiary or other person for any claim, loss, liability or expense incurred in connection with the Plan.

**10.10 Conflicts.** If any person holds a position under the Plan through which he or she is charged with making a decision about the administration of his or her own (or any immediate family member's) Plan participation, including, without limitation, decisions regarding eligibility, or account valuation, or the administration of his or her Plan investments, then such person shall be recused and the decision shall be made by the Plan Administrator. If a decision is required regarding the administration of the Plan Administrator's Plan participation, including without limitation, decisions regarding eligibility, or account valuation, or the administration of his or her Plan investments, such decision shall be made by the Company's Vice President, Human Services Division. Nothing in this Section 10.10 shall be construed to limit a Participant's or the Plan Administrator's ability to make decisions or elections with regard to his or her participation in the Plan in the same manner as other Participants.

**10.11 Overpayments.** If it is determined that a distribution under the Plan should not have been paid or should have been paid in a lesser amount, written notice thereof shall be given to the recipient of such distribution (or his legal representative) and he shall repay the amount of overpayment to the Company. If he fails to repay such amount of overpayment promptly, the Company shall arrange to recover for the Plan the amount of the overpayment by making an appropriate deduction or deductions from any future benefit payment or payments payable to that person (or his survivor or beneficiary) under the Plan or from any other benefit plan of the Company.



**Exhibit 10.8**

**CATERPILLAR INC.  
DEFERRED EMPLOYEES'  
INVESTMENT PLAN**

**(As Amended and Restated Effective July 31, 2012)**

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**CATERPILLAR INC.  
DEFERRED EMPLOYEES' INVESTMENT PLAN**

**PREAMBLE**

Effective June 30, 1995, Caterpillar Inc. (the "Company") established the Caterpillar Inc. Deferred Employees' Investment Plan (the "Plan"). The Plan has been amended and restated on a number of occasions. By the execution of this document, the Company hereby amends and restates the Plan in its entirety, effective as of June 1, 2009.

**ARTICLE I  
DEFINITIONS**

**1.1 General.** When a word or phrase appears in the Plan with the initial letter capitalized, and the word or phrase does not begin a sentence, the word or phrase shall be a term defined in this Article I, unless a clearly different meaning is required by the context in which the word or phrase is used or the word or phrase is defined for a limited purpose elsewhere in the Plan document:

(a) **"401(k) Plan"** means the Caterpillar 401(k) Plan, as amended or any successor to such plan.

(b) **"Adopting Affiliate"** means any Affiliate that has been authorized by the Company to adopt the Plan and which has adopted the Plan. All Affiliates that adopted the Plan on or before the Effective Date and that had not terminated such adoption shall continue to be Adopting Affiliates but no Affiliate that was not an Adopting Affiliate as of the Effective Date shall be permitted to adopt the Plan.

(c) **"Affiliate"** means a parent business that controls, or a subsidiary business that is controlled by, the Company.

(d) **"Base Pay"** means the base salary paid to a Participant as determined in accordance with the established pay practices of the Company and Adopting Affiliates. Base Pay shall include any lump-sum base salary adjustment and any variable base pay.

(e) **"BFC"** means the Benefit Funds Committee of the Company, which is the committee formed by resolution of the Board of Directors of the Company, and which has the responsibility and authority to ensure the proper operation and management of the financial aspects of the 401(k) Plan.

(f) **"Board"** means the Board of Directors of the Company, or any authorized committee of the Board.

(g) **"Code"** means the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

(h) **"Company"** means Caterpillar Inc., and, to the extent provided in Section 10.8 (Successors) below, any successor corporation or other entity resulting from a merger or consolidation into or with the Company or a transfer or sale of substantially all of the assets of the Company.

(i) **"Company Stock"** means common stock issued by the Company.

(j) **"Company Stock Fund"** means the Investment Fund described in Section 5.3 (Special Company Stock Fund Provisions).

(k) **“Deferral Credits”** means the deferral credits allocated to a Participant in accordance with Section 3.2 (Deferral Credits).

(l) **“Director”** means the Company’s Director of Compensation + Benefits.

(m) **“Disability” or “Disabled”** means that a Participant is “totally and permanently disabled” and eligible to receive long-term disability benefits pursuant to the terms and provisions of the long-term disability plan sponsored by the Company or an Affiliate in which the Participant participates.

(n) **“Effective Date”** means March 25, 2007.

(o) **“ERISA”** means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any regulations promulgated thereunder.

(p) **“ESTIP”** means the Caterpillar Inc. Executive Short-Term Incentive Plan, as amended or any predecessor or successor to such plan.

(q) **“Incentive Compensation”** means STIP Pay, LTCPP Pay and Lump-Sum Awards.

(r) **“Investment Fund”** means the notional investment funds established by the terms of the Plan pursuant to Article V (Investment of Accounts).

(s) **“LTCPP Pay”** means the amounts designated by the Company as the cash-based performance award under the “Long-Term Cash Performance Plan” and paid pursuant to the terms of the Caterpillar Inc. 2006 Long-Term Incentive Plan (or any predecessor to such plan).

(t) **“Lump-Sum Award”** means the discretionary lump-sum cash awards paid to employees pursuant to the uniform and nondiscriminatory pay practices of the Company or an Affiliate, but not including any lump-sum base salary adjustment.

(u) **“Matching Credits”** means the matching credits allocated to a Participant in accordance with Section 3.3 (Matching Credits).

(v) **“Participant”** means an employee of the Company or any Adopting Affiliate who had satisfied the eligibility requirements for participation in the Plan as of March 31, 2007 and who, as of such date, has amounts credited to his accounts under this Plan.

(w) **“Plan”** means the Caterpillar Inc. Deferred Employees’ Investment Plan, as set forth herein and as it may be amended from time to time.

(x) **“Plan Administrator”** means the Director.

(y) **“Plan Year”** means the calendar year.

(z) **“Post-1996 Deferrals”** means the Deferral Credits made by a Participant on and after January 1, 1997 and before January 1, 2005 (including the earnings/losses thereon).

(aa) **“Post-2004 Deferrals”** means the Deferral Credits and Matching Credits made by a Participant on and after January 1, 2005 determined pursuant to Section 7.2 (Amounts Spun-Off).

(bb) **“SDCP”** means the Caterpillar Inc. Supplemental Deferred Compensation Plan, as amended.

(cc) **“STIP”** means the Caterpillar Inc. Short-Term Incentive Plan, as amended or any successor to such plan.

(dd) **“STIP Pay”** means amounts paid to employees of the Company or an Adopting Affiliate pursuant to the terms of STIP and/or ESTIP.

(ee) **“Valuation Date”** means each day of the Plan Year on which the New York Stock Exchange is open for trading.

(ff) **“GSCS”** means Caterpillar Logistics Services LLC (f/k/a Caterpillar Logistics Services, Inc.).

(gg) **“GSCS Participant”** means a Participant who is employed by GSCS upon the closing of the sale of GSCS to an entity that is not an Affiliate.

(hh) **“GSCS Closing Date”** means the date on which the sale of GSCS to an entity that is not an Affiliate is completed.

**1.2 Construction.** The masculine gender, when appearing in the Plan, shall include the feminine gender (and vice versa), and the singular shall include the plural, unless the Plan clearly states to the contrary. Headings and subheadings are for the purpose of reference only and are not to be considered in the construction of the Plan. If any provision of the Plan is determined to be for any reason invalid or unenforceable, the remaining provisions shall continue in full force and effect. All of the provisions of the Plan shall be construed and enforced according to the laws of the State of Illinois without regard to conflict of law principles and shall be administered according to the laws of such state, except as otherwise required by ERISA, the Code, or other Federal law.

## **ARTICLE II ELIGIBILITY AND PARTICIPATION**

**2.1 Existing Participants.** Each individual who was a Participant in the Plan as of the Effective Date shall continue as such, subject to the provisions hereof.

**2.2 New Participants.** No individual shall become eligible to participate in the Plan after the Effective Date.

## **ARTICLE III DEFERRAL CREDITS AND MATCHING CREDITS**

**3.1 Credits Ceased.** Effective as of March 26, 2007, all credits (other than credits associated with adjustment of accounts pursuant to Section 5.1 (Adjustment of Accounts) to the Plan shall cease. Participants shall not be permitted to make Deferral Credits and the Plan Administrator shall no longer allocate Matching Credits to Participants' accounts.

**3.2 Deferral Credits.** Immediately prior to March 26, 2007, Participants were permitted to elect to supplement the deferrals made pursuant to the 401(k) Plan by deferring the receipt of up to 70% (designated in whole percentages) of the Base Pay and Incentive Compensation otherwise payable to the Participant by the Company or an Adopting Affiliate in any Plan Year. The deferrals made prior to March 26, 2007 were subject to the provisions of the Plan as in effect at the time the deferral election was made and such uniform and non-discriminatory rules as were adopted by the Plan Administrator in that regard.

**3.3 Matching Credits.** For periods ending on or before the Effective Date, the Plan Administrator allocated matching credits to the Participant's accounts in an amount equal to: (a) 6% of the Base Pay deferred by the Participant as Deferral Credits and (b) 100% of the STIP Pay and Lump-Sum Awards deferred by the Participant as Deferral Credits (up to a maximum of 6% of the Participant's STIP Pay and Lump-Sum Awards

for the relevant Plan Year). LTCPP Pay deferred by the Participant as Deferral Credits was not considered when determining Matching Credits.

#### **ARTICLE IV VESTING**

**4.1     Vesting.** Subject to Section 10.1 (Participant's Rights Unsecured), each Participant shall at all times be fully vested in all amounts credited to or allocable to his accounts hereunder and his rights and interest therein shall not be forfeitable.

#### **ARTICLE V INVESTMENT OF ACCOUNTS**

**5.1     Adjustment of Accounts.** Except as otherwise provided elsewhere in the Plan, as of each Valuation Date, each Participant's accounts will be adjusted to reflect the positive or negative rate of return on the Investment Funds selected by the Participant pursuant to Section 5.2(b) (Investment Direction - Participant Directions). The rate of return will be determined by the Plan Administrator pursuant to Section 5.2(f) (Investment Direction – Investment Performance) and will be credited or charged in accordance with policies applied uniformly to all Participants.

#### **5.2     Investment Direction.**

**(a)     Investment Funds.** Each Participant may direct the notional investment of amounts credited to his Plan accounts in one or more of the Investment Funds. The Investment Funds shall, at all times, be notional funds that track the returns of the investment funds selected by the BFC for purposes of the 401(k) Plan and made available to 401(k) Plan participants. In addition, the Investment Funds shall, at all times, include a Company Stock Fund as described in Section 5.3 (Special Company Stock Fund Provisions). Neither the Company, each Adopting Affiliate, the Plan Administrator, the BFC, nor any other party shall have any responsibility, duty of care (whether express or implied) or liability to any Participant in regards to designation of the Investment Funds as set forth in this Section 5.2(a).

**(b)     Participant Directions.** Each Participant may direct that all of the amounts attributable to his accounts be invested in a single Investment Fund or may direct that whole percentage increments of his accounts be invested in such fund or funds as he shall desire in accordance with such procedures as may be established by the Plan Administrator. Unless the Plan Administrator prescribes otherwise, such procedures generally shall mirror the procedures established under the 401(k) Plan for participant investment direction.

**(c)     Changes and Intra-Fund Transfers.** Participant investment directions may be changed, and amounts may be transferred from one Investment Fund to another, in accordance with the procedures established by the Plan Administrator. The designation will remain in effect until changed by the timely submission of a new designation by the Participant.

**(d)     Default Selection.** In the absence of a designation by the Participant, such Participant will be deemed to have directed the notional investment of his accounts in the Investment Fund that tracks the return of the 401(k) Plan investment fund that is designated by the BFC as the "default" investment fund for purposes of the 401(k) Plan.

**(e)     Impact of Election.** The Participant's selection of Investment Funds shall serve only as a measurement of the value of the Participant's Accounts pursuant to Section 5.1 (Adjustment of Accounts) and this Section 5.2. None of the Company, the BFC, or the Plan Administrator are required to actually invest a Participant's accounts in accordance with the Participant's selections.

(f) **Investment Performance.** Accounts shall be adjusted on each Valuation Date to reflect investment gains and losses as if the accounts were invested in the Investment Funds selected by the Participants in accordance with this Section 5.2 and charged with any and all reasonable expenses as provided in paragraph (g) below. The earnings and losses determined by the Plan Administrator in good faith and in his discretion pursuant to this Section 5.2 shall be binding and conclusive on the Participant, the Participant's beneficiary and all parties claiming through them.

(g) **Charges.** The Plan Administrator may (but is not required to) charge Participants' accounts for the reasonable expenses of administration including, but not limited to, carrying out and/or accounting for investment instructions directly related to such accounts.

### **5.3 Special Company Stock Fund Provisions.**

(a) **General.** A Participant's interest in the Company Stock Fund shall be expressed in whole and fractional notional units of the Company Stock Fund. The Company Stock Fund shall track an investment in Company Stock in the same manner as the 401(k) Plan's company stock fund. Accordingly, the value of a unit in the Plan's Company Stock Fund shall be the same as the value of a unit in the 401(k) Plan's company stock fund. Notwithstanding the foregoing, if and to the extent that a company stock fund is no longer maintained under the 401(k) Plan, the Plan Administrator shall establish such rules and procedures as are necessary to maintain the Company Stock Fund hereunder.

(b) **Investment Directions.** A Participant's ability to direct investments into or out of the Company Stock Fund shall be subject to such procedures as the Plan Administrator may prescribe from time to time to assure compliance with Rule 16b-3 promulgated under Section 16(b) of the Securities Exchange Act of 1934, as amended, and other applicable requirements. Such procedures also may limit or restrict a Participant's ability to make (or modify previously made) deferral and distribution elections pursuant to Articles III (Deferral Credits and Matching Credits) and VI (Distributions), respectively. In furtherance, and not in limitation, of the foregoing, to the extent a Participant acquires any interest in an equity security under the Plan for purposes of Section 16(b), the Participant shall not dispose of that interest within six months, unless specifically exempted by Section 16(b) or any rules or regulations promulgated thereunder.

(c) **Compliance with Securities Laws.** Any elections to transfer amounts from or to the Company Stock Fund to or from any other Investment Fund, shall be subject to all applicable securities law requirements, including but not limited to the last sentence of paragraph (b) above and Rule 16b-3 promulgated by the Securities Exchange Commission. To the extent that any election violates any securities law requirement or the Company's stock trading policies and procedures, the election shall be void.

(d) **Compliance with Company Trading Policies and Procedures.** Any elections to transfer amounts from or to the Company Stock Fund to or from any other Investment Fund, shall be subject to all Company Stock trading policies promulgated by the Company. To the extent that any election violates any such trading policy or procedures, the election shall be void.

**5.4 Application to Beneficiaries.** Following the death of a Participant, the term "Participant" in this Article V shall refer to the Participant's beneficiary described in Section 6.5 (Payment Upon Death).

## **ARTICLE VI DISTRIBUTIONS**

**6.1 General Right to Receive Distribution.** Following termination of employment with the Company, death or Disability, the Participant's accounts will be distributed in the manner and at the time provided in Sections 6.3 (Form of Distribution) and 6.4 (Timing of Distribution) or Section 6.5 (Payment Upon Death), as applicable. A transfer of a Participant from the Company or any Affiliate to any other Affiliate or the Company shall not be deemed to be a termination of employment with the Company for purposes of this Article VI.

**6.2 Amount of Distribution.** The amount distributed to a Participant shall be based on the vested amounts credited to the Participant's accounts as of the Valuation Date immediately preceding the date of the distribution. Amounts shall be valued at the fair market value on the relevant Valuation Date determined pursuant to uniform and non-discriminatory procedures established by the Plan Administrator.

**6.3 Form of Distribution.**

(a) **Default Form of Distribution.** Accounts shall be distributed in cash in a single lump-sum payment.

(b) **Optional Form of Distribution.** A Participant may elect to receive his distribution in the form of quarterly, semi-annual or annual cash installments for a period of up to fifteen years by filing an election with the Plan Administrator before the last Company business day of November of the second year that precedes the year the distribution is scheduled to commence pursuant to Section 6.4 (Timing of Distribution). If an election pursuant to this paragraph (b) of this Section 6.3 cannot be honored because it was not timely filed, distributions shall be made in accordance with the most recent valid election made by the Participant that precedes the invalid election. If no such election exists, distributions shall be made in a single Lump-Sum in accordance with paragraph (a) of this Section 6.3.

(c) **Change of Election.** A Participant may change an installment distribution election by filing a new installment distribution election with the Plan Administrator before the last Company business day of November of the second year that precedes the year the distribution is scheduled to commence pursuant to Section 6.4 (Timing of Distribution). There shall be no limitation on the number of times that a Participant may change his election in accordance with this paragraph (c).

**6.4 Timing of Distribution.**

(a) **Default Timing of Distribution.** Accounts shall be distributed within an administratively reasonable period of time following the Participant's termination of employment, death or Disability.

(b) **Deferral of Distribution.** A Participant may elect to defer the distribution of his accounts beyond his termination of employment, death or Disability by filing an election with the Plan Administrator: (1) while the Participant is employed by the Company or an Affiliate and (2) before the last Company business day of November in the year prior to the year during which the Participant's termination of employment, death or Disability occurs. If an election pursuant to this paragraph (b) cannot be honored because it was not timely filed, distributions shall be made in accordance with the most recent valid election made by the Participant that precedes the invalid election. If no such election exists, distributions shall be made within an administratively reasonable period of time following the Participant's termination of employment, death or Disability in accordance with paragraph (a) of this Section 6.4.

(c) **Change of Election.** An election made pursuant to paragraph (b) of this Section 6.4 or election made effective as a result of paragraph (e)(1) of this Section 6.4 may be changed by the Participant by filing a new election with the Plan Administrator: (1) while the Participant is employed by the Company or an Adopting Affiliate and (2) before the last Company business day of November in the year prior to the year during which the Participant's termination of employment, death or Disability occurs. There shall be no limitation on the number of times that a Participant may change his election in accordance with this paragraph (c).

(d) **Date Elected By Participant.** The date elected by a Participant pursuant to paragraphs (b) or (c) of this Section 6.4 must be the first day of any calendar quarter. Notwithstanding the foregoing, if as of the Effective Date, a Participant had made an election whereby the date of distribution elected is not the first day of a calendar quarter, such election shall be honored unless and until the Participant initiates a change to the timing of distribution pursuant to this Section 6.4 or the form of distribution pursuant to Section 6.3 (Form of Distribution).



**(e) Revocation of Election.**

**(1) Automatic Revocation.** If, as of the distribution date elected by the Participant pursuant to paragraphs (b) or (c) of this Section 6.4 the Participant, is: (i) employed by the Company or an Affiliate and (ii) not Disabled, such election shall be automatically revoked and distributions shall be made within an administratively reasonable period of time following the Participant's termination of employment, death or Disability in accordance with paragraph (a) of this Section 6.4. Notwithstanding the foregoing, if the distribution date is automatically revoked pursuant to this paragraph (e)(1) and the distribution was to be made in the form of cash installments pursuant to Section 6.3 (Form of Distribution), the date of distribution shall be the first day of the next calendar quarter that is within an administratively feasible period of time following the Participant's termination of employment, death or Disability in accordance with paragraph (a) of this Section 6.4. Nothing contained in this paragraph (e)(1) shall prevent a Participant from changing his election pursuant to paragraph (c) of this Section 6.4.

**(2) Election Irrevocable Following Termination of Employment.** At all times following the Participant's termination of employment with the Company or an Affiliate, the Participant's elections made pursuant to this Section 6.4 shall be irrevocable.

**6.5 Payment Upon Death.**

**(a) Beneficiary Designation.** If a Participant should die before receiving a full distribution of his Plan accounts, distribution shall be made to the beneficiary designated by the Participant, in accordance with such uniform rules and procedures as may be adopted by the Plan Administrator from time to time. If a Participant has not designated a beneficiary, or if no designated beneficiary is living on the date of distribution, then the Participant's beneficiary shall be that person or persons entitled to receive distributions of the Participant's accounts under the 401(k) Plan.

**(b) Timing and Form of Payment to Beneficiary.**

**(1) Payments Commenced at Time of Death.** If, at the time of the Participant's death, installment payments of the Participant's accounts have commenced pursuant to this Article VI, such payments shall continue to the Participant's beneficiary in the same time and the same form as if the Participant has remained alive until the last installment payment was scheduled to be made.

**(2) Payments Not Commenced at Time of Death.**

**(i) Default.** If, at the time of the Participant's death, payments of the Participant's accounts have not commenced pursuant to this Article VI, the distributions made pursuant to this Section 6.5 shall be made to the Participant's beneficiary in accordance with the then current and valid distribution elections (as to timing and form) made by the Participant (or, in the absence of such distribution elections, in accordance with the "default" provisions of this Article VI).

**(ii) Separate Election.** Notwithstanding the foregoing or anything herein to the contrary, a Participant may make separate elections regarding the timing and form of payments to his beneficiary upon his death. Such separate beneficiary elections shall be valid only if they meet the requirements of Section 6.3 (Form of Distribution) and Section 6.4 (Timing of Distribution). In addition, such separate beneficiary elections may be changed or revoked in accordance with Section 6.3 (Form of Distribution) and Section 6.4 (Timing of Distribution).

**(3) No Changes Permitted by Beneficiary.** In no event shall a beneficiary be permitted to change the time and/or form of payment relating to a Participant's accounts following such Participant's death either prior to or following such Participant's death.

**6.6 Scheduled Distributions.** The Plan as in effect prior to the Effective Date permitted a Participant to elect, at the time the Participant elected to make Deferral Credits, to schedule a distribution date for all or a portion of such Deferral Credits provided: (a) the distribution date scheduled by the Participant was the first day of any calendar quarter and (b) the distribution date scheduled by the Participant was at least four years later than the last day of the Plan Year that includes the Deferral Credits to which the election relates. As of the Effective Date, no Participant had such a scheduled distribution election on file with the Plan Administrator. Because Deferral Credits have ceased pursuant to Section 3.1 (Credits Ceased) and because there are no scheduled distribution elections on file, the scheduled distribution provisions of the Plan as in effect prior to the Effective Date are now without effect.

**6.7 Unscheduled Distributions.** Notwithstanding anything herein to the contrary, a Participant may elect to receive a lump-sum cash distribution of his Plan accounts at any time while employed by the Company or an Affiliate in accordance with this Section 6.7 and the uniform and non-discriminatory procedures adopted by the Plan Administrator.

(a) **Amount of Distribution.** A Participant may elect to receive five percent to one hundred percent (designated in whole percentages by the Participant) of his Post-1996 Deferrals. Notwithstanding the foregoing, in no event shall the amount of the distribution made pursuant to this Section 6.7 be less than \$10,000.00 (determined prior to the application of the forfeiture described in paragraph (b) below).

(b) **Forfeiture.** Any distribution made pursuant to this Section 6.7 shall be subject to a forfeiture equal to 10% of the amount elected.

(c) **Election Applies to SEIP.** An election for an unscheduled distribution pursuant to this Section 6.7 shall also apply as an election for an unscheduled distribution pursuant to the terms and provisions of the Caterpillar Inc. Supplemental Employees' Investment Plan.

**6.8 Withholding.** All distributions will be subject to all applicable tax and withholding requirements.

## **ARTICLE VII SPIN-OFF TO SDCP**

**7.1 General.** In response to the enactment of Section 409A of the Code and pursuant to transitional guidance issued by the Internal Revenue Service and the Department of Treasury, Deferrals Credits and Matching Credits have been frozen and all amounts deferred and vested on and before December 31, 2004 are "grandfathered" and thus are not subject to the requirements of Section 409A. The Deferral Credits and Matching Credits made pursuant to the Plan from January 1, 2005 through the Effective Date (including the earnings/losses thereon) will be spun-off to SDCP as provided in this Article VII.

**7.2 Amounts Spun-Off.** All amounts credited to participant accounts pursuant to this Plan on or after January 1, 2005 and through the Effective Date and not fully distributed on or before April 1, 2007 shall be spun-off and allocated to Plan accounts as provided in Section 7.3 (Allocation of Amounts). The amounts deferred prior to January 1, 2005 shall be determined in accordance with Q&A-17 of I.R.S. Notice 2005-1 and any other applicable guidance issued by the Internal Revenue Service or the Department of Treasury.

**7.3 Allocation of Amounts.** A Participant's Post-2004 Deferrals shall be allocated to the Participant's accounts in SDCP as provided therein.

**7.4 Deferral Elections.** Deferral elections made by participants pursuant to the Plan for amounts to be deferred in 2007 following the Effective Date shall apply to SDCP as provided therein.

**7.5 Effective Date of Spin-Off.** The spin-off described in this Article VII shall be effective as of 11:59:59 P.M. on the Effective Date.

## ARTICLE VIII ADMINISTRATION OF THE PLAN

**8.1     General Powers and Duties.** The following list of powers and duties is not intended to be exhaustive, and the Plan Administrator shall, in addition, exercise such other powers and perform such other duties as he may deem advisable in the administration of the Plan, unless such powers or duties are expressly assigned to another pursuant to the provisions of the Plan.

(d)     **General.** The Plan Administrator shall perform the duties and exercise the powers and discretion given to him in the Plan document and by applicable law and his decisions and actions shall be final and conclusive as to all persons affected thereby. The Company and the Adopting Affiliates shall furnish the Plan Administrator with all data and information that the Plan Administrator may reasonably require in order to perform his functions. The Plan Administrator may rely without question upon any such data or information.

(e)     **Disputes.** Any and all disputes that may arise involving Participants or beneficiaries shall be referred to the Plan Administrator and his decision shall be final. Furthermore, if any question arises as to the meaning, interpretation or application of any provisions of the Plan, the decision of the Plan Administrator shall be final.

(f)     **Agents.** The Plan Administrator may engage agents, including recordkeepers, to assist him and he may engage legal counsel who may be counsel for the Company. The Plan Administrator shall not be responsible for any action taken or omitted to be taken on the advice of such counsel, including written opinions or certificates of any agent, counsel, actuary or physician.

(g)     **Insurance.** At the Director's request, the Company shall purchase liability insurance to cover the Director in his activities as the Plan Administrator.

(h)     **Allocations.** The Plan Administrator is given specific authority to allocate responsibilities to others and to revoke such allocations. When the Plan Administrator has allocated authority pursuant to this paragraph, the Plan Administrator is not to be liable for the acts or omissions of the party to whom such responsibility has been allocated.

(i)     **Records.** The Plan Administrator shall supervise the establishment and maintenance of records by its agents, the Company and each Adopting Affiliate containing all relevant data pertaining to any person affected hereby and his or her rights under the Plan.

(j)     **Interpretations.** The Plan Administrator, in his sole discretion, shall interpret and construe the provisions of the Plan (and any underlying documents or policies).

(k)     **Electronic Administration.** The Plan Administrator shall have the authority to employ alternative means (including, but not limited to, electronic, internet, intranet, voice response or telephonic) by which Participants may submit elections, directions and forms required for participation in, and the administration of, the Plan. If the Plan Administrator chooses to use these alternative means, any elections, directions or forms submitted in accordance with the rules and procedures promulgated by the Plan Administrator will be deemed to satisfy any provision of the Plan calling for the submission of a written election, direction or form.

(l)     **Accounts.** The Plan Administrator shall combine the various accounts of a Participant if he deems such action appropriate. Furthermore, the Plan Administrator shall divide a Participant's accounts into sub-accounts if he deems such action appropriate.

(m)     **Delegation.** The Plan Administrator may delegate his authority hereunder, in whole or in part, in his sole and absolute discretion.

**8.2     Certain Exercise of Discretion Prohibited.** Notwithstanding anything herein to the contrary, the Plan Administrator (or any other individual or entity to whom the power to exercise discretion hereunder is granted) shall not exercise the discretion granted in a manner that would create a “material modification” (as determined pursuant to Notice 2005-1 and any other applicable guidance issued by the Internal Revenue Service or the Department of Treasury) to the Plan as it was in effect on October 3, 2004.

**8.3     Claims Procedures.** Benefit claims under the Plan shall be resolved in accordance with uniform and nondiscriminatory procedures adopted by the Plan Administrator in accordance with Section 503 of ERISA.

## **ARTICLE IX AMENDMENT**

**9.1     Amendment.** The Company shall have the right at any time to amend, in whole or in part, any or all of the provisions of this Plan by action of the Board of Directors of the Company; provided, however, if the amendment does not constitute a reallocation of fiduciary duties among those designated to act under the Plan or an allocation of fiduciary duties to committees and/or persons not previously designated to act under the Plan, then the Company’s Vice President, Human Services Division, shall have the authority to amend the Plan, acting in consultation with the Company’s Chairman of the Board and the appropriate Group President(s) of the Company (or in consultation with the full Board of Directors if the Chairman of the Board deems it necessary and appropriate). The Company’s Vice President, Human Services Division, may designate any other officer(s) of the Company as having authority to amend the Plan in the Vice President’s absence, which officer shall also act in consultation with the Company’s Chairman of the Board and the appropriate Group President(s) of the Company (or in consultation with the full Board of Directors if the Chairman of the Board deems it necessary and appropriate).

**9.2     Effect of Amendment.** Any amendment of the Plan shall not directly or indirectly reduce the balance of any Plan account as of the effective date of such amendment. Notwithstanding the foregoing or anything in this Plan to the contrary, any amendment to the Plan effective on or after October 3, 2004 that creates a “material modification” (as determined pursuant to Notice 2005-1 and any other applicable guidance issued by the Internal Revenue Service or the Department of Treasury) shall only be effective if such amendment expressly states an intent by the Company to materially modify the Plan (and thus subject it to Section 409A of the Code).

**9.3     Termination.** To the extent permitted by applicable law, the Company expressly reserves the right to terminate the Plan at any time. Pursuant to the foregoing and the provisions of Sections 9.1 and 9.2, the Plan is irrevocably terminated with respect to all GSCS Participants upon the GSCS Closing Date and no GSCS Participant shall accrue any benefits under the Plan for any purpose after the GSCS Closing Date. Pursuant to termination of the Plan with respect to GSCS Participants pursuant to this Section 9.3, the balance in each GSCS Participant’s account under the Plan shall be distributed to the GSCS Participant in a single lump-sum payment as soon as practicable after the GSCS Closing Date, but in no event later than December 31 next following the GSCS Closing Date. For purposes of the preceding sentence, the balance in each GSCS Participant’s account shall be determined as of the Valuation Date occurring coincident with or next preceding the date of distribution.

## **ARTICLE X GENERAL PROVISIONS**

**10.1    Participant’s Rights Unsecured.** The Plan at all times shall be entirely unfunded and no provision shall at any time be made with respect to segregating any assets of the Company for payment of any distributions hereunder. The right of a Participant or his or her designated beneficiary to receive a distribution hereunder shall be an unsecured claim against the general assets of the Company, and neither the Participant nor a designated beneficiary shall have any rights in or against any specific assets of the Company. All amounts credited to a Participant’s accounts hereunder shall constitute general assets of the Company and may be disposed of by the Company at such time and for such purposes as it may deem appropriate. Nothing in this Section shall preclude the Company from establishing a “Rabbi Trust,” but the assets in the Rabbi Trust must be available to pay the claims of the Company’s general creditors in the event of the Company’s insolvency.

**10.2 No Guaranty of Benefits.** Nothing contained in the Plan shall constitute a guaranty by the Company or any other person or entity that the assets of the Company will be sufficient to pay any benefit hereunder.

**10.3 No Enlargement of Employee Rights.** No Participant shall have any right to receive a distribution from the Plan except in accordance with the terms of the Plan. Participation in the Plan shall not be construed to give any Participant the right to be retained in the service of the Company or an Adopting Affiliate.

**10.4 Section 409A.**

(a) **Material Modification.** Notwithstanding anything contained herein to the contrary, this amendment and restatement of the Plan does not, and is not intended to, create a “material modification” (as determined pursuant to Notice 2005-1 and any other applicable guidance issued by the Internal Revenue Service or the Department of Treasury) to the Plan as it was in effect on October 3, 2004 which would subject the Plan to the requirements of Section 409A of the Code. This document shall be construed and interpreted in a manner consistent with that intention.

(b) **Good Faith Compliance.** The Deferral Credits and Matching Credits made from January 1, 2005 through the Effective Date (including the earnings/losses thereon) have been administered pursuant to the Plan in “good faith” compliance with Section 409A of the Code pursuant to transitional guidance issued by the Internal Revenue Service and the Department of Treasury.

**10.5 Spendthrift Provision.** No interest of any person or entity in, or right to receive a distribution under, the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor shall any such interest or right to receive a distribution be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including claims in bankruptcy proceedings. This Section shall not preclude arrangements for the withholding of taxes from deferrals, credits, or benefit payments, arrangements for the recovery of benefit overpayments, arrangements for the transfer of benefit rights to another plan, or arrangements for direct deposit of benefit payments to an account in a bank, savings and loan association or credit union (provided that such arrangement is not part of an arrangement constituting an assignment or alienation).

**10.6 Domestic Relations Orders.** Notwithstanding any provision of the Plan to the contrary, and to the extent permitted by law, the Participant’s accounts may be assigned or alienated pursuant to a “Domestic Relations Order” (as such term is defined in Section 414(p)(1)(B) of the Code), subject to such uniform rules and procedures as may be adopted by the Plan Administrator from time to time.

**10.7 Incapacity of Recipient.** If the Plan Administrator is served with a court order holding that a person entitled to a distribution under the Plan is incapable of personally receiving and giving a valid receipt for such distribution, the Plan Administrator shall postpone payment until such time as a claim therefore shall have been made by a duly appointed guardian or other legal representative of such person. The Plan Administrator is under no obligation to inquire or investigate as to the competency of any person entitled to a distribution. Any payment to an appointed guardian or other legal representative under this Section shall be a payment for the account of the incapacitated person and a complete discharge of any liability of the Company and the Plan therefore.

**10.8 Successors.** The Plan shall be binding upon the successors and assigns of the Company and upon the heirs, beneficiaries and personal representatives of the individuals who become Participants hereunder.

**10.9 Limitations on Liability.** Notwithstanding any of the preceding provisions of the Plan, neither the Plan Administrator, the Company, nor any individual acting as the Plan Administrator’s, or the Company’s employee, agent, or representative shall be liable to any Participant, former Participant, beneficiary or other person for any claim, loss, liability or expense incurred in connection with the Plan.

**10.10 Conflicts.** If any person holds a position under the Plan through which he or she is charged with making a decision about the administration of his or her own (or any immediate family member's) Plan participation, including, without limitation, decisions regarding eligibility, or account valuation, or the administration of his or her Plan investments, then such person shall be recused and the decision shall be made by the Plan Administrator. If a decision is required regarding the administration of the Plan Administrator's Plan participation, including without limitation, decisions regarding eligibility, or account valuation, or the administration of his or her Plan investments, such decision shall be made by the Company's Vice President, Human Services Division. Nothing in this Section 10.10 shall be construed to limit a Participant's or the Plan Administrator's ability to make decisions or elections with regard to his or her participation in the Plan in the same manner as other Participants.

**CATERPILLAR INC.  
SUPPLEMENTAL RETIREMENT PLAN**

**(formerly known as the Caterpillar Inc. Supplemental Pension Benefit Plan)**

**(As Amended and Restated Effective July 31, 2012)**

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**CATERPILLAR INC.  
SUPPLEMENTAL RETIREMENT PLAN**

**PREAMBLE**

The Caterpillar Inc. Supplemental Retirement Plan (formerly known as the Caterpillar Inc. Supplemental Pension Benefit Plan and hereinafter referred to as the “Plan”) was established as of January 1, 1976 by Caterpillar Inc. (the “Company”) to provide additional pension benefits to individuals who participate in the Caterpillar Inc. Retirement Income Plan, as amended, or any successor(s) to such plan (“RIP”), but whose benefits are limited due to the application of Section 401(a)(17) and/or Section 415 of the Internal Revenue Code of 1986, as amended. The Plan also provides the benefits that would otherwise be payable pursuant to RIP but for (i) an individual’s deferral of compensation under the Caterpillar Inc. Deferred Employees’ Investment Plan, the Caterpillar Inc. Supplemental Employees’ Investment Plan, or the Caterpillar Inc. Supplemental Deferred Compensation Plan or (ii) the exclusions from “Total Earnings” under RIP for an individual’s lump sum discretionary awards and variable base pay. This amended and restated Plan is effective as of January 1, 2005.

**ARTICLE I  
DEFINITIONS**

**1.1 General.** When a word or phrase appears in the Plan with the initial letter capitalized, and the word or phrase does not begin a sentence, the word or phrase shall generally be a term defined in this Article I. The following words and phrases used in the Plan with the initial letter capitalized shall have the meanings set forth in this Article I, unless a clearly different meaning is required by the context in which the word or phrase is used or the word or phrase is defined for a limited purpose elsewhere in the Plan document:

(a) **“Adopting Affiliate”** means any Affiliate that has been authorized by the Company to adopt the Plan and which has adopted the Plan in accordance with Section 2.5. All Affiliates that adopted the Plan on or before the Effective Date and that had not terminated such adoption shall continue to be Adopting Affiliates of the Plan.

(b) **“Affiliate”** means a parent business that controls, or a subsidiary business that is controlled by, the Company.

(c) **“Beneficiary”** means, with respect to a Participant, the person or persons entitled to receive distributions of the Participant’s death benefits under RIP.

(d) **“Benefit Determination Date”** means the following:

(i) **“On or After Effective Date But Prior to January 1, 2009.”** On or after the Effective Date but prior to January 1, 2009, a Participant’s Benefit Determination Date shall be the date as of which the Participant has elected to commence benefits under RIP.

(ii) **“On or After January 1, 2009.”** On or after January 1, 2009, a Participant’s Benefit Determination Date shall be the date determined under (1) or (2) below:

(i) With respect to (x) a Participant’s PEP Benefit (as defined in Section 3.2(b)), (y) a Choice Participant’s benefits under this Plan, or (z) a Participant’s Traditional Benefit (as defined in Section 3.2(a)) where the Participant satisfies the requirements under Section 5.2(d)(1)(i), (ii), (iii), (iv), or (v) as of the Participant’s Separation from Service, the Participant’s Benefit Determination Date shall be the first day of the month following the Participant’s Separation from Service.

(ii) With respect to a Participant’s Traditional Benefit (as defined in Section 3.2(a)) for a Participant other than a Choice Participant where the Participant does not satisfy the requirements under Section 5.2(d)(1)(i), (ii), (iii), (iv), or (v) as of the Participant’s Separation from Service, the Participant’s Benefit Determination Date

shall be the first day of the month following the date that the Participant first satisfies the requirements under Section 5.2 (d)(1)(i), (ii), (iii), (iv), or (v).

(e) “**Benefit Payment Date**” means the date as of which the Participant’s benefit amounts under the Plan shall be payable, as determined in accordance with Section 5.2(d).

(f) “**Board**” means the Board of Directors of the Company, or any authorized committee of the Board.

(g) “**Choice Participant**” means a Participant who (i) has a “frozen traditional benefit” under RIP as a result of the election made by such Participant to cease accruing a benefit under the traditional benefit formula of RIP and to begin accruing a benefit under the pension equity formula of RIP and (ii) had accrued a Traditional Benefit (as defined in Section 3.2(a)) under this Plan as of June 30, 2003.

(h) “**Code**” means the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

(i) “**Company**” means Caterpillar Inc., and, to the extent provided in Section 8.8 below, any successor corporation or other entity resulting from a merger or consolidation into or with the Company or a transfer or sale of substantially all of the assets of the Company.

(j) “**DEIP**” means the Caterpillar Inc. Deferred Employees’ Investment Plan, as amended.

(k) “**Director**” means the Company’s Director of Compensation + Benefits.

(l) “**Disability**” or “**Disabled**” means that a Participant is determined to be totally disabled by the United States Social Security Administration.

(m) “**Effective Date**” means January 1, 2005.

(n) “**ERISA**” means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any regulations promulgated thereunder.

(o) “**Lump Sum Discretionary Award**” means any lump sum discretionary award paid to a Participant as determined in accordance with the established pay practices of the Company and Adopting Affiliates.

(p) “**Participant**” means an employee of the Company or any Adopting Affiliate who satisfies the eligibility requirements for participation in the Plan.

(q) “**Plan**” means the Caterpillar Inc. Supplemental Retirement Plan, as set forth herein and as it may be amended from time to time.

(r) “**Plan Administrator**” means the Director.

(s) “**Plan Year**” means the calendar year.

(t) “**RIP**” means the Caterpillar Inc. Retirement Income Plan, as amended or any successor(s) to such plan.

(u) “**SDCP**” means the Caterpillar Inc. Supplemental Deferred Compensation Plan, as amended or any successor(s) to such plan.

(v) “**SEIP**” means the Caterpillar Inc. Supplemental Employees’ Investment Plan, as amended.

(w) **“Separation from Service”** means separation from service as determined in accordance with any regulations, rulings or other guidance issued by the Department of the Treasury pursuant to Section 409A(a)(2)(A)(i) of the Code, as it may be amended or replaced from time to time.

(x) **“Specified Employee”** means a “key employee” as defined in Section 416(i) of the Code without regard to Section 416(i)(5) and determined in accordance with Section 409A(a)(2)(B)(i) of the Code.

(y) **“Unforeseeable Emergency”** means a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant’s spouse, or a dependent (as defined in Section 152(a) of the Code) of the Participant, loss of the Participant’s property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. For purposes of the Plan, an “Unforeseeable Emergency” shall not include a Participant’s need to send his or her child to college or a Participant’s desire to purchase a home. Any determination as to whether a Participant has incurred an Unforeseeable Emergency shall be made in the sole discretion of the Plan Administrator in accordance with rules prescribed pursuant to Section 409A of the Code.

(z) **“Variable Base Pay”** means the variable base pay paid to a Participant as determined in accordance with the established pay practices of the Company and Adopting Affiliates.

(aa) **“Sunset Participant”** means a Participant who is classified as a “Sunset Participant” under the terms of RIP.

(bb) **“GSCS”** means Caterpillar Logistics Services LLC (f/k/a Caterpillar Logistics Services, Inc.).

(cc) **“GSCS Participant”** means a Participant who is employed by GSCS upon the closing of the sale of GSCS to an entity that is not an Affiliate.

(dd) **“GSCS Closing Date”** means the date on which the sale of GSCS to an entity that is not an Affiliate is completed.

**1.2 Construction.** The masculine gender, when appearing in the Plan, shall include the feminine gender (and vice versa), and the singular shall include the plural, unless the Plan clearly states to the contrary. Headings and subheadings are for the purpose of reference only and are not to be considered in the construction of the Plan. If any provision of the Plan is determined to be for any reason invalid or unenforceable, the remaining provisions shall continue in full force and effect. All of the provisions of the Plan shall be construed and enforced according to the laws of the State of Illinois without regard to conflict of law principles and shall be administered according to the laws of such state, except as otherwise required by ERISA, the Code, or other Federal law.

## **ARTICLE II**

### **ELIGIBILITY; ADOPTION BY AFFILIATES**

**2.1 Eligible Employees.** The purpose of the Plan is to provide supplemental retirement benefits to a select group of management or highly compensated employees. This group of employees is sometimes referred to as a “top hat group.” The Plan constitutes an unfunded supplemental retirement plan and is fully exempt from Parts 2, 3, and 4 of Title I of ERISA. The Plan shall be governed and construed in accordance with Title I of ERISA.

**2.2 Existing Participants.** Each individual who was a Participant in the Plan as of the date of execution of this plan document shall continue as such, subject to the provisions hereof.

**2.3 New Participants.** An employee shall participate in the Plan if the employee is receiving, is eligible to receive, or is accruing retirement benefits pursuant to RIP; and

- (a) the employee's RIP benefits are limited by application of Section 401(a)(17) of the Code;
- (b) the employee's RIP benefits are limited by application of Section 415(b) of the Code;
- (c) the employee's RIP benefits are decreased due to the employee's deferral of salary or incentive compensation under SEIP, DEIP or SDCP; or
- (d) the employee's RIP benefits are limited due to the exclusions from "Total Earnings" (as defined under RIP) for the employee's Lump Sum Discretionary Awards and Variable Base Pay.

**2.4 Discontinuance of Participation.** As a general rule, once an individual is a Participant, he will continue as such for all future Plan Years until his retirement or other termination of employment. In addition, prior to retirement or other termination of employment, the Plan Administrator shall discontinue an individual's participation in the Plan if the Plan Administrator concludes, in the exercise of his discretion, that the individual is no longer properly included in the top hat group. If an individual's participation is discontinued, the individual will no longer be eligible to accrue a benefit under the Plan. The individual will not be entitled to receive a distribution, however, until the occurrence of another event (e.g., death or Separation from Service) that entitles the individual to receive a distribution.

**2.5 Adoption by Affiliates.** An employee of an Affiliate may not become a Participant in the Plan unless the Affiliate has previously adopted the Plan. An Affiliate of the Company may adopt the Plan only with the approval of the Company. By adopting the Plan, the Affiliate shall be deemed to have agreed to assume the obligations and liabilities imposed upon it by the Plan, agreed to comply with all of the other terms and provisions of the Plan, delegated to the Plan Administrator the power and responsibility to administer the Plan with respect to the Affiliate's employees, and delegated to the Company the full power to amend or terminate the Plan with respect to the Affiliate's employees. Notwithstanding the foregoing, an Affiliate that has previously adopted the Plan may terminate its participation in the Plan in accordance with such rules and procedures that are promulgated by the Company.

### **ARTICLE III DETERMINATION OF BENEFIT**

**3.1 General.** Benefit amounts payable under the Plan shall be determined pursuant to Section 3.2 and, if applicable, adjusted pursuant to Section 3.4. Such determinations shall be made by reference to (a) the benefit amounts that would be payable to the Participant under RIP if SEIP, DEIP and SDCP deferrals and any Lump Sum Discretionary Awards or Variable Base Pay were taken into account in determining the Participant's benefits thereunder and (b) without regard to the applicable limitations under Sections 401(a)(17) and 415 of the Code. For avoidance of doubt, effective January 1, 2011, any Participant who is not a Sunset Participant shall not receive any additional benefit accruals under this Article III, and any Sunset Participant shall not receive any additional benefit accruals under this Article III effective as of the earlier of: (1) the date he is no longer a Sunset Participant or (2) January 1, 2020.

**3.2 Amount of Benefit Payable to Participant.** The monthly benefit payable to the Participant by the Plan shall be equal to the sum of the Participant's "Traditional Benefit" and "PEP Benefit" amounts (both as defined below), if any, determined under subsections (a) and (b) below as of the Participant's Benefit Determination Date:

(a) **"Traditional Benefit"**. Any benefit payable to the Participant by the Plan under the "traditional benefit" provisions of RIP, as it may be amended from time to time, shall be determined as follows:

(1) **Step One.** The Plan Administrator shall determine the benefit that would be payable to the Participant pursuant to RIP if SEIP, DEIP and SDCP deferrals and any Lump Sum Discretionary Awards or Variable Base Pay were taken into account and without regard to the applicable limitations under Sections 401(a)(17) and 415 of the Code. For purposes of this Section 3.2(a)(1), the parenthetical phrase of Section 5.2 of RIP reading "(2% for Participants in salary grades 30 or 31, 2.25% for Participants in salary grade 32, 2.4% for Participants in salary grades 33 or higher)" shall be disregarded.

(2) **Step Two.** The Plan Administrator shall determine the Participant's benefit that would be payable pursuant to RIP (as calculated as of the Participant's Benefit Determination Date).

(3) **Step Three.** The amount determined pursuant to paragraph (2) above shall be subtracted from the amount determined pursuant to paragraph (1) above to determine the benefit payable to the Participant pursuant to this Section 3.2(a) of the Plan (herein referred to as a Participant's "Traditional Benefit").

(b) **"PEP Benefit".** Any benefit payable by the Plan to the Participant under the "pension equity formula" provisions of RIP, as it may be amended from time to time, shall be determined as follows:

(1) **Step One.** The Plan Administrator shall determine the single sum amount that would be payable to the Participant pursuant to RIP if SEIP, DEIP and SDCP deferrals and any Lump Sum Discretionary Awards or Variable Base Pay were taken into account and without regard to the applicable limitations under Sections 401(a)(17) and 415 of the Code.

(2) **Step Two.** The Plan Administrator shall determine the Participant's single sum amount that would be payable pursuant to RIP (as calculated as of the Participant's Benefit Determination Date).

(3) **Step Three.** The amount determined pursuant to paragraph (2) above shall be subtracted from the amount determined pursuant to paragraph (1) above to determine the single sum amount payable to the Participant pursuant to this Section 3.2(b) of the Plan (herein referred to as a Participant's "PEP Benefit").

**3.3 Survivor Benefits.** In the event a Participant dies after becoming vested under the Plan pursuant to Section 4.1 but prior to commencing his benefits under the Plan pursuant to Article V, a survivor benefit shall be payable as follows:

(a) **Traditional Benefit.** With respect to a Participant's Traditional Benefit, if any, determined under Section 3.2(a) (and, if applicable, adjusted under Section 3.4), the Participant's surviving spouse, if any, shall be entitled to a monthly survivor benefit payable during the spouse's lifetime and terminating with the payment for the month in which such spouse's death occurs. The monthly benefit payable to the surviving spouse shall be the portion of the amount determined under Section 3.2(a) (and, if applicable, adjusted under Section 3.4) as of the Participant's Benefit Determination Date that the surviving spouse would have been entitled to receive under this Plan if the Participant had separated from service on the date of his death, commenced benefits in accordance with Article V in the form of a 50% joint and survivor annuity, and then died immediately thereafter. A surviving spouse who was not married to the deceased Participant for at least one year at the date of death shall not be eligible for the monthly survivor benefit pursuant to this Section 3.3.

(b) **PEP Benefit.** With respect to a Participant's PEP Benefit, if any, determined under Section 3.2 (b), such benefit shall be paid to the Participant's Beneficiary in a single sum amount as soon as administratively feasible after the Benefit Determination Date.

(c) **Certain Choice Participant Benefits.** Notwithstanding the provisions of (a) and (b) above, with respect to a Choice Participant who does not make a contrary election pursuant to Section 5.2(c)(3), such Participant's Beneficiary shall receive a single sum amount equal to the actuarial equivalent present value (using the actuarial assumptions under RIP applicable to the Participant as of his or her Benefit Determination Date) of the Participant's Traditional Benefit and PEP Benefit calculated as of the date specified in Section 5.2(d)(1)(i), and as further adjusted by using the actuarial assumptions under RIP applicable to the Beneficiary as of the Participant's Benefit Determination Date. Notwithstanding the foregoing, if a Choice Participant makes an election pursuant to Section 5.2(c)(3) to receive his or her benefits under the Plan in the form of monthly annuity payments, his or her Beneficiary, in lieu of the single sum amount described in the preceding sentence, shall receive a monthly benefit paid for the remainder of the Beneficiary's life; provided that, the Beneficiary's monthly benefit shall be equal to the actuarially equivalent monthly benefit of such single sum amount (using the actuarial assumptions

under RIP applicable to the Beneficiary as of the Participant's Benefit Determination Date); provided further that, in no event shall the Beneficiary's monthly benefit be less than the monthly survivor benefit determined under Section 3.3 (a) that, but for this Section 3.3(c), would have been payable to the Participant's surviving spouse (or, if there is no surviving spouse, would have been payable under Section 3.3(a) had the Participant died with a surviving spouse). Any single sum amount or monthly benefit determined under this Section 3.3(c) shall be payable to the Participant's Beneficiary as soon as administratively feasible after the date of the Participant's death.

**3.4 Early Retirement Reductions.** Any benefits determined pursuant to this Article III shall be subject to the same reductions for early retirement as applicable under RIP.

**3.5 Future Adjustments.** Any benefit amounts payable under this Plan may be adjusted to take into account future amendments to RIP and increases in retirement income that are granted under RIP due to cost-of-living increases. Any benefit amounts payable under this Plan shall be adjusted to take into account future factors and adjustments made by the Secretary of the Treasury (in regulations or otherwise) to the limitations under Sections 401(a)(17) and 415 of the Code.

#### **ARTICLE IV VESTING**

**4.1 Vesting.** Subject to Section 8.1, each Participant shall be vested in his or her benefit, if any, that becomes payable under Article V of the Plan to the same extent that the Participant is vested in his or her benefit accrued under RIP. Notwithstanding the foregoing provisions of this Section 4.1, each GSCS Participant shall be fully vested at all times from and after the GSCS Closing Date in his or her benefit payable under the Plan.

#### **ARTICLE V PAYMENT OF BENEFIT**

**5.1 Payments on or After Effective Date But Prior to January 1, 2009.** In accordance with the transitional guidance issued by the Internal Revenue Service and the Department of Treasury in Section 3 of IRS Notice 2007-86, any payment of benefits to a Participant or his Beneficiary commencing on or after the Effective Date but prior to January 1, 2009 shall be made pursuant to the Participant's applicable payment election or the applicable pre-retirement survivor provisions under RIP.

**5.2 Payments on or After January 1, 2009.** Any payment of benefits to a Participant commencing on or after January 1, 2009 shall be determined in accordance with this Section 5.2.

**(a) Limitation on Right to Receive Distribution.** A Participant shall not be entitled to receive a distribution prior to the first to occur of the following events:

- (1) The Participant's Separation from Service, or in the case of a Participant who is a Specified Employee, the date which is six months after the Participant's Separation from Service;
- (2) The date the Participant becomes Disabled;
- (3) The Participant's death;
- (4) A specified time (or pursuant to a fixed schedule) specified at the date of deferral of compensation;
- (5) An Unforeseeable Emergency; or

(6) To the extent provided by the Secretary of the Treasury, a change in the ownership or effective control of the Company or an Adopting Affiliate or in the ownership of a substantial portion of the assets of the Company or an Adopting Affiliate.

This Section 5.2(a) restates the restrictions on distributions set forth in Section 409A of the Code and is intended to impose restrictions on distributions pursuant to the Plan accordingly. This Section 5.2(a) does not describe the instances in which distributions will be made. Rather, distributions will be made only if and when permitted both by this Section 5.2(a) and another provision of the Plan.

(b) **General Right to Receive Distribution.** Following a Participant's termination of employment or death, the Participant's benefit amounts will be paid to the Participant in the manner and at the time provided in Sections 5.2(c) and 5.2(d), as applicable. A transfer of a Participant from the Company or any Affiliate to any other Affiliate or the Company shall not be deemed to be a termination of employment for purposes of this Section 5.2(b).

(c) **Form of Payment.**

(1) **Traditional Benefit.** Any monthly benefit payable to a Participant under Section 3.2 (a) (and, if applicable, adjusted under Section 3.4) shall be paid in the form of annuity payments as follows:

(i) **Unmarried Participants.** The benefits of an unmarried Participant shall be paid in the form of a single life annuity for the Participant's life. No payments shall be made after the Participant dies. Notwithstanding the foregoing, in accordance with uniform rules and procedures as may be adopted by the Plan Administrator from time to time, an unmarried Participant may elect, in lieu of a single life annuity, to have his or her benefits paid in any actuarially equivalent form of annuity permitted under RIP.

(ii) **Married Participants.** Subject to Section 3.3, the benefits of a married Participant shall be paid in the form of a joint and survivor annuity in a reduced monthly benefit for the Participant's life (as determined in accordance with the applicable actuarial assumptions in effect under RIP) and then, if the Participant's spouse is still alive, a benefit equal to 50% of the Participant's monthly benefit is paid to the spouse for the remainder of his or her life. If the Participant's spouse is not alive when the Participant dies, no further payments shall be made. Notwithstanding the foregoing, in accordance with uniform rules and procedures as may be adopted by the Plan Administrator from time to time, a married Participant may, with the written consent of the Participant's spouse, elect to waive the joint and survivor annuity of this subparagraph (ii) and instead elect a single life annuity or any actuarially equivalent form of annuity permitted under RIP.

In addition, if the Participant's Benefit Payment Date, as described in clauses (i)-(v) of Section 5.2(d)(1), is delayed pursuant to the last sentence of Section 5.2(d)(1), then any monthly benefit amounts that would have been paid if not for such last sentence will be credited with interest at five percent (5%) per annum through the Participant's Benefit Payment Date. Such delayed monthly benefit amounts and interest shall be paid in a single sum amount as soon as administratively feasible after such Benefit Payment Date.

(2) **PEP Benefit.** Any benefit payable to a Participant determined under Section 3.2(b) shall be paid in a single sum amount. In addition, if the Participant's Benefit Payment Date, as described in Section 5.2(d)(2), is delayed pursuant to the first sentence of Section 5.2(d)(2), then any single sum amount that would have been paid if not for such first sentence will be credited with interest at five percent (5%) per annum through the Participant's Benefit Payment Date. Such interest shall be paid in a single sum amount as soon as administratively feasible after such Benefit Payment Date.

(3) **Special One-Time Election for Choice Participants.** Pursuant to the transitional guidance issued by the Internal Revenue Service and the Department of Treasury, the Plan Administrator shall provide a special one-time election to Choice Participants whose benefits have not commenced as of December 31, 2008, to elect to

have their benefits paid other than in the forms otherwise described in (1) and (2) above, subject to such procedures as are established by the Plan Administrator; provided that, if a Choice Participant does not make such an election, any benefit amounts under the Plan that become payable to such Choice Participant shall be paid in the forms described in (1) and (2) above, as applicable. In addition, if the Participant's Benefit Payment Date, as described in Section 5.2(d)(3), is delayed pursuant to Section 5.2(d)(3), then any monthly benefit amounts or single sum amounts that would have been paid if not for such delay will be credited with interest at five percent (5%) per annum through the Participant's Benefit Payment Date in accordance with the applicable provisions of (1) and (2) above. Such delayed monthly benefit amounts or single sum amounts and interest shall be paid in a single sum amount as soon as administratively feasible after such Benefit Payment Date.

**(d) Timing of Payment.**

(1) **Traditional Benefit.** Except as provided below, any benefit determined under Section 3.2(a) (and, if applicable, adjusted under Section 3.4) that becomes payable to the Participant following Separation from Service shall commence on the first day of the month following the earliest of the following:

- (i) the Participant's attainment of age 65 or, if later, the Participant's fifth anniversary of the date he or she commenced participation under RIP;
- (ii) the Participant's attainment of age 55 with the number of the Participant's years of vesting service plus his or her age equaling at least 85;
- (iii) the Participant's attainment of age 60 after completing at least 10 years of vesting service;
- (iv) the Participant's attainment of age 55 after completing at least 15 years of vesting service; or
- (v) the Participant's completing at least 30 years of vesting service.

For purposes of (ii), (iii), (iv) or (v) above, the Plan Administrator shall determine the Participant's "years of vesting service" by reference to the applicable terms under RIP in existence as of the date the Participant first commenced participation under this Plan.

Notwithstanding the foregoing provisions of this Section 5.2(d)(1), in no event shall any benefit payable to a Participant under Section 3.2(a) (and, if applicable, adjusted under Section 3.4) commence earlier than the first day of the month coincident with or next following a date that is at least six months after the Participant's Separation from Service, except in the event of the Participant's death, in which case any benefit payable to the Participant's Beneficiary shall commence as of the applicable date specified in Section 3.3(a).

(2) **PEP Benefit.** Any benefit determined under Section 3.2(b) that becomes payable to the Participant following Separation from Service shall be paid on the first day of the month that is at least six months after the Participant's Separation from Service. Notwithstanding the foregoing, in the event of the Participant's death, any benefit payable to the Participant's Beneficiary will be paid as soon as administratively feasible after the date of the Participant's death.

(3) **Certain Choice Participant Benefits.** Any benefits that become payable to a Choice Participant following Separation from Service shall be paid on the first day of the month that is at least six months after the Participant's Separation from Service. Notwithstanding the foregoing, in the event of the Participant's death, any benefit payable to the Participant's Beneficiary will be paid as soon as administratively feasible after the date of the Participant's death.



**5.3 Automatic Lump Sum Distributions.** Notwithstanding any provision of the Plan to the contrary:

(a) **Certain Distributions on or After Effective Date But Prior to January 1, 2009.** Effective as of the Effective Date but prior to January 1, 2009, if the actuarial equivalent present value of an individual's benefit amounts payable under this Plan (as determined in accordance with the applicable actuarial assumptions in effect under RIP as of the individual's Benefit Determination Date) is less than or equal to \$10,000, the individual's benefit amounts under the Plan shall be distributed in a single sum amount as soon as administratively feasible on or after such Benefit Determination Date.

(b) **Certain Distributions on or After January 1, 2009.** Effective January 1, 2009, if the sum of (i) the actuarial equivalent present value of an individual's benefit amounts payable under this Plan (as determined in accordance with the applicable actuarial assumptions in effect under RIP as of the individual's Benefit Determination Date) and (ii) the interest, if any, credited on such amounts through the individual's Benefit Payment Date (as determined in accordance with the applicable provisions of Section 5.2(c)) is less than or equal to the dollar limitation under Section 402(g)(1)(B) of the Code in effect for the calendar year in which the individual's Benefit Payment Date occurs, the individual's benefit amounts under the Plan shall be distributed in a single sum amount equal to the sum of (i) and (ii) above as soon as administratively feasible on or after such Benefit Payment Date.

**5.4 Withholding.** All distributions will be subject to all applicable tax and withholding requirements.

**5.5 Ban on Acceleration of Benefits.** Neither the time nor the schedule of any payment under the Plan may be accelerated except as permitted in regulations or other guidance issued by the Internal Revenue Service or the Department of the Treasury and as incorporated herein.

## **ARTICLE VI ADMINISTRATION OF THE PLAN**

**6.1 General Powers and Duties.** The following list of powers and duties is not intended to be exhaustive, and the Plan Administrator shall, in addition, exercise such other powers and perform such other duties as he may deem advisable in the administration of the Plan, unless such powers or duties are expressly assigned to another pursuant to the provisions of the Plan.

(a) **General.** The Plan Administrator shall perform the duties and exercise the powers and discretion given to him in the Plan document and by applicable law and his decisions and actions shall be final and conclusive as to all persons affected thereby. The Company and the Adopting Affiliates shall furnish the Plan Administrator with all data and information that the Plan Administrator may reasonably require in order to perform his functions. The Plan Administrator may rely without question upon any such data or information.

(b) **Disputes.** Any and all disputes that may arise involving Participants or beneficiaries shall be referred to the Plan Administrator and his decision shall be final. Furthermore, if any question arises as to the meaning, interpretation or application of any provisions of the Plan, the decision of the Plan Administrator shall be final.

(c) **Agents.** The Plan Administrator may engage agents, including recordkeepers, to assist him and he may engage legal counsel who may be counsel for the Company. The Plan Administrator shall not be responsible for any action taken or omitted to be taken on the advice of such counsel, including written opinions or certificates of any agent, counsel, actuary or physician.

(d) **Insurance.** At the Director's request, the Company shall purchase liability insurance to cover the Director in his activities as the Plan Administrator.

(e) **Allocations.** The Plan Administrator is given specific authority to allocate responsibilities to others and to revoke such allocations. When the Plan Administrator has allocated authority pursuant to this paragraph, the Plan Administrator is not to be liable for the acts or omissions of the party to whom such responsibility has been allocated.

(f) **Records.** The Plan Administrator shall supervise the establishment and maintenance of records by his agents, the Company and each Adopting Affiliate containing all relevant data pertaining to any person affected hereby and his or her rights under the Plan.

(g) **Interpretations.** The Plan Administrator, in his sole discretion, shall interpret and construe the provisions of the Plan (and any underlying documents or policies).

(h) **Electronic Administration.** The Plan Administrator shall have the authority to employ alternative means (including, but not limited to, electronic, internet, intranet, voice response or telephonic) by which Participants may submit elections, directions and forms required for participation in, and the administration of, the Plan. If the Plan Administrator chooses to use these alternative means, any elections, directions or forms submitted in accordance with the rules and procedures promulgated by the Plan Administrator will be deemed to satisfy any provision of the Plan calling for the submission of a written election, direction or form.

(i) **Delegation.** The Plan Administrator may delegate his authority hereunder, in whole or in part, in his sole and absolute discretion.

**6.2 Claims Procedures.** Benefit claims under the Plan shall be resolved in accordance with Code Section 409A and uniform and nondiscriminatory procedures adopted by the Plan Administrator in accordance with Section 503 of ERISA.

## **ARTICLE VII AMENDMENT**

**7.1 Amendment.** The Company shall have the right at any time to amend, in whole or in part, any or all of the provisions of this Plan by action of the Board of Directors of the Company; provided, however, if the amendment does not constitute a reallocation of fiduciary duties among those designated to act under the Plan or an allocation of fiduciary duties to committees and/or persons not previously designated to act under the Plan, then the Company's Vice President, Human Services Division, shall have the authority to amend the Plan, acting in consultation with the Company's Chairman of the Board and the appropriate Group President(s) of the Company (or in consultation with the full Board of Directors if the Chairman of the Board deems it necessary and appropriate). The Company's Vice President, Human Services Division, may designate any other officer(s) of the Company as having authority to amend the Plan in the

Vice President's absence, which officer shall also act in consultation with the Company's Chairman of the Board and the appropriate Group President(s) of the Company (or in consultation with the full Board of Directors if the Chairman of the Board deems it necessary and appropriate).

**7.2 Effect of Amendment.** Any amendment of the Plan shall not directly or indirectly reduce the benefits previously accrued by the Participant.

**7.3 Termination.** The Company expressly reserves the right to terminate the Plan.

(a) **General.** In the event of termination, the Company shall specify whether termination will change the time at which distributions are made; provided that any acceleration of a distribution is consistent with Section 409A of the Code. In the absence of such specification, the timing of distributions shall be unaffected by termination.

(b) **GSCS Termination.** Pursuant to the Company's authority to terminate the Plan, the Plan is irrevocably terminated with respect to all GSCS Participants upon the GSCS Closing Date and no GSCS Participant shall accrue any benefits under the Plan for any purpose after the GSCS Closing Date. Pursuant to termination of the Plan with respect to the GSCS Participants pursuant to this Section 7.3(b), the present value of each GSCS Participant's benefit amounts payable under the Plan shall be distributed to the GSCS Participant in a single sum amount as soon as practicable after the GSCS Closing Date, but in no event later than December 31 next following the GSCS Closing Date. Termination

of the Plan with respect to GSCS Participants will change the time at which distributions are made to GSCS Participants. Payments to GSCS Participants pursuant to this Section 7.3(b) are intended to comply with section 409A of the Code and applicable guidance issued thereunder.

## **ARTICLE VIII GENERAL PROVISIONS**

**8.1 Participant's Rights Unsecured.** The Plan at all times shall be entirely unfunded and no provision shall at any time be made with respect to segregating any assets of the Company for payment of any distributions hereunder. The right of a Participant or his or her Beneficiary to receive benefits hereunder shall be an unsecured claim against the general assets of the Company, and neither the Participant nor his Beneficiary shall have any rights in or against any specific assets of the Company. All amounts accrued by Participants hereunder shall constitute general assets of the Company and may be disposed of by the Company at such time and for such purposes as it may deem appropriate. Nothing in this Section shall preclude the Company from establishing a "Rabbi Trust," but the assets in the Rabbi Trust must be available to pay the claims of the Company's general creditors in the event of the Company's insolvency.

**8.2 No Guaranty of Benefits.** Nothing contained in the Plan shall constitute a guaranty by the Company or any other person or entity that the assets of the Company will be sufficient to pay any benefit hereunder.

**8.3 No Enlargement of Employee Rights.** No Participant shall have any right to receive a distribution from the Plan except in accordance with the terms of the Plan. Participation in the Plan shall not be construed to give any Participant the right to be retained in the service of the Company or an Adopting Affiliate.

**8.4 Section 409A Compliance.** The Company intends that the Plan meet the requirements of Section 409A of the Code and the guidance issued thereunder. The Plan shall be administered, construed and interpreted in a manner consistent with that intention.

**8.5 Spendthrift Provision.** No interest of any person or entity in, or right to receive a distribution under, the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor shall any such interest or right to receive a distribution be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including claims in bankruptcy proceedings. This Section shall not preclude arrangements for the withholding of taxes from deferrals, credits, or benefit payments, arrangements for the recovery of benefit overpayments, arrangements for the transfer of benefit rights to another plan, or arrangements for direct deposit of benefit payments to an account in a bank, savings and loan association or credit union (provided that such arrangement is not part of an arrangement constituting an assignment or alienation).

**8.6 Domestic Relations Orders.** Notwithstanding any provision of the Plan to the contrary, and to the extent permitted by law, the amounts payable pursuant to the Plan may be assigned or alienated pursuant to a "Domestic Relations Order" (as such term is defined in Section 414(p)(1)(B) of the Code), subject to such uniform rules and procedures as may be adopted by the Plan Administrator from time to time.

**8.7 Incapacity of Recipient.** If the Plan Administrator is served with a court order holding that a person entitled to a distribution under the Plan is incapable of personally receiving and giving a valid receipt for such distribution, the Plan Administrator shall postpone payment until such time as a claim therefore shall have been made by a duly appointed guardian or other legal representative of such person. The Plan Administrator is under no obligation to inquire or investigate as to the competency of any person entitled to a distribution. Any payment to an appointed guardian or other legal representative under this Section shall be a payment for the account of the incapacitated person and a complete discharge of any liability of the Company and the Plan therefor.

**8.8 Successors.** The Plan shall be binding upon the successors and assigns of the Company and upon the heirs, beneficiaries and personal representatives of the individuals who become Participants hereunder.

**8.9 Limitations on Liability.** Notwithstanding any of the preceding provisions of the Plan, neither the Plan Administrator, the Director, or the Company, nor any individual acting as the Plan Administrator's, the Director's, or the Company's employee, agent, or representative shall be liable to any Participant, former Participant, Beneficiary or other person for any claim, loss, liability or expense incurred in connection with the Plan.

**8.10 Overpayments.** If it is determined that the benefits under the Plan should not have been paid or should have been paid in a lesser amount, written notice thereof shall be given to the recipient of such benefits (or his legal representative) and he shall repay the amount of overpayment to the Company. If he fails to repay such amount of overpayment promptly, the Company shall arrange to recover for the Plan the amount of the overpayment by making an appropriate deduction or deductions from any future benefit payment or payments payable to that person (or his survivor or beneficiary) under the Plan or from any other benefit plan of the Company.

**8.11 Plan Frozen.** As a result of the freeze of RIP, participation and benefit accruals are frozen under the Plan. This Section 8.11 provides clarification regarding the freeze of the Plan.

**(a) Participation Frozen.** The Plan is frozen to (1) all employees hired after November 30, 2010 and (2) all employees rehired after December 31, 2010. Any employee hired or rehired after the applicable date in the preceding sentence shall not be eligible for the Plan and, in the case of a rehire, shall accrue no additional benefits under the Plan for any period of employment after such date. Similarly, the Plan is frozen to all individuals hired or rehired by the Company or any Affiliate thereof prior to the applicable date in the first sentence who, as of such date, were not Participants in the Plan and therefore such individuals will never become eligible to participate in the Plan.

**(b) Benefits Frozen — Non-Sunset Participants.** Effective January 1, 2011, the Plan is frozen with respect to any Participant who is not classified as a Sunset Participant on December 31, 2010. Any Participant who was not a Sunset Participant on December 31, 2010 shall no longer accrue any additional benefits under the Plan for periods of employment on or after January 1, 2011.

**(c) Benefits Frozen — Sunset Participants.**

(1) The Plan is frozen with respect to any Participant who is a Sunset Participant on December 31, 2010, but who later loses his status as a Sunset Participant, on the date such Participant loses status as a Sunset Participant.

(2) Effective January 1, 2020, the Plan is frozen for all employees including by way of example but not limitation, Sunset Participants.

**(d) Plan Completely Frozen — January 1, 2020.** For avoidance of doubt, no individual shall: (1) become a new Participant in the Plan after November 30, 2010 regardless of hire date or transfer date; and (2) accrue any benefits under the Plan for any period of employment on or after January 1, 2020.

**(e) Vesting Service Continues.** For avoidance of doubt, a Participant shall continue to receive vesting service for any period of employment on or after the applicable freeze date referenced in this Section 8.11 for purposes of determining his or her vesting under Section 4.1 and his or her eligibility to commence benefits under Section 5.2(d).

## Exhibit 10.10

### **Caterpillar Inc. 2006 Long-Term Incentive Plan Nonqualified Stock Options**

If you were awarded non-qualified stock options (“NQSOs”) on [Grant Date] (the “Grant Date”) pursuant to the Caterpillar Inc. 2006 Long-Term Incentive Plan (the “Plan”) at a price of [Grant Price] (the “Grant Price”), this document specifies the material terms and provisions applicable to such award (the “Option Award”).

#### **Term of the Award**

The Option Award will expire unless exercised by the tenth anniversary of the Grant Date (the “Expiration Date”).

#### **Vesting**

The Option Award is subject to a three-year cliff-vesting period. The Option Award will become fully vested (and, thus, exercisable) on the third anniversary of the Grant Date (the “Vesting Date”). If you terminate employment for any reason other than long-service separation, disability or death (as described more fully below) prior to the Vesting Date, the Option Award will be forfeited.

#### **Exercise of Award**

The Option Award may only be exercised through the Plan’s designated broker, currently the Gallagher Group at Morgan Stanley Smith Barney, or through such other means as Caterpillar Inc. (the “Company”) may designate. You may exercise the Option Award by providing notice of exercise, in a form acceptable to the Company, setting forth the number of shares to be exercised, accompanied by full payment for the shares. The exercise price shall be payable at your election by: (1) tendering cash; (2) tendering previously acquired shares of Company common stock; (3) cashless exercise from the proceeds of a sale of shares, or (4) directing the Company to withhold a number of shares otherwise issuable upon election having a Fair Market Value (as defined in the Plan) equal to the exercise price.

#### **Termination of Employment**

Your termination of employment with the Company and its subsidiaries or affiliates will impact the Option award as follows:

- **Long-Service Separation**

If your employment with the Company and/or its subsidiaries or affiliates terminates by reason of long-service separation, the Option Award will become fully vested to the extent not vested and to the extent that you were continuously employed by the Company and/or its subsidiaries or affiliates for six months immediately following the Grant Date. Such Option Award will remain exercisable until the earlier of: (1) the Expiration Date or (2) 60 months from the date of such termination of employment. For purposes of this

Option Award, “long-service separation” means termination of employment after attainment of age 55 with 5 or more years of company service.

- **Disability**

If your employment with the Company and/or its subsidiaries terminates by reason of disability (as defined in the Plan), the Option Award will become fully vested. Such Option Award will remain exercisable until the earlier of: (1) the Expiration Date or (2) 60 months from the date of such termination of employment.

- **Death**

If your employment with the Company and/or its subsidiaries terminates by reason of death, to the extent not vested, the Option Award will become fully vested and your beneficiary (or your estate if you have not named a beneficiary at the time of your death) will have until the earlier of: (1) the Expiration Date or 60 months following your termination of employment due to death to exercise the Option Award. If you die after your termination of employment when the Option Award is otherwise exercisable, the Option Award will remain exercisable by your beneficiary (or your estate if you have not named a beneficiary at the time of your death) until the earlier of: (1) the Expiration Date; (2) 66 months following the date of your long-service separation or termination due to disability if applicable; or (3) 38 months following your termination of employment for any other reason.

- **Cause**

If your employment with the Company is terminated for cause (as defined in the Plan), all of your unexercised NQSOs associated with the Option Award (whether vested or non-vested) shall expire immediately and all rights thereunder cease upon such termination.

- **Other**

If your employment with the Company and/or its subsidiaries or affiliates terminates for any reason other than long-service separation, disability, cause or death (*e.g.* quit or discharge), all non-vested NQSOs associated with the Option Award shall be immediately forfeited to the company. With respect to vested NQSOs, you will have until the earlier of (1) the Expiration Date or (2) 60 days from the date of such termination of employment to exercise.

### **Transferability of Award**

Subject to certain exceptions set forth in the Plan, the Option Award is only exercisable by you (or your beneficiary, estate or representative, as applicable) and may not be assigned, transferred, pledged or hypothecated in any way. The Option Award is not subject to execution, attachment or similar process. Any attempt at such, contrary to the provisions of the Plan, will be null and void and without effect.

### **Designation of Beneficiary**

If you have not done so already, you are encouraged to designate a beneficiary (or beneficiaries) to whom your vested NQSOs will be transferred upon your death. If you do not designate a beneficiary, your vested NQSOs will be transferred to your estate.

**Administration of the Plan**

The Option Award shall at all times be subject to the terms and provisions of the Plan and the Plan shall be administered in accordance with the terms of, and as provided in, the Plan. In the event of conflict between the terms and provisions of this document and the terms and provisions of the Plan, the provisions of the Plan shall control.

**Tax Impact**

Please refer to the Plan Prospectus for a general description of the U.S. federal tax consequences of an Option Award. You may also wish to consult with your personal tax advisor regarding how the Option Award will impact your individual tax situation.

**Code Section 409A**

It is intended that this Option Award satisfies the terms of Section 409A of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated and other official guidance issued thereunder (“Code Section 409A”) so that the NQSO does not constitute deferred compensation for purposes of Code Section 409A. The Plan and this Option Award document shall be interpreted and construed on a basis consistent with such intent. Notwithstanding anything contained herein to the contrary, the Compensation Committee of the Board (the “Committee”) reserves the right (including the right to delegate such right) to unilaterally amend this Option Award document (and thus the terms of the Option Award) without your consent solely in order to maintain an exclusion from the application of, or to maintain compliance with, Code Section 409A. Your acceptance of this Option Award constitutes acknowledgement and consent to such rights of the Committee.

**Withholding**

The exercise of a NQSO is a taxable event in many taxing jurisdictions. In some countries, including the U.S., the company is required to withhold taxes upon the taxable event. The company may withhold shares to satisfy the withholding requirement subject to the following conditions; (a) the value of the shares surrendered must equal the withholding requirement and (b) the value of the shares surrendered shall be the Fair Market Value (as defined in the Plan) determined as of the exercise date.

**Compliance with Securities Laws**

The Company will take steps required to achieve compliance with all applicable U.S. federal and state securities laws (and other laws, including registration requirements) and with the rules and practices of the stock exchanges upon which the stock of the Company is listed and the Option Award is subject to the requirements of such laws and rules.

**Adjustment of Shares**

Provisions are made within the Plan covering the effect of stock dividends, stock splits, changes in par value, changes in kind of stock, sale, merger, recapitalization, reorganization, etc.

**Effect on Other Benefits**

The Option Award (and its exercise) is not intended to and shall not impact the coverage of or the amount of any other employee benefit plans in which you participate that are sponsored by the Company and any of its subsidiaries or affiliates.

**Acceptance of Award**

Your acceptance of this Option Award constitutes acknowledgement and consent to the terms of the Option Award as described in this Option Award document.

**Further Information**

For more detailed information about the Plan, please refer to the Plan Prospectus or the Plan itself. Copies of the Prospectus and the Plan can be obtained from the Executive Compensation intranet Website at Cat@work under the Compensation + Benefits tab. If you have any questions regarding your equity compensation under the Plan, please contact the Director of Compensation + Benefits.



## SECTION 302 CERTIFICATION

I, Douglas R. Oberhelman, certify that:

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

November 2, 2012 /s/Douglas R. Oberhelman  
(Douglas R. Oberhelman)

Chairman of the Board and Chief  
Executive Officer

## SECTION 302 CERTIFICATION

I, Edward J. Rapp, certify that:

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

November 2, 2012

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

Group President and  
Chief Financial Officer

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

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

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

November 2, 2012	<u>/s/Douglas R. Oberhelman</u> (Douglas R. Oberhelman)	Chairman of the Board and Chief Executive Officer
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November 2, 2012	<u>/s/Edward J. Rapp</u> (Edward J. Rapp)	Group President and Chief Financial Officer
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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.

Third Quarter, 2012 Mine Safety Disclosures

Mine or Operating Name/MSHA Identification Number	Contractor ID	Section 104 S&S Citations (#)	Section 104(b) Orders (#)	Section 104(d) Citations and Orders (#)	Section 110(b)(2) Violations (#)	Section 107(a) Orders (#)	Total Dollar Value of MSHA Assessments Proposed (\$)	Total Number of Mining Related Fatalities (#)	Received Notice of Pattern Violations Under Section 104 (e) (yes/no)		Received Notice of Potential to Have Pattern Under Section 104(e) (yes/no)	Legal Actions Pending as of Last Day of Period (#)	Legal Actions Initiated During Period (#)	Legal Actions Resolved During Period (#)
Bear Run, 1202422	Z8T											1		
El Segundo, 2902257	Z620						100							
Lee Ranch, 2901879	Z8T											1		
North Antelope Rochelle Mine, 4801353	Z8T	1					63,000					1	1	
Jim Bridger Mine, 4800677	Z8T						3,803							
Republic Energy, 4609054	Z8T											1		
Twilight MTR Surface Mine, 4608645	Z8T											1		
<b>Total</b>		<b>1</b>					<b>66,903</b>					<b>5</b>	<b>1</b>	

