CATERPILLAR INC
Form 10-Q/A
May 03, 2007

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

FORM 10-Q/A
(Amendment No. 1*)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2007
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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer [X]   Accelerated filer [   ]   Non-accelerated filer [   ]

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 March 31, 2007, 640,395,899 shares of common stock of the Registrant were outstanding.

This Form 10-Q/A is identical to the Form 10-Q filed with the SEC on 5/3/07 (SEC Accession No. 0000018230-07-000304) and is being filed for the sole purpose of correcting a typographical error whereby Exhibit 31.2 did not contain the typed signature of the signing officer.

Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Sales and revenues:		
Sales of Machinery and Engines	$ 9,321	$ 8,743
Revenues of Financial Products	695	649
Total sales and revenues	10,016	9,392
Operating costs:		
Cost of goods sold	7,136	6,552
Selling, general and administrative expenses	890	821
Research and development expenses	340	307
Interest expense of Financial Products	271	232
Other operating expenses	239	262
Total operating costs	8,876	8,174
Operating profit	1,140	1,218
Interest expense excluding Financial Products	79	68
Other income (expense)	111	43
Consolidated profit before taxes	1,172	1,193
Provision for income taxes	375	370
Profit of consolidated companies	797	823
Equity in profit (loss) of unconsolidated affiliated companies	19	17
Profit	$ 816	$ 840
Profit per common share	$ 1.27	$ 1.25
Profit per common share - diluted [1]	$ 1.23	$ 1.20

Weighted-average common shares outstanding (millions)				
- Basic		643.9		672.0
- Diluted [1]		665.2		699.1
Cash dividends declared per common share	$	—	$	—

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

See accompanying notes to Consolidated Financial Statements.

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

	March 31, 2007	December 31, 2006
Assets		
Current assets:		
Cash and short-term investments	$ 607	$ 530
Receivables - trade and other	8,016	8,607
Receivables - finance	6,700	6,804
Deferred and refundable income taxes	847	733
Prepaid expenses and other current assets	657	638
Inventories	7,131	6,351
Total current assets	23,958	23,663
Property, plant and equipment - net	8,892	8,851
Long-term receivables - trade and other	705	860
Long-term receivables - finance	11,799	11,531
Investments in unconsolidated affiliated companies	554	562
Noncurrent deferred and refundable income taxes	2,121	1,949
Intangible assets	460	387
Goodwill	1,940	1,904
Other assets	1,819	1,742
Total assets	$ 52,248	$ 51,449
Liabilities		
Current liabilities:		
Short-term borrowings:		
Machinery and Engines	$ 649	$ 165
Financial Products	5,592	4,990
Accounts payable	4,044	4,085

Accrued expenses	2,883	2,923
Accrued wages, salaries and employee benefits	704	938
Customer advances	1,081	921
Dividends payable	—	194
Other current liabilities	899	1,145
Long-term debt due within one year:		
Machinery and Engines	442	418
Financial Products	3,656	4,043
Total current liabilities	19,950	19,822
Long-term debt due after one year:		
Machinery and Engines	3,679	3,694
Financial Products	13,338	13,986
Liability for postemployment benefits	5,873	5,879
Other liabilities	1,916	1,209
Total liabilities	44,756	44,590
Commitments and contingencies (Notes 10 and 12)		
Stockholders' equity		
Common stock of $1.00 par value:		
Authorized shares: 900,000,000		
Issued shares: (3/31/07 and 12/31/06 - 814,894,624) at paid-in amount	2,518	2,465
Treasury stock (3/31/07 - 174,498,725; 12/31/06 - 169,086,448) at cost	(7,789)	(7,352)
Profit employed in the business	15,550	14,593
Accumulated other comprehensive income	(2,787)	(2,847)
Total stockholders' equity	7,492	6,859
Total liabilities and stockholders' equity	$ 52,248	$ 51,449

See accompanying notes to Consolidated Financial Statements.

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

	Common stock	Treasury stock	Profit employed in the	Accumulated other comprehensive income: Foreign currency translation	Pension & other post-	Derivative financial instruments	Available-for-sale securities	Total

			business		retirement benefits[1]			
<u>Three Months ended March 31, 2006</u>								
Balance at December 31, 2005	$1,859	$(4,637)	$11,808	$302	$ (934)	$ 18	$ 16	$8,432
Profit	—	—	840	—	—	—	—	840
Foreign currency translation	—	—	—	14	—	—	—	14
Minimum pension liability adjustment, net of tax of $0	—	—	—	—	1	—	—	1
Derivative financial instruments								
Gains (losses) deferred, net of tax of $7	—	—	—	—	—	19	—	19
(Gains) losses reclassified to earnings, net of tax of $6	—	—	—	—	—	8	—	8
Available-for-sale securities								
Gains (losses) deferred, net of tax of $2	—	—	—	—	—	—	3	3
(Gains) losses reclassified to earnings, net of tax of $2	—	—	—	—	—	—	(3)	(3)
Comprehensive Income								882
Common shares issued from treasury stock for stock-based compensation: 9,212,797	68	182	—	—	—	—	—	250
Stock-based compensation expense	34	—	—	—	—	—	—	34
Tax benefits from stock-based compensation	102	—	—	—	—	—	—	102
Shares repurchased: 10,450,000	—	(738)	—	—	—	—	—	(738)
Balance at March 31, 2006	**$2,063**	**$(5,193)**	**$12,648**	**$316**	**$ (933)**	**$ 45**	**$ 16**	**$8,962**
<u>Three Months ended March 31, 2007</u>								
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	—	—	816	—	—	—	—	816
Foreign currency translation	—	—	—	16	—	—	—	16

Amortization of pension and other postretirement benefits losses, net of tax of $33	—	—	—	—	62	—	—	62
Derivative financial instruments								
Gains (losses) deferred, net of tax of $1	—	—	—	—	—	2	—	2
(Gains) losses reclassified to earnings, net of tax of $12	—	—	—	—	—	(22)	—	(22)
Available-for-sale securities								
Gains (losses) deferred, net of tax of $2	—	—	—	—	—	—	4	4
(Gains) losses reclassified to earnings, net of tax of $1	—	—	—	—	—	—	(2)	(2)
Comprehensive Income								876
Common shares issued from treasury stock for stock-based compensation: 2,645,723	(1)	74	—	—	—	—	—	73
Stock-based compensation expense	27	—	—	—	—	—	—	27
Tax benefits from stock-based compensation	27	—	—	—	—	—	—	27
Shares repurchased: 8,058,000	—	(511)	—	—	—	—	—	(511)
Balance at March 31, 2007	**$2,518**	**$(7,789)**	**$15,550**	**$487**	**$(3,314)**	**$28**	**$12**	**$7,492**

[1] Pension and other postretirement benefits includes the aggregate adjustment for unconsolidated companies of $0 million and $1 million for the three months ended March 31, 2007 and 2006, respectively. The ending balances were $43 million and $36 million at March 31, 2007 and 2006, respectively.

See accompanying notes to Consolidated Financial Statements.

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

	Three Months Ended March 31, 2007	2006
Cash flow from operating activities:		

Profit	$ 816	$ 840
Adjustments for non-cash items:		
Depreciation and amortization	412	400
Other	1	10
Changes in assets and liabilities:		
Receivables - trade and other	739	(463)
Inventories	(734)	(618)
Accounts payable and accrued expenses	(141)	216
Other assets - net	(71)	(4)
Other liabilities - net	327	126
Net cash provided by (used for) operating activities	1,349	507
Cash flow from investing activities:		
Capital expenditures - excluding equipment leased to others	(252)	(233)
Expenditures for equipment leased to others	(252)	(252)
Proceeds from disposals of property, plant and equipment	106	208
Additions to finance receivables	(2,553)	(2,346)
Collections of finance receivables	2,359	2,220
Proceeds from sales of finance receivables	40	17
Investments and acquisitions (net of cash acquired)	(153)	(4)
Proceeds from sale of available-for-sale securities	62	76
Investments in available-for-sale securities	(124)	(118)
Other - net	140	117
Net cash provided by (used for) investing activities	(627)	(315)
Cash flow from financing activities:		
Dividends paid	(193)	(168)
Common stock issued, including treasury shares reissued	73	253
Treasury shares purchased	(511)	(738)
Excess tax benefit from stock-based compensation	26	101
Proceeds from debt issued (original maturities greater than three months):		
- Machinery and Engines	26	29
- Financial Products	1,849	2,055
Payments on debt (original maturities greater than three months):		
- Machinery and Engines	(28)	(7)
- Financial Products	(3,000)	(2,823)
Short-term borrowings - net (original maturities three months or less)	1,107	806
Net cash provided by (used for) financing activities	(651)	(492)
Effect of exchange rate changes on cash	6	(2)
Increase (decrease) in cash and short-term investments	77	(302)

Cash and short-term investments at beginning of period	530	1,108
Cash and short-term investments at end of period	$ 607	$ 806

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

See accompanying notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. A. Basis of Presentation

In the opinion of management, the accompanying financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of (a) the consolidated results of operations for the three month periods ended March 31, 2007 and 2006, (b) the consolidated financial position at March 31, 2007 and December 31, 2006, (c) the consolidated changes in stockholders' equity for the three month periods ended March 31, 2007 and 2006, and (d) the consolidated statement of cash flow for the three month periods ended March 31, 2007 and 2006. The financial statements have been prepared in conformity with generally accepted accounting principles (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 Management's Discussion and Analysis and the audited financial statements and notes thereto included in our Company's annual report on Form 10-K for the year ended December 31, 2006 (2006 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 March 31, 2007 and 2006 was $876 million and $882 million, respectively.

The December 31, 2006 financial position data included herein is derived from the audited consolidated financial statements included in the 2006 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 service 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 20,500 horsepower (1 200 to 15 000 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.

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2. New Accounting Pronouncements

SFAS 155 - In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155 (SFAS 155), “Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140.” SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole, eliminating the need to separate the derivative from its host, if the holder elects to account for the whole instrument on a fair value basis. This new accounting standard was effective January 1, 2007. The adoption of SFAS 155 did not have a material impact on our financial statements.

SFAS 156 - In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156 (SFAS 156), “Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140.” SFAS 156 requires that all separately recognized servicing rights be initially measured at fair value, if practicable. In addition, this Statement permits an entity to choose between two measurement methods (amortization method or fair value measurement method) for each class of separately recognized servicing assets and liabilities. This new accounting standard was effective January 1, 2007. The adoption of SFAS 156 did not have a material impact on our financial statements.

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. (See Note 14 for additional information.)

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. As required by SFAS 157, we will adopt this new accounting standard effective January 1, 2008. We are currently reviewing the impact of SFAS 157 on our financial statements. We expect to complete this evaluation in 2007.

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. Under SFAS 158, gains and losses, prior service costs and credits and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost are recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. 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. As required by SFAS 158, we adopted the balance sheet recognition provisions at December 31, 2006, and will adopt the year-end measurement date in 2008 using the prospective method.

SFAS 159 - In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (SFAS 159), “The Fair Value Option for Financial Assets & Financial Liabilities - Including an Amendment of SFAS No. 115.” SFAS 159 will create 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. SFAS 159 will become effective for fiscal years beginning after November 15, 2007. We are currently reviewing the impact of SFAS 159 on our financial statements and expect to complete this evaluation in 2007. We will adopt this new accounting standard on January 1, 2008.

3. Stock-Based Compensation

We adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R), effective January 1, 2006. 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. 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 $27 million and $34 million in the first quarter of 2007 and 2006, respectively.

The following table illustrates the type and fair market value of the stock-based compensation awards granted during the first quarter of 2007 and 2006, respectively:

	2007		2006	
	# Granted	**Fair Value Per Award**	**# Granted**	**Fair Value Per Award**
SARs	4,193,401	$ 20.73	9,388,534	$ 23.44
Stock options	231,615	20.73	331,806	23.44
RSUs	1,282,020	59.94	—	—

As of March 31, 2007, the total remaining unrecognized compensation cost related to nonvested stock-based compensation awards was $240 million, which will be amortized over the weighted-average remaining requisite service periods of approximately 2.5 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. Prior to 2007, the terms of the 1996 Stock Option and Long-Term Incentive Plan (which expired in April of 2006) provided for the exercise price methodology to be the average of the high and low price of our stock on the date of grant. In 2007, under the terms of the Caterpillar Inc. 2006 Long-Term Incentive Plan (approved by stockholders in June of 2006), the Compensation Committee approved the exercise price methodology to be the closing price of the Company stock on the date of grant.

In November 2005, the FASB issued FASB Staff Position No. FAS 123R-3 "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." In the third quarter of 2006, we elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of stock-based compensation. The alternative transition method includes simplified methods to determine the beginning balance of the additional paid-in capital (APIC) pool related to the tax effects of stock-based compensation, and to determine the subsequent impact on the APIC pool and the Statement of Cash Flow of the tax effects of stock-based awards that were fully vested and outstanding upon the adoption of SFAS 123R. In accordance with SFAS 154 "Accounting Changes and Error Corrections," this change in accounting principle has been applied retrospectively to the 2006 Consolidated Statement of Cash Flow. The impact on the Consolidated Statement of Cash Flow was a decrease in operating cash flow and an offsetting increase in financing cash flow of $20 million for the three months ended March 31, 2006.

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. Our Risk Management Policy (policy) allows for the use of derivative financial instruments to prudently manage foreign currency exchange rate, interest rate and commodity price exposure. Our policy specifies that derivatives are not to be used for speculative purposes. Derivatives that we use are primarily foreign currency forward and option contracts, interest rate swaps and commodity forward and option 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 a diversified revenue and cost base, we manage our future foreign currency cash flow exposure on a net basis. We use foreign currency forward and option contracts to manage unmatched foreign currency cash inflow and outflow. Our objective is to minimize the risk of exchange rate movements that would reduce the U.S. dollar value of our foreign currency cash flow. Our policy allows for managing anticipated foreign currency cash flow for up to four years.

We generally designate as cash flow hedges at inception of the contract any Australian dollar, Brazilian real, British pound, Canadian dollar, euro, Japanese yen, Mexican peso, Singapore dollar, New Zealand dollar or Swiss franc forward or option contracts that meet the standard for hedge accounting. Designation is performed on a specific exposure basis to support hedge accounting. The remainder of Machinery and Engines foreign currency contracts are undesignated. We designate as fair value hedges specific euro forward contracts used to hedge firm commitments.

As of March 31, 2007, $10 million of deferred net gains (net of tax) included in equity ("Accumulated other comprehensive income" 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 when earnings are affected by the hedged transactions. The actual amount recorded in Other income (expense) will vary based on exchange rates at the time the hedged transactions impact earnings.

In managing foreign currency risk for our Financial Products operations, our objective is to minimize earnings volatility resulting from conversion and the re-measurement 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:

(Millions of dollars)	**Three Months Ended March 31, 2007**	**2006**
Machinery and Engines:		
On undesignated contracts	$ 4	$ 11
Financial Products:		
On undesignated contracts	(6)	5
	$ (2)	$ 16

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

<u>Interest Rate Risk</u>

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. Designation as a hedge of the fair value of our fixed rate debt is performed to support hedge accounting. During 2001, our Machinery and Engines operations liquidated all fixed-to-floating interest rate swaps. The gain ($7 million at March 31, 2007) 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 floating-to-fixed, fixed-to-floating 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 swap 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. Designation as a hedge of the variability of cash flow is performed to support hedge accounting. Financial Products liquidated fixed-to-floating interest rate swaps during 2006, 2005 and 2004, which resulted in deferred net gains. These gains ($7 million at March 31, 2007) are being amortized to earnings ratably over the remaining life of the hedged debt.

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

(Millions of dollars)	**Three Months Ended March 31, 2007**	**2006**
Fixed-to-floating interest rate swaps		
Machinery and Engines:		
Gain (loss) on designated interest rate derivatives	$ —	$ —
Gain (loss) on hedged debt	(1)	—
Gain (loss) on liquidated swaps - included in interest expense	1	1
Financial Products:		
Gain (loss) on designated interest rate derivatives	12	(50)
Gain (loss) on hedged debt	(12)	50

Gain (loss) on liquidated swaps - included in interest expense	—	2
	$ —	$ 3

As of March 31, 2007, $11 million, net of tax, of deferred net gains included in equity ("Accumulated other comprehensive income"), 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 materials. 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 subjected 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 gains or losses on undesignated contracts for the three months ended March 31, 2007 or 2006.

5. Inventories

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

(Millions of dollars)	**March 31, 2007**	**December 31, 2006**
Raw materials	$ 2,477	$ 2,182
Work-in-process	1,098	977
Finished goods	3,288	2,915
Supplies	268	277
Total inventories	$ 7,131	$ 6,351

6. Investments in Unconsolidated Affiliated Companies

Our investments in affiliated companies accounted for by the equity method consist primarily of a 50% 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 December 31) was as follows:

Results of Operations of unconsolidated affiliated companies:

(Millions of dollars)	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Sales	$ 1,022	$ 1,025
Cost of sales	823	815
Gross profit	$ 199	$ 210
Profit (loss)	$ 50	$ 39
Caterpillar's profit (loss)	$ 19	$ 17

Sales from SCM to Caterpillar for the three months ended March 31, 2007 and March 31, 2006 of approximately $379 million and $417 million, respectively, are included in the affiliated company sales. In addition, SCM purchased $65 million and $71 million of products from Caterpillar during the three months ended March 31, 2007 and March 31, 2006, respectively.

Financial Position of unconsolidated affiliated companies:

(Millions of dollars)	March 31, 2007	December 31, 2006
Assets:		
Current assets	$ 1,717	$ 1,807
Property, plant and equipment - net	1,043	1,119
Other assets	156	176
	2,916	3,102
Liabilities:		
Current liabilities	1,251	1,394
Long-term debt due after one year	265	309
Other liabilities	148	145

		1,664		1,848
Ownership	$	1,252	$	1,254

Caterpillar's investments in unconsolidated affiliated companies:

(Millions of dollars)

Investments in equity method companies	$	529	$	542
Plus: Investments in cost method companies		25		20
Total investments in unconsolidated affiliated companies	$	554	$	562

On February 15, 2007, we signed a nonbinding memorandum of understanding with Mitsubishi Heavy Industries Ltd. (MHI) and SCM to conclude a plan that would result in a new ownership structure for SCM. The companies are in discussions with the intention of reaching definitive agreements that would result in Caterpillar owning a majority stake in SCM. When complete, SCM will proceed with the execution of a share redemption for a portion of SCM's shares held by MHI. In conjunction with the plan, we agreed to discuss with MHI the creation of a new comprehensive joint venture agreement as well as certain definitive agreements for implementation of the plan. These definitive agreements would be subject to applicable regulatory approvals.

7. Intangible Assets and Goodwill

A. Intangible assets

Intangible assets are comprised of the following:

(Dollars in millions)	Weighted Amortizable Life (Years)	March 31, 2007	December 31, 2006
Customer relationships	20	$ 324	$ 242
Intellectual property	11	197	211
Other	13	75	73
Total finite-lived intangible assets - gross	16	596	526
Less: Accumulated amortization		136	139

Intangible assets - net	$ 460	$ 387

Amortization expense for the three months ended March 31, 2007 and March 31, 2006 was $11 million and $6 million, respectively. Amortization expense related to intangible assets is expected to be:

(Millions of dollars)					
2007	**2008**	**2009**	**2010**	**2011**	**Thereafter**
$ 41	$ 40	$ 40	$ 39	$ 37	$ 274

During the first quarter 2007, we acquired finite-lived intangible assets of $82 million due to the purchase of Franklin Power Products. (See Note 15 for acquisition details.)

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 quarter of 2007. During the first quarter of 2006, we determined that the business outlook for the parts and accessories distribution business of MG Rover Ltd., acquired in 2004, required a specific impairment evaluation. The declining outlook of this business resulted from the MG Rover’s cessation of vehicle production and warranties resulting from bankruptcy in 2005. Although the MG Rover parts business continues to provide parts to the existing population of vehicles, the unit’s sales will continue to decline in the future as production of new vehicles has ceased. In determining if there was impairment, we first compared the fair value of the reporting unit (calculated by discounting projected cash flows) to the carrying value. Because the carrying value exceeded the fair value, we allocated the fair value to the assets and liabilities of the unit and determined the fair value of the implied goodwill was zero. Accordingly, a goodwill impairment charge of $18 million was included in "Other Operating Expenses" in the Consolidated Statement of Results of Operations and reported in the "All Other" category during the first quarter of 2006.

During the first quarter of 2007, we acquired assets with related goodwill of $36 million as part purchase of Franklin Power Products (See Note 15 for details on the acquisition of these assets.)

The changes in carrying amount of the goodwill by reportable segment for the quarter ended March 31, 2007 were as follows:

(Millions of dollars)	Heavy Construction & Mining	Electric Power	Large Power Products	All Other[1]	Consolidated Total
Balance at December 31, 2006	$ 20	$ 203	$ 628	$ 1,053	$ 1,904
Acquisitions	—	—	—	36	36
Balance at March 31, 2007	$ 20	$ 203	$ 628	$ 1,089	$ 1,940

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

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) 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" 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.

	March 31, 2007			December 31, 2006		
(Millions of dollars)	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value
Government debt	$ 350	$ (3)	$ 347	$ 355	$ (5)	$ 350
Corporate bonds	608	(4)	604	541	(6)	535
Equity securities	157	25	182	154	26	180
Total	$ 1,115	$ 18	$ 1,133	$ 1,050	$ 15	$ 1,065

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

	March 31, 2007					
	Less than 12 months[1]		12 months or more[1]		Total	
(Millions of dollars)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government debt	$ 77	$ —	$ 181	$ 3	$ 258	$ 3
Corporate bonds	144	1	135	4	279	5
Equity securities	13	1	22	—	35	1
Total	$ 234	$ 2	$ 338	$ 7	$ 572	$ 9

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

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

	December 31, 2006					
	Less than 12 months[1]		12 months or more[1]		Total	
(Millions of dollars)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government debt	$ 116	$ —	$ 199	$ 4	$ 315	$ 4
Corporate bonds	198	1	233	5	431	6
Equity securities	22	1	1	—	23	1
Total	$ 336	$ 2	$ 433	$ 9	$ 769	$ 11

[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 March 31, 2007, by contractual maturity, is shown on the following page. 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	$	102
Due after one year through five years	$	247
Due after five years through ten years	$	130
Due after ten years	$	472

Proceeds from sales of investments in debt and equity securities during the three months ended March 31, 2007 and March 31, 2006 was $62 million and $76 million, respectively. Gross gains of $3 million and $5 million were included in current earnings for the three months ended March 31, 2007 and 2006, respectively.

9. Postretirement Benefits

A. Pension and postretirement benefit costs

(Millions of dollars)	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	March 31,		March 31,		March 31,	
For the three months ended:	2007	2006	2007	2006	2007	2006
Components of net periodic benefit cost:						
Service cost	$ 46	$ 40	$ 18	$ 16	$ 22	$ 24
Interest cost	149	143	32	27	74	76
Expected return on plan assets	(210)	(199)	(41)	(35)	(32)	(29)
Amortization of:						
Net asset existing at adoption of SFAS 87/106	—	—	—	—	—	1
Prior service cost[1]	14	15	1	1	(9)	(8)
Net actuarial loss (gain)	54	58	13	14	20	28
Total cost included in operating profit	$ 53	$ 57	$ 23	$ 23	$ 75	$ 92
Weighted-average assumptions used to determine net cost:						
Discount rate	5.5%	5.6%	4.8%	4.6%	5.5%	5.6%
Expected return on plan assets	9.0%	9.0%	7.7%	7.5%	9.0%	9.0%
Rate of compensation increase	4.0%	4.0%	4.0%	3.7%	4.0%	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.

We made $24 million of contributions to certain non-U.S. pension plans during the three months ended March 31, 2007 and we currently anticipate additional contributions of approximately $10 million during the remainder of the year. Although we have no ERISA (Employee Retirement Income Security Act) funding requirements in 2007, we will continue to evaluate additional contributions to both pension and other postretirement benefit plans.

B. Defined contribution benefit costs

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

	Three Months Ended March 31,	
(Millions of dollars)	**2007**	**2006**
U.S. Plans	$ 54	$ 58
Non-U.S. Plans	8	6
	$ 62	$ 64

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 remote chance that the customers will become insolvent. These guarantees have varying terms and are secured by the machinery.

Cat Financial has provided a limited indemnity to a third party bank for $34 million resulting from the assignment of certain leases to that bank. The indemnity is for the remote chance that the insurers of these leases would become insolvent. The indemnity expires December 15, 2012 and is unsecured.

No loss has been experienced or is anticipated under any of these guarantees. At March 31, 2007 and December 31, 2006, the recorded liability for these guarantees was $8 million and $10 million respectively. The maximum potential amount of future payments (undiscounted and without reduction for any amount that may possibly be recovered under recourse or collateralized provisions) we could be required to make under the guarantees are as follows:

(Millions of dollars)	March 31, 2007	December 31, 2006
Guarantees with Caterpillar dealers	$ 428	$ 527
Guarantees with customers	55	48
Limited indemnity	34	35
Guarantees - other	24	21
Total guarantees	$ 541	$ 631

Our product warranty liability is determined by applying historical claim rate experience to the current field population and dealer inventory. Historical claim rates are developed using a rolling average of actual warranty payments.

(Millions of dollars)	2007
Warranty liability, January 1	$ 953
Reduction in liability (payments)	(211)
Increase in liability (new warranties)	220
Warranty liability, March 31	$ 962

(Millions of dollars)	2006
Warranty liability, January 1	$ 879
Reduction in liability (payments)	(745)
Increase in liability (new warranties)	819
Warranty liability, December 31	$ 953

11. Computations of Profit Per Share

(Dollars in millions except per share data)		Three Months Ended March 31, 2007		2006
I.	Profit for the period (A):	$ 816		$ 840
II.	Determination of shares (in millions):			
	Weighted-average number of common shares outstanding (B)	643.9		672.0
	Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price	21.3		27.1
	Average common shares outstanding for fully diluted computation (C)	665.2		699.1
III.	Profit per share of common stock:			
	Assuming no dilution (A/B)	$ 1.27		$ 1.25
	Assuming full dilution (A/C)	$ 1.23		$ 1.20

12. Environmental and Legal Matters

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

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

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

We have disclosed certain individual legal proceedings in this filing. Additionally, we are involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance liability (including claimed asbestos and welding fumes exposure), contracts, employment issues or intellectual property rights. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of probable loss, we believe that these unresolved legal 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.

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13. Segment Information

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

Caterpillar is a highly integrated company. The majority of our profit centers are product focused. They are primarily responsible for the design, manufacture and/or ongoing support of their products. Some of these product focused profit centers also have marketing responsibilities. In addition, we have geographically-based profit centers that are focused primarily on marketing. One of these profit centers also has some manufacturing responsibilities. One of our profit centers provides various financial services to our customers and dealers. The service center divisions perform corporate functions and provide centralized services.

In the first quarter of 2007, four new profit centers were formed from restructuring the Construction and Mining Products reportable segment (which was the aggregation of three profit centers, Mining and Construction Equipment Division, Track-type Tractor Division and Wheel Loaders and Excavators Division) and EAME Product Development and Operations Division (included in the “All Other” category). Two of the new profit centers, the Infrastructure Product Development Division and Heavy Construction and Mining Division will be primarily responsible for medium and large machine product management and development while the newly formed U.S. Operations Division and the EAME Operations Division will be primarily responsible for medium and large machine manufacturing in their respective geographic regions. Heavy Construction and Mining Division is a reportable segment and the remaining three new divisions are included in the “All Other” category. Products included in Heavy Construction and Mining are medium and large track-type tractors, mining trucks, quarry and aggregate trucks, large wheel loaders, wheel tractor scrapers and track loaders. The segment information for 2006 has been reclassified to conform to the 2007 presentation.

We have developed an internal measurement system to evaluate performance and to drive continuous improvement. This measurement system, which is not based on generally accepted accounting principles (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 or service center 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 22.

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

	Machinery and Engines											
2007	**Asia Pacific Marketing**	**Heavy Construction & Mining**	**EAME Marketing**	**Electric Power**	**Large Power Products**	**Latin America**	**North America Marketing**	**Power Systems Marketing**	**All Other**	**Total**	**Financing & Insurance Services**	**Consolidated Total**
External sales and revenues	$ 796	$ (15)	$ 1,572	$ 688	$ (89)	$ 773	$ 2,325	$ 1,116	$ 2,078	$ 9,244	$ 875	$ 10,119
Intersegment sales & revenues	—	1,783	1	67	1,909	453	54	25	7,289	11,581	1	11,582
Total sales and revenues	$ 796	$ 1,768	$ 1,573	$ 755	$ 1,820	$ 1,226	$ 2,379	$ 1,141	$ 9,367	$ 20,825	$ 876	$ 21,701
Depreciation and	$ 1	$ 1	$ —	$ 6	$ 43	$ 10	$ —	$ 2	$ 155	$ 218	$ 155	$ 373

amortization												
Imputed interest expense	$ 3	$ —	$ 2	$ 5	$ 16	$ 7	$ (1)	$ 1	$ 91	$ 124	$ 274	$ 398
Accountable profit (loss)	$ 32	$ 243	$ 48	$ 51	$ 147	$ 65	$ (10)	$ —	$ 742	$ 1,318	$ 185	$ 1,503
Accountable assets at March 31, 2007	$ 330	$ 31	$ 341	$ 725	$ 2,163	$ 1,005	$ (152)	$ 181	$ 12,766	$ 17,390	$ 27,805	$ 45,195
Capital Expenditures	$ 1	$ —	$ —	$ (2)	$ 39	$ 7	$ 1	$ 1	$ 143	$ 190	$ 267	$ 457

	Machinery and Engines											
2006	**Asia Pacific Marketing**	**Heavy Construction & Mining**	**EAME Marketing**	**Electric Power**	**Large Power Products**	**Latin America**	**North America Marketing**	**Power Systems Marketing**	**All Other**	**Total**	**Financing & Insurance Services**	**Consolidated Total**
External sales and revenues	$ 632	$ (14)	$ 1,078	$ 540	$ (70)	$ 632	$ 3,125	$ 1,307	$ 1,449	$ 8,679	$ 798	$ 9,477
Intersegment sales & revenues	—	1,850	—	51	1,957	422	95	22	7,094	11,491	1	11,492
Total sales and revenues	$ 632	$ 1,836	$ 1,078	$ 591	$ 1,887	$ 1,054	$ 3,220	$ 1,329	$ 8,543	$ 20,170	$ 799	$ 20,969
Depreciation and amortization	$ 1	$ —	$ —	$ 5	$ 42	$ 12	$ —	$ 2	$ 135	$ 197	$ 166	$ 363
Imputed interest expense	$ 2	$ —	$ 1	$ 5	$ 12	$ 7	$ 2	$ 1	$ 76	$ 106	$ 236	$ 342
Accountable profit (loss)	$ 25	$ 246	$ 65	$ 29	$ 177	$ 77	$ 131	$ 30	$ 731	$ 1,511	$ 178	$ 1,689
Accountable assets at December 31, 2006	$ 352	$ 28	$ 285	$ 702	$ 2,022	$ 941	$ (196)	$ 207	$ 12,160	$ 16,501	$ 28,406	$ 44,907
Capital Expenditures	$ —	$ —	$ —	$ 3	$ 34	$ 7	$ —	$ 1	$ 139	$ 184	$ 263	$ 447

Reconciliation of Sales and Revenues:

(Millions of dollars)	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
Three Months Ended March 31, 2007:				
Total external sales and revenues from business segments	$ 9,244	$ 875	$ —	$ 10,119
Other	77	(76)	(104)[1]	(103)
Total sales and revenues	$ 9,321	$ 799	$ (104)	$ 10,016
Three Months Ended March 31, 2006:				
Total external sales and revenues from business segments	$ 8,679	$ 798	$ —	$ 9,477
Other	64	(52)	(97)[1]	(85)
Total sales and revenues	$ 8,743	$ 746	$ (97)	$ 9,392

[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 March 31, 2007:			
Total accountable profit from business segments	$ 1,318	$ 185	$ 1,503
Corporate costs	(266)	—	(266)
Timing	16	—	16
Methodology differences:			
Inventory/cost of sales	12	—	12
Postretirement benefit expense	(50)	—	(50)
Financing costs	(20)	—	(20)
Equity in profit of unconsolidated affiliated companies	(18)	(1)	(19)
Currency	14	—	14
Other methodology differences	4	4	8
Other	(26)	—	(26)
Total profit before taxes	$ 984	$ 188	$ 1,172

Three Months Ended March 31, 2006:			
Total accountable profit from business segments	$ 1,511	$ 178	$ 1,689
Corporate costs	(229)	—	(229)
Timing	(62)	—	(62)
Methodology differences:			
Inventory/cost of sales	(72)	—	(72)
Postretirement benefit expense	(82)	—	(82)
Financing costs	(20)	—	(20)
Equity in profit of unconsolidated affiliated companies	(16)	(1)	(17)
Currency	5	—	5
Other methodology differences	(15)	4	(11)
Other	(8)	—	(8)
Total profit before taxes	$ 1,012	$ 181	$ 1,193

Reconciliation of Assets:

(Millions of dollars)	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
March 31, 2007:				
Total accountable assets from business segments	$ 17,390	$ 27,805	$ —	$ 45,195
Items not included in segment assets:				
Cash and short-term investments	337	270	—	607
Intercompany receivables	159	281	(424)	16
Trade and other receivables	195	—	—	195
Investment in unconsolidated affiliated companies	427	—	(9)	418
Investment in Financial Products	3,642	—	(3,642)	—
Deferred income taxes and prepaids	3,448	120	(316)	3,252
Intangible assets and other assets	1,279	—	—	1,279
Service center assets	1,019	—	—	1,019
Liabilities included in segment assets	2,602	19	—	2,621
Inventory methodology differences	(2,369)	—	—	(2,369)
Other	283	(268)	—	15

Total assets	$ 28,412	$ 28,227	$ (4,391)	$ 52,248
December 31, 2006:				
Total accountable assets from business segments	$ 16,501	$ 28,406	$ —	$ 44,907
Items not included in segment assets:				
Cash and short-term investments	319	211	—	530
Intercompany receivables	205	85	(290)	—
Trade and other receivables	281	—	—	281
Investment in unconsolidated affiliated companies	439	—	(9)	430
Investment in Financial Products	3,513	—	(3,513)	—
Deferred income taxes and prepaids	3,167	116	(327)	2,956
Intangible assets and other assets	1,283	(1)	—	1,282
Service center assets	990	—	—	990
Liabilities included in segment assets	2,337	21	—	2,358
Inventory methodology differences	(2,290)	—	—	(2,290)
Other	250	(245)	—	5
Total assets	$ 26,995	$ 28,593	$ (4,139)	$ 51,449

14. Income Taxes

We adopted FIN 48, "Accounting for Uncertainty in Income Taxes" as of January 1, 2007. As of adoption, the total amount of gross unrecognized tax benefits for uncertain tax positions, including positions impacting only the timing of tax benefits, was $742 million. The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was $486 million. We classify interest and penalties on tax uncertainties as a component of the provision for income taxes. The total amount of interest and penalties accrued as of adoption was $62 million. The corresponding amounts at March 31, 2007 were not materially different from the amounts at the date of adoption. It is expected that the amount of unrecognized tax benefits will change in the next 12 months. However, we do not expect the change to have a significant impact on our results of operations or financial position.

With the exception of transfer pricing adjustments related to the 1992 to 1994 tax years, the tax years subject to examination in the U.S. begin in 1995. In our major non-U.S. jurisdictions, tax years are typically subject to examination for three to six years.

In 2005, the Internal Revenue Service (IRS) completed its field examination of our 1995 through 1999 U.S. tax returns. The examination is now at the appellate level of the IRS. In connection with this examination, we received notices of certain adjustments proposed by the IRS, primarily related to foreign sales corporation commissions, foreign tax credit calculations and research and development credits. We disagree with these proposed adjustments and are continuing to work toward resolution through applicable IRS procedures. We anticipate that this matter could be resolved within the next 12 months. The IRS is also currently conducting a field examination of our 2000 to 2004 U.S. tax returns. We do not expect this examination to be settled within the next year. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

15. Alliances and Acquisitions

Acquisition of Franklin Power Products

In February 2007, we acquired certain assets and assumed certain liabilities of Franklin Power Products, Inc. (FPP) and International Fuel Systems, Inc. (IFS), subsidiaries of Remy International, for approximately $158 million, consisting of $153 million paid at closing with an additional $5 million post closing adjustment to be paid in May 2007. FPP is a remanufacturer of on-highway light and medium duty truck diesel engines and engine components. IFS provides remanufactured diesel engine components such as high-pressure fuel pumps, fuel injectors and turbochargers. This acquisition represents a strategic expansion of our engine and engine component remanufacturing operations.

This transaction was financed with available cash and commercial paper borrowings. Net tangible assets acquired and liabilities assumed of $40 million were recorded at their fair values. Finite-lived intangible assets acquired of $82 million related to customer relationships are primarily being amortized on a straight-line basis over 20 years. Goodwill of $36 million, 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. Assuming this transaction had been made at January 1, 2007, the consolidated pro forma results would not be materially different from the reported results.

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

<u>**Overview**</u>

We reported record first-quarter profit per share of $1.23, a $0.03 per share improvement from the first quarter of 2006. These results came despite severe weakness in two important North American industries. Sales and revenues of $10.016 billion were also a first quarter record and were up 7 percent from $9.392 billion in last year’s first quarter.

There were major headwinds in North America related to housing and a sharp drop in demand for on-highway truck engines. However, our global reach, the breadth of our product line, the wide reach of the industries we serve and the strength of our ***diversified service businesses*** all contributed to our success in the first quarter. We expected a sales decline in on-highway truck engines and U.S. housing-related markets, but the continued strength in most of the other industries we serve and the exceptional growth outside North America helped us deliver good results in a tough quarter.

Sales and revenues of $10.016 billion were up $624 million, or 7 percent, compared with $9.392 billion in the first quarter of 2006. The increase was a result of:

§ $896 million improvement in sales volume outside North America.
§ $389 million of sales from Progress Rail, which was acquired in June of 2006.
§ $184 million of higher sales related to currency effects.
§ $105 million of improved price realization, despite an unfavorable geographic sales mix.
§ $46 million of additional Financial Products revenues.

The increase was partially offset by a $996 million decline in sales volume in North America, which was largely a result of the following three factors:

§ Dealer Machine Inventories—North American dealers added about $600 million to inventory during the first quarter of 2006 and reduced inventory slightly in the first quarter of 2007. While dealer inventories usually increase during the first quarter, the improvement this year was a joint effort with dealers and is consistent with our goal of improving velocity throughout the value chain.
§ On-highway truck—a sharp drop in demand for on-highway truck engines.
§ Weak construction activity in North America—U.S. housing was particularly weak.

Profit of $816 million was down $24 million from the first quarter of 2006. Higher ***core operating costs*** and a higher tax rate more than offset the favorable effects of improved price realization, a $46 million gain on the sale of a security and the addition of Progress Rail.

Profit per share increased $0.03—from $1.20 per share in the first quarter of 2006 to $1.23. The improvement in profit per share was a result of strong cash flow over the past year that was used for stock repurchases, which reduced average diluted share count by 34 million from the first quarter 2006.

In 2007 we will focus on execution in the areas of safety, quality and velocity. Throughout the company we are using ***6 Sigma*** with the ***Cat Production System*** to improve safety and quality, add capacity and improve cost management.

Outlook

We have increased the 2007 outlook for sales and revenues and profit per share. We expect full-year sales and revenues in a range of $42 to $44 billion, up from $41.5 billion in 2006, and profit in a range of $5.30 to $5.80 per share, up from $5.17 per share in 2006. The previous outlook was for sales and revenues of $41.5 to $43.6 billion and profit per share of $5.20 to $5.70.

Continued strength and diversity of the global industries we serve, our growing diversified service businesses, solid economic growth in the global economy and our focus on relentless execution will position us for continued success. We are working hard to execute our strategy and are well on our way to delivering our financial goals for 2010.

Note: Glossary of terms included on pages 29-31; first occurrence of terms shown in bold italics.

Consolidated Results of Operations

THREE MONTHS ENDED MARCH 31, 2007 COMPARED WITH THREE MONTHS ENDED MARCH 31, 2006

SALES AND REVENUES

The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between first quarter 2006 (at left) and first quarter 2007 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar. The bar entitled ***Machinery*** Volume includes Progress Rail sales. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Sales and Revenues

Sales and revenues for first quarter 2007 were $10.016 billion, up $624 million, or 7 percent, from first quarter 2006. Machinery volume including Progress Rail was up $260 million. Excluding Progress Rail, Machinery volume was down $129 million. ***Engines*** volume was up $29 million. Currency had a positive impact on sales of $184 million due primarily to the strengthening of the euro. Price realization improved $105 million despite unfavorable geographic mix. In addition, Financial Products revenues increased $46 million.

Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	EAME	% Change	Latin America	% Change	Asia/ Pacific	% Change
First Quarter 2006										
Machinery	$ 6,112		$ 3,528		$ 1,280		$ 582		$ 722	
Engines[1]	2,631		1,282		795		236		318	
Financial Products[2]	649		455		90		45		59	
	$ 9,392		$ 5,265		$ 2,165		$ 863		$ 1,099	
First Quarter 2007										
Machinery	$ 6,501	6%	$ 3,078	(13%)	$ 1,840	44%	$ 692	19%	$ 891	23%
Engines[1]	2,820	7%	1,168	(9%)	1,003	26%	250	6%	399	25%
Financial Products[2]	695	7%	485	7%	102	13%	53	18%	55	(7%)
	$ 10,016	7%	$ 4,731	(10%)	$ 2,945	36%	$ 995	15%	$ 1,345	22%

[1] Does not include internal engines transfers of $621 million and $570 million in first quarter 2007 and 2006, 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 $104 million and $97 million in first quarter 2007 and 2006, respectively.

Machinery Sales - Sales of $6.501 billion were $389 million, or 6 percent, higher than first quarter 2006.

§ Excluding Progress Rail, machine volume decreased $129 million. Sales volume declined in North America but increased in all other regions.

§ Price realization increased $12 million.

§ Currency benefited sales by $117 million.

§ The acquisition of Progress Rail added $389 million to sales in North America.

§ Shipments of some machines were delayed to implement quality improvements.

§ Dealers added very little to inventories during the first quarter, so the total value of reported inventories was down slightly from a year ago. Inventories in months of supply were lower than a year earlier in all regions.

§ In North America, sales volume was down significantly from a year earlier. Dealers made sizable reductions to their inventories, and reported deliveries declined. Negative developments include a significant decline in housing construction, a slowdown in nonresidential construction and a decline in coal production.

§ Sales volume increased in all regions outside North America, with the Europe, Africa/Middle East (***EAME***) region particularly strong. Most economies grew rapidly, and construction spending increased significantly with gains of 10 percent or more fairly common. Metals mining, coal mining and petroleum development also increased, contributing to growth in sales.

§ Metals prices in the first quarter were well above year-earlier prices, so dealers increased deliveries to metals mines in almost all regions. Industrial production increased rapidly outside North America, metals stocks remain low and mine output has increased slowly.

North America - Sales decreased $450 million, or 13 percent.

§ Progress Rail sales were $389 million. Excluding Progress Rail, sales volume declined $851 million.

§ Price realization increased $12 million.

§ Machine volume declined from last year as dealers reported lower deliveries to end users. Also, North American dealers added about $600 million to inventory during the first quarter of 2006 and reduced inventory slightly in the first quarter of 2007. While dealer inventories usually increase during the first quarter, the improvement this year was a joint effort with dealers and is consistent with our goal of improving velocity throughout the value chain.

§ Factors contributing to lower machine sales included weak activity in several applications, lower output prices in some sectors and tighter financial conditions. The latter increased uncertainty and prompted users to delay purchases, even in some applications where activity and output prices were favorable. These factors also caused dealers to add fewer machines to their rental fleets.

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The steep drop in housing construction continued to depress sales, particularly of smaller machines, as home contractors retrenched. Prices for new homes declined in the quarter, and the supply of new homes in months of sales reached the highest since the 1990/1991 recession.

§ Contracts for nonresidential construction dropped 3 percent from a strong first quarter 2006. Commercial and industrial contracting slowed abruptly, and delays in passing a federal government budget limited the increase in highway funding.

§ Coal mining had a bad first quarter. Production declined 3 percent, and the Central Appalachian coal price dropped 25 percent. Utilities reduced their coal burn in favor of natural gas last year, and coal stockpiles reached a four year high. Net coal exports also dropped to the lowest on record.

§ Metals mining, quarrying and aggregates continued to do well in the first quarter. Metals prices rose more than 50 percent on average, and sand and gravel prices were up 9 percent. Metals mine production increased almost 3 percent in the first quarter.

EAME - Sales increased $560 million, or 44 percent.

§ Sales volume increased $448 million.

§ Price realization increased $8 million.

§ Currency benefited sales by $104 million.

§ Sales volume increased due to large gains occurring throughout the region. Dealers reported much higher deliveries to end users and increased inventories to support that growth. However, reported inventories in months of supply were lower than at the end of first quarter 2006.

§ Sales volume in Europe benefited from low interest rates and improved economic growth. Housing construction continued to increase due to higher home prices, and mortgage lending in the Eurozone increased 10 percent. Nonresidential construction increased in response to favorable credit conditions and record corporate profits.

§ Sales increased significantly in Africa/Middle East, starting the fourth consecutive year of rapid growth. Many countries have accumulated sizable foreign exchange holdings and are using these funds for infrastructure development. High commodity prices encouraged investment in petroleum, coal and metals mining, and good economic growth benefited building construction. The latest available data show that construction increased 20 percent in Turkey and 13 percent in South Africa.

§ Sales in the CIS nearly doubled, starting the seventh consecutive year of growth. Contributing to higher sales in Russia were a 26 percent increase in construction and a 4 percent increase in mining. Significant sales growth also occurred in Kazakhstan and Ukraine. In Ukraine, mining increased 5 percent and construction 22 percent.

Latin America - Sales increased $110 million, or 19 percent.

§ Sales volume increased $83 million.

§ Price realization increased $25 million.

§ Currency benefited sales by $2 million.

§ Dealers reported much higher deliveries to end users and increased inventories slightly to support that growth. However, reported inventories in months of supply were lower than a year earlier.

§ The region brought inflation under control, allowing central banks to reduce interest rates. Most countries increased export competitiveness, and foreign exchange holdings rose 27 percent over the past year. These improvements led to better economic growth.

§ Better growth, along with increased revenues from energy and metals, benefited construction. Construction spending increased more than 5 percent in most of the larger economies and was the principal reason for increased machine sales.

Asia/Pacific - Sales increased $169 million, or 23 percent.

§ Sales volume increased $126 million.

§ Price realization increased $32 million.

§ Currency benefited sales by $11 million.

§ Dealers reported increased deliveries to end users but reduced inventories. Reported inventories in months of supply declined.

§ Sales were strong in Australia, the result of growth in nonresidential construction and mining. Nonresidential building permits increased 36 percent in the first quarter, and exploration expenditures for mining increased 25 percent yearly over the past 3 years.

§ Indonesia turned in a large sales gain as the rebound from the late 2005 downturn continued. Interest rates were about 375 basis points lower than a year earlier, and mining, boosted by coal exports, increased 7 percent.

§ Strong growth in the Indian economy extended growth in machine sales into the sixth year. Based on the latest available data, construction increased 10 percent and mining nearly 4 percent.

§ Sales in China continued to reflect good growth. As a result of strong economic growth and rising incomes, housing construction increased 18 percent and office construction nearly 20 percent. China has a large mining sector, and the latest data available indicate coal production increased 14 percent and iron ore mining 45 percent.

Engines Sales - Sales of $2.820 billion were $189 million, or 7 percent, higher than first quarter 2006.

§ Sales volume increased $29 million.

§ Price realization increased $93 million.

§ Currency impact benefited sales by $67 million

§ Worldwide dealer-reported inventories in dollars and months of supply were up but continued to be supported by strong delivery rates.

§ Price realization in the first quarter 2007 benefited from price increases implemented in third quarter 2006 and first quarter 2007.

North America - Sales declined $114 million, or 9 percent.

§ Sales volume decreased $145 million.

§ Price realization increased $31 million.

§ Sales for on-highway truck applications declined 53 percent as the industry worked to consume 2006 pre-buy engines, and engine shipments decreased to accommodate the transition to 2007 emissions technology engines.

§ Sales for petroleum applications increased 42 percent with widespread sustained demand for engines to support compression, drilling and well servicing and strong sales of turbines for gas transmission applications.

§ Sales for electric power applications increased 43 percent supported by nonresidential construction and technology applications that were undergoing completion.

§ Sales for industrial applications increased 11 percent from demand for air compressors, lighting towers and various types of Original Equipment Manufacturer (OEM) equipment.

§ Sales for marine applications increased 15 percent supported by demand for workboats.

EAME - Sales increased $208 million, or 26 percent.

§ Sales volume increased $123 million.

§ Price realization increased $32 million.

§ Currency impact increased sales by $53 million.

§ Sales for electric power applications increased 25 percent with strong demand for larger generator sets to support infrastructure, particularly in the Middle East.

§ Sales for industrial applications increased 27 percent with widespread demand for agriculture and other types of OEM equipment.

§ Sales for marine applications increased 35 percent with increased demand for workboats, commercial oceangoing vessels and cruise ships.

§ Sales for petroleum applications increased 40 percent, primarily from increased demand for turbines and turbine-related services to support oil production.

Latin America - Sales increased $14 million, or 6 percent.

§ Sales volume increased $10 million.

§ Price realization increased $4 million.

§ Sales for electric power engines increased 48 percent from widespread investment supported by strong oil and commodity prices.

§ Sales for petroleum applications declined 12 percent due to the absence of larger project sales of turbines and turbine-related services to support production and transmission.

§ Sales into truck applications declined 18 percent with reduced demand for trucks.

§ Sales into marine and industrial applications remained about flat.

Asia/Pacific - Sales increased $81 million, or 25 percent.

§ Sales volume increased $41 million.

§ Price realization increased $26 million.

§ Currency impact benefited sales by $14 million.

§ Sales for electric power applications increased 34 percent with strong demand for natural gas powered engines to support textile manufacturing and coal bed methane power plants.

§ Sales for marine applications increased 37 percent with continued strong demand for shipbuilding.

§ Sales for petroleum applications increased 28 percent with all of the increase driven by increased demand for turbines and turbine-related services to support production and transmission.

§ Sales for industrial applications declined 11 percent with reduced demand for industrial OEM equipment.

Financial Products Revenues - Revenues of $695 million were an increase of $46 million, or 7 percent, from first quarter 2006.

§ Growth in average ***earning assets*** increased revenues $36 million.

§ The impact of higher interest rates on new and existing finance receivables at Cat Financial added $20 million.

OPERATING PROFIT

The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between first quarter 2006 (at left) and first quarter 2007 (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 ***Consolidating Adjustments/M&E Other Operating Expense*** includes the operating profit impact of Progress Rail.

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<u>Operating Profit</u>

Operating profit in first quarter 2007 decreased $78 million, or 6 percent, from last year, driven by higher core operating costs, partially offset by higher price realization.

Core operating costs rose $207 million from first quarter 2006. Of this increase, $156 million was attributable to higher ***manufacturing costs***. Manufacturing costs include both variable and ***period costs*** associated with building our products. Nearly all of the increase in manufacturing costs was attributable to variable costs. The increase in variable manufacturing costs was a result of operating inefficiencies, warranty and higher material costs. Operating inefficiencies were primarily the result of lower production of truck engines. Non-manufacturing core operating costs were up $51 million as a result of higher Selling, General and Administrative (SG&A) and Research and Development (R&D) expenses to support significant new product programs as well as order fulfillment/velocity initiatives.

A decline in the on-highway truck and U.S. housing industries had a significant impact on our sales and operating efficiencies in first quarter 2007 compared to first quarter 2006. We estimate the combined effect of these two industries negatively impacted first quarter 2007 operating profit by approximately $130 million compared with first quarter 2006.

Operating Profit by Principal Line of Business

(Millions of dollars)	First Quarter 2006	First Quarter 2007	$ Change	% Change
Machinery[1]	$ 837	$ 717	$ (120)	(14%)
Engines[1]	294	347	53	18%
Financial Products	170	167	(3)	(2%)
Consolidating Adjustments	(83)	(91)	(8)	
Consolidated Operating Profit	$ 1,218	$ 1,140	$ (78)	(6%)

[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.

<u>Operating Profit by Principal Line of Business</u>

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Machinery operating profit of $717 million was down $120 million, or 14 percent, from first quarter 2006. The unfavorable impact of higher core operating costs and lower sales volume was partially offset by improved price realization.

§ **Engines** operating profit of $347 million was up $53 million, or 18 percent, from first quarter 2006. The favorable impact of improved price realization and higher sales volume was partially offset by higher core operating costs. Continued strength in our commercial engines industries has allowed us to more than offset the profit decline in the on-highway truck engine industry.

§ **Financial Products** operating profit of $167 million was down $3 million, or 2 percent, from first quarter 2006.

Reconciliation of Machinery and Engine Sales by Geographic Region to External Sales by Marketing Segment

(Millions of dollars)	Three Months Ended March 31, 2007	2006
North America Geographic Region	$ 4,246	$ 4,810
Sales included in the Power Systems Marketing segment	(689)	(986)
Sales included in the Electric Power segment	(206)	(160)
Company owned dealer sales included in the All Other category	(167)	(202)
Other[1]	(859)	(337)
North America Marketing external sales	$ 2,325	$ 3,125
EAME Geographic Region	$ 2,843	$ 2,075
Sales included in the Power Systems Marketing segment	(226)	(153)
Sales included in the Electric Power segment	(357)	(288)
Other[1]	(688)	(556)
EAME Marketing external sales	$ 1,572	$ 1,078
Latin America Geographic Region	$ 942	$ 818
Sales included in the Power Systems Marketing segment	(36)	(43)
Sales included in the Electric Power segment	(19)	(9)
Other[1]	(114)	(134)
Latin America external sales	$ 773	$ 632
Asia/Pacific Geographic Region	$ 1,290	$ 1,040

Sales included in the Power Systems Marketing segment	(165)	(125