CATERPILLAR INC
Form 10-Q
November 02, 2012

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

FORM 10-Q
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2012
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 1-768
CATERPILLAR INC.
(Exact name of registrant as specified in its charter)

Delaware	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 x 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 x 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	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
At September 30, 2012, 653,933,672 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.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

– Diluted[2]	668.7	666.0
Cash dividends declared per common share	$—	$—

[1] Profit 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.

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

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

See accompanying notes to Consolidated Financial Statements.

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

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

[1] Profit 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.

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

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

See accompanying notes to Consolidated Financial Statements.

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

	September 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and short-term investments	$5,689	$3,057
Receivables – trade and other	9,814	10,285
Receivables – finance	8,865	7,668
Deferred and refundable income taxes	1,633	1,580
Prepaid expenses and other current assets	1,088	994
Inventories	17,550	14,544
Total current assets	44,639	38,128
Property, plant and equipment – net	15,509	14,395
Long-term receivables – trade and other	1,422	1,130
Long-term receivables – finance	13,156	11,948
Investments in unconsolidated affiliated companies	199	133
Noncurrent deferred and refundable income taxes	1,873	2,157
Intangible assets	4,166	4,368
Goodwill	7,372	7,080
Other assets	2,205	2,107
Total assets	$90,541	$81,446
Liabilities		
Current liabilities:		
Short-term borrowings:		
Machinery and Power Systems	$607	$93
Financial Products	4,460	3,895
Accounts payable	7,978	8,161
Accrued expenses	3,568	3,386
Accrued wages, salaries and employee benefits	1,764	2,410
Customer advances	3,035	2,691
Dividends payable	—	298
Other current liabilities	2,075	1,967
Long-term debt due within one year:		
Machinery and Power Systems	1,266	558
Financial Products	6,993	5,102
Total current liabilities	31,746	28,561
Long-term debt due after one year:		
Machinery and Power Systems	9,010	8,415
Financial Products	17,516	16,529
Liability for postemployment benefits	10,708	10,956
Other liabilities	3,625	3,583
Total liabilities	72,605	68,044
Commitments and contingencies (Notes 10 and 12)		
Redeemable noncontrolling interest	—	473

Stockholders' equity		
Common stock of $1.00 par value:		
Authorized shares: 2,000,000,000 Issued shares: (9/30/12 and 12/31/11 – 814,894,624) at paid-in amount	4,449	4,273
Treasury stock (9/30/12 – 160,960,952 shares; 12/31/11 – 167,361,280 shares) at cost	(10,118)	(10,281)
Profit employed in the business	29,541	25,219
Accumulated other comprehensive income (loss)	(5,988)	(6,328)
Noncontrolling interests	52	46
Total stockholders' equity	17,936	12,929
Total liabilities, redeemable noncontrolling interest and stockholders' equity	$90,541	$81,446

See accompanying notes to Consolidated Financial Statements.

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

Balance at September 30, 2012	$4,449	$(10,118)	$29,541	$(5,988)	$52	$17,936

[1] See Notes 1 and 16 regarding the Cat Japan share redemption.

See accompanying notes to Consolidated Financial Statements.

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

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

Financial Products	(6,283)	(6,080)
Short-term borrowings – net (original maturities three months or less)	163	(766)
Net cash provided by (used for) financing activities	3,847	3,612
Effect of exchange rate changes on cash	(125)	(40)
Increase (decrease) in cash and short-term investments	2,632	(363)
Cash and short-term investments at beginning of period	3,057	3,592
Cash and short-term investments at end of period	$5,689	$3,229

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

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

See accompanying notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. A. Basis of Presentation

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

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

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

B. Nature of Operations

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

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

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

C. Accumulated Other Comprehensive Income (Loss)

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

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

1

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

2. New Accounting Guidance

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

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

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

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

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

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

3. Stock-Based Compensation

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

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

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

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

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

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

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

4. Derivative Financial Instruments and Risk Management

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

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

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

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

Foreign Currency Exchange Rate Risk

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

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

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

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

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

Interest Rate Risk

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

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

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

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

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

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

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

Commodity Price Risk

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

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

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

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

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(Millions of dollars)

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

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

Fair Value Hedges
(Millions of dollars)

		Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Classification	Gains (Losses) on Derivatives	Gains (Losses) on Borrowings	Gains (Losses) on Derivatives	Gains (Losses) on Borrowings
Interest rate contracts					
Financial Products	Other income (expense)	$7	$(3)	$4	$7
		$7	$(3)	$4	$7
		Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Classification	Gains (Losses) on Derivatives	Gains (Losses) on Borrowings	Gains (Losses) on Derivatives	Gains (Losses) on Borrowings

Interest rate contracts					
Machinery and Power Systems	Other income (expense)	$—	$—	$(1)	$1
Financial Products	Other income (expense)	70	(77)	59	(65)
		$70	$(77)	$58	$(64)

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Cash Flow Hedges
(Millions of dollars)

	Three Months Ended September 30, 2012			
		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	$(6)	Other income (expense)	$(14)	$—
Interest rate contracts	—			
Machinery and Power Systems	—	Other income (expense)	1	—
Financial Products	(6)	Interest expense of Financial Products	(1)	—
	$(12)		$(14)	$—

	Three Months Ended September 30, 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	$62	Other income (expense)	$43	$—
Interest rate contracts				
Machinery and Power Systems	—	Other income (expense)	(1)	—
Financial Products	(4)	Interest expense of Financial Products	(3)	(2) [1]
	$58		$39	$(2)

	Nine Months Ended September 30, 2012			
		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	$(48)	Other income (expense)	$(13)	$—
Interest rate contracts				
	—	Other income (expense)	—	—

Machinery and Power Systems				
Financial Products	(8)	Interest expense of Financial Products	(3)	(1) [1]
	$(56)		$(16)	$(1)

	Nine Months Ended September 30, 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	$44	Other income (expense)	$52	$—
Interest rate contracts				
Machinery and Power Systems	—	Other income (expense)	(2)	—
Financial Products	(5)	Interest expense of Financial Products	(15)	(1) [1]
	$39		$35	$(1)

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

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

(Millions of dollars)

	Classification of Gains (Losses)	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
Foreign exchange contracts			
Machinery and Power Systems	Other income (expense)	$(9)	$21
Financial Products	Other income (expense)	5	7
Commodity contracts			
Machinery and Power Systems	Other income (expense)	3	3
		$(1)	$31

	Classification of Gains (Losses)	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Foreign exchange contracts			
Machinery and Power Systems	Other income (expense)	$(1)	$46
Financial Products	Other income (expense)	(10)	(12)
Interest rate contracts			
Machinery and Power Systems	Other income (expense)	—	(149)
Commodity contracts			
Machinery and Power Systems	Other income (expense)	(23)	(21)
		$(34)	$(136)

Stock Repurchase Risk

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

5. Inventories

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

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

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:

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

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

Financial Position of unconsolidated affiliated companies: (Millions of dollars)	September 30, 2012	December 31, 2011
Assets:		
Current assets	$569	$345
Property, plant and equipment – net	523	200
Other assets	558	9
	1,650	554
Liabilities:		
Current liabilities	342	220
Long-term debt due after one year	724	72
Other liabilities	182	17
	1,248	309
Equity	$402	$245

Caterpillar's investments in unconsolidated affiliated companies: (Millions of dollars)	September 30, 2012	December 31, 2011
Investments in equity method companies	$183	$111
Plus: Investments in cost method companies	16	22
Total investments in unconsolidated affiliated companies	$199	$133

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

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7. Intangible Assets and Goodwill

A. Intangible assets

Intangible assets are comprised of the following:

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

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

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

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

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

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

(Millions of dollars)

2012	2013	2014	2015	2016	Thereafter
$390	$383	$377	$372	$364	$2,574

B. Goodwill

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

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

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

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

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

(Millions of dollars)

	Construction Industries	Resource Industries	Power Systems	Other	Consolidated Total
Balance at December 31, 2011	$378	$4,099	$2,486	$117	$7,080
Business acquisitions [1]	19	476	—	—	495
Held for sale and business divestitures [2]	—	(152)	—	—	(152)
Other adjustments [3]	(3)	(28)	(20)	—	(51)
Balance at September 30, 2012	$394	$4,395	$2,466	$117	$7,372

[1] See Note 18 for additional details.
[2] See Note 19 for additional details.
[3] Other adjustments are comprised primarily of foreign currency translation.

8. Available-For-Sale Securities

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

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

During the three months ended September 30, 2012, there were no charges for other-than-temporary declines in the market value of securities. During the nine months ended September 30, 2012, charges for other-than-temporary declines in the market value of securities were $1 million. During the three and nine months ended September 30, 2011, charges for other-than-temporary declines in the market value of securities were $4 million. These charges were accounted for as realized losses and were included in Other income (expense) in the Consolidated Statement of Results of Operations. The cost basis of the impacted securities was adjusted to reflect these charges.

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

	September 30, 2012					
	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	$—	$—	$20	$3	$20	$3
Mortgage-backed debt securities						
U.S. governmental agency	74	1	4	—	78	1
Residential	—	—	15	1	15	1
Equity securities						
Large capitalization value	22	2	13	2	35	4
Total	$96	$3	$52	$6	$148	$9

	December 31, 2011					
	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						
Corporate bonds	$54	$1	$1	$—	$55	$1
Asset-backed securities	1	—	20	5	21	5
Mortgage-backed debt securities						
U.S. governmental agency	51	1	—	—	51	1
Residential	3	—	18	3	21	3
Commercial	15	—	8	1	23	1
Equity securities						
Large capitalization value	36	5	6	1	42	6
Smaller company growth	4	1	—	—	4	1
Total	$164	$8	$53	$10	$217	$18

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

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

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

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

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

Sales of Securities

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

9. Postretirement Benefits

A. Pension and postretirement benefit costs

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

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

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

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

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

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

B. Defined contribution benefit costs

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

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depending on years of service and age.

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

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

10. Guarantees and Product Warranty

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

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

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

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

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

(Millions of dollars)	September 30, 2012	December 31, 2011
Guarantees with Caterpillar dealers	$167	$140
Guarantees with customers	176	186
Limited indemnity	1	11
Guarantees for third party logistics business	182	—
Guarantees – other	44	28

Total guarantees	$570	$365

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

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

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

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

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

11. Computations of Profit Per Share

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

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

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12. Environmental and Legal Matters

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

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

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

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

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

13. Income Taxes

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

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

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14. Segment Information

A. Basis for segment information

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

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

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

B. Description of segments

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

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

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

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

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revenue for this segment.

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

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

C. Segment measurement and reconciliations

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

Machinery and Power Systems segment net assets generally include inventories, receivables, property, plant and equipment, goodwill, intangibles and accounts payable. Liabilities other than accounts payable are generally managed at the corporate level and are not included in segment operations. Financial Products Segment assets generally include all categories of assets.

Segment inventories and cost of sales are valued using a current cost methodology.

Goodwill allocated to segments is amortized using a fixed amount based on a twenty year useful life. This methodology difference only impacts segment assets; no goodwill amortization expense is included in segment profit.

The present value of future lease payments for certain Machinery and Power Systems operating leases is included in segment assets. The estimated financing component of the lease payments is excluded.

Currency exposures for Machinery and Power Systems are generally managed at the corporate level and the effects of changes in exchange rates on results of operations within the year are not included in segment profit. The net difference created in the translation of revenues and costs between exchange rates used for U.S. GAAP reporting and exchange rates used for segment reporting are recorded as a methodology difference.

Postretirement benefit expenses are split; segments are generally responsible for service and prior service costs, with the remaining elements of net periodic benefit cost included as a methodology difference.

Machinery and Power Systems segment profit is determined on a pretax basis and excludes interest expense, gains and losses on interest rate swaps and other income/expense items. Financial Products Segment profit is determined on a pretax basis and includes other income/expense items.

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

Corporate costs: These costs are related to corporate requirements and strategies that are considered to be for the benefit of the entire organization.

Methodology differences: See previous discussion of significant accounting differences between segment

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reporting and consolidated external reporting.

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

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

	2012						
	External sales and revenues	Inter-segment sales & revenues	Total sales and revenues	Depreciation and amortization	Segment profit	Segment assets at September 30	Capital expenditures
Construction Industries	$4,904	$102	$5,006	$144	$459	$9,681	$247
Resource Industries	5,214	253	5,467	179	1,113	13,949	229
Power Systems	5,317	597	5,914	157	943	9,738	244
Machinery and Power Systems	$15,435	$952	$16,387	$480	$2,515	$33,368	$720
Financial Products Segment	776	—	776	179	190	35,662	432
Total	$16,211	$952	$17,163	$659	$2,705	$69,030	$1,152

	2011						
	External sales and revenues	Inter-segment sales & revenues	Total sales and revenues	Depreciation and amortization	Segment profit	Segment assets at December 31	Capital expenditures
Construction Industries	$4,900	$162	$5,062	$136	$496	$7,942	$234
Resource Industries	4,599	290	4,889	155	745	12,292	159
Power Systems	5,075	600	5,675	133	794	8,748	279
Machinery and Power Systems	$14,574	$1,052	$15,626	$424	$2,035	$28,982	$672
Financial Products Segment	757	—	757	177	145	31,747	311
Total	$15,331	$1,052	$16,383	$601	$2,180	$60,729	$983

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

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

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

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Reconciliation of Sales and revenues:

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

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

Reconciliation of Sales and revenues:

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

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

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Reconciliation of Consolidated profit before taxes:

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

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Reconciliation of Consolidated profit before taxes:

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

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Reconciliation of Assets:

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

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Reconciliations of Depreciation and amortization:

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

Reconciliations of Depreciation and amortization:

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

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Reconciliations of Capital expenditures:

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

Reconciliations of Capital expenditures:

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

15. Cat Financial Financing Activities

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

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

Customer - Finance receivables with retail customers.

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Dealer - Finance receivables with Caterpillar dealers.

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

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

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

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

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

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

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

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

Non-accrual and past due loans and finance leases

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

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

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

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(Millions of dollars)

	September 30, 2012	December 31, 2011
Customer		
North America	$77	$112
Europe	44	58
Asia Pacific	40	24
Mining	12	12
Latin America	150	108
Caterpillar Power Finance	286	158
Total	$609	$472

Aging related to loans and finance leases was as follows:
(Millions of dollars)

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

(Millions of dollars)

	December 31, 2011						
	31-60 Days Past Due	61-90 Days Past Due	91+ Days Past Due	Total Past Due	Current	Total Finance Receivables	91+ Still Accruing
Customer							
North America	$74	$39	$111	$224	$5,378	$5,602	$9
Europe	27	11	57	95	2,129	2,224	10
Asia Pacific	47	23	38	108	2,769	2,877	14
Mining	—	—	12	12	1,473	1,485	—
Latin America	32	15	99	146	2,339	2,485	—
Caterpillar Power Finance	14	16	125	155	2,765	2,920	25
Dealer							

North America	—	—	—	—	1,689	1,689	—
Europe	—	—	—	—	57	57	—
Asia Pacific	—	—	—	—	161	161	—
Latin America	—	—	—	—	480	480	—
Total	$194	$104	$442	$740	$19,240	$19,980	$58

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

(Millions of dollars)

	September 30, 2012		
Allowance for Credit Losses:	Customer	Dealer	Total
Balance at beginning of year	$360	$6	$366
Receivables written off	(92)	—	(92)
Recoveries on receivables previously written off	36	—	36
Provision for credit losses	90	1	91
Balance at end of period	$394	$7	$401
Allowance for Credit Losses:			
Individually evaluated for impairment	$75	$—	$75
Collectively evaluated for impairment	319	7	326
Ending Balance	$394	$7	$401
Recorded Investment in Finance Receivables:			
Individually evaluated for impairment	$730	$—	$730
Collectively evaluated for impairment	18,311	3,379	21,690
Ending Balance	$19,041	$3,379	$22,420

(Millions of dollars)

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

Credit quality of finance receivables
The credit quality of finance receivables is reviewed on a monthly basis. Credit quality indicators include performing and non-performing. Non-performing is defined as finance receivables currently over 120 days past due and/or on non-accrual status or in bankruptcy. Finance receivables not meeting the criteria listed above are considered

performing. Non-performing receivables have the highest probability for credit loss. The allowance for credit losses attributable to non-performing receivables is based on the most probable source of repayment, which is normally the liquidation of collateral. In determining collateral value, Cat Financial estimates the current fair market value of the collateral. In addition, Cat Financial considers credit enhancements such as additional collateral and contractual third-party guarantees in determining the allowance for credit losses attributable to non-performing receivables.

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

(Millions of dollars)

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

Troubled Debt Restructurings

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

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

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

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

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(Dollars in millions)

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

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

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

[2] Four customers comprise $148 million of the $151 million pre-TDR and post-TDR outstanding recorded investment for the three months ended September 30, 2012.

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

[4] Modifications include extended contract maturities, inclusion of interest only periods, below market interest rates, and extended skip payment periods.

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

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

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

B. Securitized Retail Installment Sale Contracts and Finance Leases

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

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

16. Redeemable Noncontrolling Interest — Caterpillar Japan Ltd.

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

17. Fair Value Measurements

A. Fair value measurements

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

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Level 1 – Quoted prices for identical instruments in active markets.

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

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

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

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

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

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

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

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

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

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

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

Liabilities				
Guarantees	$—	$—	$7	$7
Total Liabilities	$—	$—	$7	$7

Below are roll-forwards of liabilities measured at fair value using Level 3 inputs for the nine months ended September 30, 2012 and 2011. These instruments were valued using pricing models that, in management's judgment, reflect the assumptions of a marketplace participant.

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

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

B. Fair values of financial instruments

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

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

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

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

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

Short-term borrowings
Carrying amount approximated fair value.

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

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

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Fair Value of Financial Instruments

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

[1] Total excluded items have a net carrying value at September 30, 2012 and December 31, 2011 of $7,974 million and $7,324 million, respectively.

18. Business Combinations

ERA Mining Machinery Limited

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

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

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

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

Tangible assets acquired of $659 million, recorded at their fair values, primarily include cash of $22 million, restricted cash of $138 million, receivables of $213 million, inventory of $94 million and property, plant and equipment of $112 million. Finite-lived intangible assets acquired of $194 million were primarily related to customer relationships and also included trade names. The finite-lived intangible assets are being amortized on a straight-line basis over a weighted average amortization period of approximately 15 years. Liabilities assumed of $592 million, recorded at their fair values, primarily included accounts payable of $342 million, third-party short term borrowings of $155 million and accrued expenses of $50 million. Additionally, deferred tax liabilities were $36 million. Goodwill of $476 million, substantially all of which is non-deductible for income tax purposes, represents the excess of the consideration transferred over the net assets recognized and represents the estimated future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Goodwill will not be amortized, but will be tested for impairment at least annually. Factors that contributed to a purchase price resulting in the recognition of goodwill include expected cost savings primarily from increased purchasing power for raw materials and a reduction in other manufacturing input costs, expanded underground mining equipment sales opportunities in China and internationally, along with the acquired assembled workforce. These values represent a preliminary allocation of the purchase price subject to finalization of post-closing procedures. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and are reported in the Resource Industries segment in Note 14. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

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

Caterpillar Tohoku Ltd.

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

The transaction was financed with available cash. Tangible assets acquired of $252 million primarily include cash of $18 million, receivables of $34 million, inventory of $26 million, and property, plant and equipment of $157 million. Finite-lived intangible assets acquired were $8 million. Liabilities assumed of $132 million, recorded at their fair values, primarily included debt of $77 million and accounts payable of $39 million. Goodwill of $19 million, which is deductible for income tax purposes, represents the excess of cost over the fair value of net tangible assets acquired. These values represent a preliminary allocation of the purchase price subject to finalization of post-closing procedures. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and are reported in the Construction Industries segment in Note 14. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

19. Divestitures and Assets held for sale

Bucyrus Distribution Business Divestiture

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

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

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

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

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

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

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

As part of these divestitures, Cat Financial provided $400 million of financing to WesTrac Pty Limited and $75 million to Ferreyros S.A.A. These loans are included in Receivables – finance and Long-term receivables – finance in the Consolidated Statement of Financial Position. Additionally, Cavill Power Products Pty Ltd. paid $5 million of the $20 million purchase price at closing. The remaining $15 million is due in the fourth quarter of 2013 and is included in Long-term receivables – trade and other in the Consolidated Statement of Financial Position.
For the first nine months of 2012, after-tax profit was unfavorably impacted by $46 million as a result of the Bucyrus distribution divestiture activities. This is comprised of $186 million of income (included in Other operating (income) expenses) related to the sales transactions, offset by costs incurred related to the Bucyrus distribution divestiture activities of $133 million (included in Selling, general and administrative expenses) and income tax of $99 million.

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

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

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

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

Third Party Logistics Business Divestiture

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

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

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

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

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

20. Employee separation charges

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

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

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

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

The following table summarizes the 2011 and 2012 separation activity:

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(Millions of dollars)	Total
Liability balance at December 31, 2010	$22
Increase in liability (separation charges)	$112
Reduction in liability (payments and other adjustments)	(44)
Liability balance at December 31, 2011	$90
Increase in liability (separation charges)	$57
Reduction in liability (payments and other adjustments)	(123)
Liability balance at September 30, 2012	$24

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

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

Overview

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

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

Highlights for the third quarter of 2012 include:

Third-quarter sales and revenues of $16.445 billion, an all-time third-quarter record, were 5 percent higher than the third quarter of 2011.

Profit per share was $2.54 in the third quarter of 2012, an all-time third-quarter record, and was an increase of $0.83 from the third quarter of 2011.

Third-quarter 2012 profit included a pretax gain of $273 million related to the sale of a majority interest in Caterpillar's third party logistics business.

Machinery and Power Systems (M&PS) operating cash flow was $994 million in the third quarter of 2012, compared with $2.037 billion in the third quarter of 2011. The decrease was primarily due to unfavorable changes in working capital.

M&PS debt-to-capital ratio was 38.0 percent at the end of the third quarter of 2012, down from 40.9 percent at the end of the second quarter of 2012.

The liquidity position remained strong in the third quarter. Total cash on a consolidated basis was $5.7 billion, up from $5.1 billion at the end of the second quarter of 2012.

Notes:
Glossary of terms is included on pages 72-74; first occurrence of terms shown in bold italics.

Information on non-GAAP financial measures is included on page 83.

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Consolidated Results of Operations

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

CONSOLIDATED SALES AND REVENUES

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

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

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

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

Sales by geographic region: Sales in North America were up 9 percent, sales in Asia/Pacific increased 8 percent and sales in EAME and Latin America were about flat. The increase in North America was primarily driven by improvements in the United States. Within Asia/Pacific, declines in China were more than offset by increases in Australia and other parts of Asia/Pacific. While sales in Europe were down, sales in Africa, the Middle East and CIS increased.

Segment: Most of the sales and revenues increase was in Resource Industries, with sales up 13 percent from the third quarter of 2011. Power Systems' sales were up 5 percent, Construction Industries' sales were about flat, and Financial Products' revenues were up 3 percent. All Other segment sales were down 31 percent, primarily a result of the sale of a majority interest in our third party logistics business.

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CONSOLIDATED OPERATING PROFIT

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

Operating profit for the third quarter of 2012 was $2.596 billion compared with $1.759 billion for the third quarter of 2011. The increase was primarily the result of the impact of acquisitions and divestitures, higher sales volume and improved price realization.
The improvements were partially offset by higher manufacturing costs and increased SG&A and R&D expenses. Manufacturing costs were up $259 million primarily due to higher period manufacturing costs. Period manufacturing costs include wages and benefits, depreciation and other period costs that support production. SG&A and R&D expenses increased $109 million primarily due to growth-related initiatives, increased costs to support product programs and unfavorable changes in mark-to-market deferred compensation expense.
These cost increases were partially offset by lower incentive compensation expense. Short-term incentive compensation expense related to 2012 was $130 million in the third quarter of 2012 compared with $315 million in the third quarter of 2011.
The impact of currency was favorable to profit by $81 million, as the benefit to costs of $328 million more than offset the negative impact to sales of $247 million.
The sale of a majority interest in our third party logistics business during the third quarter of 2012 resulted in a pre-tax gain, net of dealer-related costs and incremental short-term incentive compensation expense, of $273 million. The following table summarizes the impact of Bucyrus on third-quarter 2012 and 2011 results.

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Impact of Bucyrus on Profit
(Millions of dollars)

Impact Excluding Divestitures Gain/(Loss)	Third Quarter 2012	Third Quarter 2011
Sales	$1,090	$1,135
Cost of goods sold	(853)	(1,019)
SG&A	(143)	(155)
R&D	(45)	(12)
Other operating income (costs)	3	(77)
Operating profit (loss)	52	(128)
Interest expense	(31)	(33)
Other income (expense)	(16)	(24)
Profit (loss) before tax	5	(185)
Income tax (provision)/benefit	(2)	48
Profit (loss) after tax of consolidated companies	3	(137)
Less: Profit (loss) attributable to noncontrolling interest	1	—
Profit/(loss)	$2	$(137)
Distribution Business Divestitures Gain/(Loss)		
SG&A	$(50)	$(15)
Other operating income (costs)	31	—
Impact on operating profit (loss)	(19)	(15)
Income tax (provision)/benefit	1	6
Profit/(loss)	$(18)	$(9)

Other Profit/Loss Items

Interest expense excluding Financial Products increased $17 million from the third quarter of 2011 primarily due to underwriting expense related to our debt exchange in the third quarter of 2012 and higher average borrowings.

Other income/expense was expense of $17 million compared with expense of $13 million in the third quarter of 2011.

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

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

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Segment Information

Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	Latin America	% Change	EAME