CATERPILLAR INC
Form 10-Q
August 01, 2008

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

FORM 10-Q

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

For the quarterly period ended June 30, 2008

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 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

Non-accelerated filer		Smaller reporting company	

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

At June 30, 2008, 608,716,182 shares of common stock of the registrant were outstanding.

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

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended June 30,	
	2008	2007
Sales and revenues:		

Sales of Machinery and Engines	$ 12,797	$ 10,613
Revenues of Financial Products	827	743
Total sales and revenues	13,624	11,356
Operating costs:		
Cost of goods sold	10,036	8,300
Selling, general and administrative expenses	1,074	968
Research and development expenses	415	350
Interest expense of Financial Products	279	279
Other operating expenses	295	246
Total operating costs	12,099	10,143
Operating profit	1,525	1,213
Interest expense excluding Financial Products	70	80
Other income (expense)	75	70
Consolidated profit before taxes	1,530	1,203
Provision for income taxes	434	385
Profit of consolidated companies	1,096	818
Equity in profit (loss) of unconsolidated affiliated companies	10	5
Profit	$ 1,106	$ 823
Profit per common share	$ 1.80	$ 1.28
Profit per common share – diluted 1	$ 1.74	$ 1.24
Weighted average common shares outstanding (millions)		
- Basic	614.3	640.5
- Diluted 1	635.5	662.8
Cash dividends declared per common share	$ .78	$ .66

1 Diluted by assumed exercise of stock-based compensation awards using the treasury stock method.

See accompanying notes to Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2008	2007
Sales and revenues:		
Sales of Machinery and Engines	$ 23,776	$ 19,934
Revenues of Financial Products	1,644	1,438
Total sales and revenues	25,420	21,372
Operating costs:		
Cost of goods sold	18,645	15,436
Selling, general and administrative expenses	2,033	1,858
Research and development expenses	784	690
Interest expense of Financial Products	563	550
Other operating expenses	577	485
Total operating costs	22,602	19,019
Operating profit	2,818	2,353
Interest expense excluding Financial Products	144	159
Other income (expense)	187	181
Consolidated profit before taxes	2,861	2,375
Provision for income taxes	854	760
Profit of consolidated companies	2,007	1,615
Equity in profit (loss) of unconsolidated affiliated companies	21	24
Profit	$ 2,028	$ 1,639
Profit per common share	$ 3.29	$ 2.55
Profit per common share – diluted 1	$ 3.18	$ 2.47
Weighted average common shares outstanding (millions)		
- Basic	616.0	642.4
- Diluted 1	637.0	664.3
Cash dividends declared per common share	$ .78	$ .66

1 Diluted by assumed exercise of stock-based compensation awards using the treasury stock method.

See accompanying notes to Consolidated Financial Statements.

Consolidated Statement of Financial Position
(Unaudited)
(Dollars in millions)

	June 30, 2008	December 31, 2007
Assets		
Current assets:		
Cash and short-term investments	$ 782	$ 1,122
Receivables – trade and other	9,297	8,249
Receivables – finance	8,025	7,503
Deferred and refundable income taxes	866	816
Prepaid expenses and other current assets	585	583
Inventories	8,303	7,204
Total current assets	27,858	25,477
Property, plant and equipment – net	10,394	9,997
Long-term receivables – trade and other	705	685
Long-term receivables – finance	14,795	13,462
Investments in unconsolidated affiliated companies	641	598
Noncurrent deferred and refundable income taxes	1,523	1,553
Intangible assets	492	475
Goodwill	1,994	1,963
Other assets	2,051	1,922
Total assets	$ 60,453	$ 56,132
Liabilities		
Current liabilities:		
Short-term borrowings:		
Machinery and Engines	$ 130	$ 187
Financial Products	6,199	5,281
Accounts payable	5,357	4,723
Accrued expenses	3,633	3,178
Accrued wages, salaries and employee benefits	938	1,126
Customer advances	1,814	1,442
Dividends payable	256	225
Other current liabilities	1,043	951
Long-term debt due within one year:		
Machinery and Engines	172	180
Financial Products	6,852	4,952
Total current liabilities	26,394	22,245
Long-term debt due after one year:		
Machinery and Engines	3,637	3,639
Financial Products	14,006	14,190
Liability for postemployment benefits	4,836	5,059
Other liabilities	2,110	2,116
Total liabilities	50,983	47,249
Commitments and contingencies (Notes 10 and 12)		
Stockholders' equity		
Common stock of $1.00 par value:		
Authorized shares: 900,000,000	2,897	2,744

Issued shares: (6/30/08 and 12/31/07 – 814,894,624) at paid-in amount		
Treasury stock (6/30/08 – 206,178,442; 12/31/07 – 190,908,490) at cost	(10,730)	(9,451)
Profit employed in the business	18,918	17,398
Accumulated other comprehensive income (loss)	(1,615)	(1,808)
Total stockholders' equity	9,470	8,883
Total liabilities and stockholders' equity	$ 60,453	$ 56,132

See accompanying notes to Consolidated Financial Statements.

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

				Accumulated other comprehensive income (loss)				
Six Months Ended June 30, 2007	Common stock	Treasury stock	Profit employed in the business	Foreign currency translation	Pension & other post-retirement benefits [1]	Derivative financial instruments and other	Available-for-sale securities	Total
Balance at December 31, 2006	$2,465	$ (7,352)	$14,593	$ 471	$(3,376)	$ 48	$ 10	$ 6,859
Adjustment to adopt FIN 48	—	—	141	—	—	—	—	141
Balance at January 1, 2007	2,465	(7,352)	14,734	471	(3,376)	48	10	7,000
Profit	—	—	1,639	—	—	—	—	1,639
Foreign currency translation	—	—	—	106	—	—	—	106
Pension and other postretirement benefits								
Amortization of actuarial (gain) loss, net of tax of $61	—	—	—	—	112	—	—	112
Amortization of prior service cost, net of tax of $5	—	—	—	—	9	—	—	9
Amortization of transition asset/obligation, net of tax of $0	—	—	—	—	1	—	—	1
Derivative financial instruments and other	—	—	—	—	—	31	—	31

Gains (losses) deferred, net of tax of $17								
(Gains) losses reclassified to earnings, net of tax of $19	—	—	—	—	—	(35)	—	(35)
Available-for-sale securities								
Gains (losses) deferred, net of tax of $4	—	—	—	—	—	—	6	6
(Gains) losses reclassified to earnings, net of tax of $1	—	—	—	—	—	—	(4)	(4)
Comprehensive income (loss)								1,865
Dividends declared	—	—	(422)	—	—	—	—	(422)
Common shares issued from treasury stock for stock-based compensation: 8,047,005	8	215	—	—	—	—	—	223
Stock-based compensation expense	82	—	—	—	—	—	—	82
Tax benefits from stock-based compensation	100	—	—	—	—	—	—	100
Shares repurchased: 14,700,000	—	(1,017)	—	—	—	—	—	(1,017)
Balance at June 30, 2007	$2,655	$ (8,154)	$15,951	$ 577	$(3,254)	$ 44	$ 12	$ 7,831
Six Months Ended June 30, 2008								
Balance at December 31, 2007	$2,744	$ (9,451)	$17,398	$ 749	$(2,594)	$ 19	$ 18	$ 8,883
Adjustment to adopt measurement date provisions 2 of FAS 158, net of tax	—	—	(33)	—	17	—	—	(16)
Balance at January 1, 2008	2,744	(9,451)	17,365	749	(2,577)	19	18	8,867
Profit	—	—	2,028	—	—	—	—	2,028
Foreign currency translation, net of tax of $3	—	—	—	185	(8)	—	—	177

Pension and other postretirement benefits								
Amortization of actuarial (gain) loss, of FAS 158, net of tax of $41	—	—	—	—	76	—	—	76
Amortization of transition asset/obligation, net of tax of $0	—	—	—	—	1	—	—	1
Derivative financial instruments and other								
Gains (losses) deferred, net of tax of $2	—	—	—	—	—	2	—	2
(Gains) losses reclassified to earnings, net of tax of $25	—	—	—	—	—	(43)	—	(43)
Available-for-sale securities								
Gains (losses) deferred, net of tax of $18	—	—	—	—	—	—	(36)	(36)
(Gains) losses reclassified to earnings, net of tax of $0	—	—	—	—	—	—	(1)	(1)
Comprehensive income (loss)								2,204
Dividends declared	—	—	(475)	—	—	—	—	(475)
Common shares issued from treasury stock for stock-based compensation: 4,123,074	5	111	—	—	—	—	—	116
Stock-based compensation expense	107	—	—	—	—	—	—	107
Tax benefits from stock-based compensation	51	—	—	—	—	—	—	51
Shares repurchased: 19,393,026	—	(1,390)	—	—	—	—	—	(1,390)
Stock repurchase derivative contracts	(10)	—	—	—	—	—	—	(10)
Balance at June 30, 2008	$2,897	$(10,730)	$18,918	$ 934	$(2,508)	$ (22)	$ (19)	$ 9,470

1 Pension and other postretirement benefits include net adjustments for unconsolidated companies of $6 million and $0 million for the six months ended June 30, 2008 and 2007, respectively. The ending balances were $58 million and $43 million at June 30, 2008 and 2007, respectively.

2 Adjustments to profit employed in the business and pension and other postemployment benefits were net of tax of ($17) million and $9 million, respectively.
3 Amount consists of $1,362 million of cash-settled purchases and $28 million of derivative contracts.

See accompanying notes to Consolidated Financial Statements.

Caterpillar Inc.
Condensed Consolidated Statement of Cash Flow
(Unaudited)
(Dollars in millions)

	Six Months Ended June 30,	
	2008	2007
Cash flow from operating activities:		
Profit	$ 2,028	$ 1,639
Adjustments for non-cash items:		
Depreciation and amortization	952	849
Other	202	71
Changes in assets and liabilities:		
Receivables – trade and other	(1,137)	927
Inventories	(1,009)	(691)
Accounts payable and accrued expenses	1,023	14
Customer advances	210	352
Other assets – net	(93)	(300)
Other liabilities – net	(271)	375
Net cash provided by (used for) operating activities	1,905	3,236
Cash flow from investing activities:		
Capital expenditures – excluding equipment leased to others	(814)	(582)
Expenditures for equipment leased to others	(699)	(621)
Proceeds from disposals of property, plant and equipment	449	208
Additions to finance receivables	(7,099)	(6,356)
Collections of finance receivables	4,748	5,233
Proceeds from sales of finance receivables	696	84
Investments and acquisitions (net of cash acquired)	(111)	(174)
Proceeds from sales of available-for-sale securities	173	119
Investments in available-for-sale securities	(230)	(217)
Other – net	56	285
Net cash provided by (used for) investing activities	(2,831)	(2,021)
Cash flow from financing activities:		
Dividends paid	(444)	(386)
Common stock issued, including treasury shares reissued	116	223
Payment for stock repurchase derivative contracts	(38)	—
Treasury shares purchased	(1,362)	(1,017)
Excess tax benefit from stock-based compensation	53	97

Proceeds from debt issued (original maturities greater than three months)		
– Machinery and Engines	110	43
– Financial Products	9,048	5,216
Payments on debt (original maturities greater than three months)		
– Machinery and Engines	(133)	(49)
– Financial Products	(6,397)	(5,404)
Short-term borrowings – net (original maturities three months or less)	(393)	86
Net cash provided by (used for) financing activities	560	(1,191)
Effect of exchange rate changes on cash	26	8
Increase (decrease) in cash and short-term investments	(340)	32
Cash and short-term investments at beginning of period	1,122	530
Cash and short-term investments at end of period	$ 782	$ 562

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. A. Basis of Presentation

In the opinion of management, the accompanying financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of (a) the consolidated results of operations for the three and six month periods ended June 30, 2008 and 2007, (b) the consolidated financial position at June 30, 2008 and December 31, 2007, (c) the consolidated changes in stockholders' equity for the six month periods ended June 30, 2008 and 2007, and (d) the consolidated statement of cash flow for the six month periods ended June 30, 2008 and 2007. The financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain amounts for prior periods have been reclassified to conform to the current period financial statement presentation.

Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with the audited financial statements and notes thereto included in our Company's annual report on Form 10-K for the year ended December 31, 2007 (2007 Form 10-K).

Comprehensive income is comprised of profit, as well as adjustments for foreign currency translation, derivative instruments designated as cash flow

hedges, available-for-sale securities and pension and other postretirement benefits. Total Comprehensive income for the three months ended June 30, 2008 and 2007 was $1,201 million and $989 million, respectively. Total Comprehensive income for the six months ended June 30, 2008 and 2007 was $2,204 million and $1,865 million, respectively.

The December 31, 2007 financial position data included herein is derived from the audited consolidated financial statements included in the 2007 Form 10-K.

B. Nature of Operations

We operate in three principal lines of business:

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

(2) Engines— A principal line of business including the design, manufacture, marketing and sales of engines for Caterpillar machinery; electric power generation systems; on-highway vehicles and locomotives; marine, petroleum, construction, industrial, agricultural and other applications; and related parts. Also includes remanufacturing of Caterpillar engines and a variety of Caterpillar machine and engine components and remanufacturing services for other companies. Reciprocating engines meet power needs ranging from 5 to 21,500 horsepower (4 to over 16 000 kilowatts). Turbines range from 1,600 to 30,000 horsepower (1 200 to 22 000 kilowatts).

(3) Financial Products— A principal line of business consisting primarily of Caterpillar Financial Services Corporation (Cat Financial), Caterpillar Insurance Holdings, Inc. (Cat Insurance), Caterpillar Power Ventures Corporation (Cat Power Ventures) and their respective subsidiaries. Cat Financial provides a wide range of financing alternatives to customers and dealers for Caterpillar machinery and engines, Solar gas turbines as well as other equipment and marine vessels. Cat Financial also extends loans to customers and dealers. Cat Insurance provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment. Cat Power Ventures is an investor in independent power projects using Caterpillar power generation equipment and services.

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

2. New Accounting Pronouncements

FIN 48 – In July 2006, the FASB issued FIN 48 "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies that a tax position must be more likely than not of being sustained before being recognized in the financial statements. As required, we adopted the provisions of FIN 48 as of January 1, 2007. The following table summarizes the effect of the initial adoption of FIN 48.

Initial adoption of FIN 48

	January 1, 2007 Prior to FIN 48 Adjustment	FIN 48 Adjustment	January 1, 2007 Post FIN 48 Adjustment
(Millions of dollars)			
Deferred and refundable income taxes	$ 733	$ 82	$ 815
Noncurrent deferred and refundable income taxes	1,949	211	2,160
Other current liabilities	1,145	(530)	615
Other liabilities	1,209	682	1,891
Profit employed in the business	14,593	141	14,734

SFAS 157 – In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), "Fair Value Measurements." SFAS 157 provides a common definition of fair value and a framework for measuring assets and liabilities at fair values when a particular standard prescribes it. In addition, the Statement expands disclosures about fair value measurements. In February 2008, the FASB issued final Staff Positions that (1) deferred the effective date of this Statement for one year for certain nonfinancial assets and nonfinancial liabilities (see below) and (2) removed certain leasing transactions from the scope of the Statement. We applied this new accounting standard to all other fair value measurements effective January 1, 2008. The adoption of SFAS 157 did not have a material impact on our financial statements. See Note 14 for additional information.

FSP 157-2 – In February 2008, the FASB issued FASB Staff Position on Statement 157 "Effective Date of FASB Statement No. 157" (FSP 157-2). FSP 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed on a recurring basis, to fiscal years beginning after November 15, 2008. Our significant nonfinancial assets and liabilities that could be impacted by this deferral include assets and liabilities initially measured at fair value in a business combination and goodwill tested annually for impairment. The adoption of FSP 157-2 is not expected to have a significant impact on our financial statements.

SFAS 158 – In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 (SFAS 158), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS 158 requires recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Also, the measurement date – the date at which the benefit obligation and plan assets are measured – is required to be the company's fiscal year-end. We adopted the balance sheet recognition provisions at December 31, 2006, and adopted the year-end measurement date effective January 1, 2008 using the "one measurement" approach. Under the one measurement approach, net periodic benefit cost for the period between any early measurement date and the end of the fiscal year that the measurement provisions are applied are allocated proportionately between amounts to be recognized as an

adjustment of retained earnings and net periodic benefit cost for the fiscal year. Previously, we used a November 30th measurement date for our U.S. pension and other postretirement benefit plans and September 30th for our non-U.S. plans. The following summarizes the effect of adopting the year-end measurement date provisions as of January 1, 2008. See Note 9 for additional information.

Adoption of SFAS 158 year-end measurement date

(Millions of dollars)	January 1, 2008 Prior to SFAS 158 Adjustment	SFAS 158 Adjustment	January 1, 2008 Post SFAS 158 Adjustment
Noncurrent deferred and refundable income taxes	$ 1,553	$ 8	$ 1,561
Liability for postemployment benefits	5,059	24	5,083
Accumulated other comprehensive income (loss)	(1,808)	17	(1,791)
Profit employed in the business	17,398	(33)	17,365

SFAS 159 – In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (SFAS 159), "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of SFAS No. 115." SFAS 159 creates a fair value option under which an entity may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities on a contract by contract basis, with changes in fair values recognized in earnings as these changes occur. We adopted this new accounting standard on January 1, 2008. The adoption of SFAS 159 did not have a material impact on our financial statements.

SFAS 141R & SFAS 160 – In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007) (SFAS 141R), "Business Combinations," and No. 160 (SFAS 160), "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." SFAS 141R requires the acquiring entity in a business combination to recognize the assets acquired and liabilities assumed. Further, SFAS 141R also changes the accounting for acquired in-process research and development assets, contingent consideration, partial acquisitions and transaction costs. Under SFAS 160, all entities are required to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. In addition, transactions between an entity and noncontrolling interests will be treated as equity transactions. SFAS 141R and SFAS 160 will become effective for fiscal years beginning after December 15, 2008. We will adopt these new accounting standards on January 1, 2009. We are currently reviewing the impact of SFAS 141R and SFAS 160 on our financial statements and expect to complete this evaluation in 2008.

SFAS 161 – In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 (SFAS 161), "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133." SFAS 161 expands disclosures for derivative instruments by requiring entities to disclose the fair value of derivative instruments and their gains or losses in tabular format. SFAS 161 also requires disclosure of information about credit risk-related contingent features in derivative agreements, counterparty credit risk, and strategies and objectives for using derivative instruments. SFAS 161 will become effective for fiscal years beginning after November 15, 2008. We will adopt this new accounting standard on January 1, 2009. We do not expect the adoption to have a material impact on our financial statements.

SFAS 162 – In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162 (SFAS 162), "The Hierarchy of Generally Accepted Accounting Principles." SFAS 162 identifies the sources of accounting

principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. SFAS 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." This statement is not expected to result in a change in our current practice.

SFAS 163 – In May 2008, the FASB issued Statement of Financial Accounting Standards No. 163 (SFAS 163), "Accounting for Financial Guarantee Insurance Contracts – an interpretation of FASB Statement No. 60." SFAS 163 requires that an insurance enterprise recognizes a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. It also requires disclosure about (1) the risk-management activities used by an insurance enterprise to evaluate credit deterioration in its insured financial obligations and (2) the insurance enterprise's surveillance or watch list. SFAS 163 will become effective for fiscal years beginning after December 15, 2008. We will adopt this new accounting standard on January 1, 2009. We do not expect the adoption to have a material impact on our financial statements.

3. Stock-Based Compensation

Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R), 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. Our stock-based compensation primarily consists of stock options, stock-settled stock appreciation rights (SARs) and restricted stock units (RSUs). We recognized pretax stock-based compensation cost in the amount of $70 million and $107 million for the three and six months ended June 30, 2008, respectively; and $55 million and $82 million for the three and six months ended June 30, 2007, respectively.

The following table illustrates the type and fair market value of the stock-based compensation awards granted during the six month periods ended June 30, 2008 and 2007, respectively:

	2008		2007	
	# Granted	Fair Value Per Award	# Granted	Fair Value Per Award
SARs	4,476,095	$22.32	4,195,188	$20.73
Stock options	410,506	22.32	231,615	20.73
RSUs	1,511,523	69.17	1,282,020	59.94

The following table provides the assumptions used in determining the fair value of the stock-based awards for the six month periods ended June 30, 2008 and 2007, respectively:

	Grant Year	
	2008	2007
Weighted-average dividend yield	1.89%	1.68%
Weighted-average volatility	27.14%	26.04%
Range of volatilities	27.13-28.99%	26.03-26.62%
Range of risk-free interest rates	1.60-3.64%	4.40-5.16%

Weighted-average expected lives	8 years	8 years

As of June 30, 2008, the total remaining unrecognized compensation cost related to nonvested stock-based compensation awards was $224 million, which will be amortized over the weighted-average remaining requisite service periods of approximately 2.2 years.

Our long-standing practices and policies specify all stock-based compensation awards are approved by the Compensation Committee (the Committee) of the Board of Directors on the date of grant. The stock-based award approval process specifies the number of awards granted, the terms of the award and the grant date. The same terms and conditions are consistently applied to all employee grants, including Officers. The Committee approves all individual Officer grants. The number of stock-based compensation awards included in an individual's award is determined based on the methodology approved by the Committee. In 2007, under the terms of the Caterpillar Inc. 2006 Long-Term Incentive Plan (approved by stockholders in June of 2006), the Committee approved the exercise price methodology to be the closing price of the Company stock on the date of grant.

4. Derivative Instruments and Hedging Activities

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 not 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.

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 currency, thereby creating exposure to movements in exchange rates.

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

We generally designate as cash flow hedges at inception of the contract any Australian dollar, Brazilian real, British pound, Canadian dollar, Chinese yuan, euro, Japanese yen, Mexican

peso, Singapore dollar, New Zealand dollar or Swiss franc forward or option contracts that meet the requirements for hedge accounting. Designation is performed on a specific exposure basis to support hedge accounting. The remainder of Machinery and Engines foreign currency contracts is undesignated. We designate as fair value hedges specific euro forward contracts used to hedge firm commitments.

As of June 30, 2008, no deferred net gains or losses included in equity ("Accumulated other comprehensive income (loss)" in the Consolidated Statement of Financial Position) are expected to be reclassified to current earnings ("Other income (expense)" in the Consolidated Statement of Results of Operations) over the next 12 months. The actual amount recorded in "Other income (expense)" will vary based on the 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.

Gains (losses) included in current earnings [Other income (expense)] on undesignated contracts:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions of dollars)	2008	2007	2008	2007
Machinery and Engines	$ (8)	$ 4	$ (1)	$ 8
Financial Products	(19)	(4)	(106)	(10)
	$ (27)	$ —	$ (107)	$ (2)

Gains and losses on the Financial Products contracts above are substantially offset by balance sheet translation gains and losses.

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 swap agreements to manage our exposure to interest rate changes and, in some cases, lower the cost of borrowed funds.

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

Since 2006, we entered into $400 million (notional amount) of interest rate swaps designated as fair value hedges of our fixed rate long-term debt. During the first quarter 2008, our Machinery and Engines operations liquidated all of these fixed-to-floating interest rate swaps. The gain ($19 million remaining at June 30, 2008) is being amortized to earnings ratably over the

remaining life of the hedged debt.

Financial Products operations have a match-funding policy that addresses interest rate risk by aligning the interest rate profile (fixed or floating rate) of Cat Financial's debt portfolio with the interest rate profile of their receivables portfolio within predetermined ranges on an on-going 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 match 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. To support hedge accounting, we designate fixed-to-floating interest rate swaps as fair value hedges of the fair value of our fixed-rate debt at the inception of the contract. Financial Products' practice is to designate most floating-to-fixed interest rate swaps as cash flow hedges of the variability of future cash flows at the inception of the swap contract.

Financial Products liquidated fixed-to-floating interest rate swaps during 2006, 2005 and 2004, which resulted in deferred net gains. These gains ($4 million remaining at June 30, 2008) are being amortized to earnings ratably over the remaining life of the hedged debt.

Gains (losses) included in current earnings [Other income (expense)]:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions of dollars)	2008	2007	2008	2007
Fixed-to-floating interest rate swaps				
Machinery and Engines:				
Gain (loss) on designated interest rate derivatives	$ —	$ (5)	$ 18	$ (5)
Gain (loss) on hedged debt	—	4	(9)	3
Gain (loss) on liquidated swaps – included in interest expense	1	1	2	2
Financial Products:				
Gain (loss) on designated interest rate derivatives	(194)	(43)	(68)	(31)
Gain (loss) on hedged debt	192	43	66	31
Gain (loss) on liquidated swaps – included in interest expense	1	1	1	1
	$ —	$ 1	$ 10	$ 1

As of June 30, 2008, $9 million of deferred net losses included in equity ("Accumulated other comprehensive income (loss)" in the Consolidated Statement of Financial Position), related to Financial Products floating-to-fixed interest rate swaps, are expected to be reclassified to current earnings ("Interest expense of Financial Products" in the Consolidated Statement of Results of Operations) over the next 12 months.

Commodity Price Risk

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

Our Machinery and Engines operations purchase aluminum, copper and nickel embedded in the components we purchase from suppliers. Our suppliers pass on to us price changes in the commodity portion of the component cost. In addition, we are also subject to price changes on natural gas 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 four-year horizon. All such commodity forward and option contracts are undesignated. There were no net gains or losses on undesignated contracts for the three and six months ended June 30, 2007, and no contracts were outstanding during 2008.

Stock Repurchases Risk

In February 2007, the Board of Directors authorized a $7.5 billion stock repurchase program, expiring on December 31, 2011. The amount of Caterpillar stock that can be repurchased under the authorization is impacted by the movements in the price of the stock. In August 2007, the Board of Directors authorized the use of derivative contracts to reduce stock repurchase volatility.

In connection with our stock repurchase program, we entered into capped call transactions (“call”) with a major bank for an aggregate of 6.0 million shares. During 2008, we paid the bank premiums of $38 million for the establishment of calls for 2.5 million shares, which was accounted for as a reduction to stockholders’ equity. A call permits us to reduce share repurchase price volatility by providing a floor and cap on the price at which the shares can be repurchased. The floor, cap and strike prices for the calls were based upon the average purchase price paid by the bank to purchase our common stock to hedge these transactions. Each call will mature and be exercisable within one year after the call was established. If we exercise a call, we can elect to settle the transaction with the bank by physical settlement (paying cash and receiving shares), cash settle (receiving a net amount of cash) or net share settlement (receiving a net amount of shares). We will continue to use open market purchases in conjunction with capped call transactions to repurchase our stock.

During the six months ended June 30, 2008, $100 million of cash was used to repurchase 1.8 million shares pursuant to calls exercised under this program. Premiums previously paid associated with these exercised calls were $28 million. The following table summarizes the call contracts outstanding as of June 30, 2008:

Stock repurchase derivative contracts outstanding at June 30, 2008

				per share	
			Net Premiums	Lower	Upper
	Number of	Expiration	Paid	Strike	Strike
Contract Date	Shares	Date	(Millions)	Price	Price
October 2007	1,000,000	October 2008	$ 17	$ 58.00	$ 88.00

November 2007	700,000	September 2008	11	58.00	88.00
November 2007	800,000	August 2008	12	53.60	80.40
January 2008	700,000	September 2008	10	51.00	78.00
January 2008	1,000,000	December 2008	16	50.00	80.00
Total Outstanding	4,200,000		$ 66	54.09	82.98

5. Inventories

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

(Millions of dollars)	June 30, 2008	December 31, 2007
Raw materials	$ 2,910	$ 2,474
Work-in-process	1,515	1,379
Finished goods	3,608	3,066
Supplies	270	285
Total inventories	$ 8,303	$ 7,204

6. Investments in Unconsolidated Affiliated Companies

Our investments in affiliated companies accounted for by the equity method consist primarily of a 50 percent interest in Shin Caterpillar Mitsubishi Ltd. (SCM) located in Japan. Combined financial information of the unconsolidated affiliated companies accounted for by the equity method (generally on a three month lag, e.g., SCM results reflect the periods ending March 31) was as follows:

Results of Operations of unconsolidated affiliated companies:	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions of dollars)	2008	2007	2008	2007
Sales	$ 1,083	$ 1,050	$ 2,171	$ 2,072
Cost of sales	901	847	1,801	1,670
Gross profit	$ 182	$ 203	$ 370	$ 402
Profit (loss)	$ 20	$ 40	$ 37	$ 90
Caterpillar's profit (loss)	$ 10	$ 5	$ 21	$ 24

On August 1, 2008, SCM completed the first phase of a share redemption plan whereby SCM redeemed half of Mitsubishi Heavy Machinery Industries Ltd.’s shares in SCM. This will result in Caterpillar owning 67 percent of the outstanding shares and will require the consolidation of

SCM within Caterpillar's financial statements. See Note 17 for details on this share redemption.

Second quarter 2007 equity in profit of unconsolidated affiliated companies reflected a $13 million after tax charge for net adjustments related to revenue recognition, deferred tax valuation allowances and environmental liabilities that were identified during our due diligence procedures with SCM.

Sales from SCM to Caterpillar for the three months ended June 30, 2008 and June 30, 2007 of $553 million and $393 million, respectively, and for the six months ended June 30, 2008 and June 30, 2007 of $995 million and $772 million, respectively, are included in the affiliated company sales. In addition, SCM purchases of Caterpillar products were $66 million and $68 million for the three months ended June 30, 2008 and June 30, 2007, respectively, and $139 million and $133 million for the six months ended June 30, 2008 and June 30, 2007, respectively.

Financial Position of unconsolidated affiliated companies: (Millions of dollars)		June 30, 2008		December 31, 2007
Assets:				
	Current assets	$ 2,185	$	2,062
	Property, plant and equipment – net	1,609		1,286
	Other assets	136		173
		3,930		3,521
Liabilities:				
	Current liabilities	1,704		1,546
	Long-term debt due after one year	515		269
	Other liabilities	438		393
		2,657		2,208
Ownership		$ 1,273	$	1,313

Caterpillar's investments in unconsolidated affiliated companies: (Millions of dollars)				
	Investments in equity method companies	$ 625	$	582
	Plus: Investments in cost method companies	16		16
	Total investments in unconsolidated affiliated companies	$ 641	$	598

In February 2008, we sold our 23 percent equity investment in A.S.V. Inc. (ASV) resulting in a $60 million pretax gain. Accordingly, the June 30, 2008 financial position and equity investment amounts noted above do not include ASV.

7. Intangible Assets and Goodwill

A. Intangible assets

Intangible assets are comprised of the following:

(Dollars in millions)	Weighted Amortizable Life (Years)	June 30, 2008	December 31, 2007
Customer relationships	18	$ 402	$ 366
Intellectual property	10	176	195
Other	11	101	81
Total finite-lived intangible assets – gross	15	679	642
Less: Accumulated amortization		(187)	(167)
Intangible assets – net		$ 492	$ 475

During the second quarter of 2008, we acquired finite-lived intangible assets of $17 million due to the purchase of Lovat Inc. See Note 16 for details on the acquisition of these assets. Also during the second quarter of 2008, we acquired finite-lived intangible assets of $32 million from other acquisitions. Amortization expense on intangible assets for the three and six months ended June 30, 2008 was $12 million and $32 million, respectively. Amortization expense for the three and six months ended June 30, 2007 was $9 million and $20 million, respectively. Amortization expense related to intangible assets is expected to be:

(Millions of dollars)					
2008	2009	2010	2011	2012	Thereafter
$ 58	$ 51	$ 43	$ 35	$ 30	$ 307

B. Goodwill

On an annual basis, we test goodwill for impairment in accordance with Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets." Goodwill is tested for impairment between annual tests whenever events or circumstances make it more likely than not that an impairment may have occurred. No goodwill was impaired or disposed of during the first half of 2008.

During the second quarter of 2008, we acquired net assets with related goodwill of $22 million as part of the purchase of Lovat Inc. See Note 16 for details on the acquisition of these assets. Also during the second quarter of 2008, we acquired net assets with related goodwill of $8 million from other acquisitions.

The changes in carrying amount of the goodwill by reportable segment for the six months ended June 30, 2008 were as follows:

(Millions of dollars)	Building Construction Products	EAME Operations	Electric Power	Heavy Construction & Mining	Industrial Power Systems	Infrastructure Development	Large Power Systems [2]	Marine & Petroleum Power [2]	All Other [1]	Consolidated Total
Balance at December 31, 2007	$ 4	$ 51	$ 203	$ 14	$ 478	$ 33	$ 569	$ 60	$ 551	$ 1,963
Acquisitions	—	—	—	—	—	—	—	—	30	30

Other adjustments	—	—	—	—	—	—	—	1	1
Balance at June 30, 2008	$ 4	$ 51	$ 203	$ 14	$ 478	$ 33	$ 569	$ 60	$ 582	$ 1,994

1 All Other includes operating segments included in “All Other” category (See Note 13).

2 As discussed in Note 13, our reportable segments were changed in the first quarter of 2008. As a result, goodwill of $60 million was reallocated from the Large Power Systems reportable segment to the newly formed Marine & Petroleum Power reportable segment.

8. Available-For-Sale Securities

Financial Products, primarily Cat Insurance, has investments in certain debt and equity securities that have been classified as available-for-sale in accordance with Statement of Financial Accounting Standards No. 115 (SFAS 115), “Accounting for Certain Investments in Debt and Equity Securities” and recorded at fair value based upon quoted market prices. These fair values are 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.

	June 30, 2008			December 31, 2007		
(Millions of dollars)	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value
Government debt	$ 304	$ —	$ 304	$ 319	$ 1	$ 320
Corporate bonds	836	(34)	802	775	(4)	771
Equity securities	181	3	184	168	28	196
Total	$ 1,321	$ (31)	$ 1,290	$ 1,262	$ 25	$ 1,287

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

	June 30, 2008					
	Less than 12 months1		12 months or more1		Total	
(Millions of dollars)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government debt	$ 110	$ 1	$ 17	$ 1	$ 127	$ 2
Corporate bonds	479	20	123	16	602	36
Equity securities	79	14	5	3	84	17

Total	$ 668	$ 35	$ 145	$ 20	$ 813	$ 55

	December 31, 2007					
	Less than 12 months1		12 months or more1		Total	
(Millions of dollars)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government debt	$ 22	$ —	$ 96	$ 1	$ 118	$ 1
Corporate bonds	269	4	163	4	432	8
Equity securities	55	5	1	—	56	5
Total	$ 346	$ 9	$ 260	$ 5	$ 606	$ 14

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

The fair value of the available-for-sale debt securities at June 30, 2008, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay and creditors may have the right to call obligations.

(Millions of dollars)	Fair Value
Due in one year or less	$ 86
Due after one year through five years	$ 223
Due after five years through ten years	$ 246
Due after ten years	$ 551

Proceeds from sales of investments in debt and equity securities during the three and six months ended June 30, 2008 were $69 million and $173 million, respectively. Proceeds from sales of investments in debt and equity securities during the three and six months ended June 30, 2007 were $57 million and $119 million, respectively. Gross gains of $3 million and $11 million, and gross losses of $3 million and $9 million were included in current earnings for the three and six months ended June 30, 2008, respectively. Gross gains of $2 million and $6 million, and gross losses of $1 million and $1 million were included in current earnings for the three and six months ended June 30, 2007, respectively.

9. Postretirement Benefits

A. Pension and postretirement benefit plan costs

(Millions of dollars)	U.S. Pension Benefits June 30,		Non-U.S. Pension Benefits June 30,		Other Postretirement Benefits June 30,	
	2008	2007	2008	2007	2008	2007
For the three months ended:						
Components of net periodic benefit cost:						
Service cost	$ 50	$ 46	$ 21	$ 17	$ 21	$ 23
Interest cost	157	149	39	31	77	74
Expected return on plan assets	(221)	(210)	(50)	(41)	(35)	(33)
Amortization of:						

Net asset existing at adoption of SFAS 87/106	—	—	—	1	1	1
Prior service cost /(credit) [1]	8	15	1	2	(9)	(9)
Net actuarial loss /(gain)	34	53	8	14	16	19
Adjustment for subsidiary pension plan [2]	—	44	—	—	—	—
Total cost included in operating profit	$ 28	$ 97	$ 19	$ 24	$ 71	$ 75

(Millions of dollars)	U.S. Pension Benefits June 30,		Non-U.S. Pension Benefits June 30,		Other Postretirement Benefits June 30,	
	2008	2007	2008	2007	2008	2007
For the six months ended:						
Components of net periodic benefit cost:						
Service cost	$ 100	$ 92	$ 42	$ 35	$ 43	$ 45
Interest cost	314	298	78	63	154	148
Expected return on plan assets	(441)	(420)	(100)	(82)	(69)	(65)
Amortization of:						
Net asset existing at adoption of SFAS 87/106	—	—	—	1	1	1
Prior service cost /(credit) [1]	16	29	2	3	(18)	(18)
Net actuarial loss /(gain)	67	107	16	27	32	39
Adjustment for subsidiary pension plan [2]	—	44	—	—	—	—
Total cost included in operating profit	$ 56	$ 150	$ 38	$ 47	$143	$150
Weighted-average assumptions used to determine net cost:						
Discount rate	5.8%	5.5%	5.3%	4.8%	5.8%	5.5%
Expected return on plan assets	9.0%	9.0%	7.6%	7.7%	9.0%	9.0%
Rate of compensation increase	4.5%	4.0%	4.0%	4.0%	4.4%	4.0%

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

2 Second quarter 2007 charge to recognize previously unrecorded liabilities related to a subsidiary pension plan.

Although we have no ERISA (Employee Retirement Income Security Act) funding requirements in 2008, we made $215 million of contributions to pension plans during the six months ended June 30, 2008 and we currently anticipate additional contributions of approximately $215 million during the remainder of the year.

As discussed in Note 2, we adopted the year-end measurement date provisions of SFAS 158 as of January 1, 2008.

B. Defined contribution benefit plan costs

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions of dollars)	2008	2007	2008	2007
U.S. Plans	$ 36	$ 49	$ 83	$ 103
Non-U.S. Plans	9	7	17	15
	$ 45	$ 56	$ 100	$ 118

10. Guarantees and Product Warranty

We have guaranteed to repurchase loans of certain Caterpillar dealers from third-party lenders in the event of default. These guarantees arose in conjunction with Cat Financial's relationship with third-party dealers who sell Caterpillar equipment. These guarantees generally have one-year terms and are secured, primarily by dealer assets. Additionally, 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 Caterpillar dealers.

We provide loan guarantees to third-party lenders for financing associated with machinery purchased by customers. The loan guarantees are for the possibility that the customers will become insolvent. 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 for $28 million resulting from the assignment of certain leases to that bank. The indemnity is for the possibility that the insurers of these leases would become insolvent. The indemnity expires December 15, 2012 and is unsecured.

No loss has been experienced or is anticipated under any of these guarantees. At June 30, 2008 and December 31, 2007, the related liability was $14 million and $12 million, respectively. The maximum potential amounts of future payments (undiscounted and without reduction for any amounts that may possibly be recovered under recourse or collateralized provisions) we could be required to make under the guarantees are as follows:

(Millions of dollars)	June 30, 2008	December 31, 2007
Guarantees with Caterpillar dealers	$ 389	$ 363
Guarantees with customers	159	53
Limited indemnity	28	30
Guarantees – other	39	39
Total guarantees	$ 615	$ 485

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)	2008
Warranty liability, January 1	$ 1,045
Reduction in liability (payments)	(526)
Increase in liability (new warranties)	602
Warranty liability, June 30	$ 1,121

(Millions of dollars)	2007
Warranty liability, January 1	$ 953
Reduction in liability (payments)	(906)
Increase in liability (new warranties)	998
Warranty liability, December 31	$ 1,045

11. Computations of Profit Per Share

		Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions except per share data)		2008	2007	2008	2007
I.	Profit for the period (A):	$ 1,106	$ 823	$ 2,028	$ 1,639
II.	Determination of shares (in millions):				
	Weighted-average number of common shares outstanding (B)	614.3	640.5	616.0	642.4
	Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price	21.2	22.3	21.0	21.9
	Average common shares outstanding for fully diluted computation (C)	635.5	662.8	637.0	664.3
III.	Profit per share of common stock:				
	Assuming no dilution (A/B)	$ 1.80	$ 1.28	$ 3.29	$ 2.55
	Assuming full dilution (A/C)	$ 1.74	$ 1.24	$ 3.18	$ 2.47

SARs and stock options to purchase 4,871,995 common shares were outstanding for both the three and six months ended June 30, 2008, but were not included in the computation of diluted earnings per share because the effect would have been antidilutive. For the three and six months ended June 30, 2007, there were outstanding SARs and stock options to purchase 4,722,571 and 13,874,110 common shares, respectively, which were antidilutive.

12. Environmental, Legal and Tax 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 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.

On May 14, 2007, the U.S. Environmental Protection Agency (EPA) issued a Notice of Violation to Caterpillar Inc., alleging various violations of Clean Air Act Sections 203, 206 and 207. EPA claims that Caterpillar violated such sections by shipping engines and catalytic converter after-treatment devices separately, introducing into commerce a number of uncertified and/or misbuilt engines, and failing to timely report emissions-related defects. Caterpillar is currently engaging in negotiations with EPA to resolve these issues, but it is too early in the process to place precise estimates on the potential exposure to penalties. However, Caterpillar is cooperating with EPA and, based upon initial discussions, and although penalties could potentially exceed $100,000, management does not believe that this issue will have a material adverse impact on our financial position.

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

On September 29, 2004, Kruse Technology Partnership (Kruse) filed a lawsuit against Caterpillar in the United States District Court for the Central District of California alleging that certain Caterpillar engines built from October 2002 to the present infringe upon certain claims of three of Kruse's patents on engine fuel injection timing and combustion strategies. Kruse seeks monetary damages, injunctive relief and a finding that the alleged infringement by Caterpillar was willful. Caterpillar denies Kruse's allegations, believes they are without merit and filed a counterclaim seeking a declaration from the court that Caterpillar is not infringing upon Kruse's patents and that the patents are invalid and unenforceable. The counterclaim filed by Caterpillar is pending, and no trial date is currently scheduled. In the opinion of management, the ultimate disposition of this matter will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

We have recorded income tax expense at U.S. tax rates on all profits, except for undistributed profits of non-U.S. subsidiaries which are considered indefinitely reinvested. It is reasonably possible that a change in assertion related to undistributed profits of certain non-U.S. subsidiaries will be made in the next year. We do not expect these changes to have an adverse impact on our consolidated financial position, liquidity or results of operations.

13. Segment Information

A. Basis for segment information

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

In the first quarter of 2008, our internal measurement system was changed to reflect a revised set of responsibilities for divisions as follows:

- § Product and component divisions are profit centers primarily responsible for product management, development, external sales and ongoing support. Inter-segment sales of components may also be a source of revenue for these divisions. Previously product division revenue was primarily inter-segment sales of finished products to machinery marketing divisions.
- § Manufacturing divisions are profit centers primarily responsible for the manufacture of products and/or components within a geographic region. Inter-segment sales of components, machines and/or engines to product divisions are the primary sources of revenue for these divisions. Previously manufacturing divisions' inter-segment sales were primarily to machinery marketing or product divisions.
- § Service divisions are cost centers primarily responsible for the performance of corporate functions and to provide centralized services. They also perform certain support functions globally (e.g. Finance, Information Technology, and Human Resources) that were previously included in product, component, manufacturing, and machinery marketing divisions.
- § Machinery marketing divisions are cost centers primarily responsible for marketing through dealers within a geographic region. These divisions were previously profit centers responsible for external sales.

Caterpillar is a highly integrated company. Some product and component divisions also have marketing and/or manufacturing responsibilities. In addition, some geographically based

manufacturing divisions also have product management, development, external sales and ongoing support responsibilities. One of our profit centers provides various financial services to our customers and dealers.

Also in the first quarter of 2008, a new profit center was formed through restructuring the Large Power Systems and Power Systems & OEM Solutions reportable segments. The new profit center, Marine & Petroleum Power Division is a reportable segment primarily responsible for the product management, development, marketing, external sales and ongoing support of reciprocating engines supplied to the marine and petroleum industries. The division also includes manufacturing of certain reciprocating engines for marine, petroleum and electric power applications. In addition, certain marketing functions previously included in Power Systems & OEM Solutions were transferred to Large Power Systems and Motion & Power Control Division (included in “All Other”).

The segment information for 2007 has been retrospectively adjusted to conform to the 2008 presentation.

We have developed an internal measurement system to evaluate performance and to drive continuous improvement. This measurement system, which is not based on U.S. GAAP, is intended to motivate desired behavior of employees and drive performance. It is not intended to measure a division's contribution to enterprise results. The sales and cost information used for internal purposes varies significantly from our consolidated externally reported information, resulting in substantial reconciling items. Each division has specific performance targets and is evaluated and compensated based on achieving those targets. Performance targets differ from division to division; therefore, meaningful comparisons cannot be made among the profit, service or machinery marketing divisions. It is the comparison of actual results to budgeted results that makes our internal reporting valuable to management. Consequently, we feel that the financial information required by Statement of Financial Accounting Standards No. 131 (SFAS 131), "Disclosures about Segments of an Enterprise and Related Information" has limited value for our external readers.

Due to Caterpillar's high level of integration and our concern that segment disclosures based on SFAS 131 requirements have limited value to external readers, we are continuing to disclose financial results for our three principal lines of business (Machinery, Engines and Financial Products) in our Management's Discussion and Analysis beginning on page 31.

B. Description of segments

The profit center divisions meet the SFAS 131 definition of "operating segments;" however, the service and machinery marketing divisions do not. Following is a brief description of our nine reportable segments and the business activities included in the “All Other” category.

Building Construction Products: Primarily responsible for product management, development, manufacture, external sales and ongoing support of light construction machines and select work tools.

EAME Operations: Primarily responsible for the manufacture of medium and large excavators, medium wheel loaders, articulated trucks, medium track-type tractors, wheel and small excavators, and certain machine components in Europe, Africa, and the Commonwealth of

Independent States (CIS). Also responsible for product management, development, manufacture, external sales and ongoing support of paving products and select work tools.

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

Heavy Construction & Mining: Primarily responsible for product management, development, external sales and ongoing support of mining trucks, quarry and construction trucks, large and medium track-type tractors, large wheel loaders, wheel tractor scrapers and track-type loaders.

Industrial Power Systems: Primarily responsible for product management, development, manufacture and ongoing support of reciprocating engines supplied to industrial, agricultural, electric power and marine industries and Caterpillar machinery. Also responsible for the marketing and external sales of industrial, agricultural and certain electric power engines.

Infrastructure Development: Primarily responsible for product management, development, external sales and ongoing support of medium wheel loaders, medium and large excavators, motor graders, articulated trucks, powertrain components, and wheeled excavators.

Large Power Systems: Primarily responsible for product management, development, manufacture and ongoing support of reciprocating engines supplied to Caterpillar machinery and the electric power, on-highway vehicle, petroleum, marine and industrial industries. Also responsible for engine component manufacturing and the marketing and external sales of on-highway vehicle engines.

Marine & Petroleum Power: Primarily responsible for the product management, development, marketing, external sales and ongoing support of reciprocating engines supplied to the marine and petroleum industries. The division also includes manufacturing of certain reciprocating engines for marine, petroleum and electric power applications.

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

All Other: Primarily includes activities such as: the regional manufacturing of construction and mining machinery and components in Latin America, North America and Asia; the design, manufacture, marketing, external sales and ongoing support of machinery and engine components, electronics, and control systems; the design, manufacture, marketing, external sales and ongoing support of turbines; logistics services for Caterpillar and other companies; the design, manufacture, remanufacture, maintenance and services of rail-related products and services; remanufacturing of Caterpillar engines and components and remanufacturing services for other companies; and the design, manufacture, external sales and ongoing support of forestry machinery.

C. Segment measurement and reconciliations

There are several accounting differences between our segment reporting and our external reporting. Our segments are measured on an accountable basis; therefore, only those items for which divisional management is directly responsible are included in the determination of segment profit (loss) and assets.

The following is a list of the more significant accounting differences:

§ Generally, liabilities are managed at the corporate level and are not included in segment operations. Segment accountable assets generally include inventories, receivables and property, plant and equipment.

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

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

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

§ Interest expense is imputed (i.e., charged) to profit centers based on their level of accountable assets.

§ Accountable profit is determined on a pretax basis.

Effective the first quarter of 2008 we made the following changes to our segment reporting methodology:

§ Manufacturing divisions value inter-segment sales of machines on a manufacturing fee basis. Previously these transactions were valued at market-based transfer prices.

§ Service divisions are primarily treated as cost centers. Previously, service divisions primarily charged segments for services provided.

§ Machinery marketing divisions are treated as cost centers. These divisions were previously treated as profit centers responsible for external sales. External sales are now the responsibility of product divisions.

The information for 2007 has been retrospectively adjusted to conform to the 2008 presentation.

Reconciling items are created based on accounting differences between segment reporting and our consolidated, external reporting. Please refer to pages 24 to 27 for financial information regarding significant reconciling items. Most of our reconciling items are self-explanatory given the above explanations of accounting differences. However, for the reconciliation of profit, we

have grouped the reconciling items as follows:

§ Cost centers: The costs related to service and machinery marketing divisions are primarily treated as cost centers and are not charged to segments.

§ Corporate costs: Certain corporate costs are not charged to our segments. These costs are related to corporate requirements and strategies that are considered to be for the benefit of the entire organization.

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

§ Methodology differences: See previous discussion of significant accounting differences between segment reporting and consolidated external reporting.

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

				Machinery and Engines										
2008	Building Construction Products	EAME Operations	Electric Power	Heavy Construction & Mining	Industrial Power Systems	Infrastructure Development	Large Power Systems	Marine & Petroleum Power	All Other	Total Machinery & Engines	Financing & Insurance Services	Total
External sales and revenues	$ 1,024	$ 300	$ 891	$ 2,501	$ 561	$ 2,657	$ 877	$ 975	$ 2,976	$ 12,762	$ 963	$ 13,725
Inter-segment sales & revenues	15	798	(9)	40	236	21	1,313	22	2,817	5,253	6	5,259
Total sales and revenues	$ 1,039	$ 1,098	$ 882	$ 2,541	$ 797	$ 2,678	$ 2,190	$ 997	$ 5,793	$ 18,015	$ 969	$ 18,984
Depreciation and amortization	$ 6	$ 25	$ 5	$ 3	$ 13	$ 1	$ 46	$ 4	$ 149	$ 252	$ 190	$ 442
Imputed interest expense	$ 5	$ 13	$ 6	$ 3	$ 6	$ 5	$ 14	$ 2	$ 89	$ 143	$ 280	$ 423
Accountable profit (loss)	$ 78	$ 101	$ 110	$ 458	$ 78	$ 276	$ 254	$ 154	$ 758	$ 2,267	$ 190	$ 2,457
Accountable assets at June 30, 2008	$ 624	$ 1,694	$ 837	$ 488	$ 837	$ 704	$ 1,926	$ 496	$ 11,947	$ 19,553	$ 33,159	$ 52,712
Capital Expenditures	$ 7	$ 44	$ 7	$ —	$ 25	$ —	$ 67	$ 11	$ 239	$ 400	$ 414	$ 814

Machinery and Engines

2007	Building Construction Products	EAME Operations	Electric Power	Heavy Construction & Mining	Industrial Power Systems	Infrastructure Development	Large Power Systems	Marine & Petroleum Power	All Other	Total Machinery & Engines	Financing & Insurance Services	Total
External sales and revenues	$ 798	$ 277	$ 737	$ 2,245	$ 447	$ 2,218	$ 771	$ 728	$ 2,325	$ 10,546	$ 913	$ 11,459
Inter-segment sales & revenues	11	666	—	19	156	13	1,140	18	2,373	4,396	—	4,396
Total sales and revenues	$ 809	$ 943	$ 737	$ 2,264	$ 603	$ 2,231	$ 1,911	$ 746	$ 4,698	$ 14,942	$ 913	$ 15,855
Depreciation and amortization	$ 8	$ 22	$ 6	$ —	$ 16	$ —	$ 43	$ 3	$ 125	$ 223	$ 165	$ 388
Imputed interest expense	$ 4	$ 11	$ 5	$ 3	$ 5	$ 4	$ 14	$ 4	$ 79	$ 129	$ 282	$ 411
Accountable profit (loss)	$ 43	$ 114	$ 86	$ 445	$ 41	$ 282	$ 171	$ 51	$ 548	$ 1,781	$ 203	$ 1,984
Accountable assets at December 31, 2007	$ 648	$ 1,553	$ 826	$ 494	$ 715	$ 476	$ 1,740	$ 397	$ 11,141	$ 17,990	$ 30,571	$ 48,561
Capital Expenditures	$ 6	$ 31	$ 5	$ —	$ 21	$ —	$ 54	$ 3	$ 166	$ 286	$ 376	$ 662

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

Machinery and Engines

2008	Building Construction Products	EAME Operations	Electric Power	Heavy Construction & Mining	Industrial Power Systems	Infrastructure Development	Large Power Systems	Marine & Petroleum Power	All Other	Total Machinery & Engines	Financing & Insurance Services	Total
External sales and revenues	$ 1,914	$ 523	$ 1,605	$ 4,765	$ 1,051	$ 4,969	$ 1,679	$ 1,792	$ 5,392	$ 23,690	$ 1,942	$ 25,632
Inter-segment sales & revenues	28	1,537	13	76	444	39	2,426	31	5,410	10,004	6	10,010
Total sales and revenues	$ 1,942	$ 2,060	$ 1,618	$ 4,841	$ 1,495	$ 5,008	$ 4,105	$ 1,823	$ 10,802	$ 33,694	$ 1,948	$ 35,642
Depreciation and amortization	$ 12	$ 49	$ 11	$ 5	$ 28	$ 2	$ 88	$ 7	$ 293	$ 495	$ 379	$ 874
Imputed interest expense	$ 10	$ 25	$ 12	$ 7	$ 12	$ 9	$ 27	$ 5	$ 171	$ 278	$ 569	$ 847
	$ 218	$ 190	$ 182	$ 846	$ 129	$ 520	$ 503	$ 260	$ 1,359	$ 4,207	$ 399	$ 4,606

Accountable profit (loss)													
Accountable assets at June 30, 2008	$ 624	$ 1,694	$ 837	$ 488	$ 837	$ 704	$ 1,926	$ 496	$ 11,947	$ 19,553	$ 33,159	$ 52,712
Capital Expenditures	$ 12	$ 76	$ 14	$ —	$ 37	$ —	$ 150	$ 24	$ 394	$ 707	$ 720	$ 1,427

	Machinery and Engines											
2007	Building Construction Products	EAME Operations	Electric Power	Heavy Construction & Mining	Industrial Power Systems	Infrastructure Development	Large Power Systems	Marine & Petroleum Power	All Other	Total Machinery & Engines	Financing & Insurance Services	Total
External sales and revenues	$ 1,518	$ 510	$ 1,406	$ 4,214	$ 857	$ 4,150	$ 1,473	$ 1,365	$ 4,297	$ 19,790	$ 1,788	$ 21,578
Inter-segment sales & revenues	21	1,269	—	32	341	27	2,140	27	4,699	8,556	1	8,557
Total sales and revenues	$ 1,539	$ 1,779	$ 1,406	$ 4,246	$ 1,198	$ 4,177	$ 3,613	$ 1,392	$ 8,996	$ 28,346	$ 1,789	$ 30,135
Depreciation and amortization	$ 15	$ 45	$ 12	$ 1	$ 33	$ 1	$ 83	$ 5	$ 240	$ 435	$ 320	$ 755
Imputed interest expense	$ 9	$ 22	$ 11	$ 5	$ 10	$ 7	$ 27	$ 8	$ 153	$ 252	$ 556	$ 808
Accountable profit (loss)	$ 83	$ 219	$ 146	$ 844	$ 73	$ 522	$ 345	$ 141	$ 1,099	$ 3,472	$ 388	$ 3,860
Accountable assets at December 31, 2007	$ 648	$ 1,553	$ 826	$ 494	$ 715	$ 476	$ 1,740	$ 397	$ 11,141	$ 17,990	$ 30,571	$ 48,561
Capital Expenditures	$ 13	$ 54	$ 3	$ —	$ 30	$ —	$ 89	$ 7	$ 277	$ 473	$ 634	$ 1,107

Reconciliation of Sales and Revenues:

(Millions of dollars)	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
Three Months Ended June 30, 2008:				
Total external sales and revenues from business segments	$ 12,762	$ 963	$ —	$ 13,725
Other	35	(53)	(83) [1]	(101)
Total sales and revenues	$ 12,797	$ 910	$ (83)	$ 13,624

Three Months Ended June 30, 2007:				
Total external sales and revenues from business segments	$10,546	$ 913	$ —	$11,459
Other	67	(67)	(103) 1	(103)
Total sales and revenues	$10,613	$ 846	$(103)	$11,356

1 Elimination of Financial Products revenues from Machinery and Engines.

Reconciliation of Sales and Revenues:

(Millions of dollars)	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
Six Months Ended June 30, 2008:				
Total external sales and revenues from business segments	$23,690	$1,942	$ —	$25,632
Other	86	(120)	(178) 1	(212)
Total sales and revenues	$23,776	$1,822	$(178)	$25,420
Six Months Ended June 30, 2007:				
Total external sales and revenues from business segments	$19,790	$1,788	$ —	$21,578
Other	144	(143)	(207) 1	(206)
Total sales and revenues	$19,934	$1,645	$(207)	$21,372

1 Elimination of Financial Products revenues from Machinery and Engines.

Reconciliation of Profit Before Taxes:

(Millions of dollars)	Machinery and Engines	Financing & Insurance Services	Consolidated Total
Three Months Ended June 30, 2008:			
Total accountable profit from business segments	$ 2,267	$ 190	$ 2,457
Cost centers	(457)	—	(457)
Corporate costs	(365)	—	(365)
Timing	(60)	—	(60)
Methodology differences:			
Inventory/cost of sales	(45)	—	(45)
Postretirement benefit expense	(21)	—	(21)
Financing costs	29	—	29
Equity in profit of unconsolidated affiliated companies	(10)	—	(10)
Other methodology difference	4	(2)	2
Total profit before taxes	$ 1,342	$ 188	$ 1,530

Three Months Ended June 30, 2007:

Total accountable profit from business segments	$ 1,781	$ 203	$ 1,984
Cost centers	(425)	—	(425)
Corporate costs	(270)	—	(270)
Timing	(5)	—	(5)
Methodology differences:			
Inventory/cost of sales	(13)	—	(13)
Postretirement benefit expense	(56)	—	(56)
Financing costs	(17)	—	(17)
Equity in profit of unconsolidated affiliated companies	(4)	(1)	(5)
Currency	22	—	22
Other methodology difference	(12)	—	(12)
Total profit before taxes	$ 1,001	$ 202	$ 1,203

Reconciliation of Profit Before Taxes:

(Millions of dollars)	Machinery and Engines	Financing & Insurance Services	Consolidated Total
Six Months Ended June 30, 2008:			
Total accountable profit from business segments	$ 4,207	$ 399	$ 4,606
Cost centers	(922)	—	(922)
Corporate costs	(637)	—	(637)
Timing	(93)	—	(93)
Methodology differences:			
Inventory/cost of sales	(29)	—	(29)
Postretirement benefit expense	(43)	—	(43)
Financing costs	42	—	42
Equity in profit of unconsolidated affiliated companies	(21)	—	(21)
Currency	(44)	—	(44)
Other methodology difference	4	(2)	2
Total profit before taxes	$ 2,464	$ 397	$ 2,861
Six Months Ended June 30, 2007:			
Total accountable profit from business segments	$ 3,472	$ 388	$ 3,860
Cost centers	(841)	—	(841)
Corporate costs	(534)	—	(534)
Timing	12	—	12
Methodology differences:			
Inventory/cost of sales	17	—	17
Postretirement benefit expense	(106)	—	(106)
Financing costs	(37)	—	(37)
Equity in profit of unconsolidated affiliated companies	(22)	(2)	(24)
Currency	36	—	36
Other methodology difference	(12)	4	(8)
Total profit before taxes	$ 1,985	$ 390	$ 2,375

Reconciliation of Assets:

(Millions of dollars)	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
June 30, 2008:				
Total accountable assets from business segments	$19,553	$33,159	$ —	$52,712
Items not included in segment assets:				
Cash and short-term investments	478	304	—	782
Intercompany trade receivables	111	476	(587)	—
Trade and other receivables	28	—	—	28
Investment in unconsolidated affiliated companies	559	—	(31)	528
Investment in Financial Products	4,282	—	(4,282)	—
Deferred income taxes and prepaids	2,791	145	(314)	2,622
Intangible assets and other assets	1,210	60	—	1,270
Cost center assets	2,087	—	—	2,087
Liabilities included in segment assets	2,947	20	—	2,967
Inventory methodology differences	(2,560)	—	—	(2,560)
Other	294	(277)	—	17
Total assets	$31,780	$33,887	$(5,214)	$60,453
December 31, 2007:				
Total accountable assets from business segments	$17,990	$30,571	$ —	$48,561
Items not included in segment assets:				
Cash and short-term investments	862	260	—	1,122
Intercompany trade receivables	366	113	(479)	—
Trade and other receivables	272	—	—	272
Investment in unconsolidated affiliated companies	461	—	(24)	437
Investment in Financial Products	3,948	—	(3,948)	—
Deferred income taxes and prepaids	2,701	138	(339)	2,500
Intangible assets and other assets	1,210	63	—	1,273
Cost center assets	1,765	—	—	1,765
Liabilities included in segment assets	2,664	20	—	2,684
Inventory methodology differences	(2,482)	—	—	(2,482)
Other	295	(295)	—	—
Total assets	$30,052	$30,870	$(4,790)	$56,132

14. Fair Value Measurements

We adopted SFAS 157, “Fair Value Measurements” as of January 1, 2008. See Note 2 for additional information. SFAS 157 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. SFAS 157 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 SFAS 157, fair value measurements are classified under the following hierarchy:

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

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

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

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

Available-for-sale securities
Our available-for-sale securities include a mix of equity and debt instruments (see Note 8 for additional information). Fair values for our government debt and equity securities are based upon valuations for identical instruments in active markets. Fair values for corporate bonds are based upon prices obtained from independent third-party pricing services. The third-party pricing services employ various models that take into consideration such market-based factors as recent sales, risk-free yield curves and prices of similarly rated bonds.

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

Derivative financial instruments
The fair value of interest rate swap derivatives is primarily based on third-party pricing service models. These models use discounted cash flows that utilize the appropriate market-based forward swap curves and zero-coupon interest rates.

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

Assets and liabilities measured at fair value, primarily related to Financial Products, included in our Consolidated Statement of Financial Position as of June 30, 2008 are summarized below:

(Millions of dollars)	June 30, 2008			
	Level 1	Level 2	Level 3	Total Assets / Liabilities, at Fair Value
Assets				
Available-for-sale securities (long-term investments)	$ 193	$ 1,097	$ —	$ 1,290
Securitized retained interests	—	—	84	84
Total Assets	$ 193	$ 1,097	$ 84	$ 1,374
Liabilities				
Derivative financial instruments	$ —	$ 106	$ —	$ 106
Guarantees	—	—	14	14
Total Liabilities	$ —	$ 106	$ 14	$ 120

Below is a roll-forward of assets and liabilities measured at fair value using Level 3 inputs for the six months ended June 30, 2008. These instruments, primarily related to Cat Financial, were valued using pricing models that, in management's judgment, reflect the assumptions a marketplace participant would use.

(Millions of dollars)	Securitized Retained Interests	Guarantees
Balance at December 31, 2007	$ 49	$ 12
Total gains or losses (realized / unrealized)		
Included in earnings	(2)	—
Included in other comprehensive income (loss)	(4)	—
Purchases, issuances, and settlements	41	2
Balance at June 30, 2008	$ 84	$ 14

The amount of total net losses for the six months ended June 30, 2008 included in earnings attributable to the change in unrealized gains and losses relating to assets still held at June 30,

2008 was $1 million on securitized retained interests.

Gains and losses included in earnings are reported in Revenues of Financial Products.

15. Securitizations

Cat Financial periodically sells certain finance receivables related to retail installment sale contracts and finance leases to special purpose entities (SPEs) as part of their asset-backed securitization program (program). The SPEs, typically trusts, are considered to be qualifying special purpose entities (QSPEs) and thus, in accordance with SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," are not consolidated. The QSPEs issue debt to pay for the finance receivables they acquire from Cat Financial. The primary source for repayment of the debt is the cash flows generated from the finance receivables owned by the QSPEs. The assets of the QSPEs are legally isolated and are not available to pay the creditors of Cat Financial or any other affiliate of Cat Financial. For bankruptcy analysis purposes, Cat Financial has sold the finance receivables to the QSPEs in a true sale and the QSPEs are separate legal entities.

Cat Financial retains interests in the finance receivables that are sold through their program. These retained interests are generally subordinate to the investors' interests and are included in "Other assets" in the Consolidated Statement of Financial Position. Cat Financial determines the fair value based on discounted cash flow models that incorporate assumptions including credit losses, prepayment speeds and discount rates. These assumptions are based on historical experience, market trends and anticipated performance relative to the particular assets securitized.

During the second quarter of 2008, Cat Financial sold certain finance receivables related to retail installment sale contracts and finance leases to an SPE as part of their program. Net cash proceeds received were $600 million and a net gain of $12 million was recorded in "Revenues of Financial Products". Retained interests include subordinated certificates with an initial fair value of $27 million, an interest in future cash flows (excess) with an initial fair value of $8 million and a reserve account with an initial fair value of $9 million. Significant assumptions used to estimate the fair value of the retained interests include a 7.2 percent discount rate, a weighted-average prepayment rate of 14.5 percent and expected credit losses of 1.55 percent. Cat Financial also retains servicing responsibilities for which they receive a fee of approximately 1 percent of the remaining value of the finance receivables. A servicing asset or liability is generally not recorded since the servicing fee is considered market compensation.

During the second quarter of 2008, the credit loss assumptions used to determine the fair value of our retained interests in the 2006 and 2007 securitization transactions were revised to reflect an increase in expected credit losses due to the continued softening of the U.S. housing industry. This resulted in a $7 million impairment charge to the retained interests, which was recorded in "Revenues of Financial Products".

The fair value of the retained interests in all securitizations of retail finance receivables outstanding totaled $84 million and $49 million at June 30, 2008 and December 31, 2007, respectively.

16. Alliances and Acquisitions

Lovat Inc.
In April 2008, Caterpillar acquired 100 percent of the equity in privately held Lovat Inc. (Lovat) for approximately $49 million. Based in Toronto, Canada, Lovat is a leading manufacturer of tunnel boring machines used globally in the construction of subway, railway, road, sewer, water main, mine access, and high voltage cable and telecommunications tunnels. Expansion into the tunnel boring business is a strong fit with our strategic direction and the customers we serve around the world.

The transaction was financed with available cash and commercial paper borrowings. Net tangible assets acquired and liabilities assumed of $10 million were recorded at their fair values. Finite-lived intangible assets acquired of $17 million related to customer relationships, intellectual property and trade names are being amortized on a straight-line basis over a weighted-average amortization period of approximately 6 years. Goodwill of $22 million, non-deductible for income tax purposes, represents the excess of cost over the fair value of net tangible and finite-lived intangible assets acquired. These values represent a preliminary allocation of the purchase price subject to finalization of fair value appraisals and other post-closing procedures. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and reported in the “All Other” category in Note 13. 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.

17. Subsequent Event

Shin Caterpillar Mitsubishi Ltd. (SCM)
On August 1, 2008, SCM completed the first phase of a share redemption plan whereby SCM redeemed half of Mitsubishi Heavy Industries Ltd.’s (MHI) shares in SCM for approximately $475 million. This results in Caterpillar owning 67 percent of the outstanding shares of SCM and MHI owning the remaining 33 percent. Both SCM and MHI have options, exercisable after five years, to require the redemption of the remaining shares owned by MHI, which if exercised, would make Caterpillar the sole owner of SCM. The share redemption plan is part of our comprehensive business strategy for expansion in the emerging markets of Asia and the Commonwealth of Independent States and will allow SCM’s manufacturing, design and process expertise to be fully leveraged across the global Caterpillar enterprise.

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

Overview

Driven by robust growth in emerging markets and strength in key industries like energy and mining, we reported all-time records for sales and revenues and profit per share. Profit per share for the second quarter of 2008 was $1.74,

a 40 percent increase from $1.24 per share in the second quarter of 2007. Sales and revenues of $13.624 billion were 20 percent higher than second quarter 2007 sales and revenues of $11.356 billion.

Team Caterpillar has delivered another remarkable quarter. While North America remains depressed and markets are softening in Western Europe and Japan, we continue to grow in emerging markets and in global industries like energy and mining with continued growth in our integrated service businesses. Being a diverse company in terms of products, services, geography and the industries we serve has positively impacted our results.

Sales and revenues were up $2.268 billion from the second quarter of 2007. Sales volume improved $1.402 billion, price realization was up $398 million, the impact of currency added $384 million and Financial Products revenues were $84 million higher. The geographic mix of sales continued to shift outside North America with sales and revenues increasing 30 percent outside North America compared with 7 percent inside North America. Sales and revenues outside North America represented 60 percent of total sales and revenues in the second quarter—up from 55 percent of the total a year ago.

Second-quarter profit of $1.106 billion was up $283 million, or 34 percent, from second quarter 2007 profit of $823 million. The increase was primarily a result of improved price realization and higher sales volume, partially offset by higher material and freight costs and increases in Selling, General and Administrative (SG&A) and Research and Development (R&D) expenses. While SG&A and R&D costs increased to support growth and product development, they were both lower as a percent of sales.

We are seeing significant improvements in safety and quality from the deployment of the Caterpillar Production System (CPS) with 6 Sigma. We are confident that CPS will improve product delivery, inventory turnover, plant capacity and manufacturing costs as we continue to aggressively deploy it throughout the company.

Outlook

The full-year outlook for 2008 reflects sales and revenues of about $50 billion and profit of about $6.00 per share. The previous outlook expected 2008 sales and revenues of $47.2 to $49.5 billion and profit per share of $5.64 to $6.18.

We are on track to deliver our fifth straight year of record profits despite a very difficult economic climate in the United States, declines in Europe and significantly higher material costs, particularly in the second half of the year. Still, for many of our products, supply is very tight, and we are producing as much as we can. That’s why in June we announced capacity expansions in the United States, China and India. We need to bring additional capacity on line to support world demand for infrastructure, energy and mining, and to be prepared for the upturn in the United States when it comes. Together with the best dealer network in our industry, Team Caterpillar is well positioned to meet our goals for 2010 and beyond.

Note: Glossary of terms included on pages 43-44; first occurrence of terms shown in bold italics.

Consolidated Results of Operations

THREE MONTHS ENDED JUNE 30, 2008 COMPARED WITH THREE MONTHS ENDED JUNE 30, 2007

SALES AND REVENUES

The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between second quarter 2007 (at left) and second quarter 2008 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting sales and revenues appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Sales and revenues for second quarter 2008 were $13.624 billion, up $2.268 billion, or 20 percent, from second quarter 2007. Machinery volume was up $787 million, and Engines volume was up $615 million, both driven by strength in economies outside the United States. Price realization improved $398 million, and currency had a positive impact on sales of $384 million, primarily due to a stronger euro. In addition, Financial Products revenues increased $84 million.

Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	EAME	% Change	Asia/ Pacific	% Change	Latin America	% Change
Second Quarter 2007										
Machinery	$ 7,275		$ 3,250		$ 2,260		$ 942		$ 823	
Engines 1	3,338		1,338		1,263		475		262	
Financial 2 Products	743		508		109		60		66	
	$ 11,356		$ 5,096		$ 3,632		$ 1,477		$ 1,151	
Second Quarter 2008										
Machinery	$ 8,530	17%	$ 3,511	8%	$ 2,593	15%	$ 1,414	50%	$ 1,012	23%
Engines 1	4,267	28%	1,458	9%	1,693	34%	745	57%	371	42%
Financial 2 Products	827	11%	506	0%	157	44%	82	37%	82	24%
	$ 13,624	20%	$ 5,475	7%	$ 4,443	22%	$ 2,241	52%	$ 1,465	27%

1 Does not include internal engines transfers of $748 million and $647 million in second quarter 2008 and 2007, respectively. Internal engines transfers are valued at prices comparable to those for unrelated parties.

2 Does not include internal revenues earned from Machinery and Engines of $83 million and $103 million in second quarter 2008 and 2007, respectively.

Machinery Sales - Sales of $8.530 billion increased $1.255 billion, or 17 percent, from second quarter 2007.

§ Sales volume increased $787 million, with most of the gain coming from outside the United States.

§ Price realization increased $191 million.

§ Currency benefited sales by $277 million.

§ Geographic mix between regions (included in price realization) was $6 million unfavorable.

§ Dealers reported higher inventories in all regions, which was a positive for sales volume. However, inventories in months of supply were lower than a year earlier, with North America the only region to show an increase.

§ Sales volume increased in North America largely because dealers did not reduce their inventories as much as a year earlier. Coal mining and oil and natural gas development were positive sectors. Both benefited from much higher output prices and increased investment.

§ Sales volume in Europe, Africa/Middle East (EAME) increased due to strong growth in Africa/Middle East and the Commonwealth of Independent States (CIS). Volume declined in Europe due to a slowing economy and a drop in housing permits.

§ Sales increased in the developing regions of Asia/Pacific and Latin America. Factors that supported this growth included expansive economic policies, increased revenues from commodity exports, good economic growth and increased investment in construction, mining and energy.

§ Coal, oil and some metals prices increased sharply during the quarter, reflecting concerns about supplies. These higher prices contributed to increased sales of machines used to produce or develop capacity for these commodities.

North America – Sales increased $261 million or 8 percent.

§ Sales volume increased $163 million.

§ Price realization increased $98 million.

§ The sales volume increase was the result of a lower reduction in dealer-reported inventory than in second quarter 2007. Dealer inventories at the end of the quarter were higher than a year earlier in both dollars and months of supply.

§ Dealers reported the eighth consecutive quarter of year-over-year declines in deliveries. Economic conditions in construction and quarrying continued to deteriorate, offsetting some improvements in commodity sectors.

§ U.S. housing faced the worst environment since the 1930s. Starts fell 30 percent from a year earlier, new home sales plunged more than 35 percent and homebuilders held a 10-month supply of unsold homes. Home repossessions soared, and the decline in home prices appeared to worsen.

§ Employment in the nonresidential construction sector declined more than 4 percent from second quarter 2007. Banks tightened lending standards for commercial and industrial loans, property prices softened and vacancy rates increased.

§ As a result of decreased construction, quarry and aggregate production declined 10 percent from last year.

§ Metals mining output increased only slightly in both the United States and Canada, a factor in dealers reporting lower deliveries to that sector.

§ Higher international coal prices caused the Central Appalachian spot coal price to more than double from last year. U.S. coal exports soared 70 percent in the second quarter, and production in both the United States and

Canada increased. Sales of products used in coal mining increased.

§ Higher oil and natural gas prices benefited tar sands investment, pipeline construction and drilling. Sales of machinery used in those activities also increased.

EAME – Sales increased $333 million, or 15 percent.

§ Sales volume increased $112 million. Volume increased in Africa/Middle East and the CIS, but declined in Europe.

§ Price realization increased $21 million.

§ Currency benefited sales by $200 million.

§ Dealers added less to reported inventories than a year earlier, bringing inventories in months of supply slightly lower.

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§ The European economy slowed in the second quarter, with consumer spending and housing most affected. Year to date, euro-zone housing permits declined 20 percent, and housing orders in the United Kingdom dropped 26 percent. Reports indicate home prices are declining in the United Kingdom, Ireland and Germany. Nonresidential construction also started to decline in the second quarter.

§ Sales volume increased significantly in Africa/Middle East, particularly in the oil producing countries. The 80 percent rise in the Organization of the Petroleum Exporting Countries (OPEC) crude oil reference price caused countries to increase production 6 percent and increase operating drill rigs 7 percent. Increased oil revenues and expansive economic policies sustained construction booms.

§ The CIS was the biggest contributor to the growth in sales volume. Large gains occurred in Russia, Ukraine and Kazakhstan. Low interest rates, rapid money growth and increased government spending caused rapid growth in construction. Mining and oil production also increased in response to higher prices.

Asia/Pacific – Sales increased $472 million, or 50 percent.

§ Sales volume increased $382 million.

§ Price realization increased $43 million.

§ Currency benefited sales by $47 million.

§ Dealers reported much higher inventories to manage increased deliveries, however months of supply declined from a year earlier.

§ Sales volume increased substantially in China, the result of the addition of locally produced wheel loaders and expansive economic policies. Housing construction increased 35 percent, and nonresidential construction was up 14 percent. Mine output increased, with coal up 16 percent and iron ore up 25 percent.

§ Sales increased significantly in Indonesia, primarily due to much higher coal prices and good growth in construction. Data suggest construction is increasing about 8 percent.

§ Economic policies in India, despite some tightening, remain very expansive. Construction increased almost 13 percent, industrial production increased 5 percent and mining was up 6 percent. As a result, sales increased rapidly.

Latin America – Sales increased $189 million, or 23 percent.

§ Sales volume increased $124 million.

§ Price realization increased $35 million.

§ Currency benefited sales by $30 million.

§ Dealers reported slightly higher inventories than a year ago, but inventories in months of supply remained below a year earlier.

§ Volume growth resulted from sharply higher dealer-reported deliveries. Large sales gains occurred in Brazil, Chile, Colombia and Mexico.

§ Most countries increased interest rates during the past year, but money growth was rapid. As a result, industrial production increased in most countries, often by more than 5 percent.

§ Oil production declined 4 percent, primarily in Venezuela and Mexico. However, much higher prices increased revenues, and the number of operating drill rigs increased 7 percent.

§ Brazil benefited from much higher iron ore prices, increasing production almost 6 percent and export revenues 33 percent. Copper production declined in Chile, and copper export revenues declined 5 percent.

Engines Sales - Sales of $4.267 billion increased $929 million, or 28 percent, from second quarter 2007.

§ Sales volume increased $615 million.

§ Price realization increased $207 million.

§ Currency benefited sales $107 million.

§ Geographic mix between regions (included in price realization) was $22 million favorable.

§ Dealer-reported inventories were up, and months of supply were down as the inventory increase was supported by stronger delivery rates.

North America – Sales increased $120 million, or 9 percent.

§ Sales volume increased $58 million.

§ Price realization increased $62 million.

§ Sales for on-highway truck applications increased 13 percent compared to a very weak second quarter 2007. Demand remains below historic norms due to the slowing U.S. economy that has resulted in a reduction in freight tonnage.

§ Sales for petroleum applications increased 7 percent with an increase in turbine sales, which reflected increased customer spending in natural gas pipeline and compression equipment.

§ Sales for marine applications increased 39 percent, with strong demand for supply vessels in support of petroleum offshore drilling.

§ Sales for industrial applications increased 16 percent in small and medium-sized product, with strong demand in agricultural applications as a result of high agricultural commodity prices.

§ Sales for electric power applications were about the same as the second quarter of 2007.

EAME – Sales increased $430 million, or 34 percent.

§ Sales volume increased $245 million.

§ Price realization increased $93 million.

§ Currency benefited sales by $92 million.

§ Sales for petroleum applications increased 106 percent based on strong demand for engines used in drilling and production. Turbine and turbine-related services increased to support gas transmission applications in Europe and the Middle East and for oil and gas applications in Africa.

§ Sales for electric power applications increased 25 percent, with strong demand for small to medium-sized units selling into Africa/Middle East. High oil prices drove sales in Nigeria, Saudi Arabia and other Persian Gulf states. The power crisis in South Africa has also generated increased sales for power generation.

§ Sales for industrial applications increased 19 percent, with strong demand for agriculture and other types of Original Equipment Manufacturers (OEM) machines. This demand has been driven by good economic conditions and high agricultural commodity prices.

§ Sales for marine applications increased 15 percent, with higher demand for workboats and commercial vessels.

Asia/Pacific – Sales increased $270 million, or 57 percent.

§ Sales volume increased $230 million.

§ Price realization increased $25 million.

§ Currency benefited sales by $15 million.

§

Sales for petroleum applications increased 80 percent as Chinese drill rig builders continued to manufacture at record levels for domestic and export use and to support increased demand from Asian shipyards in support of offshore drilling.

- § Sales of electric power engines increased 45 percent, with strong demand in gas generator sets for industrial power producers in Bangladesh and other Southeast Asia countries.

§ Sales for industrial applications increased 75 percent driven by sales in Australia into mining and irrigation sectors and by sales in New Zealand into compressed natural gas applications. Smaller product benefited from sales to Chinese and Korean industrial OEMs.

§ Sales for marine applications increased 6 percent, with continued strong demand for workboat and offshore shipbuilding. Large diesel demand grew in the offshore and general cargo industries.

Latin America – Sales increased $109 million, or 42 percent.

- § Sales volume increased $104 million.

- § Price realization increased $5 million.

§ Sales for petroleum applications increased 98 percent driven by the energy crisis in Argentina, which increased demand for on-site power generation to support oil production. Demand in Venezuela also increased to support drilling and production. Turbines and turbine-related services increased for oil and gas production and gas transmission applications in South America.

- § Sales of electric power engines increased 14 percent as delivery began on projects in Chile and Brazil.

§ Sales for on-highway truck applications increased 48 percent as industry demand strengthened in advance of the mid-year 2008 emissions changes in the region.

Financial Product Revenues - Revenues of $827 million increased $84 million, or 11 percent, from the second quarter 2007.

§ Growth in average earning assets increased revenues $109 million, which was partially offset by a decrease of $58 million due to lower interest rates on new and existing finance receivables.

- § Revenues from earned premiums at Cat Insurance increased $21 million.

OPERATING PROFIT

The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between second quarter 2007 (at left) and second quarter 2008 (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 the operating profit impact of consolidating adjustments and Machinery and Engines other operating expenses.

Operating profit in second quarter 2008 of $1.525 billion was $312 million higher than second quarter 2007 as improved price realization and higher sales volume were partially offset by higher costs and the unfavorable impact of currency. Sales volume includes the impact of a negative mix of product.

Manufacturing costs rose $143 million, or about 1.5 percent, compared with second quarter 2007, primarily due to higher material and freight costs. The increase in material was due to higher steel and commodity prices, and freight increased primarily due to higher fuel costs. We continue to experience capacity-related challenges in our manufacturing operations and supply chain.

SG&A and R&D costs were up $113 million to support growth and significant new product programs. While SG&A and R&D have increased, they were lower as a percentage of sales.

Currency had a $62 million unfavorable impact on operating profit as the benefit to sales was more than offset by the negative impact on costs.

Operating Profit by Principal Line of Business

(Millions of dollars)	Second Quarter 2007	Second Quarter 2008	$ Change	% Change
Machinery 1	$ 741	$ 719	$ (22)	(3) %
Engines 1	379	711	332	88 %
Financial Products	184	166	(18)	(10) %
Consolidating Adjustments	(91)	(71)	20	
Consolidated Operating Profit	$ 1,213	$ 1,525	$ 312	26 %

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

Operating Profit by Principal Line of Business

§ Machinery operating profit of $719 million was down $22 million, or 3 percent, from second quarter 2007. Improved price realization and higher sales volume were more than offset by higher costs and the unfavorable impact of currency. Sales volume includes the impact of a negative mix of product.

§ Engines operating profit of $711 million was up $332 million, or 88 percent, from second quarter 2007. The favorable impacts of improved price realization, higher sales volume and the absence of a second quarter 2007 charge of $44 million to recognize previously unrecorded liabilities related to a subsidiary pension plan were partially offset by higher costs.

§ Financial Products operating profit of $166 million was down $18 million, or 10 percent, from second quarter 2007. The decrease was primarily attributable to a $23 million impact from lower net yield on average earning assets, a $21 million increase in the provision for credit losses at Cat Financial and a $13 million unfavorable impact from various other operating items, partially offset by a $39 million favorable impact from higher average earning assets.

Other Profit/Loss Items

§ Other income/(expense) was income of $75 million compared with income of $70 million in second quarter 2007.

§ The provision for income taxes in the second quarter of 2008 reflects an estimated annual tax rate of 31.5 percent, excluding the discrete item discussed below, compared to 32 percent for the second quarter 2007 and 30 percent for the full-year 2007. The increase over 2007 is attributable 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 provision for income taxes in the second quarter of 2008 also includes a discrete benefit of $47 million due to a change in tax status of a non-U.S. subsidiary, allowing indefinite reinvestment of undistributed profits and reversal of U.S. tax previously recorded.

§ Equity in profit/(loss) of unconsolidated affiliated companies was income of $10 million compared with income of $5 million in the second quarter of 2007. The change reflects the absence of a $13 million after-tax charge for net adjustments that were identified during 2007 due diligence procedures related to a transaction that would result in Caterpillar owning a majority stake in Shin Caterpillar Mitsubishi Ltd. (SCM), partially offset by reduced profit at SCM.

SIX MONTHS ENDED JUNE 30, 2008 COMPARED WITH SIX MONTHS ENDED JUNE 30, 2007

SALES AND REVENUES

The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between June 2007 YTD (at left) and June 2008 YTD (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 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.

Sales and revenues for the six months ended June 30, 2008 were $25.420 billion, up $4.048 billion, or 19 percent, from the six months ended June 30, 2007. Machinery volume was up $1.511 billion, and Engines volume was up $978 million, both driven by strength in economies outside the United States. Currency had a positive impact on sales of $694 million, primarily due to a stronger euro, and price realization improved $659 million. In addition, Financial Products revenues increased $206 million.

Sales and Revenues by Geographic Region

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

Six months ended June 30, 2007										
Machinery	$13,776		$ 6,328		$4,100		$1,833		$1,515	
Engines 1	6,158		2,506		2,266		874		512	
Financial Products 2	1,438		993		211		115		119	
	$21,372		$ 9,827		$6,577		$2,822		$2,146	
Six months ended June 30, 2008										
Machinery	$16,078	17%	$ 6,691	6%	$4,937	20%	$2,620	43%	$1,830	21%
Engines 1	7,698	25%	2,666	6%	3,024	33%	1,304	49%	704	38%
Financial Products 2	1,644	14%	1,020	3%	296	40%	164	43%	164	38%
	$25,420	19%	$10,377	6%	$8,257	26%	$4,088	45%	$2,698	26%

1 Does not include internal engines transfers of $1.438 billion and $1.268 billion in the six months ended June 30, 2008 and 2007, respectively. Internal engines transfers are valued at prices comparable to those for unrelated parties.

2 Does not include internal revenues earned from Machinery and Engines of $178 million and $207 million in the six months ended June 30, 2008 and 2007, respectively.

Machinery Sales - Sales of $16.078 billion increased $2.302 billion, or 17 percent, from the six months ended June 30, 2007.

§ Sales volume increased $1,511 million, with most of the gain coming from outside the United States.

§ Price realization increased $292 million.

§ Currency benefited sales by $499 million.

§ Geographic mix between regions (included in price realization) was $15 million unfavorable.

§ Last year dealers reported reductions in inventory, particularly in North America; this year dealers reported additions. This change helped increase sales volume. Inventories in months of supply were lower than a year earlier in all regions except North America, the only region to show an increase.

§ Sales volume rose in North America, due to dealers moving from inventory reductions to modest additions. Most key sectors were depressed, with dealers reporting sharply lower deliveries. Exceptions were coal mining and the oil and natural gas industries, where favorable output prices encouraged investment.

§ In Europe, sales volume was lower than a year earlier, with the decline occurring in the second quarter. High interest rates in Europe slowed the economy and extended the decline in housing permits.

§ Sales continued to increase in most developing economies. Attractive coal, crude oil and metals prices encouraged countries to invest in those industries. These higher prices resulted in increased revenues that governments used to upgrade infrastructure. Expansive economic policies kept economic growth strong and created a need for more

construction.

North America – Sales increased $363 million or 6 percent.

§ Sales volume increased $229 million.

§ Price realization increased $134 million.

§ Dealers reported additions to inventories in this year's first half, in contrast to reductions last year. That change accounted for the growth in sales volume; Dealer-reported inventories at midyear were above a year earlier in months of supply.

§ Unfavorable economic conditions caused dealers to report significantly lower deliveries than a year earlier. Problems in construction and quarrying offset some improvement in coal mining and oil and natural gas development.

§ Economic factors affecting the U.S. housing industry were probably the worst since the 1930s. Starts averaged 1.03 million units in the first half, down 29 percent from a year earlier and less than half the peak rate in early 2006. Home prices declined more than 10 percent, and home repossessions more than doubled.

§ Leading indicators for nonresidential building construction softened and employment in this sector declined 3 percent from a year earlier. Property prices have weakened, vacancy rates increased and banks tightened standards for commercial and industrial lending. Problems in this sector appeared to worsen over the first half of the year.

§ Orders for highway and bridge construction declined 7.5 percent from last year, and employment in that sector was lower. Federal funding in the current fiscal year increased only 5 percent, and some state and local governments had budget problems. Materials used in highway construction increased almost 14 percent, which likely caused governments to curtail or eliminate some projects.

§ Quarry production declined 14 percent in the first half and was off about 30 percent from its early 2006 peak. Customers in this sector sharply curtailed purchases.

§ The Central Appalachian coal price averaged almost double the first half 2007 average, reflecting strong demand in international markets. Mines increased production and investment.

§ The 80 percent increase in oil prices and the 36 percent increase in natural gas prices benefited tar sands investment, pipeline construction and drilling. Sales of machines used in those activities increased.

EAME – Sales increased $837 million, or 20 percent.

§ Sales volume increased $412 million.

§ Price realization increased $68 million.

§ Currency benefited sales by $357 million.

§ Dealers added less to reported inventories than a year earlier, bringing inventories lower in months of supply.

§ Volume was down slightly in Europe, primarily due to large declines in Germany, United Kingdom and Ireland. Economic growth slowed in these countries and housing industries weakened.

§ Sales volume increased significantly in Africa/Middle East, particularly in the oil producing countries. Higher oil prices and increased production boosted revenues and sustained construction booms. Sales in South Africa benefited from higher metals prices and increased construction.

§ Sales volume also increased significantly in the CIS, largely in Russia, Ukraine and Kazakhstan. Higher prices for oil, natural gas, coal and metals benefited investment in those sectors and, along with expansive economic policies, caused good growth in construction.

Asia/Pacific – Sales increased $787 million, or 43 percent.

§ Sales volume increased $641 million.

§ Price realization increased $51 million.

§ Currency benefited sales by $95 million.

§ Dealers reported adding much more to inventory this year to manage increased deliveries, however months of supply declined.

§ Sales in China were up sharply, due to the introduction of locally produced wheel loaders and good economic growth. Both construction and mining increased.

§ Indonesia had sizable sales volume growth, primarily due to the sharp increase in thermal coal prices this year.

§ India’s strong growth in both construction and mining increased sales volume.

Latin America – Sales increased $315 million, or 21 percent.

§ Sales volume increased $214 million.

§ Price realization increased $54 million.

§ Currency benefited sales by $47 million.

§ Dealers added slightly less to reported inventories than a year ago, and inventories were lower in months of supply.

§ Brazil, Colombia and Mexico accounted for most of the volume growth.

§ Brazil’s growth was largely driven by construction. Investment in iron ore mining also benefited from higher prices and production increased 8 percent.

§ Colombia has become a major coal exporter and higher prices encouraged more investment in coal mining. The value of coal exports increased 20 percent through April.

§ Construction increased in Mexico, which contributed to the growth in sales volume.

Engines Sales - Sales of $7.698 billion increased $1.540 billion, or 25 percent, from the six months ended June 30, 2007.

§ Sales volume increased $978 million.

§ Price realization increased $367 million.

§ Currency benefited sales $195 million.

§ Geographic mix between regions (included in price realization) was $32 million favorable.

§ Dealer reported inventories were up, and months of supply were down as the inventories were supported by strong delivery rates.

North America – Sales increased $160 million, or 6 percent.

§ Sales volume increased $31 million.

§ Price realization increased $129 million.

§ Sales for on-highway truck applications increased 15 percent compared to a very weak first half of 2007. Demand remains below historic norms due to the slowing U.S. economy that has resulted in a reduction in freight tonnage.

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§ Sales for electric power applications decreased 10 percent resulting from a gradual decline in the construction of light commercial facilities and dealer inventory reductions.

§ Sales for petroleum applications increased 4 percent with an increase in turbine sales, which reflected increased customer spending in natural gas pipeline and compression equipment.

§ Sales for marine applications increased 26 percent with increased demand for supply vessels in support of petroleum offshore drilling.

§ Sales for industrial applications increased 10 percent in small and medium-sized product due to increased demand in agricultural and mining applications as a result of high commodity prices.

EAME – Sales increased $758 million, or 33 percent.

§ Sales volume increased $459 million.

§ Price realization increased $136 million.

§ Currency benefited sales by $163 million.

§ Sales for petroleum applications increased 106 percent based on strong demand for engines used in drilling and production. Turbine and turbine-related services increased to support gas transmission applications in Europe and the Middle East and oil and gas applications in Africa.

§ Sales for electric power applications increased 25 percent with increased demand for small to medium-sized units selling into Africa/Middle East. High oil prices drove sales of larger units in Saudi Arabia, Nigeria and other Persian Gulf states. The power crisis in South Africa has also generated increased sales for power generation. Turbine sales increased as a result of large power plant projects.

§ Sales for industrial applications increased 16 percent with strong demand for agriculture and other types of OEM machines. This demand has been driven by good economic conditions and high agricultural commodity prices.

§ Sales for marine applications increased 22 percent with higher demand for workboats and commercial vessels.

Asia/Pacific – Sales increased $430 million, or 49 percent.

§ Sales volume increased $345 million.

§ Price realization increased $53 million.

§ Currency benefited sales by $32 million.

§ Sales for petroleum applications increased 71 percent as Chinese drill rig builders continued to manufacture at record high levels and to support increased demand from Asian shipyards in support of offshore drilling.

§ Sales of electric power engines increased 28 percent with increased demand for large gas generator sets for Southeast Asia and China.

§ Sales for industrial applications increased 86 percent driven by sales in Australia into mining and irrigation sectors and by sales in New Zealand into compressed natural gas applications. Smaller product benefited from sales to Chinese and Korean industrial OEMs.

§ Sales for marine applications increased 17 percent with continued strong demand for workboat and offshore shipbuilding. Large diesel demand grew in the offshore and general cargo industries.

Latin America – Sales increased $192 million, or 38 percent.

§ Sales volume increased $175 million.

§ Price realization increased $17 million.

§ Sales for petroleum applications increased 71 percent driven by the energy crisis in Argentina, which increased demand for on-site power generation to support oil production. Demand in Venezuela also increased to support drilling and production. Turbines and turbine-related services increased for gas transmission applications in South America.

§ Sales of electric power engines increased 19 percent as delivery began on projects in Chile and Brazil.

§

Sales for on-highway truck applications increased 32 percent as industry demand strengthened in advance of the mid-year 2008 emissions changes in the region.

Financial Product Revenues - Revenues of $1.644 billion increased $206 million, or 14 percent, from the six months ended June 30, 2007.

§ Growth in average earning assets increased revenues $211 million, which was partially offset by a decrease of $70 million due to lower interest rates on new and existing finance receivables.

§ Revenues from earned premiums at Cat Insurance increased $40 million.

OPERATING PROFIT

The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between June 2007 YTD (at left) and June 2008 YTD (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 its Board of Directors and employees. The bar entitled Other includes the operating profit impact of consolidating adjustments and Machinery and Engines other operating expenses.

Operating profit for the six months ended June 30, 2008 of $2.818 billion was $465 million higher than the six months ended June 30, 2007 as improved price realization and higher sales volume were partially offset by higher costs and the unfavorable impact of currency. Sales volume includes the impact of a negative mix of product.

Manufacturing costs rose $314 million, or about 1.8 percent compared with the first half of 2007, primarily due to higher material, freight and warranty costs. The increase in material was due to higher steel and commodity prices, and freight increased primarily due to higher fuel costs. We continue to experience capacity-related challenges in our manufacturing operations and supply chain.

SG&A and R&D costs were up $168 million to support growth and significant new product programs. While SG&A and R&D have increased, they were lower as a percentage of sales.

Currency had a $116 million unfavorable impact on operating profit as the benefit to sales was more than offset by the negative impact on costs.

Operating Profit by Principal Line of Business

(Millions of dollars)	Six Months	Six Months	$	%

	Ended June 30, 2007	Ended June 30, 2008	Change	Change
Machinery 1	$ 1,458	$ 1,345	$ (113)	(8) %
Engines 1	726	1,265	539	74 %
Financial Products	351	361	10	3 %
Consolidating Adjustments	(182)	(153)	29	
Consolidated Operating Profit	$ 2,353	$ 2,818	$ 465	20 %

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

Operating Profit by Principal Line of Business

§ Machinery operating profit of $1.345 billion was down $113 million, or 8 percent, from the six months ended June 30, 2007. Improved price realization and higher sales volume were more than offset by higher costs and the unfavorable impact of currency. Sales volume includes the impact of a negative mix of product.

§ Engines operating profit of $1.265 billion was up $539 million, or 74 percent, from the six months ended June 30, 2007. The favorable impacts of improved price realization, higher sales volume and the absence of a second quarter 2007 charge of $44 million to recognize previously unrecorded liabilities related to a subsidiary pension plan were partially offset by higher costs.

§ Financial Products operating profit of $361 million was up $10 million, or 3 percent, from the six months ended June 30, 2007. The increase was primarily attributable to a $68 million impact from higher average earning assets, partially offset by a $40 million increase in the provision for credit losses at Cat Financial and an $18 million unfavorable impact from various other operating items.

OTHER PROFIT/LOSS ITEMS

§ Other income/(expense) was income of $187 million compared with income of $181 million for the six months ended June 30, 2007.

§ The provision for income taxes in the first six months of 2008 reflects an estimated annual tax rate of 31.5 percent, excluding the discrete item discussed below, compared to 32 percent for the first six months of 2007 and 30 percent for the full-year 2007. The increase over 2007 is attributable 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 provision for income taxes for 2008 also includes a discrete benefit of $47 million due to a change in tax status of a non-U.S. subsidiary allowing indefinite reinvestment of undistributed profits and reversal of U.S. tax previously recorded.

§ Equity in profit/(loss) of unconsolidated affiliated companies was income of $21 million compared with income of $24 million for the six months ended June 30, 2007. Reduced profit at SCM and other affiliates more than offset the absence of a $13 million after-tax charge for net adjustments that were identified during 2007 due diligence procedures related to a transaction that would result in Caterpillar owning a majority stake in SCM.

GLOSSARY OF TERMS

1. Caterpillar Production System (CPS) – The Caterpillar Production System is the common Order-to-Delivery process being implemented enterprise-wide to achieve our safety, quality,

velocity, earnings and growth goals for 2010 and beyond.

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

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

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

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

6. Engines – A principal line of business including the design, manufacture, marketing and sales of engines for Caterpillar machinery; electric power generation systems; on-highway vehicles and locomotives; marine, petroleum, construction, industrial, agricultural and other applications and related parts. Also includes remanufacturing of Caterpillar engines and a variety of Caterpillar machinery and engine components and remanufacturing services for other companies. Reciprocating engines meet power needs ranging from 5 to 21,500 horsepower (4 to more than 16 000 kilowatts). Turbines range from 1,600 to 30,000 horsepower (1 200 to 22 000 kilowatts).

7. Financial Products – A principal line of business consisting primarily of Caterpillar Financial Services Corporation (Cat Financial), Caterpillar Insurance Holdings, Inc. (Cat Insurance), Caterpillar Power Ventures Corporation (Cat Power Ventures) and their respective subsidiaries. Cat Financial provides a wide range of financing alternatives to customers and dealers for Caterpillar machinery and engines, Solar gas turbines as well as other equipment and marine vessels. Cat Financial also extends loans to customers and dealers. Cat Insurance provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment. Cat Power Ventures is an investor in independent power projects using Caterpillar power generation equipment and services.

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

9.

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

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

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

12. Manufacturing Costs – Represent the volume-adjusted change for manufacturing costs. Manufacturing costs are defined as material costs and labor and overhead costs related to the production process. Excludes the impact of currency.

13. Machinery and Engines Other Operating Expenses – Comprised primarily of gains (losses) on disposal of long-lived assets and long-lived asset impairment charges.

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

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

16. 6 Sigma – On a technical level, 6 Sigma represents a measure of variation that achieves 3.4 defects per million opportunities. At Caterpillar, 6 Sigma represents a much broader cultural philosophy to drive continuous improvement throughout the value chain. It is a fact-based, data-driven methodology that we are using to improve processes, enhance quality, cut costs, grow our business and deliver greater value to our customers through Black Belt-led project teams. At Caterpillar, 6 Sigma goes beyond mere process improvement—it has become the way we work as teams to process business information, solve problems and manage our business successfully.

Liquidity & Capital Resources

Sources of funds

We generate our capital resources primarily through operations. For the first half of 2008, consolidated operating cash flow was $1.91 billion. For the first half of 2007, consolidated operating cash flow was $3.24 billion. The change of

$1.33 billion is primarily the result of the timing of receivable collections of North American sales in 2008 compared with 2007, partially offset by an increase in accounts payable to support increased inventory and capital spending. We anticipate that the majority of future capital resource requirements will be funded by operating cash flow, which is largely sourced from profits. See our Outlook on page 60.

Total debt as of June 30, 2008, was $31.0 billion, an increase of $2.6 billion from year-end 2007. Debt related to Machinery and Engines of $3.94 billion decreased $67 million versus December 31, 2007. Debt related to Financial Products of $27.06 billion increased $2.63 billion from December 31, 2007 due to growth in Cat Financial's portfolio. We have three global credit facilities with a syndicate of banks totaling $6.55 billion available in the aggregate to both Machinery and Engines and Financial Products to support commercial paper programs. Based on management's allocation decision, which can be revised at any time, the portion of the facilities available to Cat Financial at June 30, 2008 was $5.55 billion. The five-year facility of $1.62 billion, which expires in September 2012, has not changed from December 2007. The five-year facility of $2.98 billion expires in September 2011. A 364-day facility of $1.95 billion expires in September 2008, and is expected to be renewed. At June 30, 2008, there were no borrowings under these lines. Our total credit commitments as of June 30, 2008 were:

	(Millions of dollars)		
	Consolidated	Machinery and Engines	Financial Products
Credit lines available:			
Global credit facility	$ 6,550	$1,000	$ 5,550
Other external	3,687	1,062	2,625
Total credit lines available	10,237	2,062	8,175
Less: Global credit facility supporting commercial paper	(4,846)	—	(4,846)
Less: Utilized credit	(1,663)	(117)	(1,546)
Available credit	$ 3,728	$1,945	$ 1,783

Machinery and Engines

Net cash provided by operating activities was $1.48 billion during the first half of 2008 compared to $1.48 billion for the same period a year ago. Despite higher profit, operating cash flow remained flat due to unfavorable timing of receivable collections and higher working capital requirements. Increases in inventory impacted operating cash flow for both periods as we continue to experience capacity related challenges in our manufacturing operations and supply chain. We are focused on improving the flow of quality product with the execution of the Caterpillar Production System.

Capital expenditures, excluding equipment leased to others, during the six months ended June 30, 2008 were $804 million, an increase of $229 million from the same period a year ago. The expenditures were primarily used to replace and upgrade existing production assets, facilitate additional expansion of manufacturing capacity, and support new product introductions. Cash used for acquisitions (net of cash acquired) was $111 million.

Pursuant to the Board-authorized stock repurchase program which expires on December 31, 2011, 19.4 million shares were repurchased at a cost of $1.4 billion for the six months ended June 30, 2008. Through June 2008, $3.3 billion of the $7.5 billion authorized has been spent. Basic shares outstanding as of June 30, 2008 were 608.7 million.

Dividends paid totaled $444 million for the first half of 2008, representing a quarterly dividend rate of 36 cents per share. On June 11, 2008, we increased the quarterly cash dividend 17 percent to 42 cents per share payable August 20, 2008 to stockholders of record at the close of business on July 21, 2008.

A key measure of Machinery and Engines financial strength used by both management and our credit rating agencies is Machinery and Engines' debt-to-capital ratio. Debt-to-Capital is defined as short-term borrowings, long-term debt due within one year, and long-term debt due after one year (debt) divided by the sum of debt and stockholders' equity. Debt also includes borrowings from Financial Products. At June 30, 2008, Machinery and Engines' debt-to-capital was 31.7 percent, better than our current target range of 35 to 45 percent.

Financial Products

Operating cash flow was $628 million through the first half of 2008, compared with $478 million for the same period a year ago. Net cash used for investing activities was $2.69 billion for the first half of 2008, compared to a $104 million use of cash for the same period in 2007. This change is primarily a result of greater cash requirements due to increased portfolio growth. Net cash provided by financing activities was $2.10 billion for the first half of 2008, compared to a use of cash of $406 million for the first half of 2007, primarily due to increased funding requirements related to the increased portfolio growth.

Recent global credit market conditions have not had a significant impact on Cat Financial's access to liquidity but have resulted in market-wide increased credit spreads on new term debt issuance. Term debt issuance has continued to attract strong investor demand. Commercial paper market access has remained favorable overall, with consistent demand and attractive pricing for our issuance in the United States. Internationally, Cat Financial commercial paper demand and overall pricing levels have been acceptable.

Financial Products total borrowings were $27.06 billion at June 30, 2008, an increase of $2.63 billion from December 31, 2007 due to growth in Cat Financial's portfolio. Debt repayment in Financial Products depends primarily on timely repayment and collectibility of the receivables portfolio. At the end of the second quarter, past dues were 3.35 percent compared with 2.36 percent at the end of 2007 and 2.09 percent at the end of second quarter 2007. The increase is primarily due to the continued softening of the U.S. housing industry. We expect there will be continued upward pressure on U.S. past dues throughout 2008.

Write-offs net of recoveries were $19 million for the second quarter of 2008 compared with $12 million for the second quarter of 2007. This increase has been driven by the downturn in U.S. housing industry and 18 percent growth in Cat Financial's average retail finance receivable portfolio. For the first six months of 2008, bad debt write-offs net of recoveries were $39 million compared with $27 million for the first six months of 2007. As a percentage of Cat Financial's retail finance receivable portfolio, we expect that bad debt write-offs through the remainder of 2008 will be higher than 2007 but near five-year historical averages.

At the end of the second quarter 2008, Cat Financial's allowance for credit losses totaled $391 million, an increase of $56 million from the second quarter of 2007. The increase is mostly attributable to growth in the retail finance receivable portfolio and also includes $6 million from increasing the allowance rate from 1.39 percent to 1.41 percent of net finance receivables.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts. The more significant estimates include: residual values for leased assets, fair market values for goodwill impairment tests, warranty liability, stock-based compensation, reserves for product liability and insurance losses, postretirement benefits, post-sale discounts, credit losses and income taxes. We have incorporated many years of data into the determination of each of these estimates

and we have not historically experienced significant adjustments. These assumptions are reviewed at least annually with the Audit Committee of the Board of Directors. Following are the methods and assumptions used in determining our estimates and an indication of the risks inherent in each.

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

Fair market values for goodwill impairment tests — We test goodwill for impairment annually and whenever events or circumstances make it likely that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell all or a portion of a reporting unit.

Determining whether an impairment has occurred requires valuation of the respective reporting unit, which we estimate using a discounted five year forecasted cash flow with a year-five residual value based upon a comparative market Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) multiple. The assumptions about future cash flows are based on the reporting unit's long-term forecast and are subject to review and approval of our senior management. The market EBITDA multiple is based on recent market transactions in the reporting unit's industry. The estimated fair value could be impacted by changes in interest rates, growth rates, costs, pricing, capital expenditures and market conditions.

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

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

- Volatility is a measure of the amount by which the stock price is expected to fluctuate each year during the expected life of the award and is based on historical and current implied volatilities from traded options on Caterpillar stock. The implied volatilities from traded options are impacted by changes in market conditions. An increase in the volatility would result in an increase in our expense.

- The expected term represents the period of time that awards granted are expected to be outstanding and is an output of the lattice-based option-pricing model. In determining the expected term of the award, future exercise and forfeiture patterns are estimated from Caterpillar employee historical exercise behavior. These patterns are also affected by the vesting conditions of the award. Changes in the future exercise behavior of employees or in the

vesting period of the award could result in a change in the expected term. An increase in the expected term would result in an increase to our expense.

- The weighted-average dividend yield is based on Caterpillar's historical dividend yields. As holders of stock-based awards do not receive dividend payments, this could result in employees retaining the award for a longer period of time if dividend yields decrease or exercising the award sooner if dividend yields increase. A decrease in the dividend yield would result in an increase in our expense.

- The risk-free interest rate is based on the U.S. Treasury yield curve in effect at time of grant. As the risk-free interest rate increases, the expected term increases, resulting in an increase in our expense.

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

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

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

Postretirement benefits — Primary actuarial assumptions were determined as follows:

- The U.S. expected long-term rate of return on plan assets is based on our estimate of long-term passive returns for equities and fixed income securities weighted by the allocation of our plan assets. Based on historical performance, we increase the passive returns due to our active management of the plan assets. A similar process is used to determine the rate for our non-U.S. pension plans. This rate is impacted by changes in general market conditions, but because it represents a long-term rate, it is not significantly impacted by short-term market swings. Changes in our allocation of plan assets would also impact this rate. For example, a shift to more fixed income securities would lower the rate. A decrease in the rate would increase our expense.

- The assumed discount rate is used to discount future benefit obligations back to today's dollars. The U.S. discount rate is based on the Moody's Aa bond yield as of our measurement date, and represents the rate at which our benefit obligations could effectively be settled. To validate the discount rate, a detailed analysis of the individual plans' expected cash flows is made annually. This involves analyzing Caterpillar's projected cash flows against a high quality bond yield curve, calculated using a wide population of corporate Aa bonds. The modeled discount rate that results from matching the aggregate expected future cash flow from the Caterpillar benefit plans to the yield curve of high quality corporate bonds is consistent with the annualized Moody's Aa rate. A comprehensive process is also used to determine the assumed discount rate for our non-U.S. plans. This rate is sensitive to changes in interest rates. A decrease in the discount rate would increase our obligation and expense.

- The expected rate of compensation increase is used to develop benefit obligations using projected pay at retirement. It represents average long-term salary increases. This rate is influenced by our long-term compensation policies. An increase in the rate would increase our obligation and expense.

- The assumed health care trend rate represents the rate at which health care costs are assumed to increase and is based on historical and expected experience. Changes in our projections of future health care costs due to general economic conditions and those specific to health care (e.g. technology driven cost changes) will impact this trend rate. An increase in the trend rate would increase our obligation and expense.

Post-sale discount reserve — We provide discounts to dealers and OEMs through merchandising programs that are administered by our marketing groups. We have numerous programs that are designed to promote the sale of our products. The most common dealer programs provide a discount when the dealer sells a product to a targeted end user. OEM programs provide discounts designed to encourage the use of our engines. The cost of discounts is estimated based on historical experience and planned changes in merchandising programs and is reported as a reduction to sales when the product sale is recognized. The amount of accrued post-sale discounts was $833 million and $669 million as of June 30, 2008 and December 31, 2007, respectively. The reserve represents discounts that we expect to pay on previously sold units and is reviewed at least quarterly. The reserve is adjusted if discounts paid differ from those estimated. Historically, those adjustments have not been material.

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

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

While management believes it has exercised prudent judgment and applied reasonable assumptions which have resulted in an allowance presented in accordance with generally accepted accounting principles, there can be no assurance that in the future, changes in economic conditions or other factors might cause changes in the financial health of our customers which could change the timing and level of payments received thus necessitating a change to our estimated losses.

Income tax reserve — Despite our belief that our tax return positions are consistent with applicable tax laws, we believe that certain positions are likely to be challenged by taxing authorities. Settlement of any challenge can result in no change, a complete disallowance, or some partial adjustment reached through negotiations or litigation. Our tax reserves reflect the difference between the tax benefit claimed on tax returns and the amount recognized in financial statements in accordance with FIN 48. FIN 48 requires that tax benefits recognized in the financial statements must be at least more likely than not of being sustained based on technical merits. The amount of benefit recorded for these positions is measured as the largest benefit more likely than not to be sustained. Significant judgment is required in

making these determinations. As the examination process progresses with tax authorities, adjustments to tax reserves may be necessary to reflect taxes payable upon settlement. Tax reserve adjustments related to positions impacting the effective tax rate affect the provision for income taxes. Tax reserve adjustments related to positions impacting the timing of deductions impact deferred tax assets and liabilities.

EMPLOYMENT

Caterpillar's worldwide employment was 105,322 in second quarter 2008, up 9,007 from 96,315 in second quarter 2007. Of the increase, approximately 3,400 were the result of acquisitions. The remaining increase of approximately 5,600 employees primarily supported growth, increased volumes and new product introductions.

OTHER MATTERS

Environmental, Legal and Tax 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 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.

On May 14, 2007, the U.S. Environmental Protection Agency (EPA) issued a Notice of Violation to Caterpillar Inc., alleging various violations of Clean Air Act Sections 203, 206 and 207. EPA claims that Caterpillar violated such sections by shipping engines and catalytic converter after-treatment devices separately, introducing into commerce a number of uncertified and/or misbuilt engines, and failing to timely report emissions-related defects. Caterpillar is currently engaging in negotiations with EPA to resolve these issues, but it is too early in the process to place precise estimates on the potential exposure to penalties. However, Caterpillar is cooperating with EPA and, based upon initial discussions, and although penalties could potentially exceed $100,000, management does not believe that this issue will have a material adverse impact on our financial position.

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

On September 29, 2004, Kruse Technology Partnership (Kruse) filed a lawsuit against Caterpillar in the United States District Court for the Central District of California alleging that certain Caterpillar engines built from October 2002 to the present infringe upon certain claims of three of Kruse's patents on engine fuel injection timing and combustion strategies. Kruse seeks monetary damages, injunctive relief and a finding that the alleged infringement by Caterpillar was willful. Caterpillar denies Kruse's allegations, believes they are without merit and filed a counterclaim seeking a declaration from the court that Caterpillar is not infringing upon Kruse's patents and that the patents are invalid and unenforceable. The counterclaim filed by Caterpillar is pending, and no trial date is currently scheduled. In the opinion of management, the ultimate disposition of this matter will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

We have recorded income tax expense at U.S. tax rates on all profits, except for undistributed profits of non-U.S. subsidiaries which are considered indefinitely reinvested. It is reasonably possible that a change in assertion related to undistributed profits of certain non-U.S. subsidiaries will be made in the next year. We do not expect these changes to have an adverse impact on our consolidated financial position, liquidity or results of operations.

Retirement Benefits

We recognized pension expense of $47 million and $94 million for the three and six months ended June 30, 2008, as compared to $121 million and $197 million for the three and six months ended June 30, 2007. The decrease in expense was primarily a result of the absence of a $44 million charge in 2007 to recognize previously unrecorded liabilities related to a subsidiary pension plan and lower amortization of net actuarial losses due to higher discount rates and better than expected asset returns. SFAS 87, "Employers' Accounting for Pensions", as amended by SFAS 158, requires companies to discount future benefit obligations back to today's dollars using a discount rate that is based on high-quality fixed-income investments. A decrease in the discount rate increases the pension benefit obligation. This increase is recognized in Accumulated other comprehensive income (loss) and subsequently amortized into earnings as an actuarial loss. SFAS 87 also requires companies to use an expected long-term rate of asset return for computing current year pension expense. Differences between the actual and expected returns are also recognized in Accumulated other comprehensive income (loss) and subsequently amortized into earnings as actuarial gains and losses. As of June 30, 2008, actuarial losses, recognized in Accumulated other comprehensive income (loss), related to pensions were $2.62 billion. The majority of the actuarial losses are due to several years of declining discount rates, partially offset by asset gains in recent years.

Other postretirement benefit expense was $71 million and $143 million for the three and six months ended June 30, 2008, as compared to $75 million and $150 million for the three and six months ended June 30, 2007. The decrease in expense is primarily the result of lower amortization of net actuarial losses due to higher discount rates. Actuarial losses, recognized in Accumulated other comprehensive income (loss), for other postretirement benefit plans were $721 million at June 30, 2008. These losses mainly reflect several years of declining discount rates and increases in expected health care inflation.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 (SFAS 158), “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R).” SFAS 158 requires recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Also, the measurement date – the date at which the benefit obligation and plan assets are measured – is required to be the company’s fiscal year-end. We adopted the balance sheet recognition provisions at December 31, 2006, and adopted the year-end measurement date effective January 1, 2008

using the “one measurement” approach. Under the one measurement approach, net periodic benefit cost for the period between any early measurement date and the end of the fiscal year that the measurement provisions are applied are allocated proportionately between amounts to be recognized as an adjustment of retained earnings and net periodic benefit cost for the fiscal year. Previously, we used a November 30th measurement date for our U.S. pension and other postretirement benefit plans and September 30th for our non-U.S. plans. The adoption of SFAS 158 year-end measurement date provisions increased January 1, 2008 assets by $8 million, increased liabilities by $24 million and reduced stockholders’ equity by $16 million. The adoption of this Statement did not impact our results of operations.

Actuarial losses for both pensions and other postretirement benefits will be impacted in future periods by actual asset returns, actual health care inflation, discount rate changes and other factors that impact these expenses. These losses, reported in Accumulated other comprehensive income (loss), will be amortized as a component of net periodic benefit cost on a straight-line basis over the average remaining service period of active employees expected to receive benefits under the benefit plans. At the end of 2007, the average remaining service period of active employees was 9 years for our U.S. pension plans, 12 years for our non-U.S. pension plans and 7 years for other postretirement benefit plans. We expect our amortization of net actuarial losses to decrease approximately $120 million in 2008 as compared to 2007, primarily due to favorable asset returns and increased discount rates.

Due to poor performance of the equity markets, the value of our pension and other postretirement fund assets has declined during 2008. SFAS 158 requires recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Based on quarter-end plan asset values and assumed discount rate, we would be required to recognize an increase in our underfunded status of approximately $1.5 billion at December 31, 2008. This would result in an increase in our Liability for postretirement benefits of approximately $1.5 billion and a decrease in Accumulated other comprehensive income of approximately $1.0 billion after-tax. Final determination will only be known on the measurement date, which is December 31, 2008. The adjustment amount is dependent on several factors including the discount rate, actual returns on plan assets and benefit plan changes.

Although we have no ERISA (Employee Retirement Income Security Act) funding requirements in 2008, we made $215 million of contributions to our U.S. and non-U.S. pension plans during the six months ended June 30, 2008 and we currently anticipate additional contributions of approximately $215 million during the remainder of the year. We have adequate liquidity resources to fund all U.S. and non-U.S. plans.

Supplemental Consolidating Data

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

Consolidated – Caterpillar Inc. and its subsidiaries.

Machinery and Engines – The Machinery and Engines data contained in the schedules on pages 52 to 59 are "non-GAAP financial measures" as defined by the Securities and Exchange Commission in Item 10(e) of Regulation S-K. These non-GAAP financial measures have no standardized meaning prescribed by U.S. GAAP, and therefore, are unlikely to be comparable with the calculation of similar measures for other companies. Management does not intend these items to be considered in isolation or as a substitute for the related GAAP measures. Caterpillar defines Machinery and Engines as it is presented in the supplemental data as Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis. Machinery and Engines information relates to our design, manufacturing, marketing and parts distribution operations. Financial Products information relates to the financing to customers and dealers for the purchase and lease of Caterpillar and other equipment. The nature of these businesses is different especially with regard to the financial position and cash flow items. Caterpillar management utilizes this

presentation internally to highlight these differences. We also believe this presentation will assist readers in understanding our business.

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

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

Pages 52 to 59 reconcile Machinery and Engines with Financial Products on the Equity Basis to Caterpillar Inc. Consolidated financial information.

Caterpillar Inc.
Supplemental Data for Results of Operations
For The Three Months Ended June 30, 2008
(Unaudited)
(Millions of dollars)

		Supplemental Consolidating Data			
	Consolidated	Machinery and Engines1	Financial Products	Consolidating Adjustments	
Sales and revenues:					
Sales of Machinery and Engines	$12,797	$12,797	$ —	$ —	
Revenues of Financial Products	827	—	910	(83)	2
Total sales and revenues	13,624	12,797	910	(83)	
Operating costs:					
Cost of goods sold	10,036	10,036	—	—	
Selling, general and administrative expenses	1,074	925	154	(5)	3
Research and development expenses	415	415	—	—	
Interest expense of Financial Products	279	—	279	—	4
Other operating expenses	295	(9)	311	(7)	3
Total operating costs	12,099	11,367	744	(12)	
Operating profit	1,525	1,430	166	(71)	
Interest expense excluding Financial Products	70	70	—	—	4
Other income (expense)	75	(18)	22	71	5
Consolidated profit before taxes	1,530	1,342	188	—	
Provision for income taxes	434	386	48	—	
Profit of consolidated companies	1,096	956	140	—	

	Equity in profit (loss) of unconsolidated affiliated companies	10	10	—	—	
	Equity in profit of Financial Products' subsidiaries	—	140	—	(140)	6
Profit		$ 1,106	$ 1,106	$ 140	$ (140)	

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

Caterpillar Inc.
Supplemental Data for Results of Operations
For The Three Months Ended June 30, 2007
(Unaudited)
(Millions of dollars)

		Supplemental Consolidating Data			
	Consolidated	Machinery and Engines1	Financial Products	Consolidating Adjustments	
Sales and revenues:					
Sales of Machinery and Engines	$10,613	$10,613	$ —	$ —	
Revenues of Financial Products	743	—	846	(103)	2
Total sales and revenues	11,356	10,613	846	(103)	
Operating costs:					
Cost of goods sold	8,300	8,300	—	—	
Selling, general and administrative expenses	968	853	120	(5)	3
Research and development expenses	350	350	—	—	
Interest expense of Financial Products	279	—	279	—	
Other operating expenses	246	(10)	263	(7)	3
Total operating costs	10,143	9,493	662	(12)	
Operating profit	1,213	1,120	184	(91)	
Interest expense excluding Financial Products	80	83	—	(3)	4
Other income (expense)	70	(36)	18	88	5

Consolidated profit before taxes	1,203	1,001	202	—	
Provision for income taxes	385	316	69	—	
Profit of consolidated companies	818	685	133	—	
Equity in profit (loss) of unconsolidated affiliated companies	5	4	1	—	
Equity in profit of Financial Products' subsidiaries	—	134	—	(134)	6
Profit	$ 823	$ 823	$ 134	$ (134)	

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

Caterpillar Inc.
Supplemental Data for Results of Operations
For The Six Months Ended June 30, 2008
(Unaudited)
(Millions of dollars)

		Supplemental Consolidating Data			
	Consolidated	Machinery and Engines1	Financial Products	Consolidating Adjustments	
Sales and revenues:					
Sales of Machinery and Engines	$23,776	$23,776	$ —	$ —	
Revenues of Financial Products	1,644	—	1,822	(178)	2
Total sales and revenues	25,420	23,776	1,822	(178)	
Operating costs:					
Cost of goods sold	18,645	18,645	—	—	
Selling, general and administrative expenses	2,033	1,757	288	(12)	3
Research and development expenses	784	784	—	—	
	563	—	565	(2)	4

	Interest expense of Financial Products				
	Other operating expenses	577	(20)	608	(11) 3
	Total operating costs	22,602	21,166	1,461	(25)
Operating profit		2,818	2,610	361	(153)
	Interest expense excluding Financial Products	144	144	—	— 4
	Other income (expense)	187	(2)	36	153 5
Consolidated profit before taxes		2,861	2,464	397	—
	Provision for income taxes	854	736	118	—
	Profit of consolidated companies	2,007	1,728	279	—
	Equity in profit (loss) of unconsolidated affiliated companies	21	21	—	—
	Equity in profit of Financial Products' subsidiaries	—	279	—	(279) 6
Profit		$ 2,028	$ 2,028	$ 279	$ (279)

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

Caterpillar Inc.
Supplemental Data for Results of Operations
For The Six Months Ended June 30, 2007
(Unaudited)
(Millions of dollars)

		Supplemental Consolidating Data		
	Consolidated	Machinery and Engines1	Financial Products	Consolidating Adjustments
Sales and revenues:				
Sales of Machinery and Engines	$19,934	$19,934	$ —	$ —
	1,438	—	1,645	(207) 2

	Revenues of Financial Products				
	Total sales and revenues	21,372	19,934	1,645	(207)	
Operating costs:						
	Cost of goods sold	15,436	15,436	—	—	
	Selling, general and administrative expenses	1,858	1,638	230	(10)	3
	Research and development expenses	690	690	—	—	
	Interest expense of Financial Products	550	—	551	(1)	4
	Other operating expenses	485	(14)	513	(14)	3
	Total operating costs	19,019	17,750	1,294	(25)	
Operating profit		2,353	2,184	351	(182)	
	Interest expense excluding Financial Products	159	163	—	(4)	4
	Other income (expense)	181	(36)	39	178	5
Consolidated profit before taxes		2,375	1,985	390	—	
	Provision for income taxes	760	629	131	—	
	Profit of consolidated companies	1,615	1,356	259	—	
	Equity in profit (loss) of unconsolidated affiliated companies	24	22	2	—	
	Equity in profit of Financial Products' subsidiaries	—	261	—	(261)	6
Profit		$ 1,639	$ 1,639	$ 261	$ (261)	

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

At June 30, 2008
(Unaudited)
(Millions of dollars)

		Supplemental Consolidating Data			
	Consolidated	Machinery and Engines1	Financial Products	Consolidating Adjustments	
Assets					
Current assets:					
Cash and short-term investments	$ 782	$ 478	$ 304	$ —	
Receivables - trade and other	9,297	4,963	996	3,338	2,3
Receivables - finance	8,025	—	11,920	(3,895)	3
Deferred and refundable income taxes	866	780	86	—	
Prepaid expenses and other current assets	585	547	51	(13)	4
Inventories	8,303	8,303	—	—	
Total current assets	27,858	15,071	13,357	(570)	
Property, plant and equipment – net	10,394	7,086	3,308	—	
Long-term receivables – trade and other	705	106	31	568	2,3
Long-term receivables – finance	14,795	—	15,393	(598)	3
Investments in unconsolidated affiliated companies	641	672	—	(31)	5
Investments in Financial Products subsidiaries	—	4,282	—	(4,282)	6
Noncurrent deferred and refundable income taxes	1,523	1,765	59	(301)	7
Intangible assets	492	488	4	—	
Goodwill	1,994	1,994	—	—	
Other assets	2,051	316	1,735	—	
Total assets	$ 60,453	$ 31,780	$33,887	$ (5,214)	
Liabilities					
Current liabilities:					
Short-term borrowings	$ 6,329	$ 563	$ 6,259	$ (493)	8
Accounts payable	5,357	4,950	471	(64)	9
Accrued expenses	3,633	2,221	1,425	(13)	10
Accrued wages, salaries and employee benefits	938	924	14	—	
Customer advances	1,814	1,814	—	—	
Dividends payable	256	256	—	—	
Other current liabilities	1,043	953	101	(11)	7
Long-term debt due within one year	7,024	172	6,852	—	
Total current liabilities	26,394	11,853	15,122	(581)	
Long-term debt due after one year	17,643	3,667	14,006	(30)	8
Liability for postemployment benefits	4,836	4,836	—	—	
Other liabilities	2,110	1,954	476	(320)	5,7
Total liabilities	50,983	22,310	29,604	(931)	

Commitments and Contingencies					
Stockholders' equity					
Common stock	2,897	2,897	860	(860)	6
Treasury stock	(10,730)	(10,730)	—	—	
Profit employed in the business	18,918	18,918	2,845	(2,845)	6
Accumulated other comprehensive income (loss)	(1,615)	(1,615)	578	(578)	6
Total stockholders' equity	9,470	9,470	4,283	(4,283)	
Total liabilities and stockholders' equity	$ 60,453	$ 31,780	$33,887	$ (5,214)	

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

Caterpillar Inc.
Supplemental Data for Financial Position
At December 31, 2007
(Unaudited)
(Millions of dollars)

		Supplemental Consolidating Data			
	Consolidated	Machinery and Engines1	Financial Products	Consolidating Adjustments	
Assets					
Current assets:					
Cash and short-term investments	$ 1,122	$ 862	$ 260	$ —	
Receivables - trade and other	8,249	4,715	525	3,009	2,3
Receivables - finance	7,503	—	10,961	(3,458)	3
Deferred and refundable income taxes	816	746	70	—	
Prepaid expenses and other current assets	583	565	39	(21)	4
Inventories	7,204	7,204	—	—	

Total current assets	25,477	14,092	11,855	(470)	
Property, plant and equipment – net	9,997	6,782	3,215	—	
Long-term receivables – trade and other	685	90	30	565	2,3
Long-term receivables – finance	13,462	—	14,057	(595)	3
Investments in unconsolidated affiliated companies	598	610	12	(24)	5
Investments in Financial Products subsidiaries	—	3,948	—	(3,948)	6
Noncurrent deferred and refundable income taxes	1,553	1,803	68	(318)	7
Intangible assets	475	471	4	—	
Goodwill	1,963	1,963	—	—	
Other assets	1,922	293	1,629	—	
Total assets	$56,132	$30,052	$30,870	$ (4,790)	
Liabilities					
Current liabilities:					
Short-term borrowings	$ 5,468	$ 187	$ 5,556	$ (275)	8
Accounts payable	4,723	4,518	373	(168)	9
Accrued expenses	3,178	1,932	1,273	(27)	10
Accrued wages, salaries and employee benefits	1,126	1,108	18	—	
Customer advances	1,442	1,442	—	—	
Dividends payable	225	225	—	—	
Other current liabilities	951	867	105	(21)	7
Long-term debt due within one year	5,132	180	4,952	—	
Total current liabilities	22,245	10,459	12,277	(491)	
Long-term debt due after one year	17,829	3,669	14,190	(30)	8
Liability for postemployment benefits	5,059	5,058	1	—	
Other liabilities	2,116	1,983	454	(321)	5,7
Total liabilities	47,249	21,169	26,922	(842)	
Commitments and Contingencies					
Stockholders' equity					
Common stock	2,744	2,744	860	(860)	6
Treasury stock	(9,451)	(9,451)	—	—	
Profit employed in the business	17,398	17,398	2,566	(2,566)	6
Accumulated other comprehensive income (loss)	(1,808)	(1,808)	522	(522)	6
Total stockholders' equity	8,883	8,883	3,948	(3,948)	
Total liabilities and stockholders' equity	$56,132	$30,052	$30,870	$ (4,790)	

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

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

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

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

5 Elimination of Machinery and Engines’ investment in Financial Products subsidiary.

6

Elimination of Financial Products' equity which is accounted for by Machinery and Engines on the equity basis.
Reclassification reflecting required netting of deferred tax assets / liabilities by taxing
7 jurisdiction.
8 Elimination of debt between Machinery and Engines and Financial Products.
9 Elimination of payables between Machinery and Engines and Financial Products.
10 Elimination of prepaid insurance in Financial Products' accrued expenses.

Caterpillar Inc.
Supplemental Data for Cash Flow
For The Six Months Ended June 30, 2008
(Unaudited)
(Millions of dollars)

		Supplemental Consolidating Data			
	Consolidated	Machinery and Engines1	Financial Products	Consolidating Adjustments	
Cash flow from operating activities:					
Profit	$ 2,028	$ 2,028	$ 279	$ (279)	2
Adjustments for non-cash items:					
Depreciation and amortization	952	573	379	—	
Undistributed profit of Financial Products	—	(279)	—	279	3
Other	202	192	(146)	156	4
Changes in assets and liabilities:					
Receivables - trade and other	(1,137)	(657)	(20)	(460)	4,5
Inventories	(1,009)	(1,009)	—	—	
Accounts payable and accrued expenses	1,023	748	159	116	4
Customer advances	210	210	—	—	
Other assets - net	(93)	(48)	(19)	(26)	4
Other liabilities - net	(271)	(278)	(4)	11	4
Net cash provided by (used for) operating activities	1,905	1,480	628	(203)	
Cash flow from investing activities:					
Capital expenditures - excluding equipment leased to others	(814)	(804)	(10)	—	
Expenditures for equipment leased to others	(699)	—	(710)	11	4
Proceeds from disposals of property, plant and equipment	449	18	431	—	
Additions to finance receivables	(7,099)	—	(19,164)	12,065	5
Collections of finance receivables	4,748	—	15,846	(11,098)	5
Proceeds from sales of finance receivables	696	—	1,471	(775)	5
Net intercompany borrowings	—	220	(433)	213	6

Investments and acquisitions (net of cash acquired)	(111)	(111)	—	—	
Proceeds from sales of available-for-sale securities	173	12	161	—	
Investments in available-for-sale securities	(230)	(11)	(219)	—	
Other – net	56	116	(60)	—	
Net cash provided by (used for) investing activities	(2,831)	(560)	(2,687)	416	
Cash flow from financing activities:					
Dividends paid	(444)	(444)	—	—	
Common stock issued, including treasury shares reissued	116	116	—	—	
Payment for stock repurchase derivative contracts	(38)	(38)	—	—	
Treasury shares purchased	(1,362)	(1,362)	—	—	
Excess tax benefit from stock-based compensation	53	53	—	—	
Net intercompany borrowings	—	433	(220)	(213)	6
Proceeds from debt issued (original maturities greater than three months)	9,158	110	9,048	—	
Payments on debt (original maturities greater than three months)	(6,530)	(133)	(6,397)	—	
Short-term borrowings (original maturities three months or less) – net	(393)	(62)	(331)	—	
Net cash provided by (used for) financing activities	560	(1,327)	2,100	(213)	
Effect of exchange rate changes on cash	26	23	3	—	
Increase (decrease) in cash and short-term investments	(340)	(384)	44	—	
Cash and short-term investments at beginning of period	1,122	862	260	—	
Cash and short-term investments at end of period	$ 782	$ 478	$ 304	$ —	

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

Caterpillar Inc.
Supplemental Data for Cash Flow
For The Six Months Ended June 30, 2007
(Unaudited)
(Millions of dollars)

		Supplemental Consolidating Data			
	Consolidated	Machinery and Engines1	Financial Products	Consolidating Adjustments	
Cash flow from operating activities:					
Profit	$ 1,639	$ 1,639	$ 261	$ (261)	2
Adjustments for non-cash items:					
Depreciation and amortization	849	512	337	—	
Undistributed profit of Financial Products	—	(261)	—	261	3
Other	71	47	(146)	170	4
Changes in assets and liabilities:					
Receivables - trade and other	927	(117)	(20)	1,064	4,5
Inventories	(691)	(691)	—	—	
Accounts payable and accrued expenses	14	(86)	36	64	4
Customer advances	352	352	—	—	
Other assets - net	(300)	(255)	2	(47)	4
Other liabilities - net	375	337	8	30	4
Net cash provided by (used for) operating activities	3,236	1,477	478	1,281	
Cash flow from investing activities:					
Capital expenditures - excluding equipment leased to others	(582)	(575)	(7)	—	
Expenditures for equipment leased to others	(621)	—	(627)	6	4
Proceeds from disposals of property, plant and equipment	208	13	196	(1)	4
Additions to finance receivables	(6,356)	—	(17,369)	11,013	5
Collections of finance receivables	5,233	—	16,846	(11,613)	5
Proceeds from sales of finance receivables	84	—	777	(693)	5
Net intercompany borrowings	—	35	(29)	(6)	6
Investments and acquisitions (net of cash acquired)	(174)	(181)	—	7	7
Proceeds from sales of available-for-sale securities	119	7	112	—	
Investments in available-for-sale securities	(217)	(8)	(209)	—	
Other – net	285	81	206	(2)	7
Net cash provided by (used for) investing activities	(2,021)	(628)	(104)	(1,289)	
Cash flow from financing activities:					

Dividends paid	(386)	(386)	—	—	
Common stock issued, including treasury shares reissued	223	223	(2)	2	7
Treasury shares purchased	(1,017)	(1,017)	—	—	
Excess tax benefit from stock-based compensation	97	97	—	—	
Net intercompany borrowings	—	29	(35)	6	6
Proceeds from debt issued (original maturities greater than three months)	5,259	43	5,216	—	
Payments on debt (original maturities greater than three months)	(5,453)	(49)	(5,404)	—	
Short-term borrowings (original maturities three months or less) - net	86	267	(181)	—	
Net cash provided by (used for) financing activities	(1,191)	(793)	(406)	8	
Effect of exchange rate changes on cash	8	4	4	—	
Increase (decrease) in cash and short-term investments	32	60	(28)	—	
Cash and short-term investments at beginning of period	530	319	211	—	
Cash and short-term investments at end of period	$ 562	$ 379	$ 183	$ —	

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

2008 Outlook

We expect world economic growth to average less than 3 percent this year, the slowest growth rate since 2003. We expect that developing economies will continue with strong growth, offsetting much of the weakness in North America and Europe.

§ Most developed countries shifted their focus to inflation and are holding or raising interest rates. Economies are slowing, and financial markets remain distressed. Eventually central banks will return to cutting interest rates, but it will likely be too late to help economies this year. Growth in the developed economies should average about 1.5 percent, the slowest pace since 2002.

§ Many developing economies are experiencing increased inflation, and some have tightened economic policies. However, most countries have moved cautiously, and policies remain expansive. We expect strong growth in construction to continue.

- The West Texas Intermediate oil price hit a new high this year, and we assume the price will average $120 per barrel for the year. We expect that oil prices will average about 16 percent higher in the last half of 2008 as compared with the first half, and that should have a continuing positive impact on drilling activity and pipeline construction.

- We expect the Australian thermal coal price will average almost $140 per metric ton this year, with about a 16 percent increase from the first half to the second half of 2008. Australian prices have been setting the tone for other regional coal prices, so coal miners worldwide should invest to increase production.

- Most metals prices advanced in the first half due to strong demand and supply disruptions. We expect some improvement in supplies in the second half, but prices overall should remain attractive for new investment.

North American economies should grow about 1 percent in 2008.

- Employment reports, manufacturing and service surveys and sales of large consumer items suggest more distress in the economy than do gross domestic product (GDP) accounts. Employment likely will decline further making it difficult for the economy to avoid a recession. We expect the U.S. economy will grow about 1 percent this year.

- Continued financial market distress and the weak economy suggest the Fed will eventually need to shift its focus back to addressing those problems. We are assuming at least one more rate cut later this year.

- We see no sign of a recovery in housing. Starts averaged a 1.03 million unit rate in the first half, with permits even lower. For the full year, we expect starts to be slightly under one million units—the lowest level since 1945.

- Nonresidential construction starts should decline about 1 percent this year in response to rising vacancy rates, declining capacity utilization and tighter lending standards. Declines in commercial property values will likely create additional problems for banks.

- Coal mining and oil and natural gas should remain positive for the rest of the year, since we assume prices will average higher in the second half than in the first half.

- The Canadian economy unexpectedly declined in the first quarter, the second quarter of weak activity. Despite the possibility of recession, high metals and energy prices should benefit mining and the oil sands.

Economic growth in Europe should slow to below 2 percent this year, the slowest growth since 2003.

- Inflation concerns prompted the European Central Bank (ECB) to raise interest rates to 4.25 percent and the Bank of England (BoE) to hold its target rate at 5 percent. We assume a weakening economy will cause the ECB to reverse policy and cut rates by at least 25 basis points before year-end. We also expect that the BoE will cut rates 25 basis points.

- Interest rates at 4 percent for the past year have taken a toll on euro-zone economies, with surveys suggesting a very weak second quarter. We expect euro-zone economic growth of 1.6 percent this year and economic growth of 1.7 percent for the United Kingdom.

- Higher interest rates and some softening in home prices caused residential building permits to decline. We assume the two-year decline in housing permits will continue for the rest of this year.

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Growth in nonresidential construction slowed in the first quarter, and surveys suggest further slowing will occur. Infrastructure construction should hold up better than building construction.

Economic growth in the developing economies should be slightly below 6.5 percent in 2008, a percentage point lower than last year.

§ Growth in Africa/Middle East should be 5.5 percent, slightly higher than last year. We expect most governments will maintain expansive policies, which will benefit economic growth at the cost of higher inflation. The recent surge in oil prices will sustain construction booms in the oil producing countries.

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§ We expect the CIS economy will grow at 7.5 percent, down from 9 percent in 2007. Inflation is a growing problem, but central banks have reacted slowly. Expansive economic policies and high commodity prices should benefit construction, mining and energy development.

§ Growth in the Latin American economies should be 4.5 percent this year, a percentage point lower than last year. Most countries raised interest rates to address higher inflation, but we do not expect significant impacts on growth this year. Higher metals prices should encourage more investment in mining.

§ The Asia/Pacific region should grow 7.5 percent this year, down from more than 8 percent last year. Both China and India tightened economic policies numerous times, but impacts on growth have been quite small. We project more than 10 percent growth in China and more than 8 percent growth in India. Growth in most other countries should slow slightly. Construction and mining should continue to do well throughout the region.

Sales & Revenue Outlook

The 2008 outlook for sales and revenues reflects another record year for 2008, with sales and revenues at about $50 billion. The outlook reflects continuing weakness in North America and a decline in expectations for Europe.

Sales and Revenues 2008 vs. 2007

We expect that North America will be the weakest region for growth this year, with sales and revenues flat to up 3 percent. The overall economy and construction activity will likely remain weak throughout 2008, and dealer sales of new machines are expected to decline substantially in 2008. The factors that are helping offset the impact of very difficult economic conditions in North America are:

§ In 2007, dealers reduced their machine inventories by about $1.1 billion, resulting in company sales to North American dealers lower than dealer sales to end customers. While we expect dealer sales to end users to decline again in 2008, company sales will benefit as a result of substantially lower forecasted changes to dealer inventories than we experienced in 2007.

§ Sales related to energy and mining remain strong and are expected to improve again in 2008. Coal mining in the United States is particularly strong, with rising coal prices and increasing exports driving the improvement.

§ While the industry for on-highway truck engines is still very weak as a result of very slow growth in the U.S. economy, we expect our sales to improve from the depressed levels of 2007.

Strong sales outside North America are being driven by solid economic growth in the developing world, continued investment in infrastructure throughout much of the world and commodity prices for metals, minerals and energy at levels that encourage our customers to invest.

Profit Outlook

We expect profit of about $6.00 per share in 2008, up from $5.37 in 2007, and our fifth consecutive year of record profit per share. The prior outlook was a range of $5.64 to $6.18 per share with a mid-point of $5.91. During the past quarter, the elements that make up the profit forecast have changed somewhat. The outlook for sales volume and price realization has improved, but the impact on profit has been about offset by higher costs, primarily commodity-related material cost increases.

Safe Harbor

Certain statements in this Form 10-Q relate to future events and expectations and as such constitute forward-looking statements involving known and unknown factors that may cause actual results of Caterpillar Inc. to be different from those expressed or implied in the forward-looking statements. In this context, words such as "will", "expect", “anticipate” or other similar words and phrases often identify forward-looking statements made on behalf of Caterpillar. It is important to note that actual results of the company may differ materially from those described or implied in such forward-looking statements based on a number of factors and uncertainties, including, but not limited to, changes in economic conditions; currency exchange or interest rates; political stability; market acceptance of the company's products and services; significant changes in the competitive environment; epidemic diseases; changes in law, regulations and tax rates; and other general economic, business and financing conditions and factors described in more detail (in Item 1A – Risk Factors in Part II of this Form 10-Q). This filing is available on our website at www.cat.com/secfilings. We do not undertake to update our forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

An evaluation was performed under the supervision and with the participation of the company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the company's disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on that evaluation, the company's management, including the CEO and CFO, concluded that the company's disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

Changes in internal control over financial reporting

During the second quarter 2008, there has been no change in the company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

PART II. OTHER INFORMATION

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

Item 1A. Risk Factors
We updated the risk factors included in our Form 10-K for the fiscal year ended December 31, 2007 (filed with the Securities and Exchange Commission on February 22, 2008) to remove the reference to tornado damage at our manufacturing facility in Oxford, Mississippi, after we determined that the disruption did not have a material impact on the company's 1st quarter 2008 results and will not likely have any such impact in future results of the company. Additionally, we are further updating the risk factors included in our Form 10-K to include risks associated with meeting EPA Tier 4 nonroad diesel emission requirements applicable to the majority of our nonroad machinery and engine products commencing in 2011.

The statements in this section describe the most significant risks to our business and should be considered carefully in conjunction with the “Management’s Discussion and Analysis” of this Form 10-Q. In addition, these statements constitute our cautionary statements under the Private Securities Litigation Reform Act of 1995. The discussion and analysis in this Form 10-Q is forward-looking and involves uncertainties that could significantly impact results. From time to time, we also provide forward-looking statements in other materials we issue to the public or in the form of oral presentation to the public. Forward-looking statements give current expectations or forecasts of future events about the company. You can identify these statements by the fact they do not relate to historical or current facts and by the use of words such as "believe," "expect," "estimate," "anticipate," "will be," "should," “plan,” “project,” “intend,” “could,” and similar words or expressions that identify forward-looking statements made on behalf of Caterpillar.

In particular, these forward-looking statements include statements relating to future actions, prospective products, products’ approvals, future performance or results of current and anticipated products, sales efforts, expenses, interest rates, foreign exchange rates, the outcome of contingencies and financial results. The statements are based on assumptions or on known or unknown risks and uncertainties. Although we believe we have been prudent in our assumptions, we cannot guarantee the realization of these statements. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions. Should known or unknown risks or uncertainties materialize or underlying assumptions prove inaccurate, actual results could materially differ from past results and those anticipated, estimated or projected. Uncertainties include factors that affect international businesses, as well as matters specific to the company and the markets it serves.

The company undertakes no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You may, however, consult any further related disclosures we make in our Form 10-Q or any Form 8-K reports to the SEC.

The following is a cautionary discussion of risks, uncertainties and assumptions that we believe are significant to our business. These are factors that, individually or in the aggregate, we believe could make our actual results differ materially from expected and past results. You should note it is impossible to predict or identify all such factors and, as a result, you should not consider the following factors to be a complete discussion of risks and uncertainties.

Changes in Government Monetary and Fiscal Policies

Most countries have established central banks to regulate monetary systems and influence economic activities, generally by adjusting interest rates. Interest rate changes affect overall economic growth, which alter demand for residential and nonresidential structures, energy and mined products, which in turn affect sales of our products that serve these activities. Also, interest rates affect customers' abilities to finance machine purchases and can change the optimal time to keep machines in a fleet. Our outlooks typically include assumptions about interest rates in a number of countries. Interest rates higher than those assumptions could result in lower sales than anticipated.

Government policies on taxes and spending affect our businesses. Throughout the world, government spending finances much infrastructure development, such as highways, airports, sewer and water systems and dams. Tax regulations determine depreciation lives and the amount of money users can retain, both of which influence investment decisions. Developments more unfavorable than anticipated, such as declines in government revenues, decisions to reduce public spending or increases in taxes, could negatively impact our results.

Government can also impact international trade and investment through a variety of policies, such as import quotas, inspections, capital controls or tariffs. Developments worse than anticipated in the outlook, which could include lower import quotas, more detailed inspections or higher tariffs, could negatively impact our results.

Environmental Regulations

Our facilities, operations and products are subject to increasingly stringent environmental laws and regulations, including laws and regulations governing emissions to air, discharges to water and the generation, handling, storage, transportation, treatment and disposal of general, non-hazardous and hazardous waste materials. While we believe we are in compliance in all material respects with these environmental laws and regulations, we cannot ensure that we will not be adversely affected by costs, liabilities or claims with respect to existing or subsequently acquired operations, under present laws and regulations or those that may be adopted or imposed in the future.

Particularly, our engines are subject to extensive statutory and regulatory requirements governing exhaust emissions and noise, including standards imposed by the EPA, state regulatory agencies in the U.S. and other regulatory agencies around the world. For instance, governments may set new emissions standards that could impact our products and operations in ways that are difficult to anticipate with accuracy. Thus, significant changes in standards, or the adoption of new standards, have the potential to impact our results and leadership position negatively.

The EPA has adopted new and more stringent emission standards, including Tier 4 nonroad diesel emission requirements applicable to the majority of our nonroad machinery and engine products commencing in 2011. We previously announced our intent to make our nonroad engines compliant with the new emission standards, including the Tier 4 emission requirements, by the stated deadline. Our strategy for compliance includes using certain technology with state of art integrated systems, as well as using the flexibility provided by the regulations.

Although we are executing comprehensive plans designed to meet Tier 4 emissions requirements, these plans are subject to many variables, including the timing of our Tier 4 engine development and new machine product introduction. If we are unable to meet our plans as projected, it could delay or inhibit our ability to continue placing certain products on the market, which could negatively impact our financial results and competitive position. While we view new emissions standards such as the Tier 4 requirements as significant challenges, we are confident in our ability to comply with them, leverage the breadth of our product line, and make opportunities out of those challenges. We do not at this time have reason to believe these challenges will negatively impact our financial results and competitive position.

Changes in Economic Conditions of Industries We Serve

The energy and mining industries are major users of our machines and engines. Decisions to purchase our machines and engines are dependent upon performance of these industries. If demand of output in these industries increases, the demand for our products would likely increase and vice versa. Prices of commodities in these industries are frequently volatile and change in response to economic growth, commodity inventories and any disruptions in production. We assume certain prices for key commodities in preparing our outlooks. Commodity prices lower than those assumed have the potential to negatively impact our sales.

The rates of infrastructure spending, housing starts, and commercial construction, play a significant role in our results. Our products are an integral component of these activities, and as these activities increase or decrease in the U.S. or abroad, demand for our products may be significantly impacted.

Changes in Price and Significant Shortages of Component Products

We are a significant user of steel and many commodities required for the manufacture of our products. So, increases in the prices of such commodities likely would boost costs higher than expected, negatively impacting profits.

We rely on suppliers to secure component products, particularly steel, required for the manufacture of our products. A disruption in deliveries from our suppliers or decreased availability of such components or commodities could have an adverse affect on our ability to meet our commitments to customers or increase our operating costs. We believe our source of supply of raw materials will be generally sufficient for our need in the foreseeable future. However, our results of operations or financial condition could be negatively impacted should the supply turn out to be insufficient for our operations.

Currency Fluctuations

The reporting currency for our financial statements is the U.S. dollar. Certain of our assets, liabilities, expenses and revenues, are denominated in currencies other than the U.S. dollar. To prepare our consolidated financial statements, we must translate those assets, liabilities, expenses and revenues into U.S. dollars at the applicable exchange rates. As a result, increases and decreases in the value of the U.S. dollar vis-à-vis other currencies will affect the amount of these items in our consolidated financial statements, even if their value has not changed in their original currency. This could have a significant impact on our results if such increase or decrease in the value of the U.S. dollar is substantial.

Dealer/Original Equipment Manufacturers Sourcing Practices

We sell finished products through an independent dealer network or directly to OEMs. Both carry inventories of finished products as part of ongoing operations and adjust those inventories based on their assessments of future needs. Such adjustments can impact our results either positively or negatively.

In particular, some of our engine customers are truck manufacturers or OEMs that manufacture or could in the future manufacture engines for their own products. Despite their engine manufacturing abilities, these customers have chosen to outsource certain types of engine production to us due to the quality of our engine products and in order to reduce costs, eliminate production risks and maintain company focus. However, we cannot assure that these customers will continue to outsource engine manufacture in the future. Increased levels of production insourcing by these customers could result from a number of factors, such as shifts in our customers' business strategies, acquisition by a customer of another engine manufacturer, the inability of third-party suppliers to meet specifications and the emergence of low-cost production opportunities in foreign countries. A significant reduction in the level of engine production outsourcing from our truck manufacturers or OEM customers could significantly impact our revenues and, accordingly, have a material adverse effect on our business, results of operations and financial condition.

Impact of Acquisitions

We may from time to time engage in acquisitions involving some potential risks, including failure to successfully integrate and realize the expected benefits of such acquisitions. For example, with any past or future acquisitions, there is the possibility that:

§the business culture of the acquired business may not match well with our culture;
§technological and product synergies, economies of scale and cost reductions may not occur as expected;
§the company may acquire or assume unexpected liabilities;
§unforeseen difficulties may arise in integrating operations and systems;
§the company may fail to retain and assimilate employees of the acquired business;
§higher than expected finance costs due to unforeseen changes in tax, trade, environmental, labor, safety, payroll or pension policies in any jurisdiction in which the acquired business conducts its operations; and
§the company may experience problems in retaining customers and integrating customer bases.

Failure to continue implementing the company’s acquisition strategy, including successfully integrating acquired businesses, could have a material adverse effect on our business, financial condition and results of operations.

Competition

We operate in a highly competitive environment, and our outlook depends on a forecast of the company's share of industry sales predicated on our ability to compete with others in the marketplace. The company competes on the basis of product performance, customer service, quality and price. There can be no assurance that our product will be able to compete successfully with these other companies. Thus, our share of industry sales could be reduced due to aggressive pricing or product strategies pursued by competitors, unanticipated product or manufacturing difficulties, our failure to price our products competitively or an unexpected buildup in competitors' new machine or dealer-owned rental fleets, leading to severe downward pressure on machine rental rates and/or used equipment prices.

The environment remains competitive from a pricing standpoint. Our sales outlook assumes certain price increases that we announced from time to time will hold in the marketplace. While we expect that the environment will continue to absorb these price actions, changes in marketplace acceptance would negatively impact our results. Moreover, additional price discounting to maintain our competitive position could result in lower than anticipated realization.

In addition, our results and ability to compete may be impacted positively or negatively by changes in the sales mix. Our outlook assumes a certain geographic mix of sales as well as a product mix of sales. If actual results vary from this projected geographic and product mix of sales, our results could be negatively impacted.

Litigation and Contingency

We face an inherent business risk of exposure to various types of claims and lawsuits. We are involved in various intellectual property, product liability, product warranty, environmental claims and lawsuits, including other legal proceedings that arise in the ordinary course of our business. Although it is not possible to predict with certainty the outcome of every claim and lawsuit, we believe these lawsuits and claims will not individually or in the aggregate have a material impact on our results. However, we could in the future incur judgments or enter into settlements of lawsuits and claims that could have a material adverse effect on our results of operations in any particular period. In addition, while we maintain insurance coverage with respect to certain claims, we may not be able to obtain such insurance on acceptable terms in the future, if at all, and any such insurance may not provide adequate coverage against any such claims.

As required by U.S. generally accepted accounting principles, we establish reserves based on our assessment of such contingencies. Subsequent developments in legal proceedings may affect our assessment and estimates of the loss contingency recorded as a reserve, requiring us to make additional materials payments, which could result in an

adverse effect on our results of operations.

Risks to Global Operations

Our global operations are dependent upon products manufactured, purchased and sold in the U.S. and internationally, countries with political and economic instability, exposing our business operations to certain political and economic risks inherent in operating in some countries. These risks include:

§changes in regulations; imposition of currency restrictions and other restraints;
§imposition of burdensome tariffs and quotas;
§national and international conflict, including terrorist acts; and
§economic downturns, political instability and war or civil unrest may severely disrupt economic activity in affected countries.

As a normal practice, we do not assume such events in our outlooks unless already happening when the outlook is issued. So the occurrence of one of these events has the potential to negatively impact our results.

Risks to Financial Services Segment

Inherent in the operation of Cat Financial is the credit risk associated with its customers. The creditworthiness of each customer, and the rate of delinquencies, repossessions and net losses on customer obligations are directly impacted by several factors, including, but not limited to, relevant industry and economic conditions, the availability of capital, the experience and expertise of the customer's management team, commodity prices, political events and the sustained value of the underlying collateral.

Changes in interest rates, foreign currency exchange rates and market liquidity conditions could have a materially adverse effect on our earnings and cash flows. Because a significant amount of loans made by us are made at fixed interest rates, our business is subject to fluctuations in interest rates. Changes in market interest rates may influence our financing costs, returns on financial investments and the valuation of derivative contracts and could reduce our earnings and cash flows. In addition, since we make a significant amount of loans in currencies other than the U.S. dollar, fluctuations in foreign currency exchange rates could also reduce our earnings and cash flows. We also rely on a number of diversified global debt capital markets and funding programs to provide liquidity for our global operations, including commercial paper, medium term notes, retail notes, variable denomination floating rate demand notes, asset-backed securitizations and bank loans. Significant changes in market liquidity conditions could impact our access to funding and the associated funding cost and reduce our earnings and cash flows. Although we manage interest rate, foreign currency exchange rate and market liquidity risks with a variety of techniques, including a match funding program, the selective use of derivatives and a broadly diversified funding program, there can be no assurance that fluctuations in interest rates, currency exchange rates and market liquidity conditions will not have a material adverse effect on our earnings and cash flows. If any of the variety of instruments and strategies we use to hedge our exposure to these various types of risk are ineffective, we may incur losses.

With respect to our insurance and investment management operations, changes in the equity and bond markets could cause an impairment of the value of our investment portfolio, thus requiring a negative adjustment to earnings.

Market Acceptance of Products

Our business relies on continued global demand for our brands and products. To achieve business goals, we must develop and sell products that appeal to our dealers, OEMs and customers. This is dependent on a number of factors including our ability to manage and maintain key dealer relationships and our ability to develop effective sales, advertising and marketing programs. In addition, our continued success is dependent on leading-edge innovation,

with respect to both products and operations. This means we must be able to obtain patents that lead to the development of products that appeal to our consumers across the world. Failure to continue to deliver quality and competitive products to the marketplace, or to predict market demands for, or gain market acceptance of, our products, could have material impact on our business.

Natural Disasters

The occurrence of one or more natural disasters, such as tornadoes, hurricanes, earthquakes and other forms of severe weather in the U.S. or in a country in which we operate or in which our suppliers are located could adversely affect our operations and financial performance. Such events could result in physical damage to and complete or partial closure of one or more of our manufacturing facilities or distribution centers, temporary or long-term disruption in the supply of component products from some local and overseas suppliers, disruption in the transport of our products to dealers and end-users and delay in the delivery of our products to our distribution centers.

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased Under the Program	Approximate Dollar Value of Shares that may yet be Purchased under the Program (dollars in billions)
April 1-30, 2008	—	$ —	—	$ 4.940 1
May 1-31, 2008	600,000	$ 81.77	600,000	$ 4.891 1
June 1-30, 2008	8,533,000	$ 75.96	8,533,000	$ 4.243 1
Total	9,133,000	$ 76.34	9,133,000	

1 In February 2007, the Board of Directors authorized a $7.50 billion stock repurchase program over the next five years, expiring on December 31, 2011.

In connection with our stock repurchase program, we entered into capped call transactions (“call”) with a major bank for an aggregate of 6.0 million shares. During 2008, we paid the bank premiums of $38 million for the establishment of calls for 2.5 million shares, which was accounted for as a reduction to stockholders’ equity. A call permits us to reduce share repurchase price volatility by providing a floor and cap on the price at which the shares can be repurchased. The floor, cap and strike prices for the calls were based upon the average purchase price paid by the bank to purchase our common stock to hedge these transactions. Each call will mature and be exercisable within one year after the call was established. If we exercise a call, we can elect to settle the transaction with the bank by physical settlement (paying cash and receiving shares), cash settle (receiving a net amount of cash) or net share settlement (receiving a net amount of shares). We will continue to use open market purchases in conjunction with capped call transactions to repurchase our stock.

During the six months ended June 30, 2008, $100 million of cash was used to repurchase 1.8 million shares pursuant to calls exercised under this program. Premiums previously paid associated with these exercised calls were $28 million. The following table summarizes the call contracts outstanding as of June 30, 2008:

Stock Repurchase Derivative Contracts Outstanding at June 30, 2008

Contract Date	Number of Shares	Expiration Date	Net Premiums Paid (millions)	Lower Strike Price per share	Upper Strike Price per share
October 2007	1,000,000	October 2008	$ 17	$58.00	$88.00
November 2007	700,000	September 2008	11	58.00	88.00
November 2007	800,000	August 2008	12	53.60	80.40
January 2008	700,000	September 2008	10	51.00	78.00
January 2008	1,000,000	December 2008	16	50.00	80.00
Total Outstanding	4,200,000		$ 66	54.09	82.98

Other Purchases of Equity Securities

Period	Total Number of Shares Purchased 1	Average Price Paid per Share	Total Number of Shares Purchased Under the Program	Approximate Dollar Value of Shares that may yet be Purchased under the Program
April 1-30, 2008	4,648	$ 76.51	NA	NA
May 1-31, 2008	1,070	$ 81.13	NA	NA
June 1-30, 2008	441	$ 81.96	NA	NA
Total	6,159	$ 77.70		

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

Non-U.S. Employee Stock Purchase Plans

We have 30 employee stock purchase plans administered outside the United States for our foreign employees. As of June 30, 2008, those plans had approximately 11,600 participants in the aggregate. During the second quarter of 2008, approximately 243,000 shares of Caterpillar common stock or foreign denominated equivalents were distributed under the plans. Participants in some foreign plans have the option of receiving non-U.S. share certificates (foreign-denominated equivalents) in lieu of U.S. shares of Caterpillar common stock upon withdrawal from the plan. These equivalent certificates are tradable only on the local stock market and are included in our determination of shares outstanding.

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders of Caterpillar Inc. was held on June 11, 2008, for the purpose of electing directors and voting on the proposals described below. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934 and there was no solicitation in opposition to management's solicitation. A plurality vote of the shares present at the meeting was required for election of directors. An affirmative vote of the majority (50 percent or greater) of shares present at the meeting (quorum) was required for approval of all other proposals. Abstentions and broker non-votes have the effect of a vote against matters other than director elections. Quorum exists if at least one-third of Caterpillar stockholders are present in person or by proxy at the meeting. Abstentions and broker non-votes are counted as present for establishing a quorum.

Proposal 1 - Election of Directors
All of management's nominees for Class I directors as listed in the proxy statement were ELECTED with the following vote:

	Shares Voted "FOR"	Shares "WITHHELD"	Broker Non-Votes
W. Frank Blount	511,159,973	32,224,641	N/A
John R. Brazil	525,042,090	18,342,524	N/A
Eugene V. Fife	526,337,851	17,046,763	N/A
Gail D. Fosler	526,397,833	16,986,780	N/A
Peter A. Magowan	522,898,631	20,485,983	N/A

The Class I directors received an average affirmative vote of 96.13%. Class II and III directors that were not up for election will continue in office for the remainder of their terms.

Proposal 2 - Ratification of Independent Registered Public Accounting Firm
A management proposal requesting ratification of Independent Registered Public Accounting Firm received the affirmative vote of 96.26% of the shares present at the meeting and PASSED with the following vote:

Shares Voted "FOR"	Shares Voted "AGAINST"	Shares "ABSTAINING"	Broker Non-Votes
523,064,364	8,022,256	12,297,993	N/A

Proposal 3 - Stockholder Proposal – Annual Election of Directors
A stockholder proposal requesting the Board of Directors to elect all directors annually received the affirmative vote of 54.94% of the shares present at the meeting and PASSED with the following vote:

Shares Voted "FOR"	Shares Voted "AGAINST"	Shares "ABSTAINING"	Broker Non-Votes
298,552,700	131,597,336	12,918,090	100,316,487

Proposal 4 - Stockholder Proposal – Director Election Majority Vote Standard
A stockholder proposal requesting the Board of Directors to adopt majority vote standard received the affirmative vote of 34.42% of the shares present at the meeting and FAILED TO PASS with the following vote:

Shares Voted	Shares Voted	Shares	Broker

"FOR"	"AGAINST"	"ABSTAINING"	Non-Votes
187,012,686	242,537,413	13,518,028	100,316,487

Proposal 5 - Stockholder Proposal – Foreign Military Sales

A stockholder proposal requesting the Board of Directors to prepare a report on foreign military sales received the affirmative vote of 3.38% of the shares present at the meeting FAILED TO PASS with the following vote:

Shares Voted "FOR"	Shares Voted "AGAINST"	Shares "ABSTAINING"	Broker Non-Votes
18,354,487	351,991,283	72,722,356	100,316,487

Item 6. Exhibits

3.1 Restated Certificate of Incorporation (incorporated by reference from Exhibit 3(i) to the Form 10-Q filed for the quarter ended March 31, 1998).

3.2 Bylaws amended and restated as of February 11, 2004 (incorporated by reference from Exhibit 3.3 to the Form 10-Q filed for the quarter ended March 31, 2004).

4.1 Indenture dated as of May 1, 1987, between the Registrant and The First National Bank of Chicago, as Trustee (incorporated by reference from Exhibit 4.1 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).

4.2 First Supplemental Indenture, dated as of June 1, 1989, between Caterpillar Inc. and The First National Bank of Chicago, as Trustee (incorporated by reference from Exhibit 4.2 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).

4.3 Appointment of Citibank, N.A. as Successor Trustee, dated October 1, 1991, under the Indenture, as supplemented, dated as of May 1, 1987 (incorporated by reference from Exhibit 4.3 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).

4.4 Second Supplemental Indenture, dated as of May 15, 1992, between Caterpillar Inc. and Citibank, N.A., as Successor Trustee (incorporated by reference from Exhibit 4.4 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).

4.5 Third Supplemental Indenture, dated as of December 16, 1996, between Caterpillar Inc. and Citibank, N.A., as Successor Trustee (incorporated by reference from Exhibit 4.5 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).

4.6 Tri-Party Agreement, dated as of November 2, 2006, between Caterpillar Inc., Citibank, N.A. and U.S. Bank National Association appointing U.S. Bank as Successor Trustee under the Indenture dated as of May 1, 1987, as amended and supplemented (incorporated by reference from Exhibit 4.6 to the 2006 Form 10-K).

10.1 Caterpillar Inc. 1996 Stock Option and Long-Term Incentive Plan amended and restated through third amendment (incorporated by reference from Exhibit 10.1 to the 2007 Form 10-K).

10.2 Caterpillar Inc. 2006 Long-Term Incentive Plan as amended and restated through third amendment (incorporated by reference from Exhibit 10.2 to the 2007 Form 10-K).

10.3 Supplemental Pension Benefit Plan, as amended and restated January 2003 (incorporated by reference from Exhibit 10.3 to the 2004 Form 10-K).

10.4

Supplemental Employees' Investment Plan, as amended and restated through December 1, 2002 (incorporated by reference from Exhibit 10.4 to the 2002 Form 10-K).

10.5 Caterpillar Inc. Executive Incentive Compensation Plan, effective as of January 1, 2002 (incorporated by reference from Exhibit 10.5 to the 2002 Form 10-K).

10.6 Directors' Deferred Compensation Plan, as amended and restated through January 1, 2005 (incorporated by reference from Exhibit 10.6 to the 2006 Form 10-K).

10.7 Directors' Charitable Award Program (incorporated by reference from Exhibit 10(h) to the 1993 Form 10-K).

10.8 Deferred Employees' Investment Plan, as amended and restated through February 16, 2005 (incorporated by reference as Exhibit 10.8 to the 2005 Form 10-K).

10.9 Five-Year Credit Agreement dated September 21, 2006 among Caterpillar Inc., Caterpillar Financial Services Corporation, Caterpillar International Finance p.l.c. and Caterpillar Finance Corporation, certain financial institutions named therein, Citibank, N.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Citibank International plc, ABN AMRO Bank N.V., Bank of America, N.A., Barclays Bank PLC, J.P. Morgan Securities, Inc., Société Générale and Citigroup Global Markets Inc. (incorporated by reference from Exhibit 99.1 to Form 8-K filed September 26, 2006).

10.10 Japan Local Currency Addendum to the Five-Year Credit Agreement dated September 21, 2006 among Caterpillar Financial Services Corporation, Caterpillar Finance Corporation, the Japan Local Currency Banks named therein, Citibank, N.A., and The Bank of Tokyo-Mitsubishi UFJ, Ltd. (incorporated by reference from Exhibit 99.2 to Form 8-K filed September 26, 2006).

10.11 Local Currency Addendum to the Five-Year Credit Agreement dated September 21, 2006 among Caterpillar Financial Services Corporation, Caterpillar International Finance p.l.c., the Local Currency Banks named therein, Citibank, N.A., and Citibank International plc (incorporated by reference from Exhibit 99.3 to Form 8-K filed September 26, 2006).

10.12 Five-Year Credit Agreement dated September 20, 2007 among Caterpillar Inc., Caterpillar Financial Services Corporation and Caterpillar Finance Corporation, certain financial institutions named therein, Citibank, N.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., ABN AMRO Bank N.V., Bank of America, N.A., Barclays Bank PLC, J.P. Morgan Securities, Inc., Société Générale and Citigroup Global Markets Inc. (incorporated by reference from Exhibit 99.1 to Form 8-K filed September 25, 2007).

10.13 Japan Local Currency Addendum to the Five-Year Credit Agreement dated September 20, 2007 among Caterpillar Financial Services Corporation, Caterpillar Finance Corporation, the Japan Local Currency Banks named therein, Citibank, N.A. and The Bank of Tokyo-Mitsubishi UFJ, Ltd. (incorporated by reference from Exhibit 99.2 to Form 8-K filed September 25, 2007).

11 Computations of Earnings per Share (included in Note 11 of this Form 10-Q filed for the quarter ended June 30, 2008).

31.1 Certification of James W. Owens, Chairman and Chief Executive Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of David B. Burritt, Vice President and Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of James W. Owens, Chairman and Chief Executive Officer of Caterpillar Inc. and David B. Burritt, Vice President and Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

CATERPILLAR INC.

August 1, 2008	/s/ James W. Owens (James W. Owens)	Chairman of the Board and Chief Executive Officer
August 1, 2008	/s/ David B. Burritt (David B. Burritt)	Vice President and Chief Financial Officer
August 1, 2008	/s/ Bradley M. Halverson (Bradley M. Halverson)	Controller
August 1, 2008	/s/ James B. Buda (James B. Buda)	Vice President, General Counsel and Secretary
August 1, 2008	/s/ Jananne A. Copeland (Jananne A. Copeland)	Chief Accounting Officer