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 March 31, 2011

OR

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

For the transition period from to

Commission File Number: 1-768

CATERPILLAR INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

At March 31, 2011, 644,452,020 shares of common stock of the registrant were outstanding.

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

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended March 31,	
	2011	**2010**
Sales and revenues:		
Sales of Machinery and Power Systems	$12,277	$7,551
Revenues of Financial Products	672	687
Total sales and revenues	12,949	8,238
Operating costs:		
Cost of goods sold	9,057	5,894
Selling, general and administrative expenses	1,099	932
Research and development expenses	525	402
Interest expense of Financial Products	203	233
Other operating (income) expenses	232	269
Total operating costs	11,116	7,730
Operating profit (loss)	1,833	508
Interest expense excluding Financial Products	87	102
Other income (expense)	17	63
Consolidated profit (loss) before taxes	1,763	469
Provision (benefit) for income taxes	512	231
Profit (loss) of consolidated companies	1,251	238
Equity in profit (loss) of unconsolidated affiliated companies	(8)	(2)
Profit (loss) of consolidated and affiliated companies	1,243	236
Less: Profit (loss) attributable to noncontrolling interests	18	3
Profit (loss) [1]	$1,225	$233
Profit (loss) per common share	$1.91	$0.37
Profit (loss) per common share — diluted [2]	$1.84	$0.36
Weighted-average common shares outstanding (millions)		
- Basic	641.4	626.4
- Diluted [2]	664.9	643.5
Cash dividends declared per common share	$—	$—

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

See accompanying notes to Consolidated Financial Statements.

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

	March 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and short-term investments	$4,869	$3,592
Receivables – trade and other	8,830	8,494
Receivables – finance	8,458	8,298
Deferred and refundable income taxes	895	931
Prepaid expenses and other current assets	880	908
Inventories	10,676	9,587
Total current assets	34,608	31,810
Property, plant and equipment – net	12,219	12,539
Long-term receivables – trade and other	486	793
Long-term receivables – finance	11,574	11,264
Investments in unconsolidated affiliated companies	140	164
Noncurrent deferred and refundable income taxes	2,412	2,493
Intangible assets	794	805
Goodwill	2,608	2,614
Other assets	1,546	1,538
Total assets	$66,387	$64,020
Liabilities		
Current liabilities:		
Short-term borrowings:		
Machinery and Power Systems	$119	$204
Financial Products	5,218	3,852
Accounts payable	5,990	5,856
Accrued expenses	2,863	2,880
Accrued wages, salaries and employee benefits	1,250	1,670
Customer advances	1,728	1,831
Dividends payable	—	281
Other current liabilities	1,625	1,521
Long-term debt due within one year:		
Machinery and Power Systems	420	495
Financial Products	3,934	3,430
Total current liabilities	23,147	22,020
Long-term debt due after one year:		
Machinery and Power Systems	4,467	4,505
Financial Products	15,428	15,932
Liability for postemployment benefits	7,514	7,584
Other liabilities	2,700	2,654
Total liabilities	53,256	52,695
Commitments and contingencies (Notes 10 and 12)		
Redeemable noncontrolling interest	459	461
Stockholders' equity		
Common stock of $1.00 par value:		
Authorized shares: 2,000,000,000		
Issued shares: (3/31/11 and 12/31/10 – 814,894,624) at paid-in amount	4,044	3,888
Treasury stock (3/31/11 – 170,442,604 shares; 12/31/10 – 176,071,910 shares) at cost	(10,331)	(10,397)
Profit employed in the business	22,640	21,384
Accumulated other comprehensive income (loss)	(3,724)	(4,051)
Noncontrolling interests	43	40
Total stockholders' equity	12,672	10,864
Total liabilities, redeemable noncontrolling interest and stockholders' equity	$66,387	$64,020

See accompanying notes to Consolidated Financial Statements.

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

	Common stock	Treasury stock	Profit employed in the business	Accumulated other comprehensive income (loss)	Noncontrolling interests	Total	Comprehensive income (loss)
Three Months Ended March 31, 2010							
Balance at December 31, 2009	$3,439	$(10,646)	$19,711	$(3,764)	$83	$8,823	
Adjustment to adopt consolidation of variable interest entities[1]	—	—	(6)	3	—	(3)	
Balance at January 1, 2010	$3,439	$(10,646)	$19,705	$(3,761)	$83	$8,820	
Profit (loss) of consolidated and affiliated companies	—	—	233	—	3	236	$236
Foreign currency translation, net of tax of $64	—	—	—	(165)	(5)	(170)	(170)
Pension and other postretirement benefits							
Amortization of actuarial (gain) loss, net of tax of $46	—	—	—	77	4	81	81
Amortization of prior service (credit) cost, net of tax of $4	—	—	—	(2)	—	(2)	(2)
Derivative financial instruments							
Gains (losses) deferred, net of tax of $40	—	—	—	(65)	—	(65)	(65)
(Gains) losses reclassified to earnings, net of tax of $9	—	—	—	16	—	16	16
Available-for-sale securities							
Gains (losses) deferred, net of tax of $9	—	—	—	14	—	14	14
Change in ownership for noncontrolling interest	(17)	—	—	—	(11)	(28)	—
Common shares issued from treasury stock for stock-based compensation: 2,489,804	(14)	40	—	—	—	26	—
Common shares issued from treasury stock for benefit plans: 532,871	18	11	—	—	—	29	—
Stock-based compensation expense	42	—	—	—	—	42	—
Net excess tax benefits from stock-based compensation	14	—	—	—	—	14	—
Cat Japan share redemption[2]	—	—	3	—	6	9	—
Balance at March 31, 2010	**$3,482**	**$(10,595)**	**$19,941**	**$(3,886)**	**$80**	**$9,022**	**$110**
Three Months Ended March 31, 2011							
Balance at December 31, 2010	$3,888	$(10,397)	$21,384	$(4,051)	$40	$10,864	
Profit (loss) of consolidated and affiliated companies	—	—	1,225	—	18	1,243	$1,243
Foreign currency translation, net of tax of $63	—	—	—	217	8	225	225
Pension and other postretirement benefits							
Amortization of actuarial (gain) loss, net of tax of $53	—	—	—	99	—	99	99
Amortization of prior service (credit) cost, net of tax of $3	—	—	—	(5)	—	(5)	(5)
Amortization of transition (asset) obligation, net of tax of $0	—	—	—	1	—	1	1
Derivative financial instruments							
Gains (losses) deferred, net of tax of $10	—	—	—	17	—	17	17
(Gains) losses reclassified to earnings, net of tax of $5	—	—	—	(7)	—	(7)	(7)
Available-for-sale securities							
Gains (losses) deferred, net of tax of $3	—	—	—	5	—	5	5
Common shares issued from treasury stock for stock-based compensation: 5,629,306	(8)	66	—	—	—	58	—
Stock-based compensation expense	44	—	—	—	—	44	—
Net excess tax benefits from stock-based compensation	120	—	—	—	—	120	—
Cat Japan share redemption[2]	—	—	31	—	(23)	8	—
Balance at March 31, 2011	**$4,044**	**$(10,331)**	**$22,640**	**$(3,724)**	**$43**	**$12,672**	**$1,578**

[1] See Note 15 for additional information.
[2] See Note 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)

	Three Months Ended March 31,	
	2011	**2010**
Cash flow from operating activities:		
Profit (loss) of consolidated and affiliated companies	$1,243	$236
Adjustments for non-cash items:		
Depreciation and amortization	575	554
Other	95	94
Changes in assets and liabilities, net of acquisitions and divestitures:		
Receivables – trade and other	(17)	(373)
Inventories	(1,185)	(644)
Accounts payable	364	698
Accrued expenses	(57)	(65)
Accrued wages, salaries and employee benefits	(429)	114
Customer advances	(120)	140
Other assets – net	63	109
Other liabilities – net	233	(147)
Net cash provided by (used for) operating activities	765	716
Cash flow from investing activities:		
Capital expenditures – excluding equipment leased to others	(543)	(369)
Expenditures for equipment leased to others	(217)	(169)
Proceeds from disposals of leased assets and property, plant and equipment	302	353
Additions to finance receivables	(2,008)	(1,757)
Collections of finance receivables	1,962	1,956
Proceeds from sale of finance receivables	33	2
Investments and acquisitions (net of cash acquired)	(8)	(103)
Proceeds from sale of businesses and investments (net of cash sold)	21	—
Proceeds from sale of available-for-sale securities	66	45
Investments in available-for-sale securities	(72)	(46)
Other – net	30	33
Net cash provided by (used for) investing activities	(434)	(55)
Cash flow from financing activities:		
Dividends paid	(281)	(262)
Common stock issued, including treasury shares reissued	58	26
Excess tax benefit from stock-based compensation	123	13
Acquisitions of noncontrolling interests	—	(26)
Proceeds from debt issued (original maturities greater than three months):		
– Machinery and Power Systems	44	54
– Financial Products	1,261	1,264
Payments on debt (original maturities greater than three months):		
– Machinery and Power Systems	(151)	(607)
– Financial Products	(1,624)	(2,729)
Short-term borrowings – net (original maturities three months or less)	1,460	331
Net cash provided by (used for) financing activities	890	(1,936)
Effect of exchange rate changes on cash	56	(54)
Increase (decrease) in cash and short-term investments	1,277	(1,329)
Cash and short-term investments at beginning of period	3,592	4,867
Cash and short-term investments at end of period	$4,869	$3,538

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

See accompanying notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. A. Basis of Presentation

In the opinion of management, the accompanying financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of (a) the consolidated results of operations for the three month periods ended March 31, 2011 and 2010, (b) the consolidated financial position at March 31, 2011 and December 31, 2010, (c) the consolidated changes in stockholders' equity for the three month periods ended March 31, 2011 and 2010, and (d) the consolidated statement of cash flow for the three month periods ended March 31, 2011 and 2010. The financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain amounts for prior periods have been reclassified to conform to the current period financial statement presentation.

Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with the audited financial statements and notes thereto included in our Company's annual report on Form 10-K for the year ended December 31, 2010 (2010 Form 10-K).

The Company revised previously reported cash flows from operating and investing activities for the three month period ended March 31, 2010 to adjust for the impact of accrued but unpaid capital expenditures. Cash provided by operating activities increased from the amount previously reported by $165 million for the three month period ended March 31, 2010, and cash flow from investing activities decreased by the same amount. Management has concluded that the impact was not material to the quarterly period.

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

B. Nature of Operations

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

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

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

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

C. Accumulated Other Comprehensive Income (Loss)

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

(Millions of dollars)	March 31, 2011	March 31, 2010
Foreign currency translation	$768	$438
Pension and other postretirement benefits	(4,600)	(4,364)
Derivative financial instruments	55	11
Available-for-sale securities	53	29
Total accumulated other comprehensive income (loss)	$(3,724)	$(3,886)

2. New Accounting Guidance

Fair value measurements - In January 2010, the FASB issued accounting guidance that requires the gross presentation of activity within the Level 3 fair value measurement roll forward and details of transfers in and out of Level 1 and 2 fair value measurements. It also clarifies existing disclosure requirements regarding the level of disaggregation of fair value

measurements and disclosures on inputs. We adopted this new accounting guidance for the quarterly period ended March 31, 2010. The adoption of this guidance did not have a material impact on our financial statements. See Note 17 for additional information.

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

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

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

3. Stock-Based Compensation

Accounting for stock-based compensation requires that the cost resulting from all stock-based payments be recognized in the financial statements based on the grant date fair value of the award. Stock-based compensation primarily consists of stock-settled stock appreciation rights (SARs), restricted stock units (RSUs) and stock options. We recognized pretax stock-based compensation cost in the amount of $44 million and $42 million in the first quarter of 2011 and 2010, respectively.

The following table illustrates the type and fair value of the stock-based compensation awards granted during the three month periods ended March 31, 2011 and 2010, respectively:

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

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

The following table provides the assumptions used in determining the fair value of the stock-based awards for the three month periods ended March 31, 2011 and 2010, respectively:

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

As of March 31, 2011, the total remaining unrecognized compensation cost related to nonvested stock-based compensation awards was $307 million, which will be amortized over the weighted-average remaining requisite service periods of approximately 2.5 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) on the Consolidated Statement of Financial Position until they are reclassified to earnings in the same period or periods during which the hedged transaction affects earnings. Changes in the fair value of undesignated derivative instruments and the ineffective portion of designated derivative instruments are reported in current earnings. Cash flow from designated derivative financial instruments is classified within the same category as the item being hedged on the Consolidated Statement of Cash Flow. Cash flow from undesignated derivative financial instruments is included in the investing category on the Consolidated Statement of Cash Flow.

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

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

Foreign Currency Exchange Rate Risk

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

Our Machinery and Power Systems operations purchase, manufacture and sell products in many locations around the world. As we have a diversified revenue and cost base, we manage our future foreign currency cash flow exposure on a net basis.

We use foreign currency forward and option contracts to manage unmatched foreign currency cash inflow and outflow. Our objective is to minimize the risk of exchange rate movements that would reduce the U.S. dollar value of our foreign currency cash flow. Our policy allows for managing anticipated foreign currency cash flow for up to five years.

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

As of March 31, 2011, $57 million of deferred net gains, net of tax, included in equity (Accumulated other comprehensive income (loss) in the Consolidated Statement of Financial Position), are expected to be reclassified to current earnings (Other income (expense) in the Consolidated Statement of Results of Operations) over the next twelve months when earnings are affected by the hedged transactions. The actual amount recorded in Other income (expense) will vary based on exchange rates at the time the hedged transactions impact earnings.

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

Interest Rate Risk

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

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

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

As of March 31, 2011, $8 million of deferred net losses, net of tax, included in equity (Accumulated other comprehensive income (loss) in the Consolidated Statement of Financial Position), related to Financial Products floating-to-fixed interest rate swaps, are expected to be reclassified to current earnings (Interest expense of Financial Products in the Consolidated Statement of Results of Operations) over the next twelve months. The actual amount recorded in Interest expense of Financial Products will vary based on interest rates at the time the hedged transactions impact earnings.

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

In anticipation of issuing debt for the planned acquisition of Bucyrus International, Inc., we entered into interest rate swaps to manage our exposure to interest rate changes. For the three months ended March 31, 2011, we recognized a net loss of $25 million included in Other income (expense) in the Consolidated Statement of Results of Operations. These contracts were not designated as hedging instruments, and therefore, did not receive hedge accounting treatment.

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

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

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

(Millions of dollars)		Asset (Liability) Fair Value	
	Statement of Financial Position Location	March 31, 2011	December 31, 2010
Designated derivatives			
Foreign exchange contracts			
Machinery and Power Systems	Receivables – trade and other	$74	$65
Machinery and Power Systems	Long-term receivables – trade and other	40	52
Machinery and Power Systems	Accrued expenses	(49)	(66)
Machinery and Power Systems	Other liabilities	(8)	(1)
Interest rate contracts			
Machinery and Power Systems	Receivables – trade and other	—	1
Financial Products	Receivables – trade and other	14	14
Financial Products	Long-term receivables – trade and other	156	197
Financial Products	Accrued expenses	(21)	(18)
		$206	$244
Undesignated derivatives			
Foreign exchange contracts			
Machinery and Power Systems	Receivables – trade and other	$131	$120
Machinery and Power Systems	Accrued expenses	(55)	(46)
Machinery and Power Systems	Other liabilities	(38)	(58)
Financial Products	Receivables – trade and other	8	6
Financial Products	Accrued expenses	(5)	(9)
Interest rate contracts			
Machinery and Power Systems	Accrued expenses	(40)	(6)
Financial Products	Accrued expenses	—	(1)
Commodity contracts			
Machinery and Power Systems	Receivables – trade and other	17	17
		$18	$23

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

Fair Value Hedges
(Millions of dollars)

	Classification	Three Months Ended March 31, 2011	
		Gains (Losses) on Derivatives	Gains (Losses) on Borrowings
Interest rate contracts			
Machinery and Power Systems	Other income (expense)	$(1)	$1
Financial Products	Other income (expense)	(53)	52
		$(54)	$53

	Classification	Three Months Ended March 31, 2010	
		Gains (Losses) on Derivatives	Gains (Losses) on Borrowings
Interest rate contracts			
Machinery and Power Systems	Other income (expense)	$1	$(1)
Financial Products	Other income (expense)	53	(51)
		$54	$(52)

Cash Flow Hedges
(Millions of dollars)

	Three Months Ended March 31, 2011			
		Recognized in Earnings		
	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)	Classification of Gains (Losses)	Amount of Gains (Losses) Reclassified from AOCI (Effective Portion)	Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts				
Machinery and Power Systems	$27	Other income (expense)	$18	$—
Interest rate contracts				
Financial Products	—	Interest expense of Financial Products	(6)	1[1]
	$27		$12	$1

	Three Months Ended March 31, 2010			
		Recognized in Earnings		
	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)	Classification of Gains (Losses)	Amount of Gains (Losses) Reclassified from AOCI (Effective Portion)	Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts				
Machinery and Power Systems	$(99)	Other income (expense)	$(8)	$1
Interest rate contracts				
Financial Products	(6)	Interest expense of Financial Products	(17)	1[1]
	$(105)		$(25)	$2

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

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

(Millions of dollars)	Classification of Gains (Losses)	Three Months Ended March 31, 2011
Foreign exchange contracts		
Machinery and Power Systems	Other income (expense)	$32
Interest rate contracts		
Machinery and Power Systems	Other income (expense)	(25)
Commodity contracts		
Machinery and Power Systems	Other income (expense)	4
		$11

	Classification of Gains (Losses)	Three Months Ended March 31, 2010
Foreign exchange contracts		
Machinery and Power Systems	Other income (expense)	$11
Financial Products	Other income (expense)	23
Interest rate contracts		
Machinery and Power Systems	Other income (expense)	(2)
Financial Products	Other income (expense)	1
Commodity contracts		
Machinery and Power Systems	Other income (expense)	4
		$37

Stock Repurchase Risk

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

5. Inventories

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

(Millions of dollars)	March 31, 2011	December 31, 2010
Raw materials	$3,066	$2,766
Work-in-process	1,740	1,483
Finished goods	5,628	5,098
Supplies	242	240
Total inventories	$10,676	$9,587

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 March 31,	
	2011	2010
Sales	$198	$162
Cost of sales	161	120
Gross profit	$37	$42
Profit (loss)	$(17)	$(2)

Financial Position of unconsolidated affiliated companies: (Millions of dollars)	March 31, 2011	December 31, 2010
Assets:		
Current assets	$378	$414
Property, plant and equipment — net	178	196
Other assets	36	39
	592	649
Liabilities:		
Current liabilities	255	274
Long-term debt due after one year	68	72
Other liabilities	33	40
	356	386
Equity	$236	$263
Caterpillar's investments in unconsolidated affiliated companies:		
(Millions of dollars)		
Investments in equity method companies	$120	$135
Plus: Investments in cost method companies	20	29
Total investments in unconsolidated affiliated companies	$140	$164

7. Intangible Assets and Goodwill

A. Intangible assets

Intangible assets are comprised of the following:

		March 31, 2011		
(Millions of dollars)	Weighted Amortizable Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	17	$632	$(119)	$513
Intellectual property	9	312	(170)	142
Other	13	198	(77)	121
Total finite-lived intangible assets	14	1,142	(366)	776
Indefinite-lived intangible assets - In-process research & development		18	—	18
Total intangible assets		$1,160	$(366)	$794

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

Amortization expense for the three months ended March 31, 2011 and March 31, 2010 was $22 million and $15 million, respectively. Amortization expense related to intangible assets is expected to be:

(Millions of dollars)					
2011	2012	2013	2014	2015	Thereafter
$86	$82	$75	$72	$66	$435

B. Goodwill

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

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

The changes in the carrying amount of the goodwill by reportable segment for the first quarter of 2011 were as follows:

(Millions of dollars)	Construction Industries	Resource Industries	Power Systems	Other	Consolidated Total
Balance at December 31, 2010	$357	$51	$2,077	$129	$2,614
Business divestitures[1]	—	—	—	(12)	(12)
Other adjustments[2]	5	1	—	—	6
Balance at March 31, 2011	$362	$52	$2,077	$117	$2,608

[1] Sale of Carter Machinery. See Note 18 for additional details.

[2] 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 fair values are primarily included in Other assets in the Consolidated Statement of Financial Position. Unrealized gains and losses arising from the revaluation of available-for-sale securities are included, net of applicable deferred income taxes, in equity (Accumulated other comprehensive income (loss) in the Consolidated Statement of Financial Position). Realized gains and losses on sales of investments are generally determined using the FIFO (first-in, first-out) method for debt instruments and the specific identification method for equity securities. Realized gains and losses are included in Other income (expense) in the Consolidated Statement of Results of Operations.

(Millions of dollars)	March 31, 2011			December 31, 2010		
	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value
Government debt						
U.S. treasury bonds	$13	$—	$13	$12	$—	$12
Other U.S. and non-U.S. government bonds	80	1	81	76	1	77
Corporate bonds						
Corporate bonds	491	29	520	481	30	511
Asset-backed securities	129	(1)	128	136	—	136
Mortgage-backed debt securities						
U.S. governmental agency mortgage-backed securities	259	14	273	258	15	273
Residential mortgage-backed securities	40	(3)	37	43	(3)	40
Commercial mortgage-backed securities	161	5	166	164	4	168
Equity securities						
Large capitalization value	107	28	135	100	22	122
Smaller company growth	23	12	35	23	8	31
Total	$1,303	$85	$1,388	$1,293	$77	$1,370

During the three months ended March 31, 2011 and 2010, there were no charges for other-than-temporary declines in the market value of securities.

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

(Millions of dollars)	March 31, 2011					
	Less than 12 months [1]		12 months or more [1]		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds						
Asset-backed securities	$19	$—	$19	$4	$38	$4
Mortgage-backed debt securities						
Residential mortgage-backed securities	2	—	23	4	25	4
Commercial mortgage-backed securities	3	—	9	1	12	1
Equity securities						
Large capitalization value	15	1	11	1	26	2
Total	$39	$1	$62	$10	$101	$11

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

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

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

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

Corporate Bonds. The unrealized losses on our investments in corporate bonds and asset-backed securities relate primarily to changes in interest rates and credit-related yield spreads since time of purchase. We do not intend to sell the investments and it is not likely that we will be required to sell the investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of March 31, 2011.

Mortgage-Backed Debt Securities. The unrealized losses on our investments in mortgage-backed securities and mortgage-related asset-backed securities relate primarily to the continuation of elevated housing delinquencies and default rates, risk aversion and credit-related yield spreads since time of purchase. We do not intend to sell the investments and it is not likely that we will be required to sell these investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of March 31, 2011.

Equity Securities. Cat Insurance maintains a well-diversified equity portfolio consisting of two specific mandates: large capitalization value stocks and smaller company growth stocks. U.S. equity valuations were generally higher during the three months ended March 31, 2011 as the U.S. economy emerges from recession. In each case where unrealized losses exist, the respective company's management is taking corrective action in order to increase shareholder value. We do not consider these investments to be other-than-temporarily impaired as of March 31, 2011.

The fair value of the available-for-sale debt securities at March 31, 2011, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay and creditors may have the right to call obligations.

(Millions of dollars)	Fair Value
Due in one year or less	$72
Due after one year through five years	$444
Due after five years through ten years	$223
Due after ten years	$479

Proceeds from sale of available-for-sale securities during the three months ended March 31, 2011 and March 31, 2010 were $66 million and $45 million, respectively. Gross gains of $1 million and gross losses of $1 million were included in current earnings for the three months ended March 31, 2011. There were no gross gains or gross losses for the three months ended March 31, 2010.

9. Postretirement Benefits

A. Pension and postretirement benefit costs

As announced in August 2010, on January 1, 2011, our retirement benefits for U.S. support and management employees began transitioning from defined benefit pension plans to defined contribution plans. The transition date was determined for each employee based upon age and years of service or proximity to retirement. Pension benefit accruals were frozen for

certain employees on December 31, 2010, and will freeze for remaining employees on December 31, 2019. As of these dates employees will move to the new retirement benefit that will provide a frozen pension benefit and a 401(k) plan that will include a matching contribution and a new annual employer contribution. The plan change required a re-measurement as of August 31, 2010, which resulted in an increase in our Liability for postretirement benefits of $1.32 billion and a decrease in Accumulated other comprehensive income (loss) of $831 million net of tax. The increase in the liability was due to a decline in the discount rate and lower than expected asset returns at the re-measurement date. Curtailment expense of $28 million was also recognized for the three and nine months ended September 30, 2010 as a result of the plan change.

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

(Millions of dollars)	U.S. Pension Benefits March 31,		Non-U.S. Pension Benefits March 31,		Other Postretirement Benefits March 31,	
	2011	2010	2011	2010	2011	2010
For the three months ended:						
Components of net periodic benefit cost:						
Service cost	$39	$49	$27	$23	$21	$16
Interest cost	162	166	43	42	63	61
Expected return on plan assets	(199)	(191)	(50)	(49)	(18)	(23)
Amortization of:						
Transition obligation (asset)	—	—	—	—	1	1
Prior service cost (credit) [1]	5	7	1	—	(14)	(14)
Net actuarial loss (gain)	113	88	18	17	27	8
Net periodic benefit cost	120	119	39	33	80	49
Curtailments, settlements and special termination benefits [2]	—	—	—	4	—	—
Total cost included in operating profit	$120	$119	$39	$37	$80	$49
Weighted-average assumptions used to determine net cost:						
Discount rate	5.1%	5.7%	4.6%	4.8%	5.0%	5.6%
Expected return on plan assets	8.5%	8.5%	7.1%	7.0%	8.5%	8.5%
Rate of compensation increase	4.5%	4.5%	4.2%	4.2%	4.4%	4.4%

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

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

We made $131 million of contributions to our U.S. and non-U.S. pension plans during the three months ended March 31, 2011. We currently anticipate full-year 2011 contributions of approximately $1 billion, most of which are voluntary contributions. We made $248 million of contributions to our U.S. and non-U.S. pension plans during the three months ended March 31, 2010.

B. Defined contribution benefit costs

From June 2009 to October 2010, we funded our employer matching contribution for certain U.S. defined contribution plans in Caterpillar stock, held as treasury stock. For the three months ended March 31, 2010, we made $29 million (0.5 million shares) of matching contributions in Caterpillar stock.

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

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

(Millions of dollars)	Three Months Ended March 31,	
	2011	2010
U.S. Plans	$82	$48
Non-U.S. Plans	12	7
	$94	$55

10. Guarantees and Product Warranty

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

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

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

No loss has been experienced or is anticipated under any of these guarantees. At March 31, 2011 and December 31, 2010, the related liability was $10 million. The maximum potential amount of future payments (undiscounted and without reduction for any amounts that may possibly be recovered under recourse or collateralized provisions) we could be required to make under the guarantees are as follows:

(Millions of dollars)	March 31, 2011	December 31, 2010
Guarantees with Caterpillar dealers	$160	$185
Guarantees with customers	167	170
Limited indemnity	15	17
Guarantees – other	48	48
Total guarantees	$390	$420

Cat Financial provides guarantees to repurchase certain loans of Caterpillar dealers from a special-purpose corporation (SPC) that qualifies as a variable interest entity. The purpose of the SPC is to provide short-term working capital loans to Caterpillar dealers. This SPC issues commercial paper and uses the proceeds to fund its loan program. Cat Financial has a loan purchase agreement with the SPC that obligates Cat Financial to purchase certain loans that are not paid at maturity. Cat Financial receives a fee for providing this guarantee, which provides a source of liquidity for the SPC. Cat Financial is the primary beneficiary of the SPC as our guarantees result in Cat Financial having both the power to direct the activities that most significantly impact the SPC's economic performance and the obligation to absorb losses, and therefore Cat Financial has consolidated the financial statements of the SPC. As of March 31, 2011 and December 31, 2010, the SPC's assets of $453 million and $365 million, respectively, are primarily comprised of loans to dealers and the SPC's liabilities of $453 million and $365 million, respectively are primarily comprised of commercial paper. No loss has been experienced or is anticipated under this loan purchase agreement. Cat Financial's assets are not available to pay creditors of the SPC, except to the extent Cat Financial may be obligated to perform under the guarantee, and assets of the SPC are not available to pay Cat Financial's creditors.

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)	2011
Warranty liability, January 1	$1,035
Reduction in liability (payments)	(218)
Increase in liability (new warranties)	245
Warranty liability, March 31	$1,062

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

11. Computations of Profit Per Share

(Dollars in millions except per share data)	Three Months Ended March 31,	
	2011	2010
I. Profit (loss) for the period (A)[1]:	$1,225	$233
II. Determination of shares (in millions):		
Weighted-average number of common shares outstanding (B)	641.4	626.4
Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price	23.5	17.1
Average common shares outstanding for fully diluted computation (C) [2]	664.9	643.5
III. Profit (loss) per share of common stock:		
Assuming no dilution (A/B)	$1.91	$0.37
Assuming full dilution (A/C) [2]	$1.84	$0.36

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

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

SARs and stock options to purchase 2,960,595 and 25,891,566 common shares were outstanding for the three months ended March 31, 2011 and March 31, 2010, respectively, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

12. Environmental and Legal Matters

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

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

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

We have disclosed certain individual legal proceedings in this filing. Additionally, we are involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance liability (including claimed asbestos and welding fumes exposure), contracts, employment issues, environmental matters or intellectual property rights. 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. Caterpillar is currently engaged in negotiations with EPA and the U.S. Department of Justice to resolve these issues. On July 9, 2010, the Department of Justice issued a penalty demand to Caterpillar seeking a civil penalty of $3.2 million and implementation of injunctive relief involving expanded use of certain technologies. Caterpillar continues to cooperate with EPA and the Department of Justice and, while penalties will likely exceed $100,000, management does not believe that this issue will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

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

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

13. Income Taxes

The provision for income taxes in the first quarter reflects an estimated effective annual tax rate of 29 percent compared to 30 percent for the first quarter 2010 and 25 percent for the full-year 2010, excluding the items discussed below. The increase from full-year 2010 is primarily due to expected changes in our geographic mix of profits from a tax perspective.

The provision for income taxes in the first quarter of 2010 included a charge of $90 million due to the enactment of U.S. health care legislation, effectively making government subsidies received for Medicare equivalent prescription drug coverage taxable. In the second quarter of 2010, a $60 million benefit was recorded related to refund claims for prior tax years and a release of a valuation allowance.

14. Segment Information

A. Basis for segment information

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

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

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

B. Description of segments

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

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

Resource Industries: A segment primarily responsible for supporting customers using machinery in mining and quarrying applications. Responsibilities include business strategy, product design, product management and development, manufacturing, marketing, sales and product support. The product portfolio includes large track-type tractors, large mining trucks, underground mining equipment, tunnel boring equipment, large wheel loaders, quarry and construction trucks, articulated trucks, wheel tractor scrapers, wheel dozers, compactors, select work tools, forestry products, paving products, machinery components, electronics and control systems and related parts. 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. 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 and development, manufacturing, marketing, sales and product support of reciprocating engine powered generator sets, integrated systems used in the electric power generation industry, reciprocating engines and integrated systems and solutions for the marine and petroleum industries; reciprocating engines supplied to the industrial industry as well as Caterpillar machinery; the business strategy, product design, product management and development, manufacturing, marketing, sales and product support of turbines and turbine related services; the business strategy, product design, product management and development, manufacturing, remanufacturing, maintenance, marketing, sales, leasing and service of diesel-electric locomotives and components and other rail-related products and services. Inter-segment sales are a source of revenue for this segment.

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

All Other: Primarily includes activities such as: the remanufacturing of Cat engines and components and remanufacturing services for other companies as well as the business strategy, product design, product management and development, manufacturing, marketing, sales 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 business strategy, product management, product development, marketing, sales and product support of on-highway vocational trucks for North America (U.S. & Canada only); the 50/50 joint venture with Navistar (NC2) which develops, manufactures and distributes on-highway trucks outside North America and India; and distribution services responsible for dealer development and administration, dealer portfolio management and ensuring the most efficient and effective distribution of machines, engines and parts. Inter-segment sales are a source of revenue for this segment. Results for All Other operating segments are included as reconciling items between reportable segments and consolidated external reporting.

C. Segment measurement and reconciliations

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

- Machinery and Power Systems segment net assets generally include inventories, receivables, property, plant and equipment, goodwill, intangibles and accounts payable. Liabilities other than accounts payable are generally managed at the corporate level and are not included in segment operations. Financial Products Segment assets generally include all categories of assets.
- Segment inventories and cost of sales are valued using a current cost methodology.
- Goodwill is amortized using a fixed amount based on a twenty year useful life. This methodology difference only impacts segment assets; no goodwill amortization expense is included in segment results.
- 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 results. The net difference created in the translation of revenues and costs between exchange rates used for U.S. GAAP reporting and exchange rates used for segment reporting are recorded as a methodology difference.
- Postretirement benefit expenses are split; segments are generally responsible for service and prior service costs, with the remaining elements of net periodic benefit cost included as a methodology difference.
- Machinery and Power Systems segment profit is determined on a pretax basis and excludes interest expense 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 24 to 27 for financial information regarding significant reconciling items. Most of our reconciling items are self-explanatory given the above explanations. For the reconciliation of profit (loss), we have grouped the reconciling items as follows:

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

Reportable Segments
Three Months Ended March 31,
(Millions of dollars)

	2011						
	External sales and revenues	Inter-segment sales & revenues	Total sales and revenues	Depreciation and amortization	Segment profit (loss)	Segment assets at March 31	Capital expenditures
Construction Industries	$4,471	$147	$4,618	$120	$544	$7,085	$79
Resource Industries	2,768	274	3,042	71	796	3,760	56
Power Systems	4,449	554	5,003	136	700	7,931	85
Machinery and Power Systems	$11,688	$975	$12,663	$327	$2,040	$18,776	$220
Financial Products Segment	730	—	730	176	136	30,967	180
Total	$12,418	$975	$13,393	$503	$2,176	$49,743	$400

	2010						
	External sales and revenues	Inter-segment sales & revenues	Total sales and revenues	Depreciation and amortization	Segment profit (loss)	Segment assets at December 31	Capital expenditures
Construction Industries	$2,612	$160	$2,772	$128	$32	$6,927	$76
Resource Industries	1,503	154	1,657	70	227	3,892	27
Power Systems	2,941	256	3,197	108	292	8,321	74
Machinery and Power Systems	$7,056	$570	$7,626	$306	$551	$19,140	$177
Financial Products Segment	739	—	739	183	106	30,346	174
Total	$7,795	$570	$8,365	$489	$657	$49,486	$351

Reconciliation of Sales and revenues:
(Millions of dollars)

	Machinery and Power Systems	Financial Products	Consolidating Adjustments	Consolidated Total
Three Months Ended March 31, 2011:				
Total external sales and revenues from reportable segments	$11,688	$730	$—	$12,418
All other operating segments	589	—	—	589
Other	—	10	(68)[1]	(58)
Total sales and revenues	$12,277	$740	$(68)	$12,949
Three Months Ended March 31, 2010:				
Total external sales and revenues from reportable segments	$7,056	$739	$—	$7,795
All other operating segments	494	—	—	494
Other	1	7	(59)[1]	(51)
Total sales and revenues	$7,551	$746	$(59)	$8,238

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

Reconciliation of Consolidated profit (loss) before taxes:

(Millions of dollars)	**Machinery and Power Systems**	**Financial Products**	**Consolidated Total**
Three Months Ended March 31, 2011:			
Total profit from reportable segments	$2,040	$136	$2,176
All other operating segments	245	—	245
Cost centers	20	—	20
Corporate costs	(270)	—	(270)
Timing	(46)	—	(46)
Methodology differences:			
Inventory/cost of sales	(24)	—	(24)
Postretirement benefit expense	(192)	—	(192)
Financing costs	(89)	—	(89)
Equity in profit of unconsolidated affiliated companies	8	—	8
Currency	(7)	—	(7)
Other income/expense methodology differences	(59)	—	(59)
Other methodology differences	(1)	2	1
Total profit (loss) before taxes	$1,625	$138	$1,763
Three Months Ended March 31, 2010:			
Total profit from reportable segments	$551	$106	$657
All other operating segments	185	—	185
Cost centers	(2)	—	(2)
Corporate costs	(206)	—	(206)
Timing	57	—	57
Methodology differences:			
Inventory/cost of sales	(9)	—	(9)
Postretirement benefit expense	(128)	—	(128)
Financing costs	(95)	—	(95)
Equity in profit of unconsolidated affiliated companies	2	—	2
Currency	33	—	33
Other income/expense methodology differences	(27)	—	(27)
Other methodology differences	(2)	4	2
Total profit (loss) before taxes	$359	$110	$469

Reconciliation of Assets:

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidating Adjustments	Consolidated Total
March 31, 2011:				
Total assets from reportable segments	$18,776	$30,967	$—	$49,743
All other operating segments	1,950	—	—	1,950
Items not included in segment assets:				
Cash and short-term investments	3,649	—	—	3,649
Intercompany receivables	87	—	(87)	—
Investment in Financial Products	4,258	—	(4,258)	—
Deferred income taxes	3,616	—	(434)	3,182
Goodwill, intangible assets and other assets	1,622	—	—	1,622
Operating lease methodology difference	(497)	—	—	(497)
Liabilities included in segment assets	9,059	—	—	9,059
Inventory methodology differences	(2,640)	—	—	(2,640)
Other	654	(217)	(118)	319
Total assets	$40,534	$30,750	$(4,897)	$66,387
December 31, 2010:				
Total assets from reportable segments	$19,140	$30,346	$—	$49,486
All other operating segments	2,472	—	—	2,472
Items not included in segment assets:				
Cash and short-term investments	1,825	—	—	1,825
Intercompany receivables	618	—	(618)	—
Investment in Financial Products	4,275	—	(4,275)	—
Deferred income taxes	3,745	—	(519)	3,226
Goodwill, intangible assets and other assets	1,511	—	—	1,511
Operating lease methodology difference	(567)	—	—	(567)
Liabilities included in segment assets	8,758	—	—	8,758
Inventory methodology differences	(2,913)	—	—	(2,913)
Other	627	(233)	(172)	222
Total assets	$39,491	$30,113	$(5,584)	$64,020

Reconciliations of Depreciation and amortization:

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidating Adjustments	Consolidated Total
Three Months Ended March 31, 2011:				
Total depreciation and amortization from reportable segments	$327	$176	$—	$503
Items not included in segment depreciation and amortization:				
All other operating segments	45	—	—	45
Cost centers	24	—	—	24
Other	(1)	4	—	3
Total depreciation and amortization	$395	$180	$—	$575
Three Months Ended March 31, 2010:				
Total depreciation and amortization from reportable segments	$306	$183	$—	$489
Items not included in segment depreciation and amortization:				
All other operating segments	47	—	—	47
Cost centers	24	—	—	24
Other	(6)	—	—	(6)
Total depreciation and amortization	$371	$183	$—	$554

Reconciliations of Capital expenditures:				
(Millions of dollars)	**Machinery and Power Systems**	**Financial Products**	**Consolidating Adjustments**	**Consolidated Total**
Three Months Ended March 31, 2011:				
Total capital expenditures from reportable segments	$220	$180	$—	$400
Items not included in segment capital expenditures:				
All other operating segments	38	—	—	38
Cost centers	16	—	—	16
Timing	314	—	—	314
Other	(20)	33	(21)	(8)
Total capital expenditures	$568	$213	$(21)	$760
Three Months Ended March 31, 2010:				
Total capital expenditures from reportable segments	$177	$174	$—	$351
Items not included in segment capital expenditures:				
All other operating segments	16	—	—	16
Cost centers	10	—	—	10
Timing	165	—	—	165
Other	—	—	(4)	(4)
Total capital expenditures	$368	$174	$(4)	$538

15. Cat Financial Financing Activities

A. Credit quality of financing receivables and allowance for credit losses

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

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

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

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

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

Impaired loans and finance leases

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

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 March 31, 2011 and December 31, 2010, for the Dealer portfolio segment. The average recorded investment for impaired loans and finance leases for the Dealer portfolio segment was $32 million for the three months ended March 31, 2010, all of which was in the Europe finance receivable class.

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

(Millions of dollars)	As of March 31, 2011			As of December 31, 2010		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired Loans and Finance Leases With No Allowance Recorded[1]						
Customer						
North America	$81	$80	$—	$87	$87	$—
Europe	6	4	—	6	4	—
Asia Pacific	14	14	—	13	13	—
Latin America	4	4	—	3	3	—
Global Power Finance	238	238	—	174	174	—
Total	$343	$340	$—	$283	$281	$—
Impaired Loans and Finance Leases With An Allowance Recorded						
Customer						
North America	$178	$173	$38	$191	$185	$44
Europe	60	56	16	62	57	15
Asia Pacific	27	26	10	27	27	7
Latin America	46	46	9	44	43	9
Global Power Finance	51	50	9	34	33	4
Total	$362	$351	$82	$358	$345	$79
Total Impaired Loans and Finance Leases						
Customer						
North America	$259	$253	$38	$278	$272	$44
Europe	66	60	16	68	61	15
Asia Pacific	41	40	10	40	40	7
Latin America	50	50	9	47	46	9
Global Power Finance	289	288	9	208	207	4
Total	$705	$691	$82	$641	$626	$79

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

(Millions of dollars)	Three Months Ended March 31, 2011		Three Months Ended March 31, 2010	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Loans and Finance Leases With No Allowance Recorded[1]				
Customer				
North America	$84	$1	$21	$—
Europe	7	—	9	—
Asia Pacific	13	—	9	—
Latin America	4	—	4	—
Global Power Finance	211	1	35	—
Total	$319	$2	$78	$—
Impaired Loans and Finance Leases With An Allowance Recorded				
Customer				
North America	$191	$2	$291	$3
Europe	64	1	94	1
Asia Pacific	27	—	43	1
Latin America	47	1	31	1
Global Power Finance	48	—	16	—
Total	$377	$4	$475	$6
Total Impaired Loans and Finance Leases				
Customer				
North America	$275	$3	$312	$3
Europe	71	1	103	1
Asia Pacific	40	—	52	1
Latin America	51	1	35	1
Global Power Finance	259	1	51	—
Total	$696	$6	$553	$6

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

Non-accrual and past due loans and finance leases

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

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

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

(Millions of dollars)	March 31, 2011	December 31, 2010
Customer		
North America	$193	$217
Europe	84	89
Asia Pacific	32	31
Latin America	147	139
Global Power Finance	183	163
Total	$639	$639

Past due loans and finance leases were as follows:

(Millions of dollars)	March 31, 2011						
	31-60	61-90	91+	Total Past Due	Current	Total Finance Receivables	91+ Still Accruing
Customer							
North America	$103	$60	$196	$359	$5,380	$5,739	$26
Europe	56	25	103	184	2,335	2,519	26
Asia Pacific	61	42	53	156	4,001	4,157	22
Latin America	38	20	134	192	2,249	2,441	1
Global Power Finance	21	42	60	123	2,895	3,018	12
Dealer							
North America	—	—	—	—	1,893	1,893	—
Europe	—	—	—	—	20	20	—
Asia Pacific	—	—	—	—	159	159	—
Latin America	—	—	—	—	462	462	—
Global Power Finance	—	—	—	—	1	1	—
Total	$279	$189	$546	$1,014	$19,395	$20,409	$87

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

Allowance for credit loss activity

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

(Millions of dollars)			
	March 31, 2011		
Allowance for Credit Losses:	**Customer**	**Dealer**	**Total**
Balance at beginning of year	$357	$5	$362
Provision for credit losses	52	1	53
Receivables written off	(54)	—	(54)
Recoveries on receivables previously written off	13	—	13
Foreign currency translation adjustment	3	—	3
Balance at end of period	$371	$6	$377
Allowance for Credit Losses:			
Individually evaluated for impairment	$82	$—	$82
Collectively evaluated for impairment	289	6	295
Ending Balance	$371	$6	$377
Recorded Investment in Finance Receivables:			
Individually evaluated for impairment	$705	$—	$705
Collectively evaluated for impairment	17,169	2,535	19,704
Ending Balance	$17,874	$2,535	$20,409

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

Credit quality of finance receivables

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

The recorded investment of performing and non-performing finance receivables were as follows:

(Millions of dollars)

	March 31, 2011			December 31, 2010		
	Customer	**Dealer**	**Total**	**Customer**	**Dealer**	**Total**
Performing						
North America	$5,546	$1,893	$7,439	$6,231	$1,291	$7,522
Europe	2,435	20	2,455	2,421	41	2,462
Asia Pacific	4,125	159	4,284	3,498	151	3,649
Latin America	2,294	462	2,756	2,287	457	2,744
Global Power Finance	2,835	1	2,836	2,904	3	2,907
Total Performing	17,235	2,535	19,770	17,341	1,943	19,284
Non-Performing						
North America	193	—	193	217	—	217
Europe	84	—	84	89	—	89
Asia Pacific	32	—	32	31	—	31
Latin America	147	—	147	139	—	139
Global Power Finance	183	—	183	163	—	163
Total Non-Performing	639	—	639	639	—	639
Performing & Non-Performing						
North America	5,739	1,893	7,632	6,448	1,291	7,739
Europe	2,519	20	2,539	2,510	41	2,551
Asia Pacific	4,157	159	4,316	3,529	151	3,680
Latin America	2,441	462	2,903	2,426	457	2,883
Global Power Finance	3,018	1	3,019	3,067	3	3,070
Total	$17,874	$2,535	$20,409	$17,980	$1,943	$19,923

B. Securitized Retail Installment Sale Contracts and Finance Leases

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

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

The restricted assets (Receivables-finance, Long-term receivables-finance, Prepaid expenses and other current assets, and Other assets) of the consolidated SPEs totaled $117 million and $136 million at March 31, 2011 and December 31, 2010, respectively. The liabilities (Accrued expenses and Long-term debt due within one year-Financial Products) of the consolidated SPEs totaled $48 million and $73 million at March 31, 2011 and December 31, 2010, respectively.

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. Both Cat Japan and MHI have options, exercisable beginning August 1, 2013, to require the redemption of the remaining shares owned by MHI, which if exercised, would make Caterpillar the sole owner of Cat Japan.

The remaining 33 percent of Cat Japan owned by MHI has been reported as redeemable noncontrolling interest and classified as mezzanine equity (temporary equity) in the Consolidated Statement of Financial Position. The redeemable noncontrolling interest is reported at its estimated redemption value. Any adjustment to the redemption value impacts Profit employed in the business, but does not impact Profit (loss). If the fair value of the redeemable noncontrolling interest falls below the redemption value, profit available to common stockholders would be reduced by the difference between the redemption value and the fair value. This would result in lower profit in the profit per common share computation in that period. Reductions impacting the profit per common share computation may be partially or fully reversed in subsequent periods if the fair value of the redeemable noncontrolling interest increases relative to the redemption value. Such increases in profit per common share would be limited to cumulative prior reductions. During the first quarter of 2011, the estimated redemption value decreased, resulting in an adjustment to the carrying value of the redeemable noncontrolling interest. Profit employed in the business increased by $8 million due to this adjustment. During the first quarter of 2010, the estimated redemption value decreased, resulting in an adjustment to the carrying value of the redeemable noncontrolling interest. Profit employed in the business increased by $9 million due to this adjustment. As of March 31, 2011, the fair value of the redeemable noncontrolling interest remained greater than the estimated redemption value.

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

With the consolidation of Cat Japan's results of operations, 33 percent of Cat Japan's comprehensive income or loss is attributed to the redeemable noncontrolling interest, impacting its carrying value. Because the redeemable noncontrolling interest must be reported at its estimated future redemption value, the impact from attributing the comprehensive income or loss is offset by adjusting the carrying value to the redemption value. This adjustment impacts Profit employed in the business, but not Profit (loss). For the three months ended March 31, 2011, the carrying value had increased by $23 million due to Cat Japan's comprehensive income. This resulted in an offsetting adjustment of $23 million to decrease the carrying value to the redemption value and a corresponding increase to Profit employed in the business. For the three months ended March 31, 2010, the carrying value had decreased by $6 million due to Cat Japan's comprehensive loss. This resulted in an offsetting adjustment of $6 million to increase the carrying value to the redemption value and a corresponding reduction to Profit employed in the business. As Cat Japan's functional currency is the Japanese yen, changes in exchange rates affect the reported amount of the redeemable noncontrolling interest. At March 31, 2011 and December 31, 2010, the redeemable noncontrolling interest was $459 million and $461 million, respectively.

17. Fair Value Measurements

A. Fair value measurements

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

- **Level 1** — Quoted prices for identical instruments in active markets.

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

- **Level 3** — Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

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

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

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

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

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

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

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

Assets and liabilities measured on a recurring basis at fair value, primarily related to Financial Products, included in our Consolidated Statement of Financial Position as of March 31, 2011 and December 31, 2010 are summarized below:

(Millions of dollars)	March 31, 2011			
	Level 1	Level 2	Level 3	Total Assets / Liabilities, at Fair Value
Assets				
Available-for-sale securities				
Government debt				
U.S. treasury bonds	$13	$—	$—	$13
Other U.S. and non-U.S. government bonds	—	81	—	81
Corporate bonds				
Corporate bonds	—	520	—	520
Asset-backed securities	—	128	—	128
Mortgage-backed debt securities				
U.S. governmental agency mortgage-backed securities	—	273	—	273
Residential mortgage-backed securities	—	37	—	37
Commercial mortgage-backed securities	—	166	—	166
Equity securities				
Large capitalization value	135	—	—	135
Smaller company growth	35	—	—	35
Total available-for-sale securities	183	1,205	—	1,388
Derivative financial instruments, net	—	224	—	224
Total Assets	$183	$1,429	$—	$1,612
Liabilities				
Guarantees	$—	$—	$10	$10
Total Liabilities	$—	$—	$10	$10

(Millions of dollars)	December 31, 2010			
	Level 1	Level 2	Level 3	Total Assets / Liabilities, at Fair Value
Assets				
Available-for-sale securities				
Government debt				
U.S. treasury bonds	$12	$—	$—	$12
Other U.S. and non-U.S. government bonds	—	77	—	77
Corporate bonds				
Corporate bonds	—	511	—	511
Asset-backed securities	—	136	—	136
Mortgage-backed debt securities				
U.S. governmental agency mortgage-backed securities	—	273	—	273
Residential mortgage-backed securities	—	40	—	40
Commercial mortgage-backed securities	—	168	—	168
Equity securities				
Large capitalization value	122	—	—	122
Smaller company growth	31	—	—	31
Total available-for-sale securities	165	1,205	—	1,370
Derivative financial instruments, net	—	267	—	267
Total Assets	$165	$1,472	$—	$1,637
Liabilities				
Guarantees	$—	$—	$10	$10
Total Liabilities	$—	$—	$10	$10

Below are roll-forwards of assets and liabilities measured at fair value using Level 3 inputs for the three months ended March 31, 2011 and 2010. These instruments were valued using pricing models that, in management's judgment, reflect the assumptions a marketplace participant would use.

(Millions of dollars)	Securitized Retained Interests	Guarantees
Balance at December 31, 2010	$—	$10
Issuance of guarantees	—	1
Expiration of guarantees	—	(1)
Balance at March 31, 2011	$—	$10
Balance at December 31, 2009	$102	$17
Adjustment to adopt accounting for variable-interest entities	(102)	—
Issuance of guarantees	—	2
Balance at March 31, 2010	$—	$19

In addition to the amounts above, we had impaired loans of $176 million and $171 million as of March 31, 2011 and December 31, 2010, respectively. A loan is considered impaired when management determines that collection of contractual amounts due is not probable. In these cases, an allowance for credit losses is established based primarily on the fair value of associated collateral. As the collateral's fair value is based on observable market prices and/or current appraised values, the impaired loans are classified as Level 2 measurements.

B. Fair values of financial instruments

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

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

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

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

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

Short-term borrowings
Carrying amount approximated fair value.

Long-term debt
Fair value for Machinery and Power Systems fixed rate debt was estimated based on quoted market prices. For Financial Products, fixed and floating rate debt was estimated based on quoted market prices. Commercial paper carrying amounts approximated fair value.

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

Fair Values of Financial Instruments

(Millions of dollars)	March 31, 2011 Carrying Amount	March 31, 2011 Fair Value	December 31, 2010 Carrying Amount	December 31, 2010 Fair Value	Reference
Assets					
Cash and short-term investments	$4,869	$4,869	$3,592	$3,592	
Restricted cash and short-term investments	81	81	91	91	
Available-for-sale securities	1,388	1,388	1,370	1,370	Note 8
Finance receivables—net (excluding finance leases[1])	13,085	13,092	12,568	12,480	
Wholesale inventory receivables—net (excluding finance leases[1])	933	898	1,062	1,017	
Foreign currency contracts—net	98	98	63	63	Note 4
Interest rate swaps—net	109	109	187	187	Note 4
Commodity contracts—net	17	17	17	17	Note 4
Liabilities					
Short-term borrowings	5,337	5,337	4,056	4,056	
Long-term debt (including amounts due within one year)					
Machinery and Power Systems	4,887	5,804	5,000	5,968	
Financial Products	19,362	20,188	19,362	20,364	
Guarantees	10	10	10	10	Note 10

[1] Total excluded items have a net carrying value at March 31, 2011 and December 31, 2010 of $7,225 million and $7,292 million, respectively.

18. Divestitures

Carter Machinery

In March 2011, we sold 100 percent of the equity in Carter Machinery Company Inc. (Carter Machinery) for $358 million, which is net of a preliminary working capital adjustment of $34 million. We expect the working capital adjustment to be finalized in the second quarter of 2011. Carter Machinery is a Caterpillar dealership headquartered in Salem, Virginia, and has operations and stores covering Virginia and nine counties in southeast West Virginia. The current senior management of Carter Machinery, which led the purchase of Carter Machinery from Caterpillar, will remain in place. A retired Caterpillar Vice President will become CEO of Carter Machinery and will be the principal owner going forward. Caterpillar owned Carter Machinery, the only dealership in the United States that was not independently owned, since 1988. Continued Caterpillar ownership does not align with our comprehensive business strategy.

As part of the divestiture, Cat Financial provided $348 million of financing to the buyer, which is net of the preliminary working capital adjustment. The loan is included in Receivables – finance and Long-term receivables – finance in the Consolidated Statement of Financial Position. We recognized a pre-tax gain on the sale of $18 million included in Other operating (income) expenses in the Consolidated Statement of Results of Operations. The sale does not qualify as discontinued operations because Caterpillar expects significant continuing direct cash flows with Carter Machinery after the divestiture. The sale of Carter Machinery will not have a material impact on our results of operation, financial position or liquidity.

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

Overview

We reported first-quarter 2011 profit per share of $1.84—an all-time quarterly record and a 411-percent improvement from $0.36 in the first quarter of 2010. First-quarter sales and revenues of $12.949 billion were up 57 percent from $8.238 billion in the first quarter of 2010. Profit was a record $1.225 billion in the quarter, an increase of 426 percent from $233 million in the first quarter of 2010.

We generated more than $1.6 billion of operating cash flow from our ***Machinery and Power Systems (M&PS)*** businesses, an increase of more than 50 percent, and our ***debt-to-capital ratio*** dropped more than 4 percentage points from year-end 2010.

First-quarter profit was $1.225 billion compared with a profit of $233 million in the first quarter of 2010. The improvement in profit was primarily a result of significantly higher ***sales volume***. ***Price realization*** was favorable, but the impact was more than offset by higher manufacturing, selling, general and administrative (SG&A) and research and development (R&D) expenses. In addition, $90 million of the improvement was due to the absence of a tax charge from the first quarter of 2010 related to enactment of U.S. health care legislation.

Highlights for the first quarter of 2011 include:

- First-quarter sales and revenues of $12.949 billion were 57 percent higher than the first quarter of 2010. The improvement is a result of continued economic growth and improvement from the low levels of machine demand in the first quarter of 2010.
- Machinery and Power Systems sales increased 63 percent due to higher end-user demand and dealers adding inventory during the first quarter of 2011.
- Financial Products revenues declined 2 percent from the first quarter of 2010.
- Profit per share was $1.84 in the first quarter of 2011, an increase of $1.48 from the first quarter of 2010.
- While Machinery and Power Systems sales volume increased more than 50 percent, ***manufacturing costs*** increased less than 3 percent.
- Machinery and Power Systems operating cash flow was $1.644 billion in the first quarter of 2011, compared with $1.086 billion in the first quarter of 2010.
- Machinery and Power Systems debt-to-capital ratio was 30.4 percent at the end of the first quarter of 2011, compared with 34.8 percent at year-end 2010.

During the first quarter of 2011, we revised our reportable segments in line with changes to our organizational structure that were announced during 2010. Management's Discussion and Analysis has been revised to provide commentary by reportable segment (Construction Industries, Resource Industries, Power Systems and Financial Products Segment) instead of principal line of business (Machinery, Engines, Financial Products). The first quarter 2010 financial information has been retrospectively adjusted to conform to the 2011 presentation.

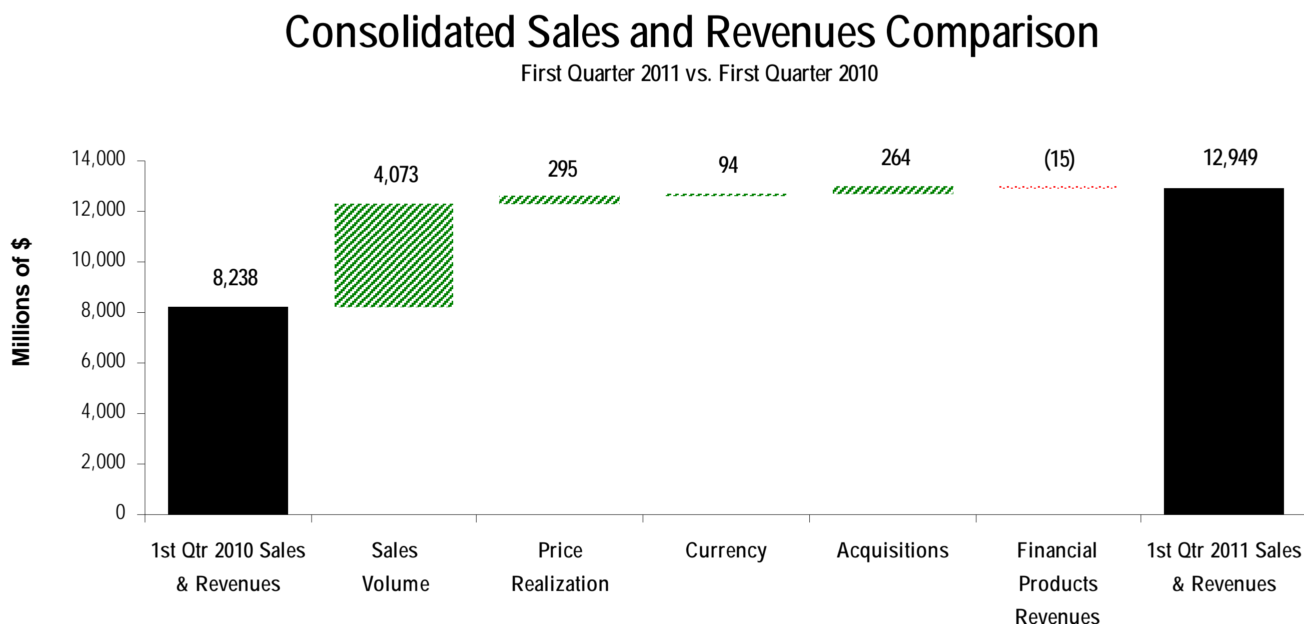
Notes:

- Glossary of terms is included on pages 44-46; first occurrence of terms shown in bold italics.
- Information on non-GAAP financial measures is included on page 55.

Consolidated Results of Operations

THREE MONTHS ENDED MARCH 31, 2011 COMPARED WITH THREE MONTHS ENDED MARCH 31, 2010

CONSOLIDATED SALES AND REVENUES



The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between the first quarter of 2010 (at left) and the first quarter of 2011 (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 $12.949 billion in the first quarter of 2011, an increase of $4.711 billion, or 57 percent, from the first quarter of 2010.

The improvement was largely a result of $4.073 billion higher sales volume. While sales for new equipment and aftermarket parts improved, the most significant increase was for new equipment. Price realization improved $295 million, and EMD, which was acquired in the third quarter of 2010, added $264 million. ***Currency*** impacts added $94 million, and Financial Products revenues declined slightly.

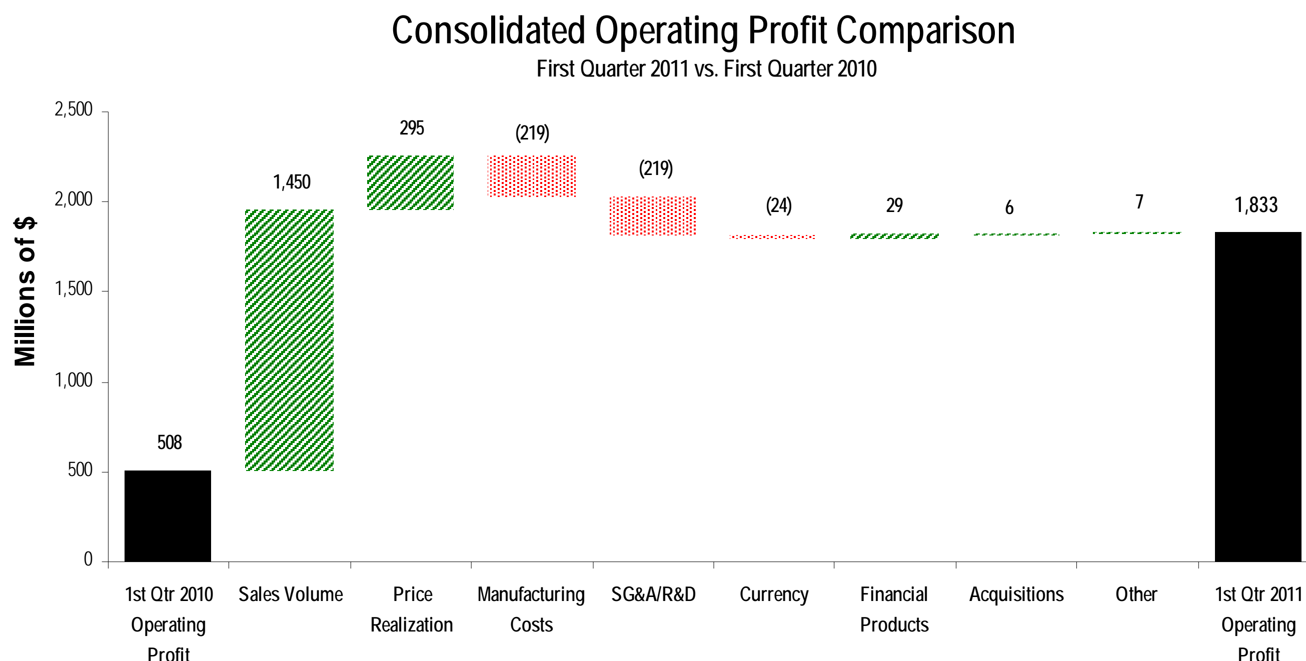
The improvement in sales volume occurred across the world in all geographic regions and in all segments. About $800 million of the increase in volume was a result of dealers adding new machine inventory in the first quarter compared with about flat dealer inventories during the first quarter of 2010.

Growth in the global economy increased both demand for commodities and commodity prices and was positive for mining in all regions of the world.

Construction activity continued to grow in the developing world and has led to record machine sales in many developing countries. In developed countries, despite a continued weak level of construction activity, sales increased as a result of customers upgrading machine fleets and replacing some older equipment and dealers refreshing some equipment in their rental fleets.

Power Systems sales increased as a result of economic growth, higher demand for energy, higher oil prices and increased demand for engines from industrial engine customers that manufacture agricultural and construction equipment.

CONSOLIDATED OPERATING PROFIT



The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between the first quarter of 2010 (at left) and the first quarter of 2011 (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 first quarter of 2011 was $1.833 billion compared with $508 million for the first quarter of 2010. The improvement was primarily the result of higher sales volume and better price realization. The improvements were partially offset by unfavorable manufacturing costs and higher selling, general and administrative (SG&A) and research and development (R&D) expenses.

Manufacturing costs were up $219 million, primarily due to higher period costs related to increased volume and provisions for incentive pay. Material, primarily higher steel prices, and freight costs were unfavorable compared with the first quarter of 2010. Continued improvements in variable labor efficiencies partially offset these factors.

SG&A and R&D expenses increased by $219 million, primarily due to increased provisions for incentive pay, higher costs to support new product development programs and increased growth-related costs.

The amount of incremental operating profit we earn on incremental sales and revenues is an important performance metric. Sales and revenues increased $4.711 billion from the first quarter of 2010 to the first quarter of 2011 and operating profit increased $1.325 billion. The resulting incremental operating profit rate is 28 percent. Excluding the acquisition of EMD, incremental margin was more than 29 percent.

Other Profit/Loss Items

- **Interest expense excluding Financial Products** decreased $15 million from the first quarter of 2010 due to lower line of credit fees resulting from a reduction of global credit facilities and a reduction in debt.
- **Other income/expense** was income of $17 million compared with income of $63 million in the first quarter of 2010. The unfavorable change was a result of mark-to-market losses on interest rate swaps put in place in anticipation of issuing debt for the planned acquisition of Bucyrus and costs for the bridge financing facility related to the Bucyrus acquisition.
- **The provision for income taxes** in the first quarter reflects an estimated annual tax rate of 29 percent compared to 30 percent for the first quarter 2010 and 25 percent for the full-year 2010, excluding the items discussed below. The

increase from full-year 2010 is primarily due to expected changes in our geographic mix of profits from a tax perspective.

The provision for income taxes in the first quarter of 2010 included a charge of $90 million due to the enactment of U.S. health care legislation, effectively making government subsidies received for Medicare equivalent prescription drug coverage taxable. In the second quarter of 2010, a $60 million benefit was recorded related to refund claims for prior tax years and a release of a valuation allowance.

- **Profit/loss attributable to noncontrolling interests** negatively impacted profit by $15 million from the first quarter of 2010, primarily due to improved financial performance of ***Caterpillar Japan Ltd. (Cat Japan).*** We own two-thirds of Cat Japan, meaning one-third of its profits or losses are attributable to our partner, Mitsubishi Heavy Industries, Ltd.

Segment Information

Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	Latin America	% Change	EAME	% Change	Asia/ Pacific	% Change
First Quarter 2011										
Construction Industries[1]	$4,471	71%	$1,308	92%	$701	84%	$1,108	116%	$1,354	31%
Resource Industries[2]	2,768	84%	925	97%	589	121%	583	96%	671	42%
Power Systems[3]	4,449	51%	1,979	62%	460	73%	1,194	38%	816	38%
All Other Segments [4]	589	19%	341	24%	32	39%	130	—%	86	28%
Machinery & Power Systems Sales	12,277	63%	4,553	72%	1,782	90%	3,015	67%	2,927	35%
Financial Products Segment	730	(1)%	429	(4)%	79	5%	107	(7)%	115	15%
Corporate Items and Eliminations	(58)		(47)		(4)		(2)		(5)	
Financial Products Revenues	672	(2)%	382	(5)%	75	3%	105	(9)%	110	13%
Consolidated Sales and Revenues	$12,949	57%	$4,935	62%	$1,857	84%	$3,120	63%	$3,037	34%
First Quarter 2010										
Construction Industries[1]	$2,612		$681		$382		$512		$1,037	
Resource Industries[2]	1,503		469		266		297		471	
Power Systems[3]	2,941		1,221		266		863		591	
All Other Segments [4]	494		274		23		130		67	
Corporate Items and Eliminations	1		—		—		—		1	
Machinery & Power Systems Sales	7,551		2,645		937		1,802		2,167	
Financial Products Segment	739		449		75		115		100	
Corporate Items and Eliminations	(52)		(47)		(2)		—		(3)	
Financial Products Revenues	687		402		73		115		97	
Consolidated Sales and Revenues	$8,238		$3,047		$1,010		$1,917		$2,264	

1 Does not include inter-segment sales of $147 million and $160 million in first-quarter 2011 and first-quarter 2010, respectively.
2 Does not include inter-segment sales of $274 million and $154 million in first-quarter 2011 and first-quarter 2010, respectively.
3 Does not include inter-segment sales of $554 million and $256 million in first-quarter 2011 and first-quarter 2010, respectively.
4 Does not include inter-segment sales of $796 million and $607 million in first-quarter 2011 and first-quarter 2010, respectively.

Sales and Revenues by Segment

(Millions of dollars)	First Quarter 2010	Sales Volume	Price Realization	Currency	Acquisitions	Other	First Quarter 2011	$ Change	% Change
Construction Industries	$2,612	$1,670	$120	$69	$—	$—	$4,471	$1,859	71%
Resource Industries	1,503	1,185	69	11	—	—	2,768	1,265	84%
Power Systems	2,941	1,178	56	10	264	—	4,449	1,508	51%
All Other Segments	494	90	1	4	—	—	589	95	19%
Corporate Items and Eliminations	1	(50)	49	—	—	—	—	(1)	
Machinery & Power Systems Sales	7,551	4,073	295	94	264	—	12,277	4,726	63%
Financial Products Segment	739	—	—	—	—	(9)	730	(9)	(1)%
Corporate Items and Eliminations	(52)	—	—	—	—	(6)	(58)	(6)	
Financial Products Revenues	687	—	—	—	—	(15)	672	(15)	(2)%
Consolidated Sales and Revenues	$8,238	$4,073	$295	$94	$264	$(15)	$12,949	$4,711	57%

Operating Profit by Segment

(Millions of dollars)	First Quarter 2011	First Quarter 2010	$ Change	% Change
Construction Industries	$544	$32	$512	1,600%
Resource Industries	796	227	569	251%
Power Systems	700	292	408	140%
All Other Segments	245	185	60	32%
Corporate Items and Eliminations	(524)	(278)	(246)	
Machinery & Power Systems	1,761	458	1,303	284%
Financial Products Segment	136	106	30	28%
Corporate Items and Eliminations	(10)	(9)	(1)	
Financial Products	126	97	29	30%
Consolidating Adjustments	(54)	(47)	(7)	
Consolidated Operating Profit	$1,833	$508	$1,325	261%

Construction Industries

Construction Industries' sales were $4.471 billion in the first quarter of 2011, an increase of $1.859 billion, or 71 percent, from the first quarter of 2010. The improvement in sales was a result of significantly higher sales volume in all geographic regions and across all major products. In addition to volume, sales were higher as a result of improved price realization and currency impacts from a weaker U.S. dollar.

Continuing economic growth in most developing countries resulted in higher sales overall, and new machine sales were above or near record levels across much of the developing world. While demand for product was strong, the supply of many excavator models, which are key products for construction across the world, is limited by our capacity, particularly in China. In 2010, we announced plans to significantly increase capacity in China. Over the past year we have increased excavator capacity in China by more than 60 percent, and we expect to have additional capacity in place by 2013.

In most developed countries sales increased significantly—from very low levels in the first quarter of 2010—despite relatively weak construction activity. The improvement in sales was largely driven by the need for customers to upgrade

machine fleets and replace older equipment, dealers refreshing some equipment in their rental fleets and dealers adding new machine inventory. Despite the increase from a year ago, sales of new machines to customers in developed countries remain weak and far below previous peak levels; the average age of equipment in rental fleets remains much higher than the historic average, and fleet sizes remain near 10-year lows.

Construction Industries' profit was $544 million in the first quarter of 2011 compared with $32 million in the first quarter of 2010. The increase in profit was due to higher sales volume, which includes the impact of an unfavorable mix of products, and improved price realization. Manufacturing, SG&A and R&D expenses were about flat despite the large increase in volume.

Resource Industries

Resource Industries' sales were $2.768 billion in the first quarter of 2011, an increase of $1.265 billion, or 84 percent, from the first quarter of 2010. The sales growth was driven primarily by higher sales volume with price realization and currency having a relatively small impact.

Growth in the global economy increased demand for commodities and commodity prices, with copper, gold, silver and tin hitting record highs during the first quarter. In addition, coal prices increased more than 20 percent, and coal production increased. As a result, worldwide mining production continued at a very high level. Mining customers are increasing their investment, which is driving significant demand for our large mining products and higher parts sales.

Resource Industries' profit was $796 million in the first quarter of 2011 compared with $227 million in first quarter of 2010. The profit improvement was primarily due to higher sales volume and improved price realization. This improvement was partially offset by higher period manufacturing costs related to increased volume and provisions for incentive pay. SG&A and R&D expenses were also higher due to additional investment in new product development programs related to emissions requirements and increased provisions for incentive pay.

Power Systems

Power Systems' sales were $4.449 billion in the first quarter of 2011, an increase of $1.508 billion, or 51 percent, from the first quarter of 2010. Most of the improvement was a result of higher sales volume and the acquisition of EMD. Sales for petroleum, electric power and industrial applications all improved, while sales of large marine engines declined.

Worldwide demand for energy and higher oil prices are encouraging customers to invest, and we are seeing stronger demand for engines and turbines for petroleum applications. Electric power has continued to improve over the past year as a result of better economic growth, and sales of industrial engines to customers that manufacture agricultural and construction equipment have improved.

Sales were up in all geographic regions from the depressed levels of the first quarter of 2010. The increase in North America was primarily from sales of engines and turbines for petroleum and electric power applications. The acquisition of EMD added sales of $171 million in North America. Sales in ***EAME*** increased due to higher sales of industrial engines, engines for electric power and higher turbine sales. Asia/Pacific sales increased due to higher sales of engines and turbines for electric power applications. The acquisition of EMD added sales of $50 million in Asia/Pacific. Sales in ***Latin America*** increased primarily due to higher turbines sales into petroleum applications.

Power Systems' profit was $700 million in the first quarter of 2011 compared with $292 million in first quarter of 2010. The improvement was primarily due to higher sales volume and improved price realization. The improvements were partially offset by higher period manufacturing costs related to increased volume and provisions for incentive pay. SG&A and R&D expenses were also higher due to increased provisions for incentive pay and additional investment in new product development programs related to emissions requirements. Turbines and product to support electric power and industrial applications were the most significant contributors to the improvement in segment profit primarily due to higher sales volume.

Financial Products Segment

Financial Products' revenues were $730 million, a decrease of $9 million, or 1 percent, from the first quarter of 2010. The decrease was primarily due to a $15 million unfavorable impact from lower average ***earning assets***, a $14 million unfavorable impact from lower interest rates on new and existing finance receivables and a $12 million decrease in Cat Insurance revenues, partially offset by a $19 million favorable change from returned or repossessed equipment and a favorable impact from miscellaneous net revenue items.

Financial Products' profit was $136 million in the first quarter of 2011 compared with $106 million in the first quarter of 2010. The increase was primarily due to a $19 million favorable change from returned or repossessed equipment, an $11

million favorable impact from higher net yield on average earning assets and a favorable impact from miscellaneous net revenue items. These increases were partially offset by an $8 million increase in SG&A expenses (excluding the provision for credit losses).

At the end of the first quarter of 2011, past dues at Cat Financial were 3.94 percent, which increased from 3.87 percent at the end of the fourth quarter of 2010. The increase in past dues from year-end 2010 is primarily due to seasonality impacts. At the end of the first quarter of 2010, past dues were 6.06 percent. Write-offs, net of recoveries, were $41 million for the first quarter of 2011, down from $61 million in the fourth quarter of 2010, and $46 million in the first quarter of 2010.

As of March 31, 2011, Cat Financial's allowance for credit losses totaled $380 million or 1.55 percent of net finance receivables, compared with $363 million or 1.57 percent of net finance receivables at year-end 2010. The allowance for credit losses as of March 31, 2010, was $394 million, which was 1.74 percent of net finance receivables.

Corporate Items and Eliminations

Expense for corporate items and eliminations was $534 million in the first quarter of 2011, an increase of $247 million from the first quarter of 2010. Corporate items and eliminations include corporate-level expenses, timing differences as some expenses are reported in segment results on a cash basis, retirement benefit costs other than service cost and inter-segment eliminations.

The change was primarily due to an increase in the provision for warranty due to higher sales volume, higher corporate-level expenses and increased retirement benefit costs not allocated to segments.

GLOSSARY OF TERMS

1. **All Other Segments** – 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 design, product management and development, manufacturing, marketing, sales 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 business strategy, product management, product development, marketing, sales and product support of on-highway vocational trucks for North America (U.S. & Canada only); the 50/50 joint venture with Navistar (NC2) which develops, manufactures and distributes on-highway trucks outside North America and India; and distribution services responsible for dealer development and administration, dealer portfolio management and ensuring the most efficient and effective distribution of machines, engines and parts.

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

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

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

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

net effect of changes in foreign currency exchange rates on our foreign currency assets and liabilities for consolidated results.

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

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

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

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

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

11. **Machinery and Power Systems (M&PS)** – Represents the aggregate total of Construction Industries, Resource Industries, Power Systems, and All Other segments and related corporate items and eliminations.

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

13. **Manufacturing Costs** – Manufacturing costs exclude the impacts of currency and represent the volume-adjusted change for variable costs and the absolute dollar change for period manufacturing costs. Variable manufacturing costs are defined as having a direct relationship with the volume of production. This includes material costs, direct labor and other costs that vary directly with production volume such as freight, power to operate machines and supplies that are consumed in the manufacturing process. Period manufacturing costs support production but are defined as generally not having a direct relationship to short-term changes in volume. Examples include machinery and equipment repair, depreciation on manufacturing assets, facility support, procurement, factory scheduling, manufacturing planning and operations management.

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

15. **Price Realization** – The impact of net price changes excluding currency and new product introductions. Consolidated price realization includes the impact of changes in the relative weighting of sales between geographic regions.

16. **Resource Industries** – A segment primarily responsible for supporting customers using machinery in mining and quarrying applications. Responsibilities include business strategy, product design, product management and development, manufacturing, marketing, sales and product support. The product portfolio includes large track-type tractors, large mining trucks, underground mining equipment, tunnel boring equipment, large wheel loaders, quarry and construction trucks, articulated trucks, wheel tractor scrapers, wheel dozers, compactors, select work tools, forestry products, paving products, machinery components, electronics and control systems and related parts. 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.

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

LIQUIDITY AND CAPITAL RESOURCES

Sources of funds

We generate significant capital resources from operating activities, which are the primary source of funding for our Machinery and Power Systems operations. Funding for these businesses is also provided by commercial paper and long-term debt issuances. Financial Products operations are funded primarily from commercial paper, term debt issuances and collections from their existing portfolio. Throughout the first quarter of 2011, we experienced favorable liquidity conditions in both our Machinery and Power Systems and Financial Products operations. On a consolidated basis, we ended the first quarter of 2011 with $4.9 billion of cash, an increase of $1.3 billion from year-end 2010. We are holding more cash than needed for normal operations in preparation for funding the planned acquisitions of Bucyrus and MWM. Our cash balances are held in numerous locations throughout the world. We expect to meet our U.S. funding needs without repatriating non-U.S. cash and incurring incremental U.S. taxes.

Consolidated operating cash flow for the first quarter of 2011 was $765 million, up from $716 million for the same period a year ago. Operating cash flow in the first quarter of 2011 benefited from profit of consolidated and affiliated companies of $1.24 billion. Offsetting strong profitability were higher inventories, primarily related to higher production in anticipation of strong sales volumes during the remainder of 2011, as well as lower accrued wages, salaries and employee benefits, reflecting the payment of short-term incentive compensation to employees during the first quarter of 2011. Operating cash flow in the first quarter of 2010 benefited from profit of consolidated and affiliated companies of $236 million and an increase in accounts payable, reflecting higher levels of material purchases for a production ramp-up to meet increasing demand. This was offset by an increase in inventory, also related to production ramp-up, and higher receivables. See further discussion of operating cash flow under Machinery and Power Systems and Financial Products.

Total debt as of March 31, 2011, was $29.59 billion, an increase of $1.17 billion from year-end 2010. Debt related to Machinery and Power Systems decreased $198 million in the first quarter of 2011. Debt related to Financial Products increased $1.37 billion reflecting increasing portfolio balances at Cat Financial.

We have three global credit facilities with a syndicate of banks totaling $7.23 billion (Credit Facility) available in the aggregate to both Caterpillar and Cat Financial to support their commercial paper programs in the event those programs become unavailable and for general liquidity purposes. Based on management's allocation decision, which can be revised from time to time, the portion of the Credit Facility available to Cat Financial as of March 31, 2011 was $5.73 billion.

- The 364-day facility of $3.52 billion expires in September 2011.
- The five-year facility of $1.62 billion expires in September 2012.
- The four-year facility of $2.09 billion expires in September 2014.

At March 31, 2011, Caterpillar's consolidated net worth was $17.27 billion, which was above the $9.00 billion required under the Credit Facility. The consolidated net worth is defined as the consolidated stockholder's equity including

preferred stock but excluding the pension and other postretirement benefits balance within Accumulated other comprehensive income (loss).

At March 31, 2011, Cat Financial's covenant interest coverage ratio was 1.40 to 1. This is above the 1.15 to 1 minimum ratio of (1) profit excluding income taxes, interest expense and net gain/(loss) from interest rate derivatives to (2) interest expense calculated at the end of each calendar quarter for the rolling four quarter period then most recently ended.

In addition, at March 31, 2011, Cat Financial's covenant leverage ratio was 7.12 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 March 31, 2011, there were no borrowings under the Credit Facility.

Our total credit commitments as of March 31, 2011 were:

	March 31, 2011		
(Millions of dollars)	**Consolidated**	**Machinery and Power Systems**	**Financial Products**
Credit lines available:			
Global credit facilities	$7,230	$1,500	$5,730
Other external	4,693	772	3,921
Total credit lines available	11,923	2,272	9,651
Less: Global credit facilities supporting commercial paper	(4,016)	—	(4,016)
Less: Utilized credit	(2,295)	(51)	(2,244)
Available credit	$5,612	$2,221	$3,391

Other consolidated credit lines with banks as of March 31, 2011 totaled $4.69 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 2010, Caterpillar entered into a bridge facility commitment letter related to the planned acquisition of Bucyrus International, Inc. The commitment letter provided for an aggregate principal amount of $8.6 billion under a one-year unsecured term loan credit facility (Bridge Facility). Also in 2010, Caterpillar entered into a Bridge Loan Agreement that contains the negotiated terms and conditions originally contemplated in the commitment letter. The principal amount available to Caterpillar under the Bridge Loan Agreement is not included in the credit commitments table shown above. Caterpillar pays certain customary fees and expenses in connection with the Bridge Loan Agreement. During the first quarter of 2011, Caterpillar paid $3 million in fees related to the Bridge Facility and the Bridge Loan Agreement. We estimate total payments of approximately $20 million in fees related to the Bridge Loan Agreement in 2011, compared with total payments of $46 million in 2010. These fees will be amortized over the term of the Bridge Loan Agreement. At March 31, 2011, there were no borrowings under the Bridge Loan Agreement.

In the event that Caterpillar or Cat Financial, or any of their debt securities, experiences a credit rating downgrade, it would likely result in an increase in our borrowing costs and make access to certain credit markets more difficult. While we expect continued growth in the global economy, in the event 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, Caterpillar maintains a support agreement with Cat Financial, which requires Caterpillar to remain the sole owner of Cat Financial and may, under

certain circumstances, require Caterpillar to make payments to Cat Financial should Cat Financial fail to maintain certain financial ratios.

Machinery and Power Systems

Net cash provided by operating activities was $1.64 billion in the first quarter of 2011 compared with $1.09 billion in the first quarter of 2010. The change was primarily due to lower receivables and increased profit, partially offset by higher inventories, lower accrued wages, salaries and employee benefits and lower dividends received from Cat Financial. Profit of consolidated and affiliated companies in the first quarter of 2011 was $1.24 billion compared with $234 million for the same period a year ago. Dividends received from Cat Financial were $300 million during the first quarter of 2011, compared with $600 million in the first quarter of 2010. During the first quarter of 2011, we experienced decreases in receivables, resulting from increased sales of receivables to Cat Financial, as well as increases to accounts payable, reflecting higher material purchases for continued increases in production. Offsetting these items were increases in inventories, also resulting from higher production in anticipation of strong sales volumes for the remainder of 2011, and lower accrued wages, salaries, and employee benefits reflecting the payment of short-term incentive compensation to employees during the first quarter of 2011. During the first quarter of 2010, we experienced sharply increased demand and a production ramp-up, resulting in an increase in accounts payable and customer advances, which was more than offset by increases in inventory and receivables. Net cash provided by investing activities in the first quarter of 2011 was $485 million compared with net cash used for investing activities of $1.0 billion for the same period in 2010. The change was primarily due to loan repayments from Cat Financial and proceeds from the divestiture of Carter Machinery in the first quarter of 2011, compared with net loans to Cat Financial in the first quarter of 2010. Net cash used for financing activities in the first quarter of 2011 was $329 million, primarily a result of payments on debt and dividend payments. During the same period in 2010, net cash used for financing activities was $632 million, also a result of payments on long-term debt and dividend payments.

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

Strong financial position – A key measure of Machinery and 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 30.4 percent at March 31, 2011, below our target range of 35 to 45 percent, compared with 34.8 percent at December 31, 2010. Profit and lower debt levels during the first quarter of 2011 have contributed to the reduction in the debt-to-capital ratio. During the first quarter of 2011, the Machinery and Power Systems debt-to-capital ratio was below the target range of 35 to 45 percent in anticipation of increases to the ratio upon debt issuances related to the planned acquisition of Bucyrus.

Capital to support growth – Capital expenditures during the first quarter of 2011 were $568 million, an increase of $200 million compared with the first quarter of 2010. We expect capital expenditures to be about $3 billion in 2011, up from $1.66 billion in 2010. In 2011, we anticipate closing the acquisitions of MWM for approximately euro 580 million and Bucyrus for approximately $8.6 billion. The Bucyrus transaction value consists of a payment to Bucyrus shareholders of approximately $7.6 billion and the assumption of net debt of approximately $1.0 billion. We are holding more cash than needed for normal operations in anticipation of funding these planned acquisitions. The acquisition of MWM is expected to be funded by available cash. The Bucyrus acquisition is expected to be funded by a combination of available cash, new debt issuances, and up to $2 billion of new equity issuances. Given Machinery and Power Systems' strong cash position of $3.6 billion at the end of the first quarter of 2011, we believe sufficient cash will be available to minimize or eliminate the need for new equity to complete the Bucyrus acquisition.

Appropriately funded employee benefit plans – We contributed $131 million to our pension plans in the first quarter of 2011. We currently anticipate full-year 2011 contributions of approximately $1 billion, most of which are voluntary contributions.

Paying dividends – Dividends paid totaled $281 million in the first quarter of 2011, representing 44 cents per share. 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, which expires on December 31, 2011, $3.8 billion of the $7.5 billion authorized was spent through 2008. The stock repurchase program has been suspended since the first quarter of 2009. Due to the size of acquisitions that we expect to close, particularly Bucyrus, as well as planned capital expenditures, we do not currently expect to buy back stock in 2011. Basic shares outstanding as of March 31, 2011 were 644 million.

Financial Products

Financial Products operating cash flow was $282 million through the first quarter of 2011, compared with $156 million for the same period a year ago. Net cash used for investing activities through the first quarter of 2011 was $1.12 billion, compared with a $444 million source of cash in 2010. This change is primarily the result of significantly higher additions to finance receivables at Cat Financial, partially offset by higher collections. The increased activity is due to higher purchases of trade receivables from Caterpillar and subsequent collections of those receivables. Net cash provided by financing activities was $263 million through the first quarter of 2011, compared with a $1.32 billion use of cash in 2010, primarily related to higher funding requirements and lower dividends paid to Caterpillar, partially offset by the net impact of intercompany borrowings.

At the end of the first quarter of 2011, past dues at Cat Financial were 3.94 percent, which increased from 3.87 percent at the end of the fourth quarter of 2010. The increase in past dues from year-end 2010 is primarily due to seasonality impacts. At the end of the first quarter of 2010, past dues were 6.06 percent. Write-offs, net of recoveries, were $41 million for the first quarter of 2011, down from $61 million in the fourth quarter of 2010 and $46 million in the first quarter of 2010.

At March 31, 2011, Cat Financial's allowance for credit losses was approximately $380 million or 1.55 percent of net finance receivables, compared with $363 million or 1.57 percent of net finance receivables at year-end 2010. The allowance for credit losses as of March 31, 2010 was $394 million, which was 1.74 percent of net finance receivables.

Cat Financial experienced favorable liquidity conditions in all key global funding markets during the first quarter of 2011. Commercial Paper (CP) market liquidity and pricing continued to be favorable, with CP outstanding totaling $4.0 billion at quarter-end supported by the Credit Facility. During the first quarter of 2011, Cat Financial issued and settled $285 million in medium-term notes. Throughout the first quarter of 2011, Cat Financial's CP, term debt issuance and year-to-date portfolio cash receipts have provided sufficient liquidity for operations.

CRITICAL ACCOUNTING POLICIES

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

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

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

Goodwill is reviewed for impairment utilizing a two-step process. The first step requires us to compare the fair value of each reporting unit to the respective carrying value, which includes goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is greater than the fair value, there is an indication that an impairment may exist and the second step is required. Additionally, if the carrying amount of a reporting unit is zero or negative, the second step of the goodwill impairment test is also required if an analysis of qualitative factors indicates it more likely than not that a goodwill impairment exists. In step two, the implied fair value of the goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss.

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

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

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

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

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

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

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

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

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

- Volatility is a measure of the amount by which the stock price is expected to fluctuate each year during the expected term of the award and is based on historical and current implied volatilities from traded options on Caterpillar stock. The implied volatilities from traded options are impacted by changes in market conditions. An increase in the volatility would result in an increase in our expense.
- The expected term represents the period of time that awards granted are expected to be outstanding and is an output of the lattice-based option-pricing model. In determining the expected term of the award, future exercise and forfeiture patterns are estimated from Caterpillar employee historical exercise behavior. These patterns are also affected by the vesting conditions of the award. Changes in the future exercise behavior of employees or in the vesting period of the award could result in a change in the expected term. An increase in the expected term would result in an increase 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 $783 million and $779 million as of March 31, 2011 and December 31, 2010 respectively. The reserve represents discounts that we expect to pay on previously sold units and is reviewed at least quarterly. The reserve is adjusted if discounts paid differ from those estimated. Historically, those adjustments have not been material.

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

The allowance for credit losses attributable to specific accounts is based on the most probable source of repayment, which is normally the liquidation of collateral. In determining collateral value we estimate current fair value of collateral and 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 in the period the change occurs.

GLOBAL WORKFORCE

Caterpillar worldwide full-time employment was 105,394 at the end of the first quarter of 2011 compared with 95,290 at the end of the first quarter of 2010, an increase of 10,104 full-time employees. In addition, we increased the flexible workforce by 10,709 for a total increase in the global workforce of 20,813.

The increase was primarily a result of higher sales volume across all geographic regions. In addition, acquisitions, primarily EMD, added 2,611 people. The sale of Carter Machinery reduced the workforce by 1,157 people.

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. Caterpillar is currently engaged in negotiations with EPA and the U.S. Department of Justice to resolve these issues. On July 9, 2010, the Department of Justice issued a penalty demand to Caterpillar seeking a civil penalty of $3.2 million and implementation of injunctive relief involving expanded use of certain technologies. Caterpillar continues to cooperate with EPA and the Department of Justice and, while penalties will likely exceed $100,000, management does not believe that this issue will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

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

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

Retirement Benefits

We recognized pension expense of $159 million for the three months ended March 31, 2011, as compared to $156 million for the three months ended March 31, 2010. Increased amortization of net actuarial losses due to lower discount rates at the end of 2010 and significant asset losses in 2008, was about offset by a decrease in service cost due to changes in our U.S. pension plans (discussed below). 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 March 31, 2011, total actuarial losses, recognized in Accumulated other comprehensive income (loss), related to pensions were $5.94 billion. The majority of the actuarial losses are due to lower discount rates, losses from other demographic and economic assumptions over the past several years and plan asset losses.

Other postretirement benefit expense was $80 million for the three months ended March 31, 2011, as compared to $49 million for the three months ended March 31, 2010. The increase in expense was primarily the result of increased amortization of net actuarial losses due to lower discount rates at the end of 2010 and changes in our health care trend assumption, partially offset by gains from lower than expected health care costs. Actuarial losses, recognized in Accumulated other comprehensive income (loss), for other postretirement benefit plans were $1.17 billion at March 31, 2011. These losses mainly reflect changes in our health care trend assumption and several years of declining discount rates, partially offset by gains from lower than expected health care costs.

Actuarial losses for both pensions and other postretirement benefits will be impacted in future periods by actual asset returns, actual health care inflation, discount rate changes, actual demographic experience and other factors that impact these expenses. These losses, reported in Accumulated other comprehensive income (loss), will be amortized as a component of net periodic benefit cost on a straight-line basis over the average remaining service period of active employees expected to receive benefits under the benefit plans. At the end of 2010, the average remaining service period of active employees was 11 years for our U.S. pension plans, 15 years for our non-U.S. pension plans and 7 years for other postretirement benefit plans. We expect our amortization of net actuarial losses to increase approximately $150 million in 2011 as compared to 2010, primarily due to asset losses in 2008 and a decrease in the discount rate during 2010.

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

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

We expect our total defined benefit expense to increase approximately $100 million in 2011 as compared to 2010. This increase in expense is primarily due to increased amortization of net actuarial losses due to lower discount rates at the end of 2010, significant asset losses in 2008 and changes in our health care trend assumption. These increases are partially offset by a decrease in pension service cost and $28 million of curtailment expense recognized in 2010 due to the changes in our U.S. pension plans.

We made $131 million of contributions to our U.S. and non-U.S. pension plans during the three months ended March 31, 2011. We currently anticipate full-year 2011 contributions of approximately $1 billion, most of which are voluntary contributions. We made $248 million of contributions to our U.S. and non-U.S. pension plans during the three months ended March 31, 2010.

Order Backlog

The dollar amount of backlog believed to be firm was approximately $20.8 billion at March 31, 2011 and $18.7 billion at December 31, 2010. Of the total backlog, approximately $3.8 billion at March 31, 2011 and $2.8 billion at December 31, 2010 was not expected to be filled in the following twelve months. Our backlog is generally highest in the first and second quarters because of seasonal buying trends in our industry.

NON-GAAP FINANCIAL MEASURES

The following definition for Machinery and Power Systems is provided for “non-GAAP financial measures” in connection with Item 10(e) of Regulation S-K issued by the Securities and Exchange Commission. This non-GAAP financial measure has no standardized meaning prescribed by U.S. GAAP and therefore is unlikely to be comparable to the calculation of similar measures for other companies. Management does not intend this item to be considered in isolation or as a substitute for the related GAAP measure.

SUPPLEMENTAL CONSOLIDATING DATA

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

Consolidated – Caterpillar Inc. and its subsidiaries.

Machinery and Power Systems – The Machinery and Power Systems data contained in the schedules on pages 57 to 62 are "non-GAAP financial measures" as defined by the Securities and Exchange Commission in Item 10(e) of Regulation S-K. This non-GAAP financial measure has no standardized meaning prescribed by U.S. GAAP, and therefore, is unlikely to be comparable with the calculation of similar measures for other companies. Management does not intend this item to be considered in isolation or as a substitute for the related GAAP measure. Caterpillar defines Machinery and Power Systems as it is presented in the supplemental data as Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis. Machinery and Power Systems information relates to the design, manufacture and marketing of our products. Financial Products information relates to the financing to customers and dealers for the purchase and lease of Caterpillar and other equipment. The nature of these businesses is different especially with regard to the financial position and cash flow items. Caterpillar management utilizes this presentation internally to highlight these differences. We also believe this presentation will assist readers in understanding our business.

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

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

Pages 57 to 62 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 March 31, 2011
(Unaudited)
(Millions of dollars)

		Supplemental Consolidating Data		
	Consolidated	Machinery and Power Systems[1]	Financial Products	Consolidating Adjustments
Sales and revenues:				
Sales of Machinery and Power Systems	$12,277	$12,277	$—	$—
Revenues of Financial Products	672	—	740	(68)[2]
Total sales and revenues	12,949	12,277	740	(68)
Operating costs:				
Cost of goods sold	9,057	9,057	—	—
Selling, general and administrative expenses	1,099	949	152	(2)[3]
Research and development expenses	525	525	—	—
Interest expense of Financial Products	203	—	204	(1)[4]
Other operating (income) expenses	232	(15)	258	(11)[3]
Total operating costs	11,116	10,516	614	(14)
Operating profit (loss)	1,833	1,761	126	(54)
Interest expense excluding Financial Products	87	97	—	(10)[4]
Other income (expense)	17	(39)	12	44[5]
Consolidated profit (loss) before taxes	1,763	1,625	138	—
Provision (benefit) for income taxes	512	474	38	—
Profit (loss) of consolidated companies	1,251	1,151	100	—
Equity in profit (loss) of unconsolidated affiliated companies	(8)	(8)	—	—
Equity in profit of Financial Products' subsidiaries	—	97	—	(97)[6]
Profit (loss) of consolidated and affiliated companies	1,243	1,240	100	(97)
Less: Profit (loss) attributable to noncontrolling interests	18	15	3	—
Profit (loss) [7]	$1,225	$1,225	$97	$(97)

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

Caterpillar Inc.
Supplemental Data for Results of Operations
For The Three Months Ended March 31, 2010
(Unaudited)
(Millions of dollars)

		Supplemental Consolidating Data		
	Consolidated	Machinery and Power Systems[1]	Financial Products	Consolidating Adjustments
Sales and revenues:				
Sales of Machinery and Power Systems	$7,551	$7,551	$—	$—
Revenues of Financial Products	687	—	746	(59)[2]
Total sales and revenues	8,238	7,551	746	(59)
Operating costs:				
Cost of goods sold	5,894	5,894	—	—
Selling, general and administrative expenses	932	798	144	(10)[3]
Research and development expenses	402	402	—	—
Interest expense of Financial Products	233	—	234	(1)[4]
Other operating (income) expenses	269	(1)	271	(1)[3]
Total operating costs	7,730	7,093	649	(12)
Operating profit (loss)	508	458	97	(47)
Interest expense excluding Financial Products	102	122	—	(20)[4]
Other income (expense)	63	23	13	27[5]
Consolidated profit (loss) before taxes	469	359	110	—
Provision (benefit) for income taxes	231	202	29	—
Profit (loss) of consolidated companies	238	157	81	—
Equity in profit (loss) of unconsolidated affiliated companies	(2)	(2)	—	—
Equity in profit of Financial Products' subsidiaries	—	79	—	(79)[6]
Profit (loss) of consolidated and affiliated companies	236	234	81	(79)
Less: Profit (loss) attributable to noncontrolling interests	3	1	2	—
Profit (loss) [7]	$233	$233	$79	$(79)

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

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

	Consolidated	Supplemental Consolidating Data		
		Machinery and Power Systems[1]	Financial Products	Consolidating Adjustments
Assets				
Current assets:				
Cash and short-term investments	$4,869	$3,649	$1,220	$—
Receivables – trade and other	8,830	4,528	463	3,839[2,3]
Receivables – finance	8,458	—	12,458	(4,000)[3]
Deferred and refundable income taxes	895	859	36	—
Prepaid expenses and other current assets	880	370	523	(13)[4]
Inventories	10,676	10,676	—	—
Total current assets	34,608	20,082	14,700	(174)
Property, plant and equipment – net	12,219	9,397	2,822	—
Long-term receivables – trade and other	486	217	198	71[2,3]
Long-term receivables – finance	11,574	—	11,676	(102)[3]
Investments in unconsolidated affiliated companies	140	140	—	—
Investments in Financial Products subsidiaries	—	4,258	—	(4,258)[5]
Noncurrent deferred and refundable income taxes	2,412	2,757	89	(434)[6]
Intangible assets	794	785	9	—
Goodwill	2,608	2,591	17	—
Other assets	1,546	307	1,239	—
Total assets	$66,387	$40,534	$30,750	$(4,897)
Liabilities				
Current liabilities:				
Short-term borrowings	$5,337	$167	$5,218	$(48)[7]
Accounts payable	5,990	5,915	189	(114)[8]
Accrued expenses	2,863	2,419	457	(13)[9]
Accrued wages, salaries and employee benefits	1,250	1,233	17	—
Customer advances	1,728	1,728	—	—
Dividends payable	—	—	—	—
Other current liabilities	1,625	1,259	378	(12)[6]
Long-term debt due within one year	4,354	420	3,934	—
Total current liabilities	23,147	13,141	10,193	(187)
Long-term debt due after one year	19,895	4,499	15,428	(32)[7]
Liability for postemployment benefits	7,514	7,514	—	—
Other liabilities	2,700	2,249	871	(420)[6]
Total liabilities	53,256	27,403	26,492	(639)
Commitments and contingencies				
Redeemable noncontrolling interest	459	459	—	—
Stockholders' equity				
Common stock	4,044	4,044	902	(902)[5]
Treasury stock	(10,331)	(10,331)	—	—
Profit employed in the business	22,640	22,640	2,824	(2,824)[5]
Accumulated other comprehensive income (loss)	(3,724)	(3,724)	445	(445)[5]
Noncontrolling interests	43	43	87	(87)[5]
Total stockholders' equity	12,672	12,672	4,258	(4,258)
Total liabilities, redeemable noncontrolling interest and stockholders' equity	$66,387	$40,534	$30,750	$(4,897)

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

2 Elimination of receivables between Machinery and Power Systems and Financial Products.

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

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

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

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

7 Elimination of debt between Machinery and Power Systems and Financial Products.

8 Elimination of payables between Machinery and Power Systems and Financial Products.

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

Caterpillar Inc.
Supplemental Data for Financial Position
At December 31, 2010
(Unaudited)
(Millions of dollars)

		Supplemental Consolidating Data		
	Consolidated	Machinery and Power Systems[1]	Financial Products	Consolidating Adjustments
Assets				
Current assets:				
Cash and short-term investments	$3,592	$1,825	$1,767	$—
Receivables – trade and other	8,494	5,893	482	2,119[2,3]
Receivables – finance	8,298	—	11,158	(2,860)[3]
Deferred and refundable income taxes	931	823	108	—
Prepaid expenses and other current assets	908	371	550	(13)[4]
Inventories	9,587	9,587	—	—
Total current assets	31,810	18,499	14,065	(754)
Property, plant and equipment – net	12,539	9,662	2,877	—
Long-term receivables – trade and other	793	271	236	286[2,3]
Long-term receivables – finance	11,264	—	11,586	(322)[3]
Investments in unconsolidated affiliated companies	164	156	8	—
Investments in Financial Products subsidiaries	—	4,275	—	(4,275)[5]
Noncurrent deferred and refundable income taxes	2,493	2,922	90	(519)[6]
Intangible assets	805	795	10	—
Goodwill	2,614	2,597	17	—
Other assets	1,538	314	1,224	—
Total assets	$64,020	$39,491	$30,113	$(5,584)
Liabilities				
Current liabilities:				
Short-term borrowings	$4,056	$306	$4,452	$(702)[7]
Accounts payable	5,856	5,717	177	(38)[8]
Accrued expenses	2,880	2,422	470	(12)[9]
Accrued wages, salaries and employee benefits	1,670	1,642	28	—
Customer advances	1,831	1,831	—	—
Dividends payable	281	281	—	—
Other current liabilities	1,521	1,142	393	(14)[6]
Long-term debt due within one year	3,925	495	3,430	—
Total current liabilities	22,020	13,836	8,950	(766)
Long-term debt due after one year	20,437	4,543	15,932	(38)[7]
Liability for postemployment benefits	7,584	7,584	—	—
Other liabilities	2,654	2,203	956	(505)[6]
Total liabilities	52,695	28,166	25,838	(1,309)
Commitments and contingencies				
Redeemable noncontrolling interest	461	461	—	—
Stockholders' equity				
Common stock	3,888	3,888	902	(902)[5]
Treasury stock	(10,397)	(10,397)	—	—
Profit employed in the business	21,384	21,384	3,027	(3,027)[5]
Accumulated other comprehensive income (loss)	(4,051)	(4,051)	263	(263)[5]
Noncontrolling interests	40	40	83	(83)[5]
Total stockholders' equity	10,864	10,864	4,275	(4,275)
Total liabilities, redeemable noncontrolling interest and stockholders' equity	$64,020	$39,491	$30,113	$(5,584)

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

2 Elimination of receivables between Machinery and Power Systems and Financial Products.

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

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

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

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

7 Elimination of debt between Machinery and Power Systems and Financial Products.

8 Elimination of payables between Machinery and Power Systems and Financial Products.

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

Caterpillar Inc.
Supplemental Data for Cash Flow
For The Three Months Ended March 31, 2011
(Unaudited)
(Millions of dollars)

		Supplemental Consolidating Data		
	Consolidated	Machinery and Power Systems[1]	Financial Products	Consolidating Adjustments
Cash flow from operating activities:				
Profit (loss) of consolidated and affiliated companies	$1,243	$1,240	$100	$(97)[2]
Adjustments for non-cash items:				
Depreciation and amortization	575	395	180	—
Other	95	48	14	33[4]
Financial Products' dividend in excess of profit	—	203	—	(203)[3]
Changes in assets and liabilities, net of acquisitions and divestitures:				
Receivables - trade and other	(17)	834	(32)	(819)[4,5]
Inventories	(1,185)	(1,185)	—	—
Accounts payable	364	432	8	(76)[4]
Accrued expenses	(57)	(49)	(7)	(1)[4]
Accrued wages, salaries and employee benefits	(429)	(418)	(11)	—
Customer advances	(120)	(120)	—	—
Other assets – net	63	72	76	(85)[4]
Other liabilities – net	233	192	(46)	87[4]
Net cash provided by (used for) operating activities	765	1,644	282	(1,161)
Cash flow from investing activities:				
Capital expenditures - excluding equipment leased to others	(543)	(541)	(2)	—
Expenditures for equipment leased to others	(217)	(27)	(211)	21[4]
Proceeds from disposals of leased assets and property, plant and equipment	302	43	293	(34)[4]
Additions to finance receivables	(2,008)	—	(10,297)	8,289[5,8]
Collections of finance receivables	1,962	—	8,995	(7,033)[5]
Proceeds from sale of finance receivables	33	—	33	—
Net intercompany borrowings	—	600	56	(656)[6]
Investments and acquisitions (net of cash acquired)	(8)	(8)	—	—
Proceeds from sale of businesses and investments (net of cash sold)	21	392	11	(382)[8]
Proceeds from sale of available-for-sale securities	66	3	63	—
Investments in available-for-sale securities	(72)	(2)	(70)	—
Other – net	30	25	5	—
Net cash provided by (used for) investing activities	(434)	485	(1,124)	205
Cash flow from financing activities:				
Dividends paid	(281)	(281)	(300)	300[7]
Common stock issued, including treasury shares reissued	58	58	—	—
Excess tax benefit from stock-based compensation	123	123	—	—
Net intercompany borrowings	—	(56)	(600)	656[6]
Proceeds from debt issued (original maturities greater than three months)	1,305	44	1,261	—
Payments on debt (original maturities greater than three months)	(1,775)	(151)	(1,624)	—
Short-term borrowings – net (original maturities three months or less)	1,460	(66)	1,526	—
Net cash provided by (used for) financing activities	890	(329)	263	956
Effect of exchange rate changes on cash	56	24	32	—
Increase (decrease) in cash and short-term investments	1,277	1,824	(547)	—
Cash and short-term investments at beginning of period	3,592	1,825	1,767	—
Cash and short-term investments at end of period	$4,869	$3,649	$1,220	$—

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

Caterpillar Inc.
Supplemental Data for Cash Flow
For The Three Months Ended March 31, 2010
(Unaudited)
(Millions of dollars)

		Supplemental Consolidating Data		
	Consolidated	**Machinery and Power Systems[1]**	**Financial Products**	**Consolidating Adjustments**
Cash flow from operating activities:				
Profit (loss) of consolidated and affiliated companies	$236	$234	$81	$(79)[2]
Adjustments for non-cash items:				
Depreciation and amortization	554	371	183	—
Other	94	117	(57)	34[4]
Financial Products' dividend in excess of profit	—	521	—	(521)[3]
Changes in assets and liabilities, net of acquisitions and divestitures:				
Receivables - trade and other	(373)	(430)	31	26[4,5]
Inventories	(644)	(644)	—	—
Accounts payable	698	692	(9)	15[4]
Accrued expenses	(65)	(16)	(63)	14[4]
Accrued wages, salaries and employee benefits	114	112	2	—
Customer advances	140	140	—	—
Other assets – net	109	70	(7)	46[4]
Other liabilities – net	(147)	(81)	(5)	(61)[4]
Net cash provided by (used for) operating activities	716	1,086	156	(526)
Cash flow from investing activities:				
Capital expenditures - excluding equipment leased to others	(369)	(368)	(1)	—
Expenditures for equipment leased to others	(169)	—	(173)	4[4]
Proceeds from disposals of leased assets and property, plant and equipment	353	17	336	—
Additions to finance receivables	(1,757)	—	(4,816)	3,059[5]
Collections of finance receivables	1,956	—	5,093	(3,137)[5]
Proceeds from sale of finance receivables	2	—	2	—
Net intercompany borrowings	—	(574)	(6)	580[6]
Investments and acquisitions (net of cash acquired)	(103)	(103)	—	—
Proceeds from sale of available-for-sale securities	45	1	44	—
Investments in available-for-sale securities	(46)	—	(46)	—
Other – net	33	22	11	—
Net cash provided by (used for) investing activities	(55)	(1,005)	444	506
Cash flow from financing activities:				
Dividends paid	(262)	(262)	(600)	600[7]
Common stock issued, including treasury shares reissued	26	26	—	—
Excess tax benefit from stock-based compensation	13	13	—	—
Acquisitions of noncontrolling interests	(26)	(26)	—	—
Net intercompany borrowings	—	6	574	(580)[6]
Proceeds from debt issued (original maturities greater than three months)	1,318	54	1,264	—
Payments on debt (original maturities greater than three months)	(3,336)	(607)	(2,729)	—
Short-term borrowings – net (original maturities three months or less)	331	164	167	—
Net cash provided by (used for) financing activities	(1,936)	(632)	(1,324)	20
Effect of exchange rate changes on cash	(54)	(5)	(49)	—
Increase (decrease) in cash and short-term investments	(1,329)	(556)	(773)	—
Cash and short-term investments at beginning of period	4,867	2,239	2,628	—
Cash and short-term investments at end of period	$3,538	$1,683	$1,855	$—

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

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

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

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

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

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

7 Elimination of dividend from Financial Products to Machinery and Power Systems.

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. These statements are subject to known and unknown factors that may cause Caterpillar's actual results to be different from those expressed or implied in the forward-looking statements. Words such as "believe," "estimate," "will be," "will," "would," "expect," "anticipate," "plan," "project," "intend," "could," "should" or other similar words or expressions often identify forward-looking statements. All statements other than statements of historical fact are forward-looking statements, including, without limitation, statements regarding our outlook, projections, forecasts or trend descriptions. These statements do not guarantee future performance, and Caterpillar does not undertake to update its forward-looking statements.

It is important to note that Caterpillar's actual results may differ materially from those described or implied in its 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 Caterpillar serves; (ii) government monetary or fiscal policies and government spending on infrastructure; (iii) commodity or component price increases and/or limited availability of raw materials and component products, including steel; (iv) Caterpillar's and its customers', dealers' and suppliers' ability to access and manage liquidity; (v) political and economic risks associated with our global operations, including changes in laws, regulations or government policies, currency restrictions, restrictions on repatriation of earnings, burdensome tariffs or quotas, national and international conflict, including terrorist acts and political and economic instability or civil unrest in the countries in which Caterpillar operates; (vi) Caterpillar's and Cat Financial's ability to maintain their respective credit ratings, material increases in either company's cost of borrowing or an inability of either company to access capital markets; (vii) 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) the possibility that the acquisition by Caterpillar of Bucyrus International, Inc. does not close for any reason, including, but not limited to, a failure to obtain required regulatory approvals; (x) international trade and investment policies, such as import quotas, capital controls or tariffs; (xi) the possibility that Caterpillar's introduction of Tier 4 emissions compliant machines and engines is not successful; (xii) market acceptance of Caterpillar's products and services; (xiii) effects of changes in the competitive environment, which may include decreased market share, lack of acceptance of price increases, and/or negative changes to our geographic and product mix of sales; (xiv) union disputes or other employee relations issues; (xv) Caterpillar's ability to successfully implement the Caterpillar Production System or other productivity initiatives; (xvi) adverse changes in sourcing practices of our dealers or original equipment manufacturers; (xvii) compliance costs associated with environmental laws and regulations; (xviii) alleged or actual violations of trade or anti-corruption laws and regulations; (xix) additional tax expense or exposure; (xx) currency fluctuations, particularly increases and decreases in the U.S. dollar against other currencies; (xxi) failure of Caterpillar or Cat Financial to comply with financial covenants in their respective credit facilities; (xxii) increased funding obligations under our pension plans; (xxiii) significant legal proceedings, claims, lawsuits or investigations; (xxiv) imposition of operational restrictions or compliance requirements if carbon emissions legislation and/or regulations are adopted; (xxv) changes in accounting standards or adoption of new accounting standards; (xxvi) adverse effects of natural disasters; and (xxvii) other factors described in more detail under "Item 1A. Risk Factors" in Part I of our Form 10-K filed with the SEC on February 22, 2011 for the year ended December 31, 2010. This filing is available on our website at 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 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 first quarter 2011, 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 first quarter 2011.

Other Purchases of Equity Securities

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased Under the Program	Approximate Dollar Value of Shares that may yet be Purchased Under the Program
January 1-31, 2011	4,264	$94.47	NA	NA
February 1-28, 2011	3,293	$93.74	NA	NA
March 1-31, 2011	395,503	$103.13	NA	NA
Total	403,060	$102.96		

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

Non-U.S. Employee Stock Purchase Plans

We have 30 employee stock purchase plans administered outside the United States for our non-U.S. employees. As of March 31, 2011 those plans had approximately 11,600 active participants in the aggregate. During the first quarter of 2011, approximately 295,000 shares of Caterpillar common stock or foreign denominated equivalents were distributed under the plans. Participants in some foreign plans have the option of receiving non-U.S. share certificates (foreign-denominated equivalents) in lieu of U.S. shares of Caterpillar common stock upon withdrawal from the plan. These equivalent certificates are tradable only on the local stock market and are included in our determination of shares outstanding.

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

Item 6. Exhibits

10.1	Terms Applicable to Awards of Restricted Stock Units pursuant to the 2006 Long-Term Incentive Plan.
10.2	Terms Applicable to Awards of Stock Appreciation Rights pursuant to the 2006 Long-Term Incentive Plan.
10.3	Time Sharing Agreement dated May 6, 2011.
11	Computations of Earnings per Share (included in Note 11 of this Form 10-Q filed for the quarter ended March 31, 2011).
31.1	Certification of Douglas R. Oberhelman, Chairman and Chief Executive Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Edward J. Rapp, Group President and Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Douglas R. Oberhelman, Chairman and Chief Executive Officer of Caterpillar Inc. and Edward J. Rapp, Group President and Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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.

Date	Signature	Title
May 9, 2011	*/s/ Douglas R. Oberhelman* (Douglas R. Oberhelman)	Chairman and Chief Executive Officer
May 9, 2011	*/s/ Edward J. Rapp* (Edward J. Rapp)	Group President and Chief Financial Officer
May 9, 2011	*/s/ James B. Buda* (James B. Buda)	Senior Vice President and Chief Legal Officer
May 9, 2011	*/s/ Jananne A. Copeland* (Jananne A. Copeland)	Corporate Controller and Chief Accounting Officer

EXHIBIT 10.1

Caterpillar Inc.
2006 Long-Term Incentive Plan
Restricted Stock Units

[Insert Grant Date]

If you were awarded restricted stock units ("RSUs") on [Insert Grant Date] (the "Grant Date") pursuant to the Caterpillar Inc. 2006 Long-Term Incentive Plan (the "Plan"), this document specifies the material terms and provisions applicable to such restricted stock unit award (the "RSU Award").

Vesting

The RSU Award is subject to a three-year cliff-vesting period. The RSU Award will become fully vested on the third anniversary of the Grant Date (the "Vesting Date"). If you terminate employment prior to the Vesting Date for any reason other than long-service separation, disability, death or in connection with a change of control (as described more fully below), the RSU Award will be forfeited.

Upon vesting of the RSU Award, you will receive unrestricted shares of common stock of Caterpillar Inc. (the "Company") equal to the number of RSUs. For example, if you were granted 250 RSUs, you will receive 250 shares of Company common stock as of the Vesting Date, less any shares withheld to satisfy any applicable income and payroll tax withholding requirements.

Voting Rights

During the period between the Grant Date and the Vesting Date (the "Restriction Period), you are not entitled to any voting rights with respect to the RSUs. When shares are actually issued, you then will have full voting rights with respect to those shares.

Dividends and Other Distributions

During the Restriction Period, you will not receive dividends or any other distributions (*e.g.,* dividend equivalents) with respect to the RSU Award. When shares are actually issued, you then will have dividend rights with respect to those shares.

Termination of Employment

Your termination of employment with the Company and its subsidiaries prior to the Vesting Date will impact the RSU Award as follows:

- **Long-Service Separation**
  If your employment with the Company and/or any subsidiary or affiliate terminates by reason of long-service separation, to the extent that you were continuously employed by the Company and/or any subsidiary or affiliate for six months immediately following the Grant Date, your RSU Award will become fully vested and shares of Company common stock will be issued to you as soon as administratively feasible following: (1) the Vesting Date; or (2) the date which is six months following the date of your termination of employment (the "Six-Month Date"), if the Six-Month Date is earlier than the Vesting Date. In no event, however, will the shares be issued later than March 15th of the calendar year immediately following the calendar year during which the Vesting Date or the Six-Month Date occurs, as applicable. For purposes of this RSU 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 any subsidiary or affiliate terminates by reason of disability (as defined in the Plan), your RSU Award will become fully vested and shares of

Company common stock will be issued to you as soon as administratively feasible following: (1) the Vesting Date; or (2) the date which is six months following the date of your termination of employment (the "Six-Month Date"), if the Six-Month Date is earlier than the Vesting Date. In no event, however, will the shares be issued later than March 15th of the calendar year immediately following the calendar year during which the Vesting Date or the Six-Month Date occurs, as applicable.

- **Death**
  If your employment with the Company and/or any subsidiary or affiliate terminates by reason of death, your RSU Award will become fully vested and shares of Company common stock will be issued to your beneficiary or your estate (as applicable), as soon as administratively feasible following the date of your death but in no event later than March 15th of the calendar year immediately following the calendar year during which your death occurs.

- **Change of Control**
  In the event that a change of control of the Company occurs during the Restriction Period and your employment is terminated without cause or for good reason within 12 months of such change of control, then to the extent that you were continuously employed by the Company and/or any subsidiary or affiliate for six months immediately following the Grant Date, your RSU Award will become fully vested and shares of Company common stock will be issued to you as soon as administratively feasible following: (1) the Vesting Date; or (2) the date which is six months following the date of your termination of employment (the "Six-Month Date"), if the Six-Month Date is earlier than the Vesting Date. In no event, however, will the shares be issued later than March 15th of the calendar year immediately following the calendar year during which the Vesting Date or the Six-Month Date occurs, as applicable.

- **Other**
  If your employment with the Company and/or any subsidiary or affiliate terminates prior to the Vesting Date for any reason other than long-service separation, disability, death or in connection with a change of control, all RSUs with respect to this RSU Award will lapse and shall be immediately forfeited.

Transferability of Award
Subject to certain exceptions set forth in the Plan, the RSU Award may not be assigned, transferred, pledged or hypothecated in any way. The RSU 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. Note that once a RSU Award vests and shares of Company common stock are actually issued, you will have the ability to transfer those shares.

Designation of Beneficiary
If you have not done so already, you are encouraged to designate a beneficiary (or beneficiaries) to whom your benefits under the Plan will be paid upon your death. If you do not designate a beneficiary, any benefits payable pursuant to the Plan upon your death will be paid to your estate.

Administration of the Plan
The RSU 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.

Code Section 409A
It is intended that this RSU Award document and the administration of the RSU award comply with 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"), to the extent applicable. The Plan and this RSU Award document shall be interpreted and construed on a basis consistent with such intent. Notwithstanding anything contained herein to the contrary, no shares may be

issued unless in compliance with Code Section 409A to the extent that Code Section 409A applies. The Committee reserves the right (including the right to delegate such right) to unilaterally amend this RSU Award document (and thus the terms of the RSU 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 RSU Award constitutes acknowledgement and consent to such rights of the Committee.

Tax Impact

Please refer to the Plan prospectus for a general description of the U.S. federal tax consequences of an RSU Award. You may also wish to consult with your personal tax advisor regarding how the RSU Award impacts your individual tax situation. Nothing contained in this RSU Award document or in the Plan prospectus shall be construed as a guarantee of any particular tax effect for any benefits or amounts deferred or paid pursuant to this RSU Award document.

Compliance with Securities Laws

The Company will take steps required to achieve compliance with all applicable U.S. federal and state securities laws (and others, including registration requirements) and with the rules and practices of the stock exchanges upon which the stock of the Company is listed.

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 RSU Award is not intended to 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 RSU Award constitutes acknowledgement and consent to the terms of the RSU Award as described in this RSU 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 Web site at Cat@work under the Compensation + Benefits tab. If you have any questions regarding your equity compensation under the Plan, please contact Paul Gaeto, Director of Compensation + Benefits at (309) 675-5624.

EXHIBIT 10.2

Caterpillar Inc.
2006 Long-Term Incentive Plan
Stock Appreciation Rights

[Insert Grant Date]

If you were awarded stock appreciation rights ("SARs") on [Insert Grant Date] (the "Grant Date") pursuant to the Caterpillar Inc. 2006 Long-Term Incentive Plan (the "Plan") at a price of [Insert Grant Price] (the "Grant Price"), this document specifies the material terms and provisions applicable to such award (the "SAR Award").

Term of the Award

The SAR Award will expire unless exercised by the tenth anniversary of the Grant Date (the "Expiration Date").

Vesting

The SAR Award is subject to a three-year cliff-vesting period. The SAR 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 SAR Award will be forfeited.

Exercise of Award

The SAR Award only may be exercised through the Plan's designated broker, the Gallagher Group at Smith Barney, or through such other means as Caterpillar Inc. (the "Company") may designate. You may exercise the SARs associated with the SAR Award by providing notice of exercise, in a form acceptable to the Company, setting forth the number of SARs to be exercised. Upon the exercise of the SAR, the exercise will be settled in shares of Company common stock. The exercise may not be settled in cash.

Upon exercise, you will be entitled to receive shares of Company common stock equal to the excess of the fair market value of a share of Company common stock on the date the SAR is exercised over the Grant Price, multiplied by the number of SARs exercised. For example, if you were granted 1,000 SARs at a price of $75 and on the date you exercise, the fair market value of Company common stock is $100 per share, you would receive 250 shares of Company common stock, less any shares withheld to satisfy mandatory income and social tax withholding requirements.

Termination of Employment

Your termination of employment with the Company and its subsidiaries will impact the SAR 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 SAR 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 SAR 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 SAR 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 SAR Award will become fully vested. Such SAR 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, the SAR Award will become fully vested. Such SAR 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) 38 months following your termination of employment; or (3) 66 months following long-service separation or termination due to disability, if applicable.

- **Cause**
  If your employment with the Company is terminated for cause (as defined in the Plan), all of your unexercised SARs associated with the SAR 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 SARs associated with the SAR Award shall be immediately forfeited to the company. With respect to vested SARS, 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 SAR 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 SAR 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 benefits under the Plan will be paid upon your death. If you do not designate a beneficiary, any benefits payable pursuant to the Plan upon your death will be paid to your estate.

Administration of the Plan
The SAR 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 a SAR Award. You may also wish to consult with your personal tax advisor regarding how the SAR Award will impact your individual tax situation.

Code Section 409A
It is intended that this SAR Award complies with 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”), to the extent applicable. The Plan and this SAR 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 SAR Award document (and thus the terms of the SAR 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 SAR Award constitutes acknowledgement and consent to such rights of the Committee.

Compliance with Securities Laws

The Company will take steps required to achieve compliance with all applicable U.S. federal and state securities laws (and others, including registration requirements) and with the rules and practices of the stock exchanges upon which the stock of the Company is listed.

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 SAR Award (and its exercise) is not intended to 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 SAR Award constitutes acknowledgement and consent to the terms of the SAR Award as described in this SAR 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 Web site at Cat @work under the Compensation + Benefits tab. If you have any questions regarding your equity compensation under the Plan, please contact Paul Gaeto, Director of Compensation + Benefits at (309) 675-5624.

EXHIBIT 10.3

TIME SHARING AGREEMENT

This Time Sharing Agreement ("Agreement") by and between Caterpillar Inc., a Delaware corporation ("Company"), and Douglas R. Oberhelman ("Executive"), is effective April 13, 2011.

RECITALS

WHEREAS, Company is the record title holder and operates the aircraft set forth on Exhibit A (individually and collectively, as the context requires, the "Aircraft"); and

WHEREAS, Company employs a fully qualified flight crew to operate the Aircraft; and

WHEREAS, Executive is the Chairman and Chief Executive Officer of Company; and

WHEREAS, to maximize Executive's availability to carry out Executive's responsibilities to Company, and pursuant to an independent third party's evaluation of certain safety and security concerns, the Company's Board of Directors adopted a policy that generally requires Executive to travel on the Aircraft for all of Executive's air travel, whether on Company business or personal travel; and

WHEREAS, Executive desires to lease one or more of the Aircraft from time to time on a time sharing basis as defined in Sections 91.501(c)(1) of the Federal Aviation Regulations ("FARs") when Executive is required under the Board's policy to fly on the Aircraft for personal travel.

NOW, THEREFORE, in consideration of the foregoing, and the other promises contained in this Agreement, the parties, intending to be legally bound, agree as follows:

1. Company agrees to lease to Executive and Executive agrees to lease from Company the Aircraft on a non-exclusive basis from time to time as mutually agreed between the parties for such purposes allowed under FAR 91.501(b)(6) and Company agrees to provide a fully qualified flight crew for all operations conducted under this Agreement. This Agreement shall remain in effect until terminated by either party upon ten (10) days prior written notice to the other.

2. (a) Except as limited by subparagraph 00 below, Executive for the use of the Aircraft shall pay to Company for each flight conducted under this Agreement an amount equal to the actual direct operating expenses of such flights ("Lease Fee"). Pursuant to FAR 91.501(d) the Lease Fee will be limited to the following direct operating expenses:

(i) Fuel, oil, lubricants, and other additives;

(ii) Travel expenses of the crew, including food, lodging and ground transportation;

(iii) Hangar and tie-down costs away from the Aircraft's base of operation;

(iv) Insurance obtained for the specific flight;

(v) Landing fees, airport taxes and similar assessments;

(vi) Customs, foreign permits, and similar fees directly related to the flight;

(vii) In-flight food and beverages;

(viii) Passenger ground transportation;

(ix) Flight planning and weather contract services; and

(x) An additional amount equal to 100% of the expenses listed in clause 0(a)(i), above.

(b) Notwithstanding the amount of the actual direct operation expenses set forth in subparagraph 0(a), above, in no event shall Executive be obligated to pay Company a Lease Fee in excess of the greater of (x) or (y) below, where:

(x) equals the applicable subsection 0 or 0 below:

(i) For travel between cities served by regularly scheduled first class commercial airline service, an amount equal to the lowest published cost of the first class airfare available to the general public, which will be solicited within one business day of the date the Executive requests the specific flight, for the dates traveled multiplied by the number of persons in Executive's party for the flight; or

(ii) For travel between cities served by regularly scheduled coach or business class, but not first class commercial airline service, an amount equal to the lowest published cost of the unrestricted coach (or, if available, business class) airfare available to the general public, which will be solicited within one business day of the date the Executive requests the specific flight, for the dates traveled multiplied by the number of persons in Executive's party for the flight; and

(y) equals the amount of income that would be imputed to Executive for the flight under the applicable Standard Industry Fare Levels as set forth in 26 C.F.R. §1.61-21(g) assuming that Executive did not pay the Lease Fee.

For purposes of computing the Lease Fee limitation under subparagraph 2(b) above, if a city is not served by regularly scheduled commercial airline service, the Lease Fee limitation shall be applied utilizing a city selected by Company as close as reasonably practicable to the city without such service. Company's determination of the Lease Fee shall be conclusive. Prior to any proposed flight, Company shall provide Executive with an estimate of the Lease Fee for the particular flight. If Executive proceeds with the proposed flight, Executive shall be obligated to pay the Lease Fee. Executive shall also be responsible to pay, together with any Lease Fee, applicable state and federal taxes (including, without limitation, federal excise taxes). If Executive declines the proposed flight, neither Executive nor Company shall have any further obligation with respect to the proposed flight.

3. Company will pay all expenses related to the operation of the Aircraft when incurred, and will provide an invoice to Executive for the Lease Fee determined in accordance with paragraph 0 above after any flight or flights for the account of Executive. Executive shall pay Company the Lease Fee, together with applicable taxes.

4. Executive will provide Company with requests for flight time and proposed flight schedules as far in advance of any given flight as possible, and in any case, at least two (2) business days in advance of Executive's planned departure (unless Company agrees to a shorter notice in a particular case in Company's sole discretion). Requests for flight time shall be in a form, whether written or oral, mutually convenient to, and agreed upon by the parties. In addition to the proposed schedules and flight times, Executive shall provide at least the following information for each proposed flight prior to scheduled departure as required by the Company or Company's flight crew:

(a) proposed departure point;

(b) destination;

(c) date and time of flight;

(d) the number, name, and relationship to the Executive of anticipated passengers;

(e) the nature and extent of luggage and/or cargo to be carried;

(f) the date and time of return flight, if any; and

(g) any other information concerning the proposed flight that may be pertinent or required by Company or Company's flight crew.

5. Company shall have final authority over the scheduling of the Aircraft, provided, however, that Company will give Executive's requests first priority over other utilization of the aircraft. It is understood that Company shall not be obligated to retain or contract for additional flight crew or maintenance personnel or equipment in order to accommodate Executive's schedule requests.

6. Company shall be solely responsible for securing maintenance, preventive maintenance and required or otherwise necessary inspections on the Aircraft, and shall take such requirements into account in scheduling the Aircraft. No period of maintenance, preventative maintenance or inspection shall be delayed or postponed for the purpose of scheduling the Aircraft, unless said maintenance or inspection can be safely conducted at a later time in compliance with all applicable laws and regulations, and within the sound discretion of the pilot in command. The pilot in command shall have final and complete authority to cancel any flight for any reason or condition that in his or her judgment would compromise the safety of the flight.

7. Company shall ensure that for each flight conducted under this Agreement, the Aircraft will be under the command of a qualified flight crew. All flight operations by or on behalf of Executive under this Agreement shall be conducted under Part 91 of the FAR. The Company shall have and exercise exclusive operational control of the Aircraft during all phases of all flights under this Agreement, including, without limitation, all flights during which Executive, and/or Executive's guests, designees, or property are on-board the Aircraft.

8. In accordance with applicable FARs, the qualified flight crew provided by Company will exercise all of its duties and responsibilities in regard to the safety of each flight conducted under this Agreement. Executive specifically agrees that the flight crew, in its sole discretion, may terminate any flight, refuse to commence any flight, or take other action that in the considered judgment of the pilot in command is necessitated by considerations of safety. No such action of the pilot in command shall create or support any liability for loss, injury, damage or delay to Executive or any other person. The parties further agree that Company shall not be liable for delay or failure to furnish the Aircraft and crew pursuant to this Agreement for any reason whatsoever.

9. Company will maintain or cause to be maintained in full force and effect throughout the term of this Agreement aircraft liability' insurance in respect of the Aircraft. Such insurance shall (a) name Executive as an additional insured; (b) contain a waiver of subrogation against Executive; and (c) shall provide that if the insurers cancel such insurance for any reason whatsoever, if the insurance is not renewed due to non-payment of premium or if there is any material change in policy terms and conditions, such cancellation, change or lapse shall not be effective as to Executive unless Executive has been provided with at least thirty (30) days prior written notice. Company will provide such additional insurance coverage as Executive shall request or require, provided, however, that the cost of such additional insurance shall be borne by Executive as set forth in paragraph 2.

10. Executive warrants that:

(a) Executive will use the Aircraft for and on account of Executive own business or personal use only, and will not use the Aircraft for the purpose of providing transportation of passengers or cargo in air commerce for compensation or hire;

(b) Executive will refrain from incurring any mechanics or other lien in connection with inspection, preventative maintenance, maintenance or storage of the Aircraft, whether permissible or impermissible under this Agreement, nor shall there be any attempt by Executive to convey, mortgage, assign, lease or any way alienate the Aircraft or create any kind of lien or security interest involving the Aircraft or do anything or take any action that might mature into such a lien; and

(c) During the term of this Agreement, Executive will, and will cause any passengers in Executive party to, abide by and conform to all such laws, governmental and airport orders, rules and regulations, as shall from time to time be in effect relating in any way to the operation and use of the Aircraft by a time sharing lessee.

11. Company assumes and shall bear the entire risk of loss, theft, confiscation, damage to, or destruction of the Aircraft. Company shall release, indemnify, defend and hold harmless the Executive and Executive's heirs, executors and personal representatives from and against any and all losses, liabilities, claims, judgments, damages, fines, penalties, deficiencies and expenses (including, without limitation, reasonable attorneys fees and expenses) incurred or suffered by Executive on account of a claim or action made or instituted by a third person arising out of or resulting from operations of the Aircraft hereunder and/or any services provided by the Company to Executive under this Agreement, except to the extent attributable to the gross negligence or willful misconduct of Executive or Executive's guests on the Aircraft.

12. For purposes of this Agreement, the permanent base of operation of the Aircraft shall be at the Peoria International Airport (PIA).

13. Neither this Agreement nor any party's interest in this Agreement or the Aircraft shall be assignable to any other party whatsoever. This Agreement shall inure to the benefit of and be binding upon the parties hereto, and their respective heirs, representatives and successors.

14. This Agreement constitutes the entire agreement of the parties with respect to the time-share of the Aircraft as set forth herein. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Illinois.

[REMAINDER OF PAGE INTENTIONALLY BLANK]

TRUTH IN LEASING STATEMENT

Company shall mail a copy of this Agreement for and on behalf of both parties to: Flight Standards Technical Division, P.O. Box 25724, Oklahoma City, Oklahoma 73125, within twenty-four (24) hours of its execution, as provided by FAR 91.23(c)(1). Additionally, Company agrees to comply with the notification requirements of FAR Section 91.23 by notifying by telephone or in person the Flight Standards District Office having jurisdiction over Executive's first flight under this Agreement at least forty-eight (48) hours prior to such flight.

THE AIRCRAFT HAVE BEEN MAINTAINED AND INSPECTED UNDER FAR PART 91 DURING THE 12 MONTH PERIOD (OR SUCH SHORTER PERIOD AS THE AIRCRAFT HAS BEEN OPERATED BY COMPANY) PRECEDING THE DATE OF THIS LEASE.

THE AIRCRAFT WILL BE MAINTAINED AND INSPECTED UNDER FAR PART 91 FOR OPERATIONS TO BE CONDUCTED UNDER THIS LEASE.

COMPANY IS CONSIDERED RESPONSIBLE FOR OPERATIONAL CONTROL OF ALL AIRCRAFT IDENTIFIED AND TO BE OPERATED UNDER THIS LEASE. I, THE UNDERSIGNED, JAMES B. BUDA, AS SENIOR VICE PRESIDENT AND CHIEF LEGAL OFFICER OF COMPANY CERTIFY THAT COMPANY IS RESPONSIBLE FOR OPERATIONAL CONTROL OF THE AIRCRAFT FOR OPERATIONS TO BE CONDUCTED UNDER THIS LEASE AND THAT IT UNDERSTANDS ITS RESPONSIBILITIES FOR COMPLIANCE WITH APPLICABLE FEDERAL AVIATION REGULATIONS.

AN EXPLANATION OF FACTORS BEARING ON OPERATIONAL CONTROL AND PERTINENT FEDERAL AVIATION REGULATIONS CAN BE OBTAINED FROM THE NEAREST FAA FLIGHT STANDARDS DISTRICT OFFICE.

THE ADDRESS OF COMPANY IS:

100 NE ADAMS STREET, PEORIA, ILLINOIS 61629

IN WITNESS WHEREOF, the parties have executed this Time Sharing Agreement as of the date first above written.

Company: Caterpillar Inc., a Delaware corporation

By: */s/James B. Buda*
James B. Buda, Senior Vice President and Chief Legal Officer

Executive: Douglas R. Oberhelman

By: */s/Douglas R. Oberhelman*
Douglas R. Oberhelman, Individually

EXHIBIT 31.1

SECTION 302 CERTIFICATION

I, Douglas R. Oberhelman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Caterpillar Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the 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.

May 9, 2011	*/s/ Douglas R. Oberhelman* (Douglas R. Oberhelman)	Chairman and Chief Executive Officer

EXHIBIT 31.2

SECTION 302 CERTIFICATION

I, Edward J. Rapp, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Caterpillar Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report; based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the 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.

May 9, 2011 — */s/ Edward J. Rapp*
(Edward J. Rapp)
Group President and
Chief Financial Officer

EXHIBIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Caterpillar Inc. (the "Company") on Form 10-Q for the period ending March 31, 2011 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.

May 9, 2011	*/s/ Douglas R. Oberhelman* (Douglas R. Oberhelman)	Chairman and Chief Executive Officer
May 9, 2011	*/s/ Edward J. Rapp* (Edward J. Rapp)	Group President and Chief Financial Officer

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

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