



100 NE Adams Street
Peoria, Illinois 61629

Notice of Annual Meeting of Stockholders
Wednesday, June 8, 2011
1:30 p.m. — Central Daylight Time

Peabody Grand Ballroom
Three Statehouse Plaza
Little Rock, Arkansas 72201

April 29, 2011

Dear fellow stockholder:

On behalf of the board of directors, you are cordially invited to attend the 2011 Caterpillar Inc. annual meeting of stockholders to:

- Elect as directors the fifteen nominees identified in this proxy statement;
- Ratify the appointment of our independent registered public accounting firm for 2011;
- Act on company proposals;
- Act on properly presented stockholder proposals; and
- Conduct any other business properly brought before the meeting or any adjournment or postponement thereof.

We have elected to furnish proxy materials for the annual meeting to stockholders through the Internet. We believe this will expedite stockholders' receipt of the proxy materials, lower the costs and reduce the environmental impact of our annual meeting. On April 29, 2011, we mailed a notice to most stockholders containing instructions on how to access the proxy materials and vote online. All other stockholders were sent a copy of the proxy materials by mail or e-mail. See page 1 of this proxy statement for more information on how you can (i) receive a paper copy of the proxy materials if you received a notice by mail, or (ii) elect to receive your proxy materials over the Internet or by e-mail, if you received them by mail this year.

You must have an admission ticket to attend the annual meeting. Procedures for requesting an admission ticket are detailed on page 64 of this proxy statement. Attendance and voting is limited to stockholders of record at the close of business on April 11, 2011.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Doug Oberhelman", written over a horizontal line.

Douglas R. Oberhelman
Chairman and Chief Executive Officer

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PART ONE — Information about E-proxy, Meeting Attendance and Voting Matters

Internet Availability of Proxy Materials

As permitted by e-proxy rules adopted by the Securities and Exchange Commission (SEC), Caterpillar Inc. (Caterpillar, the Company, we or us) is providing, in most cases, the proxy materials for its 2011 annual meeting of stockholders (Annual Meeting) electronically through the Internet or e-mail. On April 29, 2011, we initiated delivery of proxy materials to our stockholders of record as of the close of business on April 11, 2011 in one of three ways: 1) a notice containing instructions on how to access proxy materials through the Internet (Internet Notice), 2) a paper copy mailing (Paper Mailing) or 3) an e-mail distribution. If you received an Internet Notice, you will not receive a printed copy of the proxy materials in the mail. Instead, the Internet Notice provides instructions on how to access the proxy materials and vote online or by telephone. If you received an Internet Notice and would like to receive a printed copy of the proxy materials or elect to receive the materials via e-mail in the future, please follow the instructions included in the Internet Notice. If you received a Paper Mailing and would like to register to receive an Internet Notice or an e-mail regarding availability of proxy materials in the future, you can do so by any of the following methods:

- **Internet** — Go to www.eproxyaccess.com/cat2011 and follow the registration instructions.
- **Telephone** — From within the United States or Canada, call us free of charge at 1-888-216-1280.
- **E-mail** — Send us an e-mail at cat@eproxyaccess.com. Include the control number from your Paper Mailing as the subject line, and indicate whether you wish to receive a paper or e-mail copy of the proxy materials and whether your request is for this meeting only or for all future meetings.

Frequently Asked Questions Regarding Meeting Attendance and Voting

Q: Why am I receiving these proxy materials?

A: You have received these proxy materials because you are a Caterpillar stockholder, and Caterpillar's Board of Directors (Board) is soliciting your authority or proxy to vote your shares at the Annual Meeting. This proxy statement includes information that we are required to provide to you under SEC rules and is designed to assist you in voting your shares.

Q: What is e-proxy and why did Caterpillar choose to use it this year?

A: SEC rules allow companies to choose the method for delivery of proxy materials to stockholders. For most stockholders, we have elected to send an Internet Notice, rather than mailing a full set of proxy materials. We believe that this method of delivery will expedite your receipt of proxy materials, lower costs and reduce the environmental impact of our Annual Meeting.

Q: Why didn't I receive an "annual report" or "sustainability report" with my proxy materials?

A: Our 2010 "Year in Review" and 2010 "Sustainability Report" are available exclusively online at www.caterpillar.com/investor. The online, interactive format of the reports furthers our efforts to lower costs and reduce the environmental impact of our communications. As required by SEC rules, complete financial statements, financial statement notes and management's discussion and analysis for 2010 are included with the proxy statement distributed to stockholders.

Q: How do I obtain an admission ticket to attend the Annual Meeting?

A: Anyone wishing to attend the Annual Meeting must have an admission ticket issued in his or her name. Admission is limited to:

- Stockholders on April 11, 2011, together with one immediate family member;

- An authorized proxy holder of a stockholder of record on April 11, 2011; or
- An authorized representative of a stockholder of record who has been designated to present a stockholder proposal.

You must provide evidence of your ownership of shares with your ticket request and follow the requirements for obtaining an admission ticket specified in the “Admission and Ticket Request Procedure” on page 64. Accredited members of the media and analysts are also permitted to attend the Annual Meeting pursuant to the directions provided in the “Admission and Ticket Request Procedure” on page 64.

Q: What is a stockholder of record?

A: A stockholder of record or registered stockholder is a stockholder whose ownership of Caterpillar common stock is reflected directly on the books and records of our transfer agent, BNY Mellon Shareowner Services (Transfer Agent). If you hold stock through a bank, broker or other intermediary, you hold your shares in “street name” and are not a stockholder of record. For shares held in street name, the stockholder of record is your bank, broker or other intermediary. Caterpillar only has access to ownership records for the stockholders of record. So, if you are not a stockholder of record, the Company needs additional documentation to evidence your stock ownership as of the record date — such as a copy of your brokerage account statement, a letter from your broker, bank or other nominee or a copy of your voting instruction card.

Q: When was the record date and who is entitled to vote?

A: The Board set April 11, 2011 as the record date for the Annual Meeting. Holders of Caterpillar common stock on that date are entitled to one vote per share. As of April 11, 2011, there were 644,692,623 shares of Caterpillar common stock outstanding.

A list of all registered stockholders will be available for examination by stockholders during normal business hours at 100 NE Adams Street, Peoria, Illinois 61629, at least ten days prior to the Annual Meeting and will also be available for examination at the Annual Meeting.

Q: How do I vote?

A: You may vote by any of the following methods:

- **In person** — Stockholders of record and stockholders with shares held in street name that obtain an admission ticket and attend the Annual Meeting will receive a ballot for voting. If you hold shares in street name, you must also obtain a legal proxy from your broker to vote in person and submit the proxy along with your ballot at the meeting.
- **By mail** — Signing and returning the proxy and/or voting instruction card provided.
- **By phone or via the Internet** — Following the instructions on your Internet Notice, proxy and/or voting instruction card or e-mail notice.

If you vote by phone or the Internet, please have your Internet Notice, proxy and/or voting instruction card or e-mail notice available. The control number appearing on your Internet Notice, proxy and/or voting instruction card or e-mail notice is necessary to process your vote. A phone or Internet vote authorizes the named proxies in the same manner as if you marked, signed and returned the card by mail.

Q: How do I vote my 401(k) or savings plan shares?

A: If you participate in a 401(k) or savings plan sponsored by Caterpillar or one of its subsidiaries that includes a Caterpillar stock investment fund, you may give voting instructions to the plan trustee with respect to the shares of Caterpillar common stock in that fund that are associated with your plan account. The plan trustee will follow your voting instructions unless it determines that to do so would be contrary to law. If you do not provide voting instructions, the plan trustee will act in accordance with the employee benefit plan documents. In general, the plan documents specify that the trustee will vote the shares for which it does not receive instructions in the same proportion that it votes shares for which it received timely instructions, unless it determines that to do so would be contrary to law.

You may revoke previously given voting instructions by following the instructions provided by the trustee.

Q: How are shares in the Caterpillar pension plan voted?

A: The Caterpillar Inc. Master Retirement Trust owns shares of Caterpillar stock for the benefit of certain defined benefit pension plans sponsored by the Company or its subsidiaries. The Northern Trust Company acts as trustee and votes the shares held by the trust at its discretion. In exercising this discretion, Northern Trust acts in a fiduciary capacity for the exclusive benefit of the participants in the pension plans. To the extent that an investment manager retained to invest assets of the trust holds Caterpillar stock in its portfolio, the investment manager, in its discretion, will direct the trustee to vote the shares held in the portfolio. In exercising this discretion, the investment manager acts in a fiduciary capacity for the exclusive benefit of the participants in the pension plans.

Q: What are “broker non-votes” and why is it so important that I submit my voting instructions for shares I hold in street name?

A: Under the rules of the New York Stock Exchange (NYSE), if a broker or other financial institution holds your shares in its name and you do not provide your voting instructions to them, that firm has discretion to vote your shares for certain routine matters. For example, Company Proposal 2, the ratification of the appointment of our independent registered public accounting firm, is a routine matter.

On the other hand, the broker or other financial institution that holds your shares in its name does not have discretion to vote your shares for non-routine matters, including stockholder proposals. When a broker votes a client's shares on some but not all of the proposals at the Annual Meeting, the missing votes are referred to as “broker non-votes.”

Whether or not you plan to attend the Annual Meeting, we encourage you to vote your shares promptly.

Q: How can I authorize someone else to attend the Annual Meeting or vote for me?

A: Stockholders of record can authorize someone other than the individual(s) named on the proxy and/or voting instruction card to vote on their behalf by crossing out the individual(s) named on the card and inserting the name of the individual being authorized or by providing a written authorization to the individual being authorized to attend or vote.

Street name holders can contact their broker to obtain documentation with authorization to attend or vote at the Annual Meeting.

To obtain an admission ticket for an authorized proxy representative, see the requirements specified in the “Admission and Ticket Request Procedure” on page 64.

Q: How can I change or revoke my vote?

A: *For stockholders of record:* You may change or revoke your vote by submitting a written notice of revocation to Caterpillar Inc. c/o Corporate Secretary at 100 NE Adams Street, Peoria, Illinois 61629 or by validly submitting another vote on or before June 8, 2011 (including a vote via the Internet or by telephone). For all methods of voting, the last vote cast will supersede all previous votes.

For holders in street name: You may change or revoke your voting instructions by following the specific directions provided to you by your bank or broker.

Q: Is my vote confidential?

A: Yes. Proxy cards, ballots, Internet and telephone votes that identify stockholders are kept confidential. There are exceptions for contested proxy solicitations or when necessary to meet legal requirements. Innisfree M&A Incorporated (Innisfree), the independent proxy tabulator used by Caterpillar, counts the votes and acts as the inspector of election for the Annual Meeting.

Q: What is the quorum for the Annual Meeting?

A: A quorum of stockholders is necessary to hold a valid meeting. Holders of at least one-third of all Caterpillar common stock must be present in person or by proxy at the Annual Meeting to constitute a quorum. Abstentions and broker non-votes are counted as present for establishing a quorum.

Q: What vote is necessary for action to be taken on proposals?

A: Directors are elected by a plurality vote of the shares present and entitled to vote, meaning that director nominees with the most affirmative votes are elected to fill the available seats.

The frequency of the advisory vote on executive compensation (Proposal 5) receiving the greatest number of votes (every one, two or three years) will be considered the frequency recommended by stockholders.

All other actions presented for a vote of the stockholders at the Annual Meeting require an affirmative vote of the majority of shares present and entitled to vote.

Abstentions will have no effect on director elections and Proposal 5. Abstentions will have the effect of a vote against all other matters. Broker non-votes will not have an effect on any proposals presented for your vote.

Votes submitted by mail, telephone or Internet will be voted by the individuals named on the card (or the individual properly authorized) in the manner indicated. If you do not specify how you want your shares voted, they will be voted in accordance with the Board's recommendations. If you hold shares in more than one account, you must vote each proxy and/or voting instruction card you receive to ensure that all shares you own are voted.

Q: When are stockholder proposals for inclusion in the Company's proxy statement due for the 2012 annual meeting?

A: To be considered for inclusion in the Company's 2012 proxy statement pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, stockholder proposals must be received in writing no later than December 31, 2011. Stockholder proposals should be sent to Caterpillar Inc. by mail c/o Corporate Secretary at 100 NE Adams Street, Peoria, Illinois 61629. Additionally, we request that you send a copy to the following facsimile number: 309-494-1467.

Q: What does it mean if I receive more than one proxy card?

A: Whenever possible, registered shares and plan shares for multiple accounts with the same registration will be combined into the same proxy card. Shares with different registrations cannot be combined and as a result, you may receive more than one proxy card. For example, registered shares held individually by John Smith will not be combined on the same proxy card as registered shares held jointly by John Smith and his wife.

Street shares are not combined with registered or plan shares and may result in your receipt of more than one proxy card. For example, street shares held by a broker for John Smith will not be combined with registered shares for John Smith.

If you hold shares in more than one account, you must vote separately for each notice, proxy and/or voting instruction card or e-mail notification you receive that has a unique control number to ensure that all shares you own are voted.

If you receive more than one proxy card for accounts that you believe could be combined because the registration is the same, contact our Transfer Agent (for registered shares) or your broker (for street shares) to request that the accounts be combined for future mailings.

Q: Who pays for the solicitation of proxies?

A: Caterpillar pays the cost of soliciting proxies on behalf of the Board. This solicitation is being made by mail and through the Internet, but also may be made by telephone or in person. We have hired Innisfree to assist in the solicitation. We will pay Innisfree a fee of \$15,000 for these services, and will reimburse their out-of-pocket expenses. We will reimburse brokerage firms and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for sending proxy materials to stockholders and obtaining their votes.

Q: Are there any matters to be voted on at the Annual Meeting that are not included in this proxy statement?

A: We do not know of any matters to be voted on by stockholders at the meeting other than those discussed in this proxy statement. If any other matter is properly presented at the Annual Meeting, proxy holders will vote on the matter in their discretion.

Q: Can I submit a question in advance of the Annual Meeting?

A: Stockholders wishing to submit a question for consideration in advance of the Annual Meeting may do so by sending an e-mail to the Corporate Secretary at Directors@CAT.com or by mail to Caterpillar Inc. c/o Corporate Secretary at 100 NE Adams Street, Peoria, Illinois 61629. At the Annual Meeting, the Chairman will alternate taking live questions with questions submitted in advance, if any.

PART TWO — Corporate Governance Information

Corporate Governance Guidelines

Our Board has adopted Guidelines on Corporate Governance Issues (Corporate Governance Guidelines), which are available on our Internet site at www.caterpillar.com/governance. The Corporate Governance Guidelines reflect the Board's commitment to oversee the effectiveness of policy and decision-making both at the Board and management level, with a view to enhancing stockholder value over the long term.

Composition of the Board

As of the date of this proxy statement, our Board consists of 14 directors. Directors are elected at each annual meeting to serve for a one-year term and until their respective successors are duly elected and qualified, subject to their earlier death, resignation or removal. If a nominee is unavailable for election, proxy holders will vote for another nominee proposed by the Board or, as an alternative, the Board may reduce the number of directors to be elected at the Annual Meeting. Biographical information and qualifications of the directors are included under Proposal 1 — Election of Directors on page 14.

The Board has determined that, with the exception of our Chairman and Chief Executive Officer, Douglas R. Oberhelman, all directors and director candidates are independent as determined under NYSE listing standards and the standards described under "Director Independence Determinations" on page 6.

Related Party Transaction Approval Process

Caterpillar's Board adopted a written process governing the approval of related party transactions for directors and certain officers in April 2007. Under the process, all related party transactions are to be approved in advance by the Governance Committee. Related parties include directors and executive officers and their immediate family members.

Prior to entering into such a transaction, the applicable director or officer must submit the details of the proposed transaction to the Company's Chief Legal Officer, including whether: (i) the aggregate amount involved will or may be expected to exceed \$120,000 in any calendar year; (ii) any matter involving our Company or in which the Company is a party; and (iii) the related person or his or her immediate family member has or will have a direct or indirect interest (other than solely as a result of being a director or a less than 10 percent beneficial owner of an entity involved in the transaction). The Chief Legal Officer then evaluates, based on the facts and circumstances of the transaction, whether the related person may have a direct or indirect material interest in the transaction. If so, the Chief Legal Officer will submit the matter to the Governance Committee for it to consider the following:

- The nature of the related person's interest in the transaction.
- The material terms of the transaction, including, without limitation, the amount and type of transaction.
- The importance of the transaction to the related person.
- The importance of the transaction to the Company.
- Whether the transaction would impair the judgment of the director or executive officer to act in the best interest of the Company.
- The alternatives to entering into the transaction.

- Whether the transaction is on terms comparable to those available to third parties or, in the case of employment relationships, to employees generally.
- The potential for the transaction to lead to an actual or apparent conflict of interest and any safeguards imposed to prevent such actual or apparent conflicts.
- The overall fairness of the transaction to the Company.

The Governance Committee then determines whether there is a material interest, and, if so, whether to approve a transaction or refer it to the Board for approval. Based on information provided by the directors, the executive officers, and the Chief Legal Officer, the Governance Committee determined that there are no related party transactions required to be reported in this proxy statement.

Director Independence Determinations

The Company's Corporate Governance Guidelines establish that no more than two non-independent directors shall serve on the Board at any point in time. A director is "independent" if he or she has no direct or indirect material relationship with the Company or with senior management of the Company and their respective affiliates. Annually, the Board makes an affirmative determination regarding the independence of each director based upon the recommendation of the Governance Committee. The Board makes its independence determinations on a case-by-case basis, after consideration of all relevant facts and circumstances. To assist in making its independence determinations, the Board has adopted the following standards, which conform to the applicable NYSE rules. Under these standards, a director is considered independent if he or she:

- (1) Has no material relationship with the Company, either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company, and does not have any relationship that precludes independence under the NYSE director independence standards;
- (2) Is not currently, or within the past three years, employed by the Company, or an immediate family member is not currently, or for the past three years, employed as an executive officer of the Company;
- (3) Is not a current employee, nor is an immediate family member a current executive officer of, a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the past three years, exceeds the greater of \$1 million or 2 percent of the consolidated gross revenues of that company;
- (4) Has not received, nor has an immediate family member received, during any twelve month period within the last three years, direct remuneration in excess of \$120,000 from the Company other than director and committee fees and pension or other forms of deferred compensation for prior services;
- (5) (i) is not a current partner or employee of a firm that is the Company's internal or external auditor; (ii) does not have an immediate family member who is a current partner of such a firm; (iii) does not have an immediate family member who is a current employee of such a firm and personally works on the Company's audit; or (iv) has not, nor has an immediate family member, been a partner or employee of such a firm and personally worked on the Company's audit within the last three years;
- (6) Is not part of an "interlocking directorate," whereby an executive officer of the Company simultaneously served on the compensation committee of another company that employed the director as an executive officer during the last three years;
- (7) Is free of any relationships with the Company that may impair, or appear to impair, his or her ability to make independent judgments; and
- (8) Is not employed by a non-profit organization where a substantial portion of funding for the past three years (exceeding the greater of \$1 million or 2 percent of the organization's annual consolidated gross revenues) comes from the Company or the Caterpillar Foundation.

Applying these standards, the Board determined that each of the directors and director candidates met the independence standards except Mr. Oberhelman, who is a current employee of the Company.

Process for Identifying and Evaluating Potential Directors

The Governance Committee solicits and receives recommendations and reviews the qualifications of potential director candidates. After review, the Governance Committee recommends to the full Board candidates for election at the annual meeting of the Company's stockholders and candidates to fill vacancies on the Board. Potential director candidates may also be nominated by our stockholders and are similarly reviewed by the Governance Committee, which makes recommendations to the full Board. Additional information about the process for nominating directors and stockholder nominations is described in the "Governance Committee" section on page 13.

Our Chairman and CEO and Governance Committee periodically review with the Board the particular characteristics or attributes that would be most beneficial to the Company in future Board members. These characteristics, which are set forth in the Company's Corporate Governance Guidelines, include, but are not limited to: (i) integrity, honesty and accountability, with a willingness to express independent thought; (ii) successful leadership experience and stature in an individual's primary field, with a background that demonstrates an understanding of business affairs as well as the complexities of a large, publicly-held company (with particular consideration being given to candidates with experience as chief executive officers of successful capital-intensive businesses with international operations); (iii) demonstrated ability to think strategically and make decisions with a forward-looking focus, with the ability to assimilate relevant information on a broad range of complex topics; (iv) be a team player with a demonstrated willingness to ask tough questions in a constructive manner that adds to the decision-making process of the Board; (v) independence and absence of conflicts of interest; (vi) ability to devote necessary time to meet director responsibilities; and (vii) ability to commit to the Company's stock ownership guidelines.

Consistent with these criteria for potential director candidates and Caterpillar's Worldwide Code of Conduct, the Board values diversity of talents, skills, abilities and experiences and believes that the diversity that exists on the Board provides significant benefits to the Company. Although there is no specific diversity policy, the Governance Committee may also consider the diversity of its members and potential candidates in selecting new directors.

Board Leadership Structure

The Board has elected the CEO as the Chairman of the Board of the Company. The Board has further elected the Chairman of the Governance Committee as Presiding Director of the Company. The Presiding Director's duties and responsibilities include: (i) presiding at all meetings of the Board at which the Chairman is not present; (ii) serving as a liaison between the Chairman and the independent directors; (iii) approving information sent to the Board; (iv) approving meeting agendas for the Board; (v) approving meeting schedules to assure that there is sufficient time for discussion of all agenda items; (vi) authority to call meetings of the independent directors; and (vii) if requested by major stockholders, ensuring that he is available for consultation and direct communication.

The Board has determined that the combined role of Chairman and CEO is appropriate for the Company as it promotes unified leadership and direction for the Company, allowing for a single, clear focus for management to execute the Company's strategy and business plans. This structure also avoids the added costs and inefficiencies that would result by mandating an independent Chairman. The Board believes that the governance structure and role of the Presiding Director allow the Board to effectively work with the combined role of the Chairman and CEO.

Board's Role in Risk Oversight

The full Board oversees enterprise risk as part of its role in reviewing and overseeing the implementation of the Company's strategic plans and objectives. The risk oversight function is administered both in full Board discussions and in individual committees that are tasked by the Board with oversight of specific risks as more fully described in the summary of each committee below.

On a regular basis, the Board and its committees receive information and reports from management on the status of the Company and the risks associated with the Company's strategy and business plans. In addition, the Audit Committee reviews the Company's risk assessment and risk management policies and procedures at least annually, including its major financial risk exposures and steps taken to monitor and control such exposures. The Chairman of the Audit Committee presents this information to the full Board for review.

The Board believes the combined role of Chairman and CEO is an effective structure for the Board to understand the risks associated with the Company's strategic plans and objectives. Additionally, maintaining an independent Board with a Presiding Director permits open discussion and assessment of the Company's ability to manage these risks.

Board Meetings and Committees

In 2010, our Board met nine times. Regularly scheduled executive sessions, led by the Presiding Director, were held without management present. In addition to those meetings, directors attended meetings of the Board committees to which they are appointed. Overall attendance for our directors at Board and committee meetings held in 2010 was 97.99 percent. For Board meetings only, attendance was 97.08 percent in 2010. Each director attended at least 75 percent of the total meetings of the Board and committee on which he or she served. Company policy, posted on our Internet site, states that absent unavoidable conflict, directors are expected to attend the Annual Meeting. Thirteen directors attended the 2010 annual meeting of stockholders.

Our Board has four standing committees — **Audit, Compensation, Governance** and **Public Policy**. Each committee's charter is available on our Internet site at www.caterpillar.com/governance. Following is a description of each committee of the Board. Current committee memberships are listed in the "Committee Membership" table on page 9.

The **Audit Committee** assists the Board in fulfilling its oversight responsibilities with respect to the integrity of Caterpillar's financial statements, Caterpillar's compliance with legal and regulatory requirements, the qualifications and independence of Caterpillar's Independent Registered Public Accounting Firm (auditors), the performance of Caterpillar's internal audit function and the auditors, the effectiveness of Caterpillar's internal controls and the implementation and effectiveness of Caterpillar's ethics and compliance program. The Audit Committee performs this function by monitoring Caterpillar's financial reporting process and internal controls and by assessing the audit efforts of the auditors and the internal auditing department. The Audit Committee has ultimate authority and responsibility to appoint, retain, compensate, evaluate and, where appropriate, replace the auditors. The Audit Committee also reviews updates on emerging accounting and auditing issues provided by the auditors and by management to assess their potential impact on Caterpillar. All members of the Audit Committee met the standards for independence set forth in the NYSE listing standards and the financial literacy standards adopted by the Board. Additionally, the Board has determined that each Audit Committee member qualifies as an "audit committee financial expert" as defined under SEC rules. During 2010, the Audit Committee met 10 times and overall attendance was 97.50 percent.

The **Compensation Committee** assists the Board in fulfilling its responsibilities in connection with the compensation of the Company's directors, officers and employees. It performs this function by establishing and overseeing the Company's compensation programs, recommending to the Board the compensation of directors who are not officers of the Company, administering the Company's equity compensation plans, furnishing an annual Compensation Committee Report on executive compensation and approving the Compensation Discussion and Analysis section in the Company's proxy statement, in accordance with applicable SEC rules and regulations. All members of the Compensation Committee meet the standards for independence set forth in the NYSE listing standards. During 2010, the Compensation Committee met six times and overall attendance was 100 percent.

The **Governance Committee** assists the Board by making recommendations regarding the size and composition of the Board and the criteria to be used for the selection of candidates to serve on the Board. The Governance Committee discusses and evaluates the qualifications of directors up for re-election and recommends the slate of director candidates to be nominated for election at the Annual Meeting. Stockholders who are interested in nominating a director candidate can do so in accordance with the policy discussed in the “Governance Committee” section on page 13. In addition, the Governance Committee recommends candidates to the Board for election as officers of the Company. The Governance Committee also oversees the Corporate Governance Guidelines and leads the Board in its annual self-evaluation process and shares the results with the Board for discussion and deliberation. All members of the Governance Committee meet the standards for independence set forth in the NYSE listing standards. During 2010, the Governance Committee met ten times and overall attendance was 100 percent.

The **Public Policy Committee** assists the Board in its oversight of matters of domestic and international public policy affecting the Company’s business, such as trade policy and international trade negotiations and major global legislative and regulatory developments. It also provides oversight in the areas of investor, consumer, community and employee relations, policies promoting diversity, sustainable development initiatives and charitable and political contributions. All members of the Public Policy Committee meet the standards for independence set forth in the NYSE listing standards. During 2010, the Public Policy Committee met six times and overall attendance was 100 percent.

Committee Membership				
	Audit	Compensation	Governance	Public Policy
John R. Brazil		✓		
Daniel M. Dickinson	✓			
Eugene V. Fife			✓*	
Juan Gallardo				✓
David R. Goode		✓*		
Jesse J. Greene, Jr.	✓			
Peter A. Magowan			✓	
Douglas R. Oberhelman				
William A. Osborn	✓*			
Charles D. Powell				✓*
Edward B. Rust, Jr.		✓		
Susan C. Schwab				✓
Joshua I. Smith		✓		
Miles D. White			✓	
*Chairman of Committee				

Communication with the Board

You may communicate with any of our directors, our Board as a group, our non-management directors as a group or any Board committee as a group by sending an e-mail to Directors@CAT.com or by mail to Caterpillar Inc. c/o Corporate Secretary at 100 NE Adams Street, Peoria, Illinois 61629. The Board has delegated to the Corporate Secretary, or his designee, responsibility for determining, in his discretion, whether the communication is appropriate for consideration. According to the policy adopted by the Board, the Corporate Secretary is required to direct all communications regarding personal grievances, administrative matters, the conduct of the Company’s ordinary business operations, billing issues, product or service related inquiries, order requests and similar issues to the appropriate individual within the Company. All other communications are to be submitted to the Board as a group, to the particular director to whom it is directed or, if appropriate, to the Presiding Director or committee the Corporate Secretary believes to be the most appropriate recipient. If a legitimate business concern is sent by e-mail or letter to the Presiding Director, a specific director, the Board or a Board committee, you will receive a written acknowledgement from the Corporate Secretary’s office confirming receipt of your communication.

Code of Ethics

Caterpillar's code of ethics is called Our Values in Action (Code of Conduct). Integrity, Excellence, Teamwork and Commitment are the core values identified in the Code of Conduct and are the foundation for Caterpillar's corporate strategy. The Code of Conduct applies to all members of the Board and to management and employees worldwide. It documents the high ethical standards that Caterpillar has upheld since its formation in 1925. The Code of Conduct is available on our Internet site at www.caterpillar.com/code.

The Audit Committee has established a means for employees, suppliers, customers, stockholders and other interested parties to submit confidential and anonymous reports (where permitted by law) of suspected or actual violations of the Code of Conduct, our enterprise policies or applicable laws, including those related to accounting practices, internal controls or auditing matters and procedures; theft or fraud of any amount; insider trading; performance and execution of contracts; conflicts of interest; violation of securities and antitrust laws; and violations of the Foreign Corrupt Practices Act.

Any employee, stockholder or other interested party can submit a report via the following methods:

- Direct Telephone: 309-494-4393 (English only)
- Call Collect Helpline: 770-582-5275 (language translation available)
- Confidential Fax: 309-494-4818
- E-mail: BusinessPractices@CAT.com
- Internet: www.caterpillar.com/obp

Audit Committee Report

The Audit Committee is comprised entirely of independent directors (as defined for members of an audit committee in SEC rules and the NYSE listing standards) and operates under a written charter adopted by the Board, a copy of which is available on our Internet site at www.caterpillar.com/governance. Management is responsible for the Company's internal controls and the financial reporting process. The auditors are responsible for performing an independent audit of the Company's consolidated financial statements and internal controls over financial reporting in accordance with standards established by the Public Company Accounting Oversight Board in the United States (PCAOB). The Audit Committee is responsible for monitoring these processes. In this regard, the Audit Committee meets periodically with management, the internal auditors and external auditors. The Audit Committee has the authority to conduct or authorize investigations into any matters within the scope of its responsibilities and the authority to retain outside counsel, experts and other advisors as it determines appropriate to assist it in conducting any investigations. The Audit Committee is responsible for selecting and, if appropriate, replacing the current auditors, PricewaterhouseCoopers LLP (PricewaterhouseCoopers).

The Audit Committee has discussed with the Company's auditors the overall scope and execution of the independent audit and has reviewed and discussed the audited financial statements with management. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States. Discussions about the Company's audited financial statements included the auditors' judgments about the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements. The Audit Committee also discussed with the auditors other matters required by Statement on Auditing Standards No. 61 *Communication with Audit Committees*, as amended (as adopted by the PCAOB in Rule 3200T). Management, the internal auditors and the auditors also made presentations to the Audit Committee throughout the year on specific topics of interest, including: (i) management's philosophy, asset allocation levels, risk management and oversight of the Company's benefit and pension funds; (ii) the Company's enterprise risk assessment process; (iii) management of income tax risks; (iv) the Company's derivatives policy and usage review; (v) the 2010 integrated audit plan; (vi) updates on the implementation of the internal audit plan for 2010; (vii) the Company's information technology systems and the controls in place within those systems for compliance with the Sarbanes-Oxley Act; (viii) the applicability of new accounting releases; (ix) the Company's critical accounting policies; (x) risk management initiatives and controls for various business units within the Company; (xi) updates on the management of financial markets and liquidity risk; and (xii) the Company's compliance with the internal controls requirements under Section 404 of the Sarbanes-Oxley Act.

The auditors provided to the Audit Committee the written communications required by applicable standards of the PCAOB regarding the independent accountant's communications with the Audit Committee concerning independence, and the Audit Committee discussed the auditors' independence with management and the auditors. The Audit Committee concluded that the auditors' independence had not been impaired.

Based on: (i) the Audit Committee's discussions with management and the auditors; (ii) the Audit Committee's review of the representations of management; and (iii) the report of the auditors to the Audit Committee, the Audit Committee recommended to the Board that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on February 22, 2011.

**By the current members of the
Audit Committee consisting of:**

William A. Osborn (Chairman)

Daniel M. Dickinson

Jesse J. Greene, Jr.

Audit Fees and Approval Process

Pre-Approval Process

The Audit Committee pre-approves all audit and non-audit services to be performed by the auditors. It has policies and procedures in place to ensure that the Company and its subsidiaries are in full compliance with the requirements for pre-approval set forth in the Sarbanes-Oxley Act and the SEC rules regarding auditor independence. These policies and procedures provide a mechanism whereby management can request and secure pre-approval of audit and non-audit services in an orderly manner with minimal disruption to normal business operations. The policies and procedures are detailed as to the particular service and do not delegate the Audit Committee's responsibility to management. These policies and procedures address any service provided by the auditors and any audit or audit-related services to be provided by any other audit service provider. The pre-approval process includes an annual and interim component.

Annual Pre-Approval Process

Annually, not later than the Audit Committee meeting held in April of each year, management and the auditors jointly submit a service matrix of the types of audit and non-audit services that management may wish to have the auditors perform for the year. The service matrix categorizes the types of services by audit, audit-related, tax and all other services. Approval of a service is merely an authorization that this type of service is permitted by the Audit Committee, subject to pre-approval of specific services. Management and the auditors jointly submit an annual pre-approval limits request. The request lists individual project and aggregate pre-approval limits by service category. The request also lists known or anticipated services and associated fees. The Audit Committee approves or rejects the pre-approval limits and each of the listed services. For 2010, the pre-approval limits were as follows:

Type of Service	Pre-Approval Limits (in thousands)	
	Per Project	Aggregate Limit
Audit Services	\$ 500	\$ 25,000
Audit-Related Services	\$ 500	\$ 10,000
Tax Services	\$ 500	\$ 15,000
All Other Services	\$ 500	\$ 1,000

Interim Pre-Approval Process

During the course of the year, the Audit Committee chairman has the authority to pre-approve requests for services that were not approved in the annual pre-approval process. Committee approval is not required for individual projects below the pre-approval project limits. However, all services, regardless of fee amounts, are subject to restrictions on the services allowable under the Sarbanes-Oxley Act and SEC rules regarding auditor independence. In addition, all fees are subject to on-going monitoring by the Audit Committee.

On-Going Monitoring

At each Audit Committee meeting subsequent to the Board meeting at which the service matrix and annual pre-approval limits request are approved, the chairman reports any interim pre-approvals since the last meeting. Also, at each of these meetings, management and the auditor provide the Audit Committee with an update of fees expected to be incurred for the year compared to amounts initially pre-approved.

Independent Registered Public Accounting Firm Fee Information

Fees for professional services provided by our auditors included the following (in millions):

	2010 Actual	2009 Actual
Audit Fees¹	\$ 23.2	\$ 21.8
Audit-Related Fees²	5.0	2.1
Tax Compliance Fees³	2.2	1.9
Tax Planning and Consulting Fees⁴	1.7	1.9
All Other Fees⁵	0.1	0.1
TOTAL	\$ 32.2	\$ 27.8
¹ "Audit Fees" principally include audit and review of financial statements (including internal control over financial reporting), statutory and subsidiary audits, SEC registration statements, comfort letters and consents.		
² "Audit-Related Fees" principally includes agreed upon procedures for securitizations, attestation services requested by management, accounting consultations, pre- or post- implementation reviews of processes or systems, financial due diligence and audits of employee benefit plan financial statements. Total fees paid directly by the benefit plans, and not by the Company, were \$0.7 in 2010 and \$0.6 in 2009 and are not included in the amounts shown above.		
³ "Tax Compliance Fees" includes, among other things, statutory tax return preparation and review and advice on the impact of changes in local tax laws.		
⁴ "Tax Planning and Consulting Fees" includes, among other things, tax planning and advice and assistance with respect to transfer pricing issues.		
⁵ "All Other Fees" principally includes subscriptions to knowledge tools and attendance at training classes/seminars.		

Governance Committee

The Governance Committee is comprised of three directors, all of whom meet the independence requirements for nominating committee members as defined in the NYSE listing standards and as determined by the Board in its business judgment. The Governance Committee operates under a written charter adopted by the Board, a copy of which is available on our Internet site at www.caterpillar.com/governance. As part of its mandate, the Governance Committee evaluates and makes recommendations regarding proposed candidates to serve on the Board, including recommending the slate of nominees for election at the Annual Meeting.

Director Resignation Policy

The Board has adopted a director resignation policy, which can be found in the Corporate Governance Guidelines. The policy establishes that any director who receives more “withheld” votes than “for” votes in an uncontested election shall promptly tender his or her resignation. The independent directors of the Board will then evaluate the relevant facts and circumstances and make a decision, within 90 days after the election, on whether to accept the tendered resignation. The Board will promptly publicly disclose its decision and, if applicable, the reasons for rejecting the tendered resignation.

Process for Nominating Directors

The Governance Committee solicits and receives recommendations for potential director candidates from directors, the Chairman and Caterpillar management. The Governance Committee also considers unsolicited inquiries and nominees recommended by stockholders. Recommendations should be sent to the Corporate Secretary at 100 NE Adams Street, Peoria, Illinois 61629.

When considering a candidate, the Governance Committee believes that certain characteristics are essential. For example, candidates must be individuals of high integrity, honesty and accountability, with a willingness to express independent thought. Candidates must also have successful leadership experience and stature in their primary fields, with a background that demonstrates an understanding of business affairs as well as the complexities of a large, publicly held company. Particular consideration will be given to candidates with experience as a chief executive officer of successful, capital-intensive businesses with international operations. In addition, candidates must have a demonstrated ability to think strategically and make decisions with a forward-looking focus and the ability to assimilate relevant information on a broad range of complex topics.

The Governance Committee also believes that certain characteristics are desirable, such as being a team player with a demonstrated willingness to ask tough questions in a constructive manner that adds to the decision-making process of the Board. At the same time, candidates should be independent, with an absence of conflicts of interests. Moreover, candidates should have the ability to devote the time necessary to meet director responsibilities and serve on no more than five public company boards in addition to the Board. Candidates must also have the ability to commit to stock ownership requirements according to the Company's Corporate Governance Guidelines.

Stockholder Nominations

In accordance with the Company's Bylaws, stockholders may nominate a director candidate to serve on the Board by providing advance written notice to Caterpillar Inc. c/o Corporate Secretary at 100 NE Adams Street, Peoria, Illinois 61629. Written notice of an intent to nominate a director candidate at an Annual Meeting must be given either by personal delivery or by United States mail, postage prepaid, to Caterpillar Inc. at the address previously provided no later than ninety (90) days in advance of such meeting. The notice must state: (i) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (ii) a representation that the nominating stockholder is a stockholder of record entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (iv) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC, had the nominee been nominated, or intended to be nominated, by the Board; and (v) the consent of each nominee to serve as a director of the Company if so elected. The presiding officer of the Annual Meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure. You may request a copy of the Company's Bylaws by writing to the Corporate Secretary at 100 NE Adams Street, Peoria, Illinois 61629.

PART THREE — Proposals to be Voted on at the 2011 Annual Meeting

Company Proposals

PROPOSAL 1 — Election of Directors

The Board has nominated the following individuals to stand for election for a one-year term expiring at the Annual Meeting in 2012. The nominees were evaluated and recommended by the Governance Committee in accordance with the process described on page 13. In January 2010, Mr. Brazil submitted his resignation from the Board in connection with his retirement as President of Trinity University and in accordance with the Corporate Governance Guidelines. Mr. Brazil's resignation was accepted by the Board, effective at the 2011 Annual Meeting. Accordingly, he is not nominated to stand for re-election.

Directors are elected by a plurality vote of the shares present or represented at the meeting and entitled to vote, meaning that director nominees with the most affirmative votes are elected to fill the available seats.

Director and Director Candidates Biographies and Qualifications

Directors have been in their current positions for the past five years unless otherwise noted.

DAVID L. CALHOUN, 53, Chief Executive Officer (since May 2010) and Executive Director (since January 2011), Nielsen Holdings N.V. (marketing and media information) and Chairman of the Executive Board and Chief Executive Officer of The Nielsen Company (since August 2006). Prior to his positions at Nielsen, Mr. Calhoun served as Vice Chairman of General Electric Company and President and Chief Executive Officer of GE Infrastructure. Before that, Mr. Calhoun served as President and Chief Executive Officer of GE Transportation; President and Chief Executive Officer of GE Aircraft Engines; President and Chief Executive Officer of Employers Reinsurance Corporation; President and Chief Executive Officer of GE Lighting; and President and Chief Executive Officer of GE Transportation Systems. Other current directorships: Medtronic, Inc., The Boeing Company and Nielsen Holdings N.V. Other directorships within the last five years: none. Mr. Calhoun is nominated for election at this meeting. Mr. Calhoun was brought to the attention of the Governance Committee by Mr. Fife, Presiding Director and Chairman of the Governance Committee.

Mr. Calhoun is expected to provide valuable insight and perspective on general strategic and business matters, stemming from his extensive executive and management experience with Nielsen and GE. Mr. Calhoun also has significant manufacturing and high-technology industry expertise as evidenced by his leadership of GE's aircraft engines and transportation businesses.

DANIEL M. DICKINSON, 49, is currently Managing Partner of Thayer I Hidden Creek (private equity investment). Prior to joining Thayer I Hidden Creek in 2001, Mr. Dickinson was Co-Head of Global M&A at Merrill Lynch. Other current directorships: IESI-BFC Ltd., Mistras Group, Inc. and Thayer I Hidden Creek. Other directorships within the last five years: none. Mr. Dickinson has been a director of the Company since 2006.

The Board believes that Mr. Dickinson's experience in mergers and acquisitions, private equity business and role as an investment banker provides important insight for the Company's growth strategy. His significant financial expertise and experience, both in the U.S. and internationally, contributes to the Board's understanding and ability to analyze complex issues. His experience as a director of large, publicly-traded multinational corporations enables him to provide meaningful input and guidance to the Board and the Company.

EUGENE V. FIFE, 70, is currently Managing Principal of Vawter Capital LLC (private investment). Mr. Fife served as the interim CEO and President of Eclipsys Corporation (healthcare information services) from April to November of 2005 and the non-executive Chairman from 2001 until 2010, when Eclipsys merged with Allscripts Healthcare Solutions, Inc. Mr. Fife was also formerly a Partner of Goldman Sachs & Co., retiring in 1995. Other current directorships: Allscripts Healthcare Solutions, Inc. Other directorships within the last five years: none. Mr. Fife has been a director of the Company since 2002.

The Board believes that Mr. Fife's investment experience bolsters the expertise of the Board and adds important insights for the Company's growth strategy. His financial expertise and experience are important considerations for the Board. Additionally, his experiences as a chief executive officer and director of large, publicly-traded multinational corporations enables him to provide meaningful input and guidance to the Board and the Company.

JUAN GALLARDO, 63, is currently Chairman of Grupo Embotelladoras Unidas S.A. de C.V. (bottling) and was formerly Chairman and CEO (1986-2007). Other current directorships: Lafarge SA. Other directorships within the last five years: Grupo Mexico, S.A. de C.V. Mr. Gallardo has been a director of the Company since 1998.

The Board believes that Mr. Gallardo's international business experience, particularly in Latin America and South America, are important for the Company's growth strategy. His extensive background in trade-related issues also contributes to the Board's expertise. In addition, his experience as a chief executive officer and director of large, publicly-traded multinational corporations enables him to provide meaningful input and guidance to the Board and the Company.

DAVID R. GOODE, 70, was formerly Chairman (1992-2006), President (1992-2004) and CEO (1992-2004) of Norfolk Southern Corporation (holding company engaged principally in surface transportation). Other current directorships: Delta Air Lines, Inc. and Texas Instruments Incorporated. Other directorships within the last five years: Norfolk Southern Corporation and Georgia-Pacific Corporation. Mr. Goode has been a director of the Company since 1993.

The Board believes that Mr. Goode's experience in the transportation and railroad industry provides valuable expertise to the Board. His extensive experience in a capital-intensive industry enables him to make important contributions to the Company's growth strategy. In addition, his experience as a chief executive officer and director of large, publicly-traded multinational corporations enables him to provide meaningful input and guidance to the Board and the Company.

JESSE J. GREENE, JR., 66, was formerly Vice President of Financial Management and Chief Financial Risk Officer (2009-2010) and Vice President and Treasurer (2002-2007), International Business Machines Corporation (computer and office equipment). Other current directorships: none. Other directorships within the last five years: none. Mr. Greene became a director of the Company effective January 1, 2011. Mr. Greene was brought to the attention of the Governance Committee by Mr. Owens, the former Chairman and Chief Executive Officer of the Company.

The Board believes that Mr. Greene's financial and information technology experience is valuable to the Board. His experience as a chief financial risk officer and executive of a large, publicly-traded multinational corporation enables him to provide meaningful input and guidance to the Board and the Company.

PETER A. MAGOWAN, 69, was formerly President and Managing General Partner (1993-2008) of the San Francisco Giants (major league baseball team) and Chairman (1980-1998) and Chief Executive Officer (1980-1993) of Safeway Inc. (food retailer). Other current directorships: none. Directorships within the last five years: DaimlerChrysler AG, Safeway Inc. and Spring Group plc. Mr. Magowan has been a director of the Company since 1993.

The Board believes that Mr. Magowan's business experience as a long-term chief executive officer of Safeway Inc., a large, publicly-traded multinational corporation, is particularly valuable to the Board. His experience in owning and managing a professional baseball organization also provides a diverse viewpoint on business matters. In addition, his experience as a director of other large, publicly-traded multinational corporations enables him to provide meaningful input and guidance to the Board and the Company.

DENNIS A. MUILENBURG, 47, has been Executive Vice President of The Boeing Company (aerospace/defense products and services) and President and Chief Executive Officer of Boeing Defense, Space & Security since September 2009. Prior to his current position, Mr. Muilenburg was President of Global Services & Support (2008-2009), Vice President and General Manager of the Boeing Combat Systems division (2006-2008) and Vice President and Program Manager for Future Combat Systems (2003-2006). Other current directorships: none. Other directorships within the last five years: none. Mr. Muilenburg is nominated for election at this meeting. Mr. Muilenburg was brought to the attention of the Governance Committee by Mr. Owens, the former Chairman and Chief Executive Officer of the Company.

Mr. Muilenburg is expected to provide valuable insight to the Board on strategic and business matters, stemming from his experience with large-scale product development programs and his world-wide supply chain and manufacturing expertise.

DOUGLAS R. OBERHELMAN, 58, is currently Chairman and Chief Executive Officer of Caterpillar Inc. (machinery, engines and financial products). Prior to his current position, Mr. Oberhelman served as Vice Chairman and Chief Executive Officer-Elect (2010) and as a Group President (2001-2010) of Caterpillar Inc. Other current directorships: Eli Lilly and Company. Other directorships within the last five years: Ameren Corporation. Mr. Oberhelman has been a director of the Company since July 1, 2010.

The Board believes that Mr. Oberhelman's extensive experience and knowledge of the Company is valuable to the Board. He has worked at the Company for over 30 years and is familiar with its business and developed its current strategy. His knowledge of the business and background in finance enables him to provide meaningful leadership and guidance to the Board and the Company.

WILLIAM A. OSBORN, 63, retired Chairman (1995-2009) and CEO (1995-2008) of Northern Trust Corporation (multibank holding company) and The Northern Trust Company (bank). Other current directorships: Abbott and General Dynamics Corporation. Other directorships within the last five years: Nicor Inc., Tribune Company and Northern Trust Corporation. Mr. Osborn has been a director of the Company since 2000.

The Board believes that Mr. Osborn's financial expertise and experience is valuable to the Board. His experience as a chairman and chief executive officer of a large, publicly-traded multinational corporation is particularly important to the Board. In addition, his experience as a director of other large, publicly-traded corporations enables him to provide meaningful input and guidance to the Board and the Company.

CHARLES D. POWELL, 69, is currently Chairman of Capital Generation Partners (asset and investment management), LVMH Services Limited (luxury goods) and Magna Holdings (real estate investment). Other current directorships: LVMH Moët-Hennessy Louis Vuitton and Textron Inc. Other directorships within the last five years: none. Lord Powell has been a director of the Company since 2001.

The Board believes that Lord Powell's substantial knowledge of international affairs and business expertise are important to the Board. His trade, public and governmental affairs and international experience is also valued by the Board. In addition, his role as a director of large, publicly-traded multinational corporations enables him to provide meaningful input and guidance to the Board and the Company.

EDWARD B. RUST, JR., 60, is currently Chairman, CEO and President of State Farm Mutual Automobile Insurance Company (insurance). He is also currently President and CEO of State Farm Fire and Casualty Company, State Farm Life Insurance Company and other principal State Farm affiliates as well as Trustee and President of State Farm Mutual Fund Trust and State Farm Variable Product Trust. Other current directorships: Helmerich & Payne, Inc. and The McGraw-Hill Companies, Inc. Other directorships within the last five years: none. Mr. Rust has been a director of the Company since 2003.

The Board believes that Mr. Rust's financial and business experience is valuable to the Board. His role as a chief executive officer of a major national corporation and experience as a director of large, publicly-traded multinational corporations enables him to provide meaningful input and guidance to the Board and the Company. In addition, his extensive involvement in education improvement complements the Company's culture of social responsibility.

SUSAN C. SCHWAB, 56, is currently a Professor, University of Maryland School of Public Policy and Strategic Advisor, Mayer Brown LLP. Prior to her current position, Ambassador Schwab held various positions including United States Trade Representative (2006-2009) (member of the President's cabinet) and Deputy United States Trade Representative (2005-2006). Other current directorships: FedEx Corporation and The Boeing Company. Other directorships within the last five years: none. Ambassador Schwab has been a director of the Company since 2009.

The Board believes that Ambassador Schwab brings extensive knowledge, insight and experience on international trade issues to the Board. Her educational experience and role as the U.S. Trade Representative provide important insights for the Company's global business model and long-standing support of open trade. In addition, her experience as a director of large, publicly-traded multinational corporations enables her to provide meaningful input and guidance to the Board and the Company.

JOSHUA I. SMITH, 70, is currently Chairman and Managing Partner of the Coaching Group, LLC (management consulting). Other current directorships: Comprehensive Care Corporation, FedEx Corporation and The Allstate Corporation. Other directorships within the last five years: CardioComm Solutions Inc. Mr. Smith has been a director of the Company since 1993.

The Board believes that Mr. Smith's experience in management consulting and business leadership provides important guidance to the Board. His experience as the Chairman of the U.S. Commission on Minority Business Development, Maryland Small Business Development Finance Authority and as a member of the board of directors of the U.S. Chamber of Commerce provides valued insights on diversity issues. In addition, his experience as the founder and chief executive officer of his own business and role as a director of other large, publicly-traded multinational corporations enables him to provide meaningful input and guidance to the Board and the Company.

MILES D. WHITE, 56, is currently Chairman and Chief Executive Officer of Abbott Laboratories (pharmaceutical and medical products). Other current directorships: McDonald's Corporation. Other directorships within the last five years: Motorola, Inc. and Tribune Company. Mr. White became a director of the Company effective January 1, 2011. Mr. White was brought to the attention of the Governance Committee through Mr. Osborn.

The Board believes that Mr. White's experience as the chief executive officer of a large, complex multinational company provides important insight to the Board. His skills include knowledge of cross-border operations, strategy and business development, risk assessment, finance, leadership development and succession planning, and corporate governance matters. In addition to his role as an executive officer, his experience as a director of other large, publicly-traded multinational corporations enables him to provide meaningful input and guidance to the Board and the Company.

YOUR BOARD OF DIRECTORS RECOMMENDS VOTING "FOR" THE NOMINEES PRESENTED IN PROPOSAL 1.

PROPOSAL 2 — Ratification of our Independent Registered Public Accounting Firm

The Board seeks an indication from stockholders of their approval or disapproval of the Audit Committee's appointment of PricewaterhouseCoopers as auditors for 2011.

PricewaterhouseCoopers has been our auditors since 1925. For additional information regarding the Company's relationship with PricewaterhouseCoopers, please refer to the "Audit Committee Report" on page 10 and the "Audit Fees and Approval Process" disclosure on page 11.

If the appointment of PricewaterhouseCoopers as auditors for 2011 is not approved by the stockholders, the adverse vote will be considered a direction to the Audit Committee to consider other auditors for next year. However, because of the difficulty in making any substitution of auditors so long after the beginning of the current year, the appointment for the year 2011 will stand, unless the Audit Committee finds other good reason for making a change.

Representatives of PricewaterhouseCoopers will be present at the Annual Meeting and will have the opportunity to make a statement if they desire to do so. The representatives will also be available to respond to questions at the meeting.

YOUR BOARD OF DIRECTORS AND AUDIT COMMITTEE RECOMMEND VOTING "FOR" PROPOSAL 2.

PROPOSAL 3 — Approve Amended and Restated Caterpillar Inc. Executive Short-Term Incentive Plan

After careful consideration, the Board recommends voting **FOR** this proposal for the reasons provided below.

On December 8, 2010, the Board adopted, subject to stockholder approval, an amendment and restatement of the Caterpillar Inc. Executive Short-Term Incentive Plan (Plan). The purpose of the amended and restated Plan is to continue to provide certain executive officers with annual cash incentive opportunities, based on the achievement of performance goals. The Plan was last amended and restated in 2006 and was set to expire on December 31, 2010.

The Plan is intended to comply with section 162(m) of the Internal Revenue Code of 1986, as amended (the Code). Pursuant to section 162(m), the Company may not deduct more than \$1 million per year for compensation paid to the Company's principal executive officer and the other three highest compensated officers (other than the Company's principal financial officer). An exclusion from the \$1 million limitation is available for compensation that satisfies the requirements provided in section 162(m) for qualified performance-based compensation. One such requirement is for stockholders to approve the material terms of the performance goals under which compensation is to be paid. Accordingly, the Company is asking its stockholders to approve the material terms of the performance goals, in accordance with section 162(m).

The effective date of the amended and restated Plan is January 1, 2011, subject to stockholder approval. While the Plan has a term of five years, the Compensation Committee may amend, suspend or terminate the Plan at any time. The following is a summary of the principal features of the Plan. This summary is qualified in its entirety by reference to the complete text of the Plan (attached as Appendix A). Stockholders are encouraged to read the Plan in its entirety.

Administration and Participation

The Plan is administered by the Compensation Committee, which has the authority to designate performance goals and objectives and determine the amount of awards granted under the Plan. All executive officers of the Company are eligible for participation in the Plan, although it is anticipated that participation will be limited to the Chief Executive Officer and the Company's Group Presidents. As of April 14, 2011, the approximate number of persons eligible under the Plan was six.

Performance Goals and Objectives

Within the first 90 days of the Company's fiscal year (which is the calendar year), the Committee will establish the performance goals and objectives applicable to each award under the Plan for that year. For each year that the Plan is in effect, the Committee may use one or more performance goals and may change the performance goals and targets from year to year. The performance goals and objectives may be based on any of the following factors, alone or in combination, as the Committee deems appropriate: (i) revenue; (ii) primary or fully-diluted earnings per share; (iii) earnings before interest, taxes, depreciation, and/or amortization; (iv) pretax income; (v) cash flow from operations; (vi) total cash flow; (vii) return on equity; (viii) return on invested capital; (ix) return on assets; (x) net operating profits after taxes; (xi) economic value added; (xii) total stockholder return; (xiii) return on sales; (xiv) realized 6 Sigma benefits; (xv) operating profit after capital charge; or (xvi) any individual performance objective which is measured solely in terms of quantifiable targets related to the Company or the Company's business.

Performance goals may be measured on an absolute basis or relative to a group of peer companies selected by the Compensation Committee, relative to internal goals or relative to levels attained in prior years. When establishing the performance goals and objectives, the Compensation Committee may adjust the method of calculating the attainment of performance objectives, for one or more of the following reasons: (i) to exclude the dilutive effects of acquisitions or joint ventures; (ii) to assume that any business divested by the Company achieved performance objectives at targeted levels during the balance of a performance period following such divestiture; (iii) to exclude restructuring and/or other nonrecurring charges; (iv) to exclude exchange rate effects, as applicable, for non-U.S. dollar denominated net sales and operating earnings; (v) to exclude the effects of changes to generally accepted accounting standards; (vi) to exclude the effects to any statutory adjustments to corporate tax; (vii) to exclude the impact of any "extraordinary items" as determined under generally accepted accounting principles; (viii) to exclude the effect of any change in the outstanding shares of common stock of the Company by reason of any stock dividend or split, stock repurchase, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other similar corporate change, or any distributions to common stockholders other than regular cash dividends; or (ix) to exclude any other unusual, non-recurring gain or loss or other extraordinary item. Pursuant to the terms of the Plan, any adjustment shall be set forth in objective terms meeting the requirements for performance-based compensation under section 162(m).

Important Facts About Awards

Under the Plan, each participant will be eligible to receive an incentive payment based on the achievement of the pre-established goals set by the Compensation Committee. If a participant terminates employment before the last day of the fiscal year by reason of death, disability or retirement, a payout based on performance and the period of employment during the year will be made. Participants employed on the last day of the year, but not for the entire year, will receive a payout based on performance and prorated for that part of the year for which they were participants. If the participant is deceased at the time of an award payment, the payment will be made to the participant's estate.

If a participant's negligent, intentional or gross misconduct contributes to the Company's having to restate all or a portion of its financial statements, the participant will be required to reimburse the Company for any payments received under the Plan, as determined by the Board in accordance with the Caterpillar Inc. Guidelines on Corporate Governance Issues.

The maximum dollar amount that any participant may be paid in any single year under the Plan may not exceed \$4 million.

Additional Awards

Nothing in the Plan precludes the Company from making additional payments or special awards to Plan participants outside of the Plan that may or may not qualify as "performance-based" compensation under section 162(m).

Impact of Change of Control

Unless the Compensation Committee provides otherwise in any award agreement, to the extent the Plan does not remain in effect following a “change of control,” all performance awards for any pending performance period at the time of the change of control shall be payable to the participant in an amount equal to the product of the maximum award opportunity for the performance award and a fraction, the numerator of which is the number of months that have elapsed since the beginning of the performance period through the later of (i) the date of the change of control and (ii) the date the participant's employment with the Company terminates.

Under the Plan, change of control is defined to include:

- Acquisition by a person or entity of 15% of the combined voting power of the Company's then outstanding shares;
- A change in the majority of the Board members over a two year period;
- Stockholder approval of a merger or consolidation which would result in the outstanding voting securities of the Company representing less than 50% of the combined voting power of the securities of the surviving entity; or
- Stockholder approval of a plan of liquidation or an agreement for the sale or disposition by the Company of all or substantially all of its assets.

Amendment & Termination of Plan

The Committee may amend, suspend or terminate the Plan at any time in its sole and absolute discretion (including at any time following the close of a performance period and prior to the date payment is made). The Committee may amend the Plan without stockholder approval, unless such approval is necessary to comply with applicable laws, including provisions of the Securities Exchange Act of 1934 or the Code.

No participant is vested in any incentive award payable under the Plan. A participant is not entitled to payment under the Plan in advance of actual receipt by the participant of the payment.

New Plan Benefits

Subject to stockholder approval of the Plan, target award opportunities for the named executive officers for 2011 performance under the Plan are set forth below.

Amended and Restated Caterpillar Inc. Executive Short-Term Incentive Plan	
Name and Principal Position	Target Value of Award¹
J.W. Owens — Former Chairman & CEO	N/A
D.R. Oberhelman — Chairman & CEO	\$ 1,929,833
R.P. Lavin — Group President	\$ 723,504
S.L. Levenick — Group President	\$ 794,652
E.J. Rapp — Group President & CFO	\$ 723,504
G.R. Vittecoq — Group President	\$ 914,075
S.H. Wunning — Group President	\$ 806,199
D.B. Burritt — Former Vice President & CFO	N/A
Executive Group	\$ 5,891,767
¹ Actual payout can range from 0% to 200% of the target amount, depending on performance.	

FOR THESE REASONS, YOUR BOARD OF DIRECTORS RECOMMENDS VOTING “FOR” PROPOSAL 3.

PROPOSAL 4 — Advisory Vote on Executive Compensation

The recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) enables Company stockholders to vote to approve, on an advisory or non-binding basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with SEC rules.

Caterpillar has a “pay-for-performance” philosophy that forms the foundation of all decisions regarding compensation of Caterpillar’s named executive officers. This compensation philosophy, and the program structure approved by the Compensation Committee, is central to Caterpillar’s ability to attract, retain and motivate individuals who can achieve superior financial results. This approach, which has been used consistently over the years, has resulted in Caterpillar’s ability to attract and retain the executive talent necessary to guide the Company during a period of tremendous growth and transformation. Please refer to “Executive Compensation—Compensation Discussion and Analysis” for an overview of the compensation of Caterpillar’s named executive officers.

Accordingly, in compliance with the Dodd-Frank Act, we are asking for stockholder approval of the following resolution:

“RESOLVED, that the compensation of Caterpillar’s named executive officers as described under “Compensation Discussion and Analysis,” the compensation tables and the narrative discussion associated with the compensation tables in Caterpillar’s proxy statement for its 2011 Annual Meeting of Stockholders is hereby APPROVED.”

This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the policies and practices described in this proxy statement.

This vote is advisory and therefore not binding on Caterpillar, the Compensation Committee or the Board. The Board and the Compensation Committee value the opinions of Company stockholders and to the extent there is any significant vote against the named executive officer compensation, we will consider those stockholders’ concerns, and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.

FOR THESE REASONS, YOUR BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” PROPOSAL 4 — THE APPROVAL OF THE COMPENSATION OF CATERPILLAR’S NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THIS PROXY STATEMENT.

PROPOSAL 5 — Advisory Vote on the Frequency of Executive Compensation Votes

The Dodd-Frank Act also enables Caterpillar stockholders to vote, on an advisory or non-binding basis, on how frequently they would like to cast an advisory vote on the compensation of the Company’s named executive officers. By voting on this proposal, stockholders may indicate whether they would prefer an advisory vote on named executive officer compensation once every one, two, or three years.

After careful consideration of the frequency alternatives, the Board believes that conducting advisory vote on executive compensation on an annual basis is appropriate for Caterpillar and its stockholders at this time. However, the Board intends to hold say-on-pay votes in the future in accordance with the alternative that receives the most stockholder support.

FOR THESE REASONS, YOUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR “ONE YEAR” ON PROPOSAL 5 — ADVISORY VOTE ON FREQUENCY OF EXECUTIVE COMPENSATION VOTES.

Stockholder Proposals

PROPOSAL 6 — Report on Political Contributions and Expenses

Pursuant to Rule 14a-8(l)(1) of the Securities Exchange Act of 1934, the Company will provide the name, address and number of Company securities held by the proponent of this stockholder proposal promptly upon receipt of a written or oral request.

Resolution Proposed by Stockholder

Resolved, that the shareholders of Caterpillar Inc. hereby request that the Company provide a report, updated semi-annually, disclosing the Company's:

1. Policies and procedures for political contributions and expenditures (both direct and indirect) made with corporate funds.
2. Monetary and non-monetary political contributions and expenditures (direct and indirect) used to participate in or intervene in any political campaign on behalf of (or in opposition to) any candidate for public office, and used in any attempt to influence the general public, or segments thereof, with respect to elections or referendums. The report shall include the following:
 - a. An accounting through an itemized report that includes the identity of the recipient as well as the amount paid to each recipient of the Company's funds that are used for political contributions or expenditures as described above; and
 - b. The title of the person or persons in the Company who participated in making the decisions to make the political contribution or expenditure.

The report shall be presented to the board of directors' audit committee or other relevant oversight committee and posted on the company's website to reduce costs to shareholders.

Supporting Statement of Proponent

As long-term shareholders of Caterpillar Inc., we support transparency and accountability in corporate spending on political activities. These activities include direct and indirect political contributions to candidates, political parties, political organizations or ballot referendums; independent expenditures; or electioneering communications on behalf of a federal, state or local candidate.

Disclosure is consistent with public policy, in the best interest of the company and its shareholders, and critical for compliance with federal ethics laws. Moreover, the majority in the Supreme Court's *Citizens United* decision recognized the importance of political spending disclosure for shareholders when it said "[D]isclosure permits citizens and shareholders to react to the speech of corporate entities in a proper way." This transparency enables the electorate to make informed decisions and give proper weight to different speakers and messages." Gaps in transparency and accountability may expose the company to reputational and business risks that could threaten long-term shareholder value.

Caterpillar Inc. contributed at least \$2.1 million in corporate funds since the 2002 election cycle. (CQ: <http://moneyline.cq.com/pml/home.do> and National Institute on Money in State Politics: <http://www.followthemoney.org/index.phtml>.)

However, relying on publicly available data does not provide a complete picture of the Company's political expenditures. For example, the Company's payments to trade associations used for political activities are undisclosed and unknown. In many cases, even management does not know how trade associations use their company's money politically. The proposal asks the Company to disclose all of its political contributions, including payments to trade associations and other tax exempt organizations. This would bring our Company in line with a growing number of leading companies, including Hewlett-Packard, Aetna and American Electric Power that support political disclosure and accountability and present this information on their websites.

The Company's Board and its shareholders need complete disclosure to be able to fully evaluate the political use of corporate assets. Thus, we urge your support for this critical governance reform.

Caterpillar Response to PROPOSAL 6 — Report on Political Contributions and Expenses

After careful consideration, **the Board recommends voting AGAINST** this proposal for the reasons provided below.

The Board believes that it is in our best interests and those of our stockholders that we participate in the political process by engaging in government relations programs to educate and inform public officials about our position on issues significant to our business. Although we believe that political contributions can represent a valuable element of any governmental relations program, it is against federal law to contribute corporate funds to federal candidates and, consequently, Caterpillar makes no such contributions. Political contributions by Caterpillar are also subject to regulation at the state government level. Although some states permit corporate contributions to candidates of political parties, all states require recipients of any political contributions from corporations to generally disclose the identity of donors and the dollar amount of the contributions. The Board believes that additional reports concerning political contributions requested in the proposal would result in an unnecessary and unproductive use of Caterpillar's time and resources.

Additionally, Caterpillar, like most United States corporations, participates in certain industry trade organizations with purposes that include enhancement of the public image of our industry, education about the industry, education about issues that affect the industry, industry best practices and standards, and leading industry products and technologies. Many of the trade organizations also engage in legislative activity related to matters that affect the industry as a whole and not a specific company. The Public Policy Committee regularly reviews the Company's participation in trade organizations and the Board believes the additional reports concerning trade organizations requested in the proposal would result in an unnecessary and unproductive use of Caterpillar's time and resources.

Caterpillar is committed to complying with laws and regulations governing federal and state political contributions and adhering to the highest standards of ethics and transparency in engaging in any political activities.

FOR THESE REASONS, YOUR BOARD OF DIRECTORS RECOMMENDS VOTING "AGAINST" PROPOSAL 6.

PROPOSAL 7 — Executives to Retain Significant Stock

Pursuant to Rule 14a-8(l)(1) of the Securities Exchange Act of 1934, the Company will provide the name, address and number of Company securities held by the proponent of this stockholder proposal promptly upon receipt of a written or oral request.

Resolution Proposed by Stockholder

RESOLVED, Shareholders urge that our executive pay committee adopt a policy requiring that senior executives retain a significant percentage of stock acquired through equity pay programs until two years following the termination of their employment and to report to shareholders regarding the policy before our 2012 annual meeting of shareholders.

Supporting Statement of Proponent

As a minimum this proposal asks for a retention policy going forward, although the preference is for immediate implementation to the fullest extent possible.

Shareholders recommend that our executive pay committee adopt a percentage of at least 75% of net after-tax stock. The policy shall apply to future grants and awards of equity pay and should address the permissibility of transactions such as hedging transactions which are not sales but reduce the risk of loss to executives.

Requiring senior executives to hold a significant portion of stock obtained through executive pay plans after the employment termination would focus executives on our company's long-term success.

The merit of this Executives To Retain Significant Stock proposal should also be considered in the context of the need for additional improvement in our company's 2010 reported corporate governance status:

The Corporate Library www.thecorporatelibrary.com, an independent investment research firm rated our company "D" with "High Governance Risk," and "High Concern" in executive pay — with a \$17 million stock option gain for our ex-CEO James Owens. Plus only 51% of CEO pay was incentive based.

Mr. Owens received a mega-grant of 500,000 stock options with a low \$22 exercise price, the bottom of Caterpillar's share price in five years (down from \$73 in 2008). At year-end, our share price increased, enabling a \$17 million gain for our ex-CEO. Market priced stock options are a risk for shareholders because they provide rewards to executives due to a rising market alone, regardless of CEO performance. Furthermore, our company granted no performance-based equity to our CEO in 2009 and used a cash performance plan which paid for sub-par performance.

Our Executive Pay Committee was allowed to be chaired by David Goode (related to the Delta Air Lines bankruptcy) who was marked as "Flagged (Problem) Director" by The Corporate Library. "Flagged Director" Frank Blount (related to the Entergy Corporation bankruptcy and our Lead Director no less) was allowed to be 33% of our Nomination Committee.

Susan Schwab (related to the Calpine Corporation bankruptcy) was allowed to be 33% of our Public Policy Committee. Since Ms. Schwab was relatively new to our board this may indicate a disturbing director selection process. Charles Powell was also on the Public Policy Committee and attracted our highest negative votes.

Seven of our directors (on our unwieldy 16-member board with consequence risk of CEO domination) had 12 to 17-years long-tenure (independence concern). Moreover, these long-tenured directors held the chairmanships on our 3 most important board committees.

Please encourage our board to respond positively to this proposal to help turnaround the above type practices: Executives To Retain Significant Stock — Yes on 7.

Caterpillar Response to PROPOSAL 7 — Executives to Retain Significant Stock

Statement in Opposition to Proposal

After careful consideration, **the Board recommends voting AGAINST** this proposal for the reasons provided below.

We agree that meaningful, long-term stock ownership aligns executives' interests with stockholders, promotes a focus on the Company's long-term success and discourages unreasonable risk-taking. However, we believe our current policies and programs achieve this goal effectively.

The Compensation Committee has approved stock ownership requirements for all employees receiving equity compensation. Failure to meet these requirements results in automatic grant reductions, unless compelling personal circumstances prevent an employee from meeting his or her target ownership requirement.

A policy requiring executives to hold a significant portion of their equity awards for two years beyond retirement or termination could diminish our ability to attract and retain the talented executives who are critical to our long-term success. Because equity compensation is the largest element of compensation for our executive officers, the Company's stock makes up a substantial proportion of their net worth. These executives may have legitimate needs to diversify their portfolios. Further, requiring executive officers to retain a 75% stock ownership threshold beyond termination or retirement could motivate executives to leave the Company early in order to realize the value of their equity compensation.

We have designed our stock ownership guidelines and other compensation policies to ensure that our executives are focused on Caterpillar's long-term success and that their interests are aligned with those of our stockholders, which are the stated goals of the proponent. We believe the current stock ownership guidelines strike the right balance between ensuring that our executives own significant amounts of Caterpillar equity while allowing them to prudently manage their personal financial matters.

In regards to the governance concerns raised by the proponent, we note that as of the date of the filing of this proxy statement, Institutional Shareholder Services has given the Company a "Low Concern" rating (the most favorable) in each of the four areas for which it evaluates the Company's governance practices: Audit, Board Structure, Compensation and Shareholder Practices. Further, Institutional Shareholder Services recommended a "For" vote in favor of the reelection of directors the last time any of the current nominees stood for reelection, most recently in 2010. Please see the Compensation Discussion and Analysis section of this proxy statement for an explanation of compensation decisions.

FOR THESE REASONS, YOUR BOARD OF DIRECTORS RECOMMENDS VOTING "AGAINST" PROPOSAL 7.

PROPOSAL 8 — Director Election Majority Vote Standard

Pursuant to Rule 14a-8(l)(1) of the Securities Exchange Act of 1934, the Company will provide the name, address and number of Company securities held by the proponent of this stockholder proposal promptly upon receipt of a written or oral request.

Resolution Proposed by Stockholder

Resolved: That the shareholders of Caterpillar Inc. (or the “Company”) hereby request that the Board of Directors initiate the appropriate process to amend the Company’s governance documents (certificate of incorporation or bylaws) to provide that director nominees shall be elected by the affirmative vote of the majority of votes cast at an annual meeting of shareholders, with a plurality vote standard retained for contested director elections, that is, when the number of director nominees exceeds the number of board seats.

Supporting Statement of Proponent

In order to provide shareholders a meaningful role in director elections, Caterpillar’s director election vote standard should be changed to a majority vote standard. A majority vote standard would require that a nominee receive a majority of the votes cast in order to be elected. The standard is particularly well-suited for the vast majority of director elections in which only board nominated candidates are on the ballot. We believe that a majority vote standard in board elections would establish a challenging vote standard for board nominees and improve the performance of individual directors and entire boards. Our Company presently uses a plurality vote standard in all director elections. Under the plurality vote standard, a nominee for the board can be elected with as little as a single affirmative vote, even if a substantial majority of the votes cast are “withheld” from the nominee.

An increasing number of companies, including 3M Company, The Boeing Company, Deere & Co., General Dynamics Corp., and Honeywell International Inc., have adopted a majority vote standard for director elections. Additionally, these companies have adopted director resignation policies to address post-election issues related to the status of director nominees who fail to win election. Other companies, including our Company, have responded only partially to the call for change by simply adopting post-election director resignation policies.

We believe that a post-election director resignation policy without a majority vote standard in company bylaws or articles is an inadequate reform. The critical first step in establishing a meaningful majority vote policy is the adoption of a majority vote standard. With a majority vote standard in place, the board can then consider action on developing post-election procedures to address the status of directors that fail to win election. A majority vote standard combined with a post-election director resignation policy would establish a meaningful right for shareholders to elect directors, and reserve for the board an important post-election role in determining the continued status of an unelected director.

We urge shareholders to vote FOR this proposal.

Caterpillar Response to PROPOSAL 8 — Director Election Majority Vote Standard

After careful consideration, **the Board recommends voting AGAINST** this proposal for the reasons provided below.

The Company received a similar proposal for the past several years and each year the proposal received less than a majority of the votes cast by stockholders. In light of these results and for the reasons provided below, the Board believes that the Company’s current method of electing directors is not only preferred by our stockholders, but continues to be in the best long-term interests of the Company and its stockholders.

Company stockholders currently elect their directors by plurality voting; however, the Board has adopted a director resignation policy, which provides that any director nominee who receives a greater number of “withheld” votes than votes “for” is required to tender his or her resignation to the Governance Committee. The Governance Committee will consider the resignation and recommend to the Board whether or not to accept the resignation. The independent directors will then make a decision regarding the resignation and publicly disclose their decision. The Board believes that this policy promotes a good balance between providing stockholders a meaningful and significant role in the process of electing directors and allowing the Board flexibility to exercise its independent judgment on a case-by-case basis.

Moreover, the proponent's characterization of plurality voting, particularly the statement that a director may be elected by a single vote even if a substantial majority of the votes cast are "withheld," is improbable — especially in light of the Company's past voting results. The Company's stockholders have an excellent history of electing strong and independent directors by plurality voting. During the past ten years, the average affirmative vote for directors has been greater than 95 percent of the shares voted through the plurality voting process.

FOR THESE REASONS, YOUR BOARD OF DIRECTORS RECOMMENDS VOTING "AGAINST" PROPOSAL 8.

PROPOSAL 9 — Special Stockholder Meetings

Pursuant to Rule 14a-8(l)(1) of the Securities Exchange Act of 1934, the Company will provide the name, address and number of Company securities held by the proponent of this stockholder proposal promptly upon receipt of a written or oral request.

Resolution Proposed by Stockholder

RESOLVED, Shareowners ask our board to take the steps necessary unilaterally (to the fullest extent permitted by law) to amend our bylaws and each appropriate governing document to give holders of 20% of our outstanding common stock (or the lowest percentage permitted by law above 20%) the power to call a special shareowner meeting.

This includes that such bylaw and/or charter text will not have any exception or exclusion conditions (to the fullest extent permitted by law) in regard to calling a special meeting that apply only to shareowners but not to management and/or the board.

Supporting Statement of Proponent

Special meetings allow shareowners to vote on important matters, such as electing new directors, that can arise between annual meetings. If shareowners cannot call special meetings, management may become insulated and investor returns may suffer. Shareowner input on the timing of shareowner meetings is especially important during a major restructuring — when events unfold quickly and issues may become moot by the next annual meeting. This proposal does not impact our board's current power to call a special meeting.

This proposal topic won more than 60% support at the following companies: CVS Caremark (CVS), Sprint Nextel (S), Safeway (SWY), Motorola (MOT) and R. R. Donnelley (RRD).

Please encourage our board to respond positively to this proposal regarding Special Shareowner Meetings.

Caterpillar Response to PROPOSAL 9 — Special Stockholder Meetings

After careful consideration, **the Board recommends voting AGAINST** this proposal for the reasons provided below.

Our Certificate of Incorporation already provides a process for calling special meetings, effectively safeguarding the broader interests of all stockholders.

The Board has a longstanding goal of providing effective governance of our business for the long-term benefit of our stockholders. The Board is composed of independent, active and effective directors. 13 of our 14 directors meet the independence requirements of the NYSE, the SEC and the Board's own standards for determining director independence. The primary responsibility of the Board is to promote the best interests of Caterpillar and its stockholders by overseeing the management of the Company's business and affairs.

Our Certificate of Incorporation provides that a special meeting of stockholders may be called at any time by a majority of the Board members. This provision is appropriate for a public company the size of Caterpillar because it allows the Board members, in accordance with their fiduciary duties, to exercise their business judgment to determine when it is in the best interests of the Company and its stockholders to convene a special meeting. These provisions effectively safeguard the broader interests of the Company and all stockholders by entrusting such decisions to a qualified and experienced group of directors elected by all stockholders who have a fiduciary duty to act in the best interests of the Company and all stockholders.

This proposal would enable holders of only 20 percent of our outstanding shares to call special stockholders' meetings without any limitation on the number or frequency of such meetings. Thus, a small group of stockholders could call special meetings on topics that do not concern, or may be of little or no interest or value to, the majority of stockholders.

A special stockholders' meeting would be an expensive and time-consuming event. Proxy materials would have to be prepared, printed and distributed, requiring the Company to incur significant costs. The Board and management of the Company would be required to spend a significant amount of time preparing for the meeting, diverting their attention from overseeing and managing the Company's business. As a result, the Board believes that a special stockholders' meeting should be convened when the Board members, exercising their fiduciary obligations, determine that there is an extraordinary matter or significant strategic concern that requires consideration by the Company's stockholders before the next annual meeting.

Our corporate governance policies ensure that the Board is held accountable and provide stockholders with access to the Board and ample opportunity to submit items for approval at annual meetings.

The Board believes that the Company's existing corporate governance policies provide an appropriate balance between ensuring that the Board is accountable to the stockholders and enabling the Board to effectively oversee the Company's business for the long-term benefit of the stockholders. In particular, stockholders may communicate directly with any director, any Board committee or the full Board; propose director nominees to the Governance Committee; and submit proposals for presentation at an annual meeting of the stockholders of the Company and for inclusion in the Company's proxy statement for that annual meeting.

In fact, the Board's governance practices and policies demonstrate its commitment to being accountable to the Company's stockholders, including the following:

- In June 2005, the Company terminated its stockholder rights plan, or "poison pill," early in response to stockholder concerns.
- Based on stockholder votes in 2008 and 2009, the Board approved a plan to declassify the Board so that all Directors are elected annually. The plan was submitted to and subsequently approved by stockholders in 2010 and has been implemented by the Company for this Annual Meeting.
- In response to current trends in corporate governance, the Board recommended, and stockholders approved, the elimination of certain supermajority voting requirements in our Certificate of Incorporation and Bylaws in 2010.

These policies provide stockholders with reasonable access to Board members and adequate opportunities to bring matters before the stockholders on an annual basis.

Our stockholders already have the right to vote on certain significant corporate transactions.

The suggestion that stockholders need the right to call special meetings to protect their interests in the case of extraordinary events involving the Company is simply misleading. We are subject to rules governing Delaware corporations and companies listed on the NYSE that already require us to submit certain significant matters to a stockholder vote for approval. For example, amendments to the Company's Certificate of Incorporation, mergers, a sale of all or substantially all of the Company's assets, increases in the number of authorized shares and the adoption of equity-based compensation plans all require a stockholder vote.

FOR THESE REASONS, YOUR BOARD OF DIRECTORS RECOMMENDS VOTING "AGAINST" PROPOSAL 9.

PROPOSAL 10 — Independent Chairman of the Board

Pursuant to Rule 14a-8(l)(1) of the Securities Exchange Act of 1934, the Company will provide the name, address and number of Company securities held by the proponent of this stockholder proposal promptly upon receipt of a written or oral request.

Resolution Proposed by Stockholder

RESOLVED: The shareholder request the Board of Directors of Caterpillar Inc. to adopt as policy, and amend the bylaws as necessary, to require the Chair of the Board of Directors, whenever possible, to be an independent member of the Board. This policy should be phased in for the next CEO transition. Compliance with this policy is waived if no independent director is available and willing to serve as Chair.

Supporting Statement of Proponent

I believe:

- The role of the CEO and management is to run the company.
- The role of the Board of Directors is to provide independent oversight of management and the CEO.
- There is a potential conflict of interest for a CEO to be her/his own overseer while managing the business.

Numerous institutional investors recommend separation. For example, California's Retirement System CalPERS' Principles & Guidelines encourage separation, even with a lead director in place.

Board members have also demonstrated a preference for separation. According to a 2010 corporate governance survey of 400 board members by Sullivan & Cromwell LLP, approximately 70% of respondents believe the head of management should not concurrently be the head of the board.

In 2009, Yale University's Millstein Center for Corporate Governance and Performance published a Policy Briefing paper "*Chairing the Board*," arguing the case for a separate, independent Board Chair.

The report was prepared in conjunction with the "Chairmen's Forum" composed of a group of Directors. "A separate CEO and Chairman should improve corporate performance and lead to more competitive compensation practices," said Gary Wilson, former Chair at Northwest Airlines, a Yahoo Director and a member of the Forum.

The report stated that chairing and overseeing the Board is a time intensive responsibility and that a separate Chair leaves the CEO free to manage the company and build effective business strategies.

An independent Chair also avoids conflicts of interest and improves oversight of risk. Any conflict in this role is reduced by clearly spelling out the different responsibilities of the Chair and CEO.

Many companies have separate and/or independent Chairs. By 2008, close to 39% of the S&P 500 companies had boards that were not chaired by their chief executive. An independent Chair is the prevailing practice in the United Kingdom and many international markets.

Shareholder resolutions urging separation of CEO and Chair averaged approximately 37% support in 2009 at 30 companies and 29% with 36 companies in 2010, an indication of strong investor support.

An independent Chair and vigorous Board can improve focus on important ethical and governance matters, strengthen accountability to shareowners and help forge long-term business strategies that best serve the interests of shareholders, consumers, employees and the company. Conversely a combined CEO Chair role potentially establishes an "imperial CEO", lessening accountability.

To foster a simple transition, I am requesting that this policy be phased in and implemented when the next CEO is chosen.

I urge you to vote FOR this resolution. A separate independent Chair can enhance investor confidence and strengthen the integrity of the Board.

Caterpillar Response to PROPOSAL 10 — Independent Chairman of the Board

After careful consideration, **the Board recommends voting AGAINST** this proposal for the reasons provided below.

The combined role of Chairman and CEO promotes unified leadership and a clear focus for management as it executes our strategy and business plans.

The Board believes the combined role of Chairman and CEO promotes unified leadership and direction for the Company, which allows for a single, clear focus for management to execute our strategy and business plans. The Board has adopted Guidelines on Corporate Governance Issues (available at www.caterpillar.com/governance), consistent with our Bylaws, which state that the role of the Chairman of the Board is to be filled by the Company's CEO. This leadership structure provided stability and continuity as we executed on our strategy and business plans during a transition in leadership in 2010 when

Mr. Oberhelman succeeded Mr. Owens as Chairman and CEO and has fostered the continued success of the Company, which has paid a cash dividend every year since its formation in 1925. The combined structure also avoids the added costs and inefficiencies that would result by mandating an independent Chairman.

You have repeatedly rejected similar proposals in the past.

Our stockholders rejected similar stockholder proposals in 2006, 2007, 2009 and 2010. The proposal suggests that the Board cannot provide effective independent oversight of the Company and its management team because an independent director does not hold the office of Chairman. The Board disagrees with this assertion. Indeed, the majority of S&P 500 companies currently combine the positions of Chairman of the Board and CEO.

The Board has already adopted measures, including establishing the role of an independent Presiding Director, to assure its ability to provide independent oversight of management.

The Board agrees with the proponent that its role, among others, is to provide independent oversight of the CEO and management and has adopted various policies to ensure its independence. Each of the directors, with the exception of the Chairman, has been determined to be independent as defined under NYSE regulations, and all committees of the Board are made up entirely of independent directors. The Board and Governance Committee have consistently nominated strong, accomplished individuals as directors, many of whom are currently or recently have been leaders of major companies or institutions, and all of whom are independent thinkers and have a wide range of relevant expertise and skills.

In addition, the independent directors have unanimously elected, from the ranks of the independent directors, the Chairman of the Governance Committee as the Board's Presiding Director. The Presiding Director's duties and responsibilities include: (i) presiding at all meetings of the Board at which the Chairman is not present; (ii) serving as a liaison between the Chairman and the independent directors; (iii) approving information sent to the Board; (iv) approving meeting agendas for the Board; (v) approving meeting schedules to assure that there is sufficient time for discussion of all agenda items; (vi) authority to call meetings of the independent directors; and (vii) if requested by major stockholders, ensuring that he is available for consultation and direct communication. Based on these duties and responsibilities, the Board believes that the Presiding Director provides an effective "counter-balance" to the combined role of CEO and Chairman.

Given the strong leadership of the Company's Chairman and CEO, the counter-balancing role of the Presiding Director and a Board comprised of strong and independent directors, the Board continues to believe it is in the best long-term interests of the Company and its stockholders to maintain the combined role of Chairman and CEO.

FOR THESE REASONS, YOUR BOARD OF DIRECTORS RECOMMENDS VOTING "AGAINST" PROPOSAL 10.

PROPOSAL 11 — Review of Global Corporate Standards

Pursuant to Rule 14a-8(l)(1) of the Securities Exchange Act of 1934, the Company will provide the name, address and number of Company securities held by the proponent of this stockholder proposal promptly upon receipt of a written or oral request.

Resolution Proposed by Stockholder

Whereas, Caterpillar, a global corporation, faces increasingly complex problems as the international social and cultural context changes.

Companies are faced with ethical and legal challenges arising from diverse cultures and political and economic contexts. Today, management must address issues that include human rights, workers' right to organize, non-discrimination in the workplace, protection of environment and sustainable community development. Caterpillar itself does business in countries with human rights challenges including China, Colombia, Myanmar/Burma, Syria and Israel and the occupied Palestinian territories.

We believe global companies must implement comprehensive codes of conduct, such as those found in "Principles for Global Corporate Responsibility: Bench Marks for Measuring Business Performance," developed by an international group of religious investors. (www.bench-marks.org) Companies must formulate policies to reduce risk to reputation in the global marketplace. To address this situation, some companies, such as Hewlett-Packard and Coca-Cola, are even extending policies to include franchisees, licensees and agents that market, distribute or sell their products.

In August 2003, the United Nations Sub-Commission on the Promotion and Protection of Human Rights took historic action by adopting “Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights.”(www1.umn.edu/humanrts/links/NormsApril2003.html)

RESOLVED: shareholders request the Board of Directors to review and amend, where applicable, Caterpillar’s policies related to human rights that guide international and U.S. operations, extending policies to include franchisees, licensees and agents that market, distribute or sell its products, to conform more fully with international human rights and humanitarian standards, and that a summary of this review be posted on Caterpillar’s website by October 2011.

Supporting Statement of Proponent

Caterpillar’s current policy, the *Worldwide Code of Conduct*, contains no references to existing international human rights codes except for a corporate policy of non-discrimination, and aspirational goals to maintain employee health and safety. It does not apply to company dealers whose activities can carry extensive reputational risks for Caterpillar. We believe company policies should reflect more robust, comprehensive understanding of human rights.

We recommend the review include policies designed to protect human rights-civil, political, social, environmental, cultural and economic-based on internationally recognized human rights standards, i.e., Universal Declaration of Human Rights, Fourth Geneva Convention, International Covenant on Civil and Political Rights, core labor standards of the International Labor Organization, International Covenant on Economic, Cultural and Social Rights, and United Nations resolutions and reports of UN special rapporteurs on countries where Caterpillar does business.

This review and report will assure shareholders that Caterpillar policies and practices reflect or conform to human rights conventions and guidelines and international law. We are not recommending specific provisions of the above-named international conventions. We believe significant commercial advantages may accrue to Caterpillar by adopting a comprehensive policy based on UN Human Rights Norms serving to enhance corporate reputation, improve employee recruitment and retention, improve community and stakeholder relations and reduce risk of adverse publicity, consumer boycotts, divestment campaigns and lawsuits.

Caterpillar Response to PROPOSAL 11 — Review of Global Corporate Standards

After careful consideration, **the Board recommends voting AGAINST** this proposal for the reasons provided below.

Our Worldwide Code of Conduct (Code of Conduct) defines what we stand for and believe in, documenting the uncompromisingly high ethical standards our Company has upheld since its founding in 1925.

Our Code of Conduct, first published in 1974 and most recently updated in 2010, is readily available on the Company’s website at www.caterpillar.com/code and, as illustrated in the following excerpts, already embodies many of the principles contained in the proponents’ proposal.

We Treat People Fairly and Prohibit Discrimination

- We build and maintain a productive, motivated work force by treating all employees fairly and equitably. We respect and recognize the contributions of employees as well as other stakeholders.
- We will select and place employees on the basis of their qualifications for the work to be performed, considering accommodations as appropriate and needed — without regard to their race, religion, national origin, color, gender identity, sexual orientation, age, and/or physical or mental disability.
- We support and obey laws that prohibit discrimination everywhere we do business.

We Treat Others with Respect and Do Not Tolerate Intimidation or Harassment

- Caterpillar insists on a work environment free of intimidation and harassment.

We Select, Place and Evaluate Employees Based on their Qualifications and Performance

- Caterpillar selects, places, evaluates and rewards employees based on their personal qualifications and skills for the job, demonstrated performance and the contributions they make to Caterpillar.

We Foster an Inclusive Environment

- We understand and accept the uniqueness of individuals, and are non-judgmental regarding differences. We value the diversity of unique talents, skills, abilities, and experiences that enable Caterpillar people to achieve superior business and personal results.

We Conduct Business Worldwide With Consistent Global Standards

- As a global company, we understand that there are many differing economic and political philosophies and forms of government throughout the world. We acknowledge the wide diversity that exists among the social customs and cultural traditions in the countries in which we operate. We respect such differences, and to the extent that we can do so in keeping with the principles of our Code of Conduct, we will maintain the flexibility to adapt our business practices to them.

We Protect the Health and Safety of Others and Ourselves

- As a company, we strive to contribute toward a global environment in which all people can work safely and live healthy, productive lives, now and in the future. We actively promote the health and safety of everyone on our property with policies and practical programs that help individuals safeguard themselves and their co-workers.

We Support Environmental Responsibility Through Sustainable Development

- We strive to create stockholder value by providing customers with solutions that improve the sustainability of their operations. We leverage technology and innovation to increase our efficiency and productivity while reducing environmental impact. We develop new business opportunities that help our customers, dealers, distributors and suppliers do the same. Our products and services will meet or exceed applicable regulations and standards wherever they are initially sold. We lead industry and community initiatives that share our commitment to making sustainable progress possible.

We Refuse to Make Improper Payments

- In dealing with public officials, other corporations and private citizens, we firmly adhere to ethical business practices. We will not seek to influence others, either directly or indirectly, by paying bribes or kickbacks, or by any other measure that is unethical or that will tarnish our reputation for honesty and integrity. Even the appearance of such conduct must be avoided.

Living By the Code

- While we conduct our business within the framework of applicable laws and regulations, for us, mere compliance with the law is not enough. We strive for more than that. Through our Code of Conduct, we envision a work environment all can take pride in, a company others respect and admire, and a world made better by our actions.

We View Our Suppliers As Our Business Allies

- We look for suppliers and business allies who demonstrate strong values and ethical principles and who support our commitment to quality. We avoid those who violate the law or fail to comply with the sound business practices we embrace.

At Caterpillar, we are dedicated to promoting a healthy, productive and rewarding work environment for our employees worldwide.

Our Code of Conduct reflects our dedication to these issues. Your Board believes that the Code of Conduct effectively articulates our long-standing support for, and continued commitment to, human rights and does not believe that implementation of this proposal is necessary or desirable as the concerns raised by the proponent are already being addressed in a meaningful way. As these issues are already provided for in our Code of Conduct, the Board further believes that this proposal would add unnecessary cost to the Company and divert management's attention from the current processes in place to address these issues.

FOR THESE REASONS, YOUR BOARD OF DIRECTORS RECOMMENDS VOTING "AGAINST" PROPOSAL 11.

PROPOSAL 12 — Death Benefits Policy

Pursuant to Rule 14a-8(l)(1) of the Securities Exchange Act of 1934, the Company will provide the name, address and number of Company securities held by the proponent of this stockholder proposal promptly upon receipt of a written or oral request.

Resolution Proposed by Stockholder

RESOLVED: The shareholders of Caterpillar Inc. (the “Company”) hereby request the board of directors to adopt a policy that, unless the shareholders expressly authorize such outlays, the Company will not make any payments, grants or awards following the death of a senior executive in the form of unearned salary or bonuses; accelerated vesting or the continuation in force of unvested and unearned equity grants; awards of ungranted equity; perquisites; or other forms of a payment, grant or award. This policy would not apply to the extent that comparable payments, grants or awards are offered to other Company employees. This resolution would not affect actions taken under existing plans that provide for such benefits, but would apply to any proposed new plans and modifications, amendments or extensions of existing plans.

Supporting Statement of Proponent

As shareholders, we support a compensation philosophy that provides sufficient remuneration to motivate and retain senior talented executives and that ties their pay to the long-term performance of the Company. We believe that such a “pay for performance” approach is needed to align the interests of executives with those of shareholders.

In our view, “golden coffin” awards, which can require a company to make significant payments or awards after an executive’s death, are inconsistent with that approach. Senior executives have opportunities while alive to contribute to a pension fund, purchase life insurance, or engage in other estate planning strategies suitable to their needs. We see no reason to saddle shareholders with payments or awards when shareholders are receiving no services in return.

Caterpillar currently offers death benefits to senior executives, including accelerated vesting of options and stock appreciation rights, which may be exercised for up to 60 months from the date of death or the remainder of the term for the option or SAR, whichever occurs first. Plans also provide for accelerated vesting of restricted stock, performance shares or performance units.

These provisions can provide millions of dollars to the estates of individual senior executives when those executives would no longer be providing services to the Company.

We agree with Peter Gleason, CFO of the National Association of Corporate Directors, who was quoted in *Financial Week* as calling “golden coffin” packages a “bad idea.” We disagree that such packages enhance executive retention, as an executive who is deceased cannot be “retained.”

We thus ask the Company to adopt a policy against future death benefits for senior executives unless there has been an independent shareholder authorization. At present, death benefits are but one element of larger incentive award plans, which the Company submits to shareholders for an “up-or-down” vote on the entire package. Because of what we view as a disconnect between “golden coffin” packages and pay for performance, we believe that such benefits should be allowed only if broken out for separate shareholder consideration and authorization.

We urge shareholders to vote FOR this proposal.

Caterpillar Response to PROPOSAL 12 — Death Benefits Policy

Statement in Opposition to Proposal

After careful consideration, **the Board recommends voting AGAINST** this proposal for the reasons provided below.

Our Board and the Compensation Committee recognize the need to attract and retain talented executives in the context of the competitive environment in which the Company operates. We believe the Company’s current compensation plans, implemented with the assistance of the Compensation Committee’s independent consultant, are customary and competitive, including with respect to benefits payable upon an executive’s death.

The Board disagrees with the proponents' assertion that Caterpillar's compensation programs "saddle shareholders with payments or awards when shareholders are receiving no services in return." The compensation structure is specifically designed to pay executives for services actually performed for the Company. The only payments made following an executive's death would be payments previously earned but unpaid and amounts payable upon the vesting of long-term incentive awards granted to the executive prior to his or her death. The award payments are not a windfall — they are not increased when an employee dies. Specifically, the current compensation structure provides that in the event of an executive's death the following occurs with respect to their compensation:

- Salary — ceases immediately
- Short-Term Incentive Plan Compensation — the payout, if ultimately earned, is prorated for the portion of the performance period during which the deceased executive was an active employee
- Long Term Cash Performance Plan Awards — the payout, if ultimately earned, is prorated for the portion of the performance period during which the deceased executive was an active employee
- Equity Based Compensation — awards vest and, if there is an exercise feature, the award is exercisable by the deceased executive's heirs for the shorter of (i) the exercise period set forth in the award or (ii) sixty months.

The vesting provisions described above are all included within employee benefit plans that have already been approved by the Company's stockholders. The vesting provisions for executives apply equally to other employees participating in the plans. Accordingly, we believe we have already fulfilled the principal objective of this stockholder proposal.

FOR THESE REASONS, YOUR BOARD OF DIRECTORS RECOMMENDS VOTING "AGAINST" PROPOSAL 12.

PART FOUR — Other Important Information

Persons Owning More than Five Percent of Caterpillar Common Stock

Based on a review of any Schedule 13G and any amendments to Schedule 13G filed with the SEC through April 14, 2011, the following persons beneficially own more than five percent of Caterpillar common stock.

Persons Owning More than Five Percent of Caterpillar Common Stock¹ (as of December 31, 2010)

Name and Address	Voting Authority		Dispositive Authority		Total Amount of Beneficial Ownership	Percent of Class
	Sole	Shared	Sole	Shared		
BlackRock, Inc. 40 East 52 nd Street New York, NY 10022	33,081,726	0	33,081,726	0	33,081,726	5.21
State Street Corporation and various direct and indirect subsidiaries ² State Street Financial Center One Lincoln Street Boston, MA 02111	0	28,721,618	0	75,802,084	75,802,084	11.9

¹ This information is based upon Schedule 13Gs filed with the SEC for year-end December 31, 2010.

² State Street Bank and Trust Company serves as investment manager for certain Caterpillar defined benefit plans (8,105,156 shares) and defined contribution plans (38,975,310 shares).

Security Ownership of Certain Beneficial Owners and Management

Security ownership of management, the Board of Directors and Nominees to the Board of Directors is included in the following table.

Caterpillar Common Stock Owned by Executive Officers and Directors (as of December 31, 2010)

Blount	71,156 ^{1, 22}	Magowan	333,817 ¹²
Brazil	37,636 ²	Muilenburg	0
Burritt	402,906 ^{3, 22}	Oberhelman	907,089 ¹³
Calhoun	1,800	Osborn	63,558 ¹⁴
Dickinson	9,653 ⁴	Owens	2,830,220 ^{15, 22}
Dillon	84,620 ^{5, 22}	Powell	59,980 ¹⁶
Fife	56,833 ⁶	Rapp	311,139 ¹⁷
Fosler	37,348 ^{7, 22}	Rust	41,766 ¹⁸
Gallardo	273,589 ⁸	Schwab	4,098
Goode	103,086 ⁹	Smith	43,818 ¹⁹
Greene	2,000 ²³	Vittecoq	680,558 ²⁰
Lavin	286,466 ¹⁰	White	0 ²³
Levenick	580,800 ¹¹	Wunning	604,124 ²¹
		All directors and executive officers as a group	8,298,993 ²⁴

¹ Blount — Includes 52,833 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan (DDCP) representing an equivalent value as if such compensation had been invested on December 31, 2010 in 1,831 shares of common stock.

² Brazil — Includes 28,833 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to DDCP representing an equivalent value as if such compensation had been invested on December 31, 2010 in 683 shares of common stock.

³ Burritt — Includes 381,199 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Supplemental Deferred Compensation Plan (SDCP), Supplemental Employees' Investment Plan (SEIP) and/or the Deferred Employees' Investment Plan (DEIP) representing an equivalent value as if such compensation had been invested on December 31, 2010 in 12,143 shares of common stock.

⁴ Dickinson — Includes 5,833 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to DDCP representing an equivalent value as if such compensation had been invested on December 31, 2010 in 10,989 shares of common stock.

⁵ Dillon — Includes 52,833 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to DDCP representing an equivalent value as if such compensation had been invested on December 31, 2010 in 9,436 shares of common stock.

⁶ Fife — Includes 36,833 shares subject to stock options exercisable within 60 days.

⁷ Fosler — Includes 28,833 shares subject to stock options exercisable within 60 days.

⁸ Gallardo — Includes 52,833 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to DDCP representing an equivalent value as if such compensation had been invested on December 31, 2010 in 12,769 shares of common stock.

⁹ Goode — Includes 44,833 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to DDCP representing an equivalent value as if such compensation had been invested on December 31, 2010 in 50,470 shares of common stock.

¹⁰ Lavin — Includes 235,580 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to SDGP, SEIP and/or DEIP representing an equivalent value as if such compensation had been invested on December 31, 2010 in 18,472 shares of common stock.

¹¹ Levenick — Includes 485,396 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to SDGP, SEIP and/or DEIP representing an equivalent value as if such compensation had been invested on December 31, 2010 in 15,221 shares of common stock.

¹² Magowan — Includes 28,833 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to DDCP representing an equivalent value as if such compensation had been invested on December 31, 2010 in 25,212 shares of common stock.

¹³ Oberhelman — Includes 825,884 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to SDGP, SEIP and/or DEIP representing an equivalent value as if such compensation had been invested on December 31, 2010 in 42,512 shares of common stock.

¹⁴ Osborn — Includes 28,833 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to DDCP representing an equivalent value as if such compensation had been invested on December 31, 2010 in 199 shares of common stock.

¹⁵ Owens — Includes 2,402,666 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to SDGP, SEIP and/or DEIP representing an equivalent value as if such compensation had been invested on December 31, 2010 in 9,127 shares of common stock.

¹⁶ Powell — Includes 52,833 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to DDCP representing an equivalent value as if such compensation had been invested on December 31, 2010 in 199 shares of common stock.

¹⁷ Rapp — Includes 269,044 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to SDGP, SEIP and/or DEIP representing an equivalent value as if such compensation had been invested on December 31, 2010 in 20,574 shares of common stock.

¹⁸ Rust — Includes 28,833 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to DDCP representing an equivalent value as if such compensation had been invested on December 31, 2010 in 16,794 shares of common stock.

¹⁹ Smith — Includes 32,833 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to DDCP representing an equivalent value as if such compensation had been invested on December 31, 2010 in 1,997 shares of common stock.

²⁰ Vittecoq — Includes 568,516 shares subject to stock options exercisable within 60 days.

²¹ Wunning — Includes 529,694 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to SDGP, SEIP and/or DEIP representing an equivalent value as if such compensation had been invested on December 31, 2010 in 22,402 shares of common stock.

²² Retired from the Company and/or the Board in 2010.

²³ Became a director of the Company effective January 1, 2011.

²⁴ This group includes directors, named executive officers and five additional executive officers subject to Section 16 filing requirements (group). Amount includes 6,581,660 shares subject to stock options exercisable within 60 days and 466,749 shares for which voting and investment power is shared. The group beneficially owns 1.3 percent of the Company's outstanding common stock, however, no individual within the group beneficially owns more than 1 percent of our stock. None of the shares held by the group have been pledged.

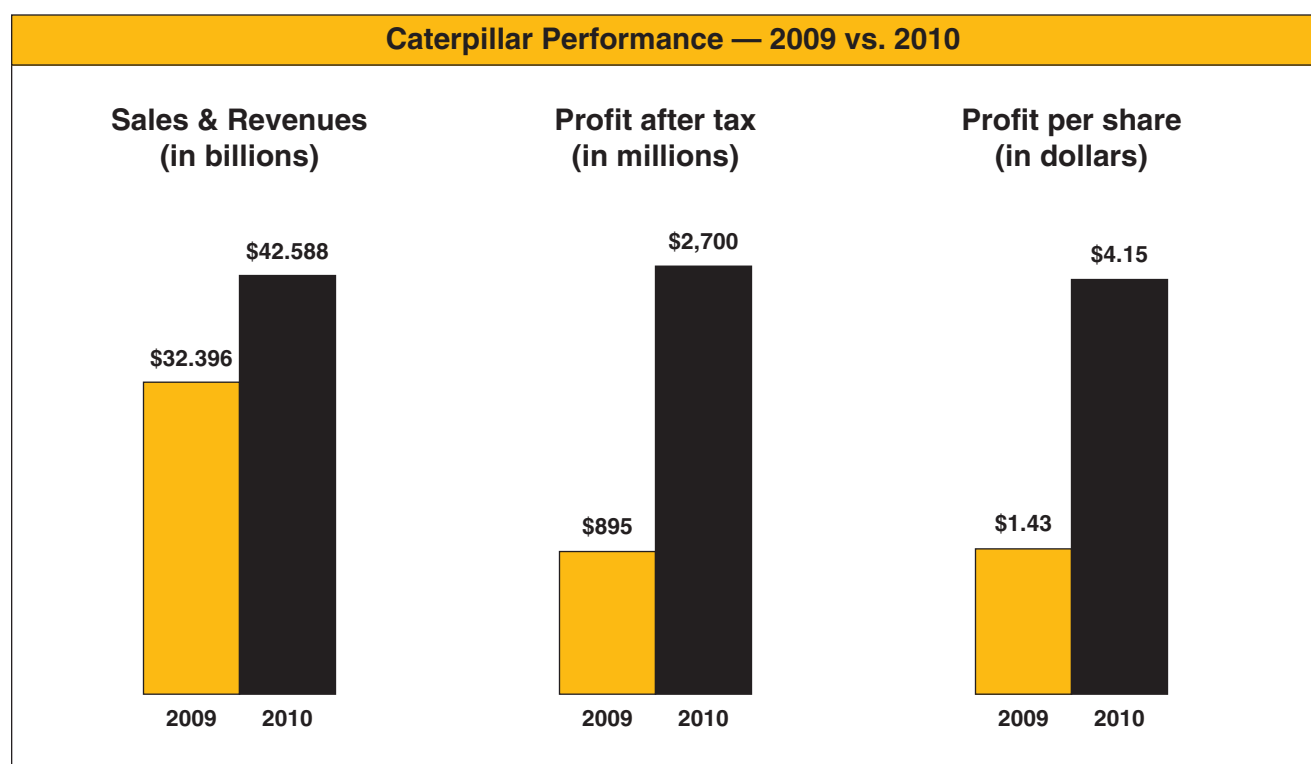
Compensation

Compensation Discussion and Analysis (CD&A)

Executive Summary

As the global economy continued to improve throughout 2010, Caterpillar prepared for an increased product demand by investing in product development, additional capacity and strategic acquisitions. Caterpillar increased production, improved factory efficiency and set a new record for Machinery and Engines operating cash flow of \$5.638 billion up from \$3.147 billion in 2009. In addition, our Machinery and Engines debt-to-capital ratio improved to 34.8 percent from 47.2 percent at year-end 2009. Caterpillar's accomplishments also came in a year that included the retirement of James W. Owens and the transition to Douglas R. Oberhelman as Caterpillar's Chairman and Chief Executive Officer.

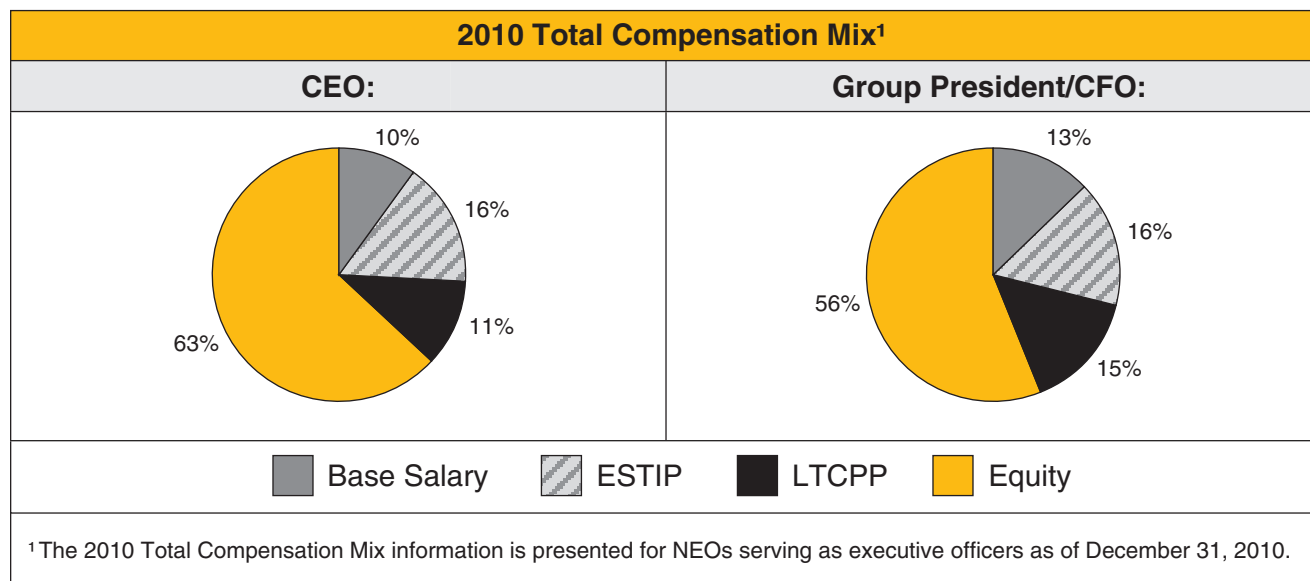
Caterpillar delivered strong financial results for 2010, as illustrated in the following comparison to 2009:



As illustrated above, our Sales and Revenues recovered in 2010 and were \$42.588 billion, an increase of 31 percent from \$32.396 billion in 2009. Caterpillar was able to achieve this increased growth while also controlling costs, which contributed to our profit of \$2.7 billion, an increase of 202 percent from \$895 million in 2009. These results translated into a profit per share (PPS) of \$4.15 in 2010, which was nearly triple the \$1.43 PPS in 2009.

Pay for Performance and Pay at Risk

Our compensation programs are intended to align the interests of our named executive officers (NEOs) with those of our stockholders. To accomplish this, our compensation programs are based on two fundamental concepts: **Pay for Performance** and **Pay at Risk**. As an employee's responsibility increases, so does the proportional amount of "at risk" pay. This is especially true for our executives who have direct responsibility for overall Company performance. A significant portion of executive pay depends on meeting certain performance goals, which is fundamental to aligning executive pay with long-term stockholder interests. Our **Pay for Performance** and **Pay at Risk** environment is best illustrated in the following charts, which show over 85 percent of our NEOs' 2010 compensation was provided in the form of variable compensation, the value of which is tied to Caterpillar's performance.



Corporate Governance Framework

The Compensation Committee of the Board of Directors (the "Compensation Committee" or "Committee"), with the assistance of its independent compensation consultant, engages in an ongoing review of the Company's executive compensation programs to ensure they support the Company's compensation philosophy, to link the interests of management with stockholders and to attract and retain high caliber, talented employees. Following are highlights of the Company's corporate governance framework, which reinforces our **Pay for Performance** environment:

- **Stock ownership requirements** — When compared to the Caterpillar Compensation Comparator Group (CCCG), Caterpillar stock ownership requirements, discussed on page 39, are in the upper quartile. As of April 14, 2011, each of our named executive officers has exceeded these requirements.
- **Benchmark process** — The Compensation Committee and Caterpillar review the external marketplace in order to set market-based pay levels and consider current best practices when making compensation decisions.
- **Independent compensation consultation** — The Compensation Committee has retained and consults an independent compensation consultant.
- **No existing change in control severance benefits** — Other than certain benefits provided pursuant to the terms of the Company's short-term and long-term incentive plans, the Company does not have any pre-existing change in control severance arrangements with its named executive officers. The short-term and long-term incentive plans require a termination of employment in addition to a change in control before change in control benefits are triggered.
- **Compensation recoupment policy** — The Board adopted a "clawback" policy in 2007 that allows the Company to seek the reimbursement of bonus and incentive compensation or to effect the cancellation of unvested or deferred awards upon the misconduct of an executive officer that causes the Company to restate all or a portion of its financial statements.

Named Executive Officers

In October 2010, James W. Owens, our Chairman and CEO since 2004, retired from the Company. Pursuant to a transition plan adopted by the Board, Douglas R. Oberhelman assumed the position of CEO on July 1, 2010, and Chairman on November 1, 2010. In addition, David B. Burritt, our Vice President and Chief Financial Officer since 2004, retired from that position, effective June 1, 2010, and provided transitional support to the Company as an employee until October 1, 2010. Edward J. Rapp, Group President of the Company, assumed the additional position of Chief Financial Officer, effective June 1, 2010.

During fiscal year 2010, Caterpillar was organized into five groups, each led by a Group President. Because the five group presidents all have significant responsibilities, we are including all five as NEOs. This CD&A describes the overall compensation practices at Caterpillar and specifically describes the 2010 total compensation for the following NEOs:

- James W. Owens, retired Chairman and CEO
- Douglas R. Oberhelman, Vice Chairman, CEO-Elect, Chairman and CEO
- Richard P. Lavin, Group President
- Stuart L. Levenick, Group President
- Edward J. Rapp, Group President and Chief Financial Officer
- Gerard R. Vittecoq, Group President
- Steven H. Wunning, Group President
- David B. Burritt, retired Vice President and Chief Financial Officer

We are fortunate to have executives who are “career employees” with a strong commitment to the long-term success of Caterpillar. In fact, the average tenure of our NEOs is 33 years.

Compensation Philosophy and Objectives

As described above, two primary components define Caterpillar’s compensation philosophy: **Pay for Performance** and **Pay at Risk**. The Compensation Committee established three principles to drive this philosophy through the Company’s compensation design:

1. **Base salary, as a percentage of total direct compensation, should decrease as salary grade levels increase.** As employees move to higher levels of responsibility with more direct influence over the Company’s performance, they have a higher percentage of pay at risk.
2. **The ratio of long-term incentive compensation to short-term incentive compensation should increase as salary grade levels increase.** Caterpillar expects executives to focus on the Company’s long-term success. The compensation program is designed to motivate executives to take actions that are best for the Company’s long-term viability.
3. **Equity compensation should increase as salary grade levels increase.** Employees in positions that most directly affect the Company’s performance should have profitable growth for the Company as their main priority. Receiving part of their compensation in the form of equity reinforces the link between their actions and stockholders’ investment. Equity ownership encourages executives to behave like owners and provides a clear link with stockholders’ interests.

In following these principles, and by tying employee compensation to both individual performance and the Company’s long-term performance, we seek to link the interests of management and long-term stockholders. In addition, the compensation program is designed to attract and retain high-caliber, talented employees who will guide our Company to continued success.

Overview of Compensation Practices

The Compensation Committee is responsible for the compensation program design and decision-making process for NEOs. The Compensation Committee regularly reviews our compensation practices, including the methodologies for setting NEO total compensation, the goals of the compensation program and the underlying compensation philosophy. The Compensation Committee believes that by utilizing long-term cash and equity awards as the predominant components of NEO total compensation, along with significant stock ownership requirements, the NEO objectives are aligned with those of our long-term stockholders.

How Caterpillar Determines Total Compensation for NEOs

The Compensation Committee considers benchmark data provided by its independent compensation consultant to compare Caterpillar's practices and compensation levels with comparable companies within its industry and across multiple industries. While the Compensation Committee considers benchmark data as one factor in establishing the elements of executive compensation, the Compensation Committee may vary from the benchmark data in exercising its independent judgment, particularly with respect to individual performance. The responsibilities of the Compensation Committee are described more fully in its charter, which is available at www.caterpillar.com/governance.

Performance Evaluation: CEO

The Board, excluding the CEO, conducts the CEO's performance evaluation. The Board's evaluation includes both objective and subjective criteria regarding the CEO's performance, including:

- Caterpillar's financial performance.
- The accomplishment of Caterpillar's long-term strategic objectives.
- The achievement of individual goals set at the beginning of each year.
- The development of Caterpillar's top management team.

Prior to the Board's approval of CEO compensation, the Compensation Committee evaluates CEO compensation using benchmark information (discussed on page 39) to set total compensation. The Compensation Committee also conducts an initial performance review and provides recommendations on CEO compensation to the Board based upon the outcome of this performance evaluation.

Performance Evaluations: NEOs other than CEO

The Compensation Committee, in conjunction with the CEO, conducts performance evaluations for the other NEOs, excluding Mr. Burritt, whose performance evaluation was performed prior to his retirement by Mr. Rapp. Each February, the CEO submits a performance assessment and compensation recommendation to the Compensation Committee for each of the other NEOs. The performance evaluation is based on factors including:

- Achievement of individual and Caterpillar's objectives.
- Contribution to Caterpillar's performance.
- Leadership accomplishments.

The Compensation Committee, using the outcome of each performance evaluation, along with total compensation benchmark information, makes the final decision regarding total compensation for the other NEOs. Due to the economic conditions, no performance based compensation increases were made in 2010.

Compensation Consultant

In 2010, the Compensation Committee retained John L. Anderson of Meridian Compensation Partners, LLC (Meridian) to provide ongoing advice and information regarding design and implementation of Caterpillar's executive compensation programs. Mr. Anderson also provided information and updates to the Compensation Committee about regulatory and other technical developments that may affect the Company's executive compensation programs. Mr. Anderson and a team at Meridian provided the Compensation Committee with competitive market information, analyses and trends on executive base salary, short-term incentives, long-term incentives, benefits and perquisites.

In previous years, the Committee engaged Mr. Anderson when he was employed at Hewitt Associates. In January 2010, Hewitt Associates (now AonHewitt) spun off a portion of its executive compensation consulting practice into a separate entity that became Meridian. Meridian operates as an entirely independent executive compensation consulting firm reporting directly and solely to the Committee since February 1, 2010. Mr. Anderson joined Meridian when it was formed and is no longer employed by and has no affiliation with Hewitt. Effective February 1, 2010, the Compensation Committee hired Mr. Anderson of Meridian solely as its compensation consultant. Meridian exclusively provides executive and director compensation consulting services to the Company. To ensure independence:

- The Compensation Committee directly retained and has the authority to terminate Mr. Anderson.
- Mr. Anderson is engaged by and reports directly to the Compensation Committee and its chairman.
- Mr. Anderson meets regularly and as needed with the Compensation Committee in executive sessions that are not attended by any personnel of the Company.
- Mr. Anderson has direct access to all members of the Compensation Committee during and between meetings.
- Interactions between Mr. Anderson and management generally are limited to discussions on behalf of the Compensation Committee and information presented to the Compensation Committee for approval.

Annual Review of Consultant Independence

The Compensation Committee is responsible, without the influence or input of management, for retaining and terminating compensation consultants and determining their terms and conditions, including fees. Meridian provides the Compensation Committee an annual update on its services and related fees. Meridian's aggregate fees rendered for these services in 2010 were approximately \$496,000. Prior to the separation of Meridian from Hewitt on February 1, 2010, Hewitt provided approximately \$8,500 in executive compensation consulting services in 2010. The fees paid by Caterpillar to Hewitt for all other services excluding Compensation Committee services totaled approximately \$2.248 million in 2010. These fees were paid to a separate unit of Hewitt providing third-party administration for Caterpillar's U.S. retirement plans, as well as Caterpillar's U.S. health and welfare plans.

The Compensation Committee regularly reviews the independent compensation consultant's services to evaluate whether such services were performed objectively and free from the influence of management. The Compensation Committee concluded Mr. Anderson and his team provided candid, direct and objective advice to the Compensation Committee.

2010 Comprehensive Review of Executive Compensation Program

At the direction of the Compensation Committee, Meridian conducted an independent and comprehensive review of the Company's executive compensation programs. The broad purpose of this review was to assess whether the Company's compensation structure and plans are delivering intended results. More specifically, the review was meant to enable Company management and the Compensation Committee to evaluate whether the current programs meet the Company's executive talent needs, are aligned with business priorities and appropriately reflect best practices of the external market.

This comprehensive review included interviews with selected members of management and the Board to gather a profile of current perspectives and perceptions about the effectiveness of Caterpillar's compensation program. The review also encompassed extensive external benchmark analysis, primarily based on 2010 CCCG data, as well as comparative financial research and other quantitative analysis. While the Compensation Committee did not recommend any changes with respect to Caterpillar's 2010 compensation program, the Compensation Committee did recommend, based on this review, changes to the LTCPP program (discussed on page 46) effective for the 2011-2013 performance cycle.

Peer Group Benchmarking

In 2010, Caterpillar continued to use the CCCG as the peer group benchmark for NEO compensation. The CCCG consisted of the 28 large public companies listed below. Because we compete for executive talent from a variety of industries, the 28 companies represent a cross section of industries, not just heavy manufacturing companies. The peer group study methodology is consistent each year, which makes it easier to isolate how Caterpillar's executive compensation program is changing in relation to the market. The Compensation Committee monitors the CCCG to ensure it continues to provide a reasonable comparison basis for executive compensation. There were no changes from 2009 to 2010 with respect to the companies included in the CCCG.

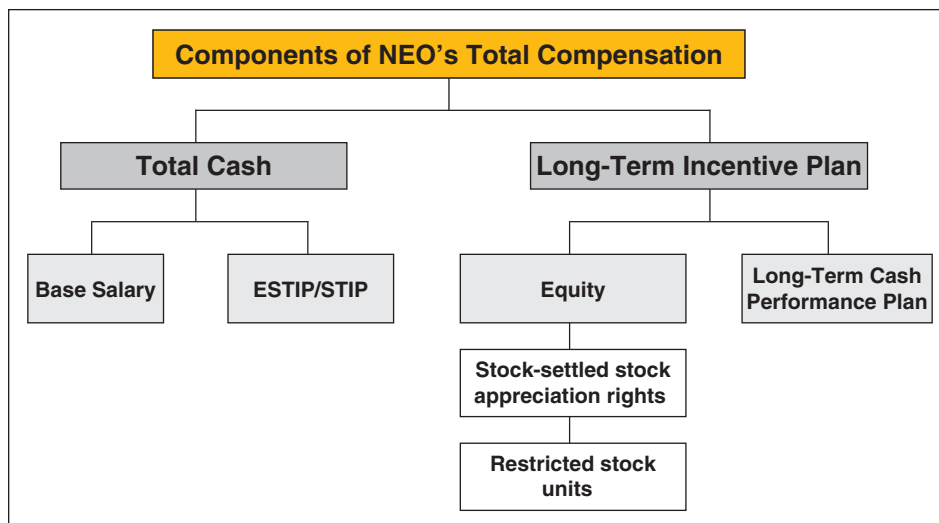
The CCCG's median annual revenue is greater than Caterpillar's with Caterpillar's revenue ranked at the 43rd percentile of the peer group. To account for differences in the size of the companies in that group, the compensation consultant conducts a regression analysis with each comparator company and presents the analysis to the Compensation Committee. Regression analysis adjusts the compensation data for differences in the companies' revenue, allowing Caterpillar to compare its compensation levels to similarly sized companies. The CCCG is composed of the following companies:

Caterpillar Compensation Comparator Group for 2010	
• 3M Company	• Honeywell International Inc.
• Alcoa Inc.	• International Business Machines Corporation
• Altria Group, Inc.	• Johnson & Johnson
• American Express Company	• Johnson Controls, Inc.
• Archer-Daniels-Midland Company	• Lockheed Martin Corporation
• The Boeing Company	• PACCAR Inc
• Cummins Inc.	• PepsiCo, Inc.
• Deere & Company	• Pfizer Inc.
• Dell Inc.	• The Procter & Gamble Company
• The Dow Chemical Company	• Siemens Aktiengesellschaft
• FedEx Corporation	• United Parcel Service, Inc.
• Ford Motor Company	• United Technologies Corporation
• General Dynamics Corporation	• Valero Energy Corporation
• General Electric Company	• Weyerhaeuser Company

Caterpillar uses a **comparator group** to benchmark (compare) all components of compensation to other companies within the group. Caterpillar targets the executive total cash compensation package, as well as the long-term incentive compensation components, at the size-adjusted median level of the comparator group. The Compensation Committee believes that targeting the size-adjusted median level of the comparator group is necessary to attract and retain high-caliber employees. This ensures that Caterpillar remains competitive while maximizing its resources for stockholders.

Components of Caterpillar's Compensation Program

Total compensation for all NEOs is a mix of annual total cash and long-term incentives.



Total Annual Cash Compensation

The Compensation Committee's review of 2010 CCCG market data showed total annual cash compensation structures for all NEOs were in line with the size-adjusted median level of the CCCG. The Compensation Committee made no adjustments from 2009 to the base salary compensation structures or to the 2010 short-term incentive target opportunities shown below.

Total compensation is a mix of total cash and long-term incentives.

Executive Short-Term Incentive Plan (ESTIP) and **Short-Term Incentive Plan (STIP)** are annual incentive plans that deliver a targeted percentage of base salary based on performance against predetermined enterprise goals. The plans are designed to focus the NEOs on the shorter-term critical issues that are indicative of improved year-over-year performance.

The **2006 Long-Term Incentive Plan (LTIP)** includes both equity and cash under the Long-Term Cash Performance Plan (LTCPP). LTIP is designed to reward the Company's key employees for achieving and/or exceeding the Company's long-term goals, to drive stockholder return and to foster stock ownership.

Total cash includes base salary and the Executive Short-Term Incentive Plan or Short-Term Incentive Plan.

Base Salary

Due to economic conditions, NEO base salary structures were frozen, and base salary increases were eliminated for both 2009 and 2010, other than in the case of promotions. Base salary increases will be reinstated in 2011.

As a result of Mr. Oberhelman's increased levels of responsibility and promotion to more senior officer positions over the course of 2010, he received increases to his base salary. Upon his promotion to Vice Chairman effective January 1, 2010, Mr. Oberhelman's annual base salary increased from \$729,996 to \$942,672. July 1, 2010, Mr. Oberhelman became CEO and his annual base salary increased to \$1,155,336. November 1, 2010, Mr. Oberhelman was named Chairman and CEO of the Company and his annual base salary increased to \$1,368,000.

Mr. Rapp assumed the duties of Chief Financial Officer for the Company effective June 1, 2010; however, Mr. Rapp's annual base salary was not adjusted in 2010 as a result of these increased responsibilities.

Incentive Plans

In 2010, our NEOs, excluding Mr. Burritt, participated in the Executive Short-Term Incentive Plan (ESTIP) while Mr. Burritt, as vice president and CFO, participated in the Short-Term Incentive Plan (STIP). The NEOs were eligible for the following target opportunity expressed as a percentage of base salary under their respective plans:

ESTIP or STIP Target Opportunity as a Percent of Base Salary	
	2010
CEO (ESTIP)	135%
Group Presidents (ESTIP)	100%
Vice Presidents (STIP)	90%

In February 2010, the Compensation Committee reviewed and approved corporate return on assets (ROA) as the performance measure for both the 2010 ESTIP and 2010 STIP. As further described below, this measure links the compensation of the NEOs directly to the overall performance of Caterpillar.

Prior to any ESTIP or STIP payout based on ROA, a “trigger” must be achieved, which is based on the Company’s PPS. If the trigger is not achieved, there is no payout. The Compensation Committee approved a PPS trigger of \$2.50 for both ESTIP and STIP because Caterpillar has a strategic goal of achieving a PPS of at least \$2.50 annually.

Corporate Return on Assets (ROA) is Machinery and Engines profit after tax plus short-term incentive compensation expense (after tax) divided by average monthly Machinery and Engines assets.

Profit Per Share (PPS) is the portion of a company’s profit allocated to each outstanding share of common stock, diluted by the assumed exercise of stock-based compensation awards. PPS serves as an indicator of a company’s profitability. This is also known as Earnings Per Share.

As with all components of Caterpillar’s compensation program, ESTIP and STIP reward performance. For ROA, the Compensation Committee established the threshold, target and maximum performance levels. If the threshold level is not achieved, there is no payout. Increasingly larger payouts are awarded for achievement of target and maximum performance levels. The following table outlines the payout factor range that applied to the performance level, from a threshold payout factor of 30 percent of a NEO’s target opportunity to a maximum payout factor of 200 percent of a NEO’s target opportunity.

Performance Level	Payout Factor
Greater than Threshold but Less than Target	30% – 99.99%
Target to Maximum	100% – 199.99%
Maximum and Greater.	200%

The Compensation Committee approved ROA as the only 2010 ESTIP and 2010 STIP measure because it believed that ROA serves as a good indicator of how efficiently the Company is using its assets to generate earnings and drive value for our stockholders. The Compensation Committee reviewed forecasted versus actual ROA results to determine the appropriate target for the 2010 measure. The following table illustrates 2010 ROA performance levels:

Corporate ROA Slope
ROA Threshold = 4.5%
ROA Target = 6.9%
ROA Maximum = 10.8%

The final 2010 ESTIP and 2010 STIP ROA was 7.8 percent, resulting in a payout factor of 122.49 percent of each NEO’s target opportunity and a total payout of \$8.6 million to our NEOs. The Compensation Committee has discretion to reduce ESTIP and STIP awards based on performance, but individual increases are not permitted. There were no adjustments made to the 2010 ESTIP or 2010 STIP payouts to the applicable NEOs. As retirees, Mr. Owens and Mr. Burritt received prorated ESTIP or STIP awards, as applicable, based on their respective retirement dates. Individual amounts paid under the 2010 ESTIP and 2010 STIP are disclosed in the “Non-Equity Incentive Plan Compensation” column in the “2010 Summary Compensation Table” on page 51 of this proxy.

Long-Term Incentive Plan

Annually, the Compensation Committee analyzes market data regarding portfolio approaches for long-term incentive plans. According to the Compensation Committee's independent compensation consultant, portfolio approaches, where two or more long-term incentive compensation awards are used in some combination, are common practice. For example, our NEOs have historically been granted stock appreciation rights (SARs), which reward share appreciation; time-vested restricted stock units, which strengthen and enhance our pay for performance philosophy; and cash performance awards, which reinforce a long-term pay for results culture.

The Company used all three awards in its executive compensation package for 2010 for the reasons stated above. Each year, the Compensation Committee sets each NEO's target opportunity, expressed as a percentage of base salary, under the Long-Term Cash Performance Plan (LTCP). The cash award is tied to long-term stockholder performance based on the measures within the plan. This amount is then subtracted from the total CCCG long-term market award value. Providing a portion of long-term incentive in the form of cash also allows Caterpillar the ability to manage its share run rate and preserve the available pool of shares authorized for issuance under the Long-Term Incentive Plan (LTIP). The 2010 LTIP award mix, which represents the same award mix as established for the 2009 LTIP, is illustrated in the following table:

2010 Long-Term Incentive Plan Award Mix			
	LTCP Target % of Base Salary	% of Total Equity Value	
		SAR	RSU
CEO	170%	85%	15%
Group Presidents	110%	85%	15%
Vice Presidents	90%	80%	20%

Equity

Each year, the Compensation Committee benchmarks against the CCCG to determine a competitive equity award for each salary grade, including NEOs. Our process benchmarks total equity value for all salary grades. Consistent with the Company's compensation philosophy, individuals at higher salary grade levels receive a greater proportion of total compensation in the form of equity.

In February 2010, the Compensation Committee approved the 2010 equity design for our NEOs, which consisted of a mix of SARs and RSUs. This equity design supports our **Pay for Performance** and **Pay at Risk** philosophy. RSUs represent actual shares of stock and, therefore, carry less risk for award recipients as compared to SARs. However, the value of RSUs fluctuates based on Caterpillar's stock price.

The Compensation Committee also noted 2010 total compensation would be significantly less than the CCCG median due to a lack of merit increases for two consecutive years and a significantly lower than average long-term cash payout. Prior to determining each NEO's equity award value, the Committee increased the equity award pool approximately 30 percent above market. The Committee felt this increase would appropriately align 2010 equity awards with their goal of pay for performance, while maintaining market competitive compensation levels. This increase in equity above the market benchmark was instituted across all salary grade levels receiving equity awards.

The Compensation Committee has the discretion to make positive or negative adjustments to equity awards based on a subjective assessment of an individual's performance, provided these adjustments do not increase the total number of awards issued to employees. All 2010 equity grants for the NEOs are disclosed in the "Grants of Plan-Based Awards in 2010" table on page 53 of this proxy.

Run rate measures the rate at which companies grant equity. It is the number of shares granted under LTIP in any one year divided by the number of common shares outstanding.

An **equity** award is a stock award representing ownership in the Company. Equity awards for NEOs currently include stock-settled stock appreciation rights (SARs) and restricted stock units (RSUs).

The **market-based equity award** is the equity value determined each year by the Compensation Committee. Each year, we benchmark against the CCCG to determine our market-based award level, which is set at the size-adjusted median level of the CCCG.

A **stock appreciation right (SAR)** is a right to receive Caterpillar common shares based on the appreciation in value of a set number of shares of Company stock between the grant date and the exercise date. SARs were introduced in 2006 because they extend the life of the Caterpillar stock option pool and minimize stockholder dilution.

A **restricted stock unit (RSU)** is a right to receive Caterpillar common shares at the time of vesting. RSUs were introduced in 2007 because they reduce the share run rate and may be more tax efficient for equity-eligible employees outside the United States.

At the February 2010 Compensation Committee meeting, Mr. Owens discussed his recommendations with respect to market-based equity award adjustments for all other NEOs. Equity award adjustments were approved by the Committee based upon individual performance (discussed in the “Other NEOs Compensation Decisions” section of this CD&A). At the February 2010 Board meeting, the Chairman of the Compensation Committee, Mr. Goode, in consultation with the Board and in accordance with the following description in the “Annual Equity Grant Timing” section, established the equity award for Mr. Owens based upon individual performance (discussed in “Compensation Decisions — Chairman and CEO Compensation Decisions — Equity Grant for 2010” section of this CD&A).

2010 Equity Grant for Mr. Owens

On March 1, 2010, the Board granted Mr. Owens an equity award of 300,000 RSUs under the Company’s LTIP. This award represents Mr. Owens’ total equity compensation for 2010. The RSUs vested on November 1, 2010; however, the Board placed transfer restrictions on the shares of common stock that were issued upon the vesting of the award. Pursuant to the restrictions, the shares may not be assigned, transferred or pledged until March 1, 2013.

The Board considered, among other things, the following in making this award:

- Mr. Owens’ exceptional leadership of the Company during a period of unprecedented growth in sales and earnings, and during the most severe global economic downturn since the 1930s.
- Mr. Owens’ development and communication of “Vision 2020,” which laid the foundation for a corporate strategy for the next decade and beyond, positioning Caterpillar for future success.
- Mr. Owens’ significant contributions during a distinguished career, including outstanding contributions to the transition in leadership.
- CEO benchmark data provided by the independent compensation consultant demonstrating Mr. Owens’ total compensation for 2009 was significantly below market levels of the CCCG.

Prior to Board approval, the Compensation Committee reviewed CCCG market values for total long-term incentives for CEO positions. Consideration was then given to the factors listed above. Accordingly, the Compensation Committee, using both objective and subjective criteria, determined the award of 300,000 RSUs provided Mr. Owens with the appropriate 2010 total equity compensation.

The Board determined that instead of the usual mixture of SARs and RSUs, which would vest upon his retirement, a grant of RSUs with a three-year transfer restriction period would tie Mr. Owens’ compensation more directly to the longer-term success or failure of the actions taken in his final year as Chairman and CEO. All 2010 equity grants for the NEOs are disclosed in the “Grants of Plan-Based Awards in 2010” table on page 53 of this proxy.

Annual Equity Grant Timing

Under the terms of the Company’s equity grant policy, the grant date for the annual equity grant is the first Monday in March. Caterpillar does not backdate, re-price or grant equity awards retroactively.

In February 2010, the Compensation Committee approved the valuation of the 2010 equity awards for NEOs. The grant price (\$57.85) was the closing price for Caterpillar stock as reported on the NYSE on the March 1, 2010, grant date.

Chairman’s Restricted Stock Award Program

The primary purpose of the Chairman’s Restricted Stock Award Program is to attract, retain and reward high-performing employees. The Compensation Committee delegated the authority to execute the Chairman’s Restricted Stock Award Program to the Chairman subject to specific limitations on individual award amounts and the amount of restricted stock or RSUs available for such awards. Each year, the Chairman reports a summary of the program to the Compensation Committee. The Chairman may submit grant recommendations to the Compensation Committee at any Compensation Committee meeting. The Compensation Committee reviews the amount of the proposed grants, as well as the Chairman’s reasoning, and approves, adjusts or rejects the requested grants.

Periodically, NEOs receive discretionary grants to recognize increased responsibilities or significant efforts that may not be reflected in the performance objectives established under the short-term or long-term incentive plans. The Committee approved 2010 Chairman’s Restricted Stock Awards to Mr. Lavin of 775 RSUs and Mr. Rapp of 1,175 RSUs. The Compensation Committee believes that these discretionary grants are necessary when important Company events require significant time and effort by NEOs. All 2010 equity grants for the NEOs are disclosed in the “Grants of Plan-Based Awards in 2010” table on page 53 of this proxy.

Stock Ownership Requirements

Equity compensation encourages our executives to have an owner's perspective in managing the Company. Accordingly, the Compensation Committee has approved stock ownership requirements for all participants receiving equity compensation.

Specifically, our NEOs are required to own shares equal to a minimum of 50 percent of the average (based on number of shares) of the last five grants received by the NEO. NEO's vested unexercised securities are not considered in determining whether a NEO has achieved these guidelines. Failure to meet these guidelines results in automatic grant reductions, unless compelling personal circumstances prevent a NEO from meeting his or her target ownership requirement.

Caterpillar targets all officers' total compensation at the size-adjusted median level of the CCCG. Despite this, our stock ownership requirements are above the median level of practices of the companies examined. At present, all NEOs exceed stock ownership requirements.

Prohibition on Hedging Transactions

In addition to our stock ownership requirements, the Company also prohibits NEOs, directors and employees from engaging in certain transactions involving Company securities that might hedge or offset any decreases in the market value of such securities. The Company prohibits:

- Put or call options or any other form of hedging transactions.
- Margin purchases of Company stock or short sales.

Long-Term Cash Performance Plan

The LTCPP is a **Pay at Risk** and **Pay for Performance** plan that delivers a targeted percentage of base salary to each participant based on performance against the goals of the entire Company. NEOs and other key employees are eligible for LTCPP. A three-year performance cycle is established each year for determining compensation under the LTCPP. The Compensation Committee generally sets threshold, target and maximum levels that make the relative difficulty of achieving the target level consistent from year to year. However, the LTCPP payout amount can vary greatly from one year to the next.

Each year the Compensation Committee specifies two measures and the corresponding payout factors. For the 2008-2010 LTCPP cycle, the performance measures were relative PPS growth and ROA, both weighted 50 percent. The threshold performance level must be met to result in a payout for that particular measure. The LTCPP is different from the ESTIP and STIP because each measure within LTCPP triggers independently of the other. The payout under one LTCPP performance measure is not contingent upon any specified level of achievement under the other performance measure or the achievement of a payment trigger as is required under ESTIP/STIP. Under LTCPP, increasingly larger payments are awarded when the target and maximum performance levels are achieved. The following table outlines the payout factor range, expressed as a percentage of a NEO's target opportunity, which applies to each performance level in the 2008-2010 LTCPP cycle:

Performance Level	Payout Factor
Greater than Threshold but Less than Target	50% – 99.99%
Target to Maximum	100% – 149.99%
Maximum and Greater.	150%

The Compensation Committee selected the following 18 Standard & Poor's 500 companies (S&P Group) against which to compare Caterpillar's performance. These companies were selected because they are part of our specific industry and because market cycle fluctuations are minimized when we are compared to similar companies. The S&P Group is used only for the relative PPS growth measure, not for setting levels of compensation under the LTCPP. There were no changes in the S&P Group from 2009 to 2010.

Relative PPS growth
is one of two measures in the LTCPP. It measures Caterpillar's PPS growth against those companies in the S&P Group.

Return On Assets (ROA) is a profitability measure that reveals how much profit a company generates with the assets of the company.

The companies in the S&P Group are:

Standard & Poor's Group		
• 3M Company	• General Electric Company	• Navistar International Corporation
• Cummins Inc.	• Honeywell International Inc.	• PACCAR Inc
• Danaher Corporation	• Illinois Tool Works Inc.	• Pall Corporation
• Deere & Company	• Ingersoll-Rand Company Limited	• Parker-Hannifin Corporation
• Dover Corporation	• ITT Corporation	• Textron Inc.
• Eaton Corporation	• Johnson Controls, Inc.	• United Technologies Corporation

The 2010 LTCPP payout was based on a three-year performance cycle, which began in 2008 and ended in 2010. As noted above, the 2008-2010 cycle was based on two components, each weighted 50 percent — relative PPS growth measured against the S&P Group and ROA.

At the February 2008 meeting, the Compensation Committee determined the targets (shown in the following table) were very challenging and achieving the targets during the 2008-2010 performance cycle would put the Company ahead of historical benchmark levels at other companies, including the CCCG, the S&P Group and the S&P 500 overall.

2008-2010 LTCPP Measures		
	Relative PPS Growth	ROA
Threshold.	25th percentile	6%
Target	50th percentile	14%
Maximum.	75th percentile	20%

The final 2010 LTCPP ROA was 6.99 percent; resulting in a payout factor of 56.22 percent of each NEO's target payout opportunity. The relative PPS growth percentile rank exceeded the 75th percentile; resulting in a payout factor of 150 percent of each NEOs target payout opportunity. The resulting weighted payout factors were added together to calculate the total cash payout factor of 103.11 percent of each NEO's target opportunity, which resulted in a collective payout of \$8.2 million for all of the NEOs.

2008-2010 LTCPP	Payout Factor	Measurement
Return on Assets	56.22%	Corporate Return on Assets
Relative PPS Growth	150%	Relative PPS Growth measured against S&P Peer Group

The Compensation Committee has the discretion to reduce individual LTCPP awards based on performance, but individual increases are not permitted. No adjustments were made to the 2010 LTCPP payouts to the NEOs. Individual payouts were capped at \$5.0 million and are disclosed in the "Non-Equity Incentive Plan Compensation" column of the "2010 Summary Compensation Table" on page 51 of this proxy.

Similar to the 2008-2010 LTCPP cycle, the 2009-2011 and 2010-2012 LTCPP cycles include a relative PPS Growth and ROA measure, each weighted 50 percent and have the same payout factor percentage at threshold, target and maximum performance levels. In addition, the Committee established the payout formula to encourage strong, focused performance. The threshold payout level was designed to be reasonably achievable, given the economic and market conditions at the time the targets were set. The target payout level was designed to be reasonably achievable with strong management performance, while payout at the maximum level was designed to be difficult to achieve.

Following the Comprehensive Review of Executive Compensation completed by Meridian, management recommended the 2011-2013 LTCP cycle measures be ROA and total shareholder return (TSR) growth measured against the companies within the S&P 500, each weighted 50 percent. TSR is the combined impact of stock price appreciation and dividends paid. It is a financial metric used to compare the performance of different companies over time. At the February 2011 Compensation Committee meeting, the Committee approved these measures to focus NEOs and other plan participants on outperforming competitors and exceeding the Company's financial goals. Additionally, the Compensation Committee set threshold, target and maximum performance levels for the 2011-2013 LTCP cycle. The following table outlines the payout factor range, expressed as a percentage of a NEO's target opportunity, which applies to each performance level in the 2011-2013 LTCP cycle:

Performance Level	Payout Factor
Greater than Threshold but Less than Target	30% – 99.99%
Target to Maximum	100% – 199.99%
Maximum and Greater.	200%

Chairman and CEO Compensation Decisions

The CEO is evaluated by the Board based on Company and individual performance metrics. Prior to the full board evaluation, the Compensation Committee makes a preliminary recommendation. In February 2011, the Board reviewed the Compensation Committee's assessment of Mr. Oberhelman's individual goals (which were created at the beginning of 2010) and his performance against those goals. The most critical results for Mr. Oberhelman for 2010 were as follows:

- Effective and smooth leadership transition in a challenging economy; oversaw an increase in production while significant corporate changes were implemented.
- Effectively reorganized and established strategic businesses; gave group presidents direct profit and loss responsibilities; created end-to-end accountability for products and services.
- Promptly rolled out a new enterprise strategy; established laser focus on our customers and renewed Caterpillar's strengths — the business model, the dealer network and the Cat brand.
- Announced three major strategic acquisitions: Electro-Motive Diesel, Inc. (EMD), MWM Holding GmbH (MWM) and Bucyrus International, Inc., along with capacity expansions around the world.
- Company achieved excellent financial results.

Other NEOs Compensation Decisions

The CEO presents each NEO's performance evaluation to the Compensation Committee (excluding Mr. Burritt's performance evaluation which was conducted by Mr. Rapp). The focus of the evaluation for other NEOs is based upon product and business unit metrics in their respective areas of responsibility. The CEO presented to the Compensation Committee the following key factors considered in making 2010 compensation decisions for our NEOs other than Mr. Burritt.

Richard P. Lavin, Group President

- Relocated to lead the Asia-Pacific expansion efforts, allowing for more thorough oversight of dealer development and market growth.
- Achieved operating profit goal for his operations, representing a substantial turnaround from an operating loss in 2009.
- Achieved inventory turnover goals under his leadership.

Stuart L. Levenick, Group President

- Exceeded profit, price realization and inventory turnover targets, and exceeded plan for sales and revenues in his area of responsibility.
- Formed the first global distribution organization responsible for all dealer administration.
- Successfully implemented a common Dealer Excellence scorecard to align and improve global distribution.

Edward J. Rapp, Group President and Chief Financial Officer

- Provided leadership and direction to Building Construction Products Division, resulting in significantly improved financial results.
- Effectively redefined the role of CFO within the executive office both internally and externally.
- Facilitated unprecedented mergers and acquisition activity in 2010 with faster completion of transactions and reduced acquisition costs.

Gerard R. Vittecoq, Group President

- Exceeded operating profit, return on sales and return on asset targets for his operations by a significant margin while net sales increased substantially.
- Successfully positioned Caterpillar as a leader in both the locomotive and alternative energy industries with the acquisitions of EMD, MWM and several other rail companies.
- Continued to champion the Caterpillar Production System and drive manufacturing efficiencies across the enterprise.

Steven H. Wunning, Group President

- Exceeded the financial targets in his area of responsibility including net sales, operating profit, return on sales and return on assets.
- Effectively communicated the updated enterprise strategy to the global supply base and deployed a more comprehensive supplier collaboration plan.
- Successfully led the detailed review of the global mining business culminating in Board approval to invest in internal capacity, product line expansion and pursue the largest acquisition in Caterpillar history. Directed the negotiations leading to definitive agreements to acquire 100 percent of the shares of Bucyrus International.

Post-Termination and Change in Control Benefits

Except for customary provisions set forth in employee benefit plans and as required by applicable law, Caterpillar has no pre-existing executive severance packages or contracts. As a result, any severance that may be payable to a NEO in the event of his or her termination would be determined by the Compensation Committee at the time of termination. Mr. Vittecoq has an employment contract, as required under Swiss law.

As previously noted, David B. Burritt, our Vice President and Chief Financial Officer since 2004, retired from his position effective June 1, 2010, and retired as an employee of the Company effective October 1, 2010. In connection with his early retirement and as approved by the Compensation Committee, Mr. Burritt and the Company entered into a Separation and Release Agreement dated May 25, 2010 (the "Separation Agreement"). The Separation Agreement provides for customary terms and conditions relating to separation from employment, including releases from liability and cooperation, assistance, non-disparagement and confidentiality provisions. The Separation Agreement also includes 12-month non-compete and non-solicitation provisions. In the Separation Agreement, the Company agrees to continue Mr. Burritt's salary and benefits through September 30, 2010, his last day of employment, and pay Mr. Burritt an aggregate amount of \$1,347,027. Lastly, Mr. Burritt was provided outplacement services for six months or until his commencement of employment with another employer. The Committee approved offering a Separation Agreement to Mr. Burritt in recognition of his cooperation and assistance in facilitating an orderly transition and in recognition of his many years of service to the Company.

Change in control benefits are provided under our long-term and short-term plans and are customary provisions for these types of plans, which apply to all participants in those plans. The change in control benefits have no direct correlation with other compensation decisions.

The change in control provisions in those plans generally provide accelerated vesting and maximum payout under the incentive plans. The change in control provisions impose a "double trigger," whereby a change in control and termination of employment without cause within 12 months following a change in control are needed to trigger the change in control provisions. These provisions are intended to allow executives to evaluate business opportunities with the best interests of stockholders in mind, as opposed to maximizing their own personal interests. Additionally, no payments are made pursuant to these provisions for voluntary separation, resignation or termination for cause.

In the event of a change in control, maximum payout factors are provided for amounts payable under the Caterpillar Inc. 1996 Stock Option and Long-Term Incentive Plan (1996 LTIP), LTIP and the Executive Short-Term Incentive Plan.

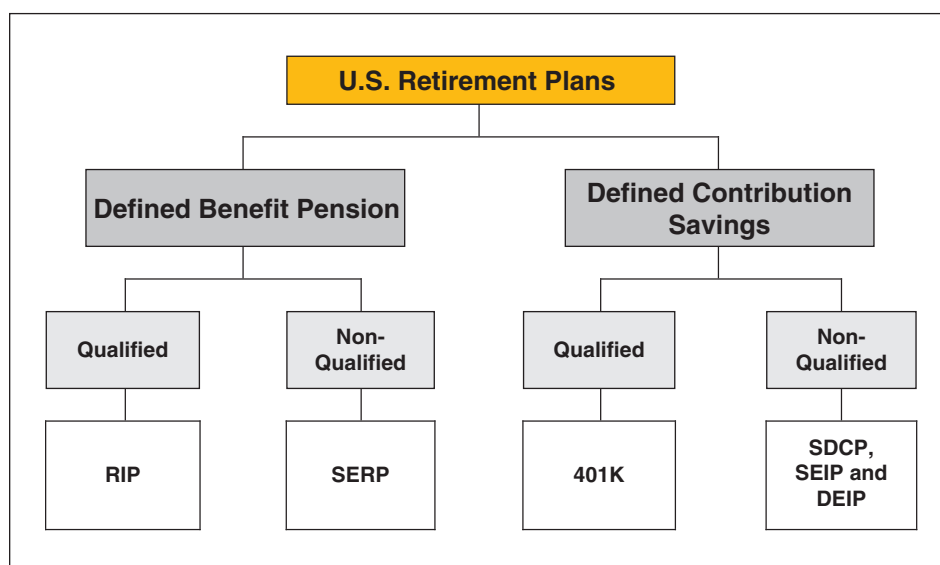
- Both the 1996 LTIP and LTIP allow for the maximum performance level to be paid under each open plan cycle of the LTCPP. This is prorated based on the time of active employment during the performance cycle for the 1996 LTIP.
- All unvested stock options, stock appreciation rights, restricted stock and restricted stock units vest immediately.
- Stock options and SARs remain exercisable over the normal life of the grant.
- The ESTIP provides for a maximum payout factor, 200 percent.

Change in control information is disclosed in the “Potential Payments Upon Termination or Change in Control” section on page 57 of this proxy statement.

Retirement and Other Benefits

The defined contribution and defined benefit plans available to the NEOs (excluding Mr. Vittecoq for the reasons described below) are also available to many U.S. Caterpillar salaried and management employees. All of the NEOs (excluding Mr. Vittecoq) participate in all of the following U.S. retirement plans shown in the chart below.

Mr. Vittecoq is not eligible for the U.S. benefit plans because he is on the Swiss payroll and eligible for Swiss benefit programs. He participates in Caprevi, Prevoyance Caterpillar (Swiss retirement plan) and the Swiss Employees’ Investment Plan (retention plan), which are available to all other Swiss management-level employees. Mr. Vittecoq is eligible under Caprevi, Prevoyance Caterpillar for an early retirement benefit with no reduction in benefits.



A **defined contribution savings** plan is a retirement plan that provides for an individual account for each participant and for benefits based solely upon the amount contributed to the participant’s account, and any income, expenses, gains and losses.

A **defined benefit pension** plan is a retirement plan in which benefits must be definitely determinable. Plan formulas are geared to retirement benefits, not contributions. The plan is funded by contributions to a trust account that are separate from the general assets of the Company.

A **qualified retirement plan** is afforded special tax treatment for meeting requirements under the Internal Revenue Code.

A **nonqualified plan** provides a vehicle for additional deferrals of compensation, above the limits on benefits or contributions under the Internal Revenue Code.

Pension Plans

Caterpillar Inc. Retirement Income Plan (RIP)

Many U.S. salaried and management employees are eligible to participate in RIP. Benefit amounts are not offset for any Social Security benefits. Plan participants may choose among several payment options, such as a single life annuity, term-certain or various joint and survivor annuity benefits.

RIP was closed to new entrants, effective January 1, 2011. Participants age 40 or older on or before December 31, 2010, and who were hired or rehired prior to January 1, 2003, continue to earn benefits under the terms of RIP until either their separation from the Company or December 31, 2019. All NEOs meet these requirements and, therefore, continue to earn benefits under RIP.

Supplemental Retirement Plan (SERP)

If an employee's annual compensation or retirement income benefit under RIP exceeds the Internal Revenue Code limitations, the excess benefits are paid from SERP. The formula used to calculate the benefit payable in SERP is similar to the one used under RIP. The formula is described in detail in the "2010 Pension Benefits" table on page 56.

As with RIP, SERP was closed to new entrants, and the same criteria was used to determine if a participant continued to earn benefits under the terms of RIP. As noted above, all NEOs met the criteria and, therefore, continue to earn SERP benefits until the earlier of their separation from the company or December 31, 2019.

Savings Plans

Caterpillar 401(k) Savings Plan

U.S.-based NEOs are eligible to participate in the Caterpillar 401(k) Savings Plan under which the Company matches 50 percent of the first 6 percent of pay contributed to the savings plan.

Supplemental Deferred Compensation Plan (SDCP)

In addition to the Caterpillar 401(k) Savings Plan, all U.S.-based NEOs are eligible to participate in SDCP, which provides the opportunity to increase deferrals of base salary and to elect deferrals of STIP and LTCPP awards. Under the terms of SDCP in which our NEOs participate, supplemental base pay deferrals earn matching contributions at a rate of 3 percent of the deferred amount, supplemental STIP deferrals earn matching contributions at a rate of 50 percent of the first 6 percent of STIP deferrals and excess base pay deferrals are matched 50 percent by the Company. Further information regarding SDCP can be found in the "2010 Nonqualified Deferred Compensation" table on page 57 of this proxy statement.

Supplemental Employees' Investment Plan (SEIP) and Deferred Employees' Investment Plan (DEIP)

In addition to the Caterpillar 401(k) Savings Plan, all U.S.-based NEOs were previously eligible to participate in SEIP and DEIP. These plans were frozen to new participants and new salary deferrals in March 2007. Pay deferred into SEIP and DEIP prior to January 1, 2005, remains in SEIP and DEIP. Pay deferred on or after January 1, 2005, was transferred to SDCP. Further information regarding SDCP can be found in the "2010 Nonqualified Deferred Compensation" table on page 57 of this proxy statement.

Perquisites

The Company provides NEOs a very limited number of perquisites that it and the Compensation Committee believe are reasonable and consistent with its overall compensation program, and necessary to remain competitive. The Compensation Committee annually reviews the levels of perquisites provided to the NEOs. Costs associated with perquisites provided by the Company are included in the "2010 All Other Compensation Table" on page 52. These perquisites include the following:

- Home security systems provided to ensure the safety of our NEOs.
- Designated parking within the confines of the building provided to ensure the safety of our NEOs.
- Mr. Owens participated in the Directors' Charitable Award Program, which is provided to all directors of the Company, and is funded by life insurance arrangements for which the Company pays the premiums. Mr. Owens derives no direct financial benefit from the program. The Directors' Charitable Award Program was discontinued for new directors after April 1, 2008. Directors as of that date were grandfathered under this program.
- Limited personal use of the Company aircraft and related ground transportation for security purposes and to allow the NEOs to devote additional time to Caterpillar business.

In addition, Mr. Owens received limited, post-retirement perquisites as more fully described on page 59. The Compensation Committee determined that these perquisites were customary and appropriate as they provide Mr. Owens the ability to continue his individual efforts to promote free trade and other issues beneficial to Caterpillar. Incremental costs associated with these benefits are included in the "2010 All Other Compensation Table" on page 52.

Tax and Accounting Implications

Deductibility of Compensation

The goal of the Compensation Committee is to comply with the requirements of Internal Revenue Code Section 162(m), to the extent possible, with respect to long-term and short-term incentive programs to avoid losing the deduction for compensation in excess of \$1 million paid to the NEOs. Caterpillar has generally structured performance-based compensation plans with the objective that amounts paid under those plans will be tax deductible, and the plans must be approved by the Company's stockholders. However, the Compensation Committee may elect to provide compensation outside those requirements when necessary to achieve its compensation objectives.

Compensation Recoupment Policy

If the Board learns of any misconduct by an officer that contributed to the Company restating all or a portion of its financial statements, it will take the actions required to correct the misconduct and prevent it from occurring again. If appropriate, the Board will take necessary remedial action.

To determine the corrective action, the Board will review the situation to identify whether the restatement was the result of negligence or intentional misconduct. The Board will require reimbursement of any bonus or incentive compensation awarded to an officer or cancel unvested restricted or deferred stock awards previously granted to the officer if all of the following apply:

- The amount of the bonus, incentive compensation or stock award was calculated based on the achievement of certain financial results that were subsequently the subject of a restatement.
- The officer engaged in intentional misconduct that caused or partially caused the need for the restatement.
- The amount of the bonus, incentive compensation or stock award that would have been awarded to the officer had the financial results been properly reported would have been lower than the amount actually awarded.

Additionally, at the Board's discretion, it may dismiss the officer, authorize legal action or take other action to enforce the officer's obligations to the Company. In determining appropriate remedial action, the Board may take into account penalties or punishments imposed by third parties, such as law enforcement agencies, regulators or other authorities. The Board's power to determine the appropriate punishment for the wrongdoer is in addition to, and not in replacement of, third party actions.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the CD&A included in this proxy statement with management. The Compensation Committee is satisfied that the CD&A fairly and completely represents the philosophy, intent and actions of the Compensation Committee with regard to executive compensation. Based on such review and discussion, we recommend to the Board that the CD&A be included in this proxy statement and the Company's Annual Report on Form 10-K for filing with the SEC.

***By the members of the Compensation
Committee consisting of:***

David R. Goode (Chairman)

John R. Brazil

Edward B. Rust, Jr.

Joshua T. Smith

Executive Compensation Tables

2010 Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus ²	Stock Awards ³	Option Awards ⁴	Non-Equity Incentive Plan Compensation ⁵	Change in Pension Value and Nonqualified Deferred Compensation Earnings ⁶	All Other Compensation ⁷	Total
J.W. Owens ¹ Retired Chairman & CEO	2010	\$1,291,670	\$ —	\$16,005,000	\$ 0	\$4,700,493	\$ —	\$ 548,821	\$22,545,984
	2009	\$1,550,004	\$ —	\$ 407,413	\$3,578,115	\$ 868,001	\$1,985,254	\$ 360,998	\$ 8,749,785
	2008	\$1,550,004	\$ —	\$ 981,794	\$7,461,609	\$4,353,227	\$2,932,489	\$ 377,413	\$17,656,536
D.R. Oberhelman ¹ Chairman & CEO	2010	\$1,084,448	\$ —	\$ 494,608	\$6,074,611	\$2,727,563	\$ 105,345	\$ 63,725	\$10,550,300
	2009	\$ 729,996	\$ —	\$ 148,292	\$1,179,874	\$ 266,635	\$ 505,259	\$ 164,719	\$ 2,994,775
	2008	\$ 729,996	\$60,000	\$ 284,238	\$2,577,707	\$1,495,186	\$ 619,845	\$ 124,812	\$ 5,891,784
R.P. Lavin Group President	2010	\$ 584,004	\$38,500	\$ 223,202	\$2,886,780	\$1,377,730	\$ 152,994	\$ 88,590	\$ 5,351,800
	2009	\$ 584,004	\$ —	\$ 132,644	\$1,055,465	\$ 196,257	\$ 366,197	\$ 148,887	\$ 2,483,454
	2008	\$ 584,004	\$10,000	\$ 363,633	\$2,484,182	\$1,071,222	\$ 381,424	\$ 619,217	\$ 5,513,682
S.L. Levenick Group President	2010	\$ 729,996	\$ —	\$ 173,761	\$3,008,526	\$1,722,141	\$ 186,811	\$ 93,515	\$ 5,914,750
	2009	\$ 729,996	\$ —	\$ 132,644	\$1,055,465	\$ 264,505	\$ 621,419	\$ 144,239	\$ 2,948,268
	2008	\$ 729,996	\$10,000	\$ 284,238	\$2,577,707	\$1,457,336	\$ 699,119	\$ 212,908	\$ 5,971,304
E.J. Rapp ¹ Group President & CFO	2010	\$ 584,004	\$ —	\$ 248,720	\$3,252,017	\$1,377,730	\$ 108,223	\$ 101,432	\$ 5,672,126
	2009	\$ 584,004	\$ —	\$ 132,644	\$1,055,465	\$ 196,190	\$ 362,994	\$ 100,886	\$ 2,432,183
	2008	\$ 584,004	\$10,000	\$ 323,936	\$2,453,022	\$1,071,010	\$ 312,921	\$ 49,348	\$ 4,804,241
G.R. Vittecoq ⁸ Group President	2010	\$ 988,777	\$49,424	\$ 173,761	\$2,886,780	\$2,496,932	\$ 954,012	\$ 41,377	\$ 7,591,063
	2009	\$ 895,957	\$ —	\$ 140,003	\$1,113,944	\$ 327,253	\$ 882,754	\$ 35,838	\$ 3,395,749
	2008	\$ 880,993	\$20,000	\$ 284,238	\$2,484,182	\$1,735,385	\$ 843,600	\$ 45,240	\$ 6,293,638
S.H. Wunning Group President	2010	\$ 729,996	\$ —	\$ 173,761	\$3,008,526	\$1,722,141	\$ 0	\$ 97,837	\$ 5,732,261
	2009	\$ 729,996	\$ —	\$ 132,644	\$1,055,465	\$ 264,925	\$ 481,115	\$ 168,011	\$ 2,832,156
	2008	\$ 729,996	\$10,000	\$ 284,238	\$2,484,182	\$1,465,075	\$ 777,695	\$ 190,418	\$ 5,941,604
D.B. Burritt ¹ Retired Vice President & CFO	2010	\$ 378,000	\$ —	\$ 173,974	\$1,529,841	\$ 841,166	\$ —	\$1,364,139	\$ 4,287,120
	2009	\$ 504,000	\$ —	\$ 89,945	\$ 505,129	\$ 144,791	\$ 438,896	\$ 59,212	\$ 1,741,973
	2008	\$ 494,751	\$25,000	\$ 169,478	\$1,024,730	\$ 858,879	\$ 436,890	\$ 88,269	\$ 3,097,997

¹ Mr. Owens retired as CEO effective July 1, 2010, and as Chairman effective October 31, 2010; Mr. Oberhelman became Vice Chairman and CEO-Elect effective January 1, 2010, CEO effective July 1, 2010 and Chairman effective November 1, 2010; Mr. Rapp was elected Chief Financial Officer effective June 1, 2010; Mr. Burritt retired effective October 1, 2010.

² Periodically NEOs earn discretionary bonuses to recognize increased responsibilities or significant efforts that may not be reflected in the performance objectives established under the short-term or long-term incentive plans. The Compensation Committee believes that these discretionary bonuses are necessary when important Company events require significant time and effort by the NEO. In February 2011, the Compensation Committee approved lump sum discretionary bonuses of \$38,500 and \$49,424 for Mr. Lavin and Mr. Vittecoq, respectively.

³ The following Restricted Stock Units (RSUs) were granted to NEOs on March 1, 2010: Mr. Owens — 300,000; Mr. Oberhelman — 9,271; Mr. Lavin — 3,257; Mr. Levenick — 3,257; Mr. Rapp — 3,257; Mr. Vittecoq — 3,257; Mr. Wunning — 3,257; and Mr. Burritt — 3,261. The amounts included in this column represent the aggregate grant date fair market value for RSUs granted in the years shown calculated in accordance with Financial Accounting Standards Board Standards Codification Topic 718, Compensation — Stock Compensation (FASB ASC Topic 718). In general, the aggregate grant date fair market value is the amount of the total expense the Company expects to report in its financial reporting over the equity award's vesting schedule. The amounts reported reflect the total accounting expense and do not reflect the actual value that will be realized by the NEO. Assumptions made in the calculation of these amounts are included in Note 2 "Stock based compensation" to the Company's consolidated financial statements for the fiscal year ended December 31, 2010, included in the Company's Annual Report on Form 10-K (Form 10-K) filed with the SEC on February 22, 2011. In addition to the 3,257 RSUs granted to Mr. Lavin, he was also awarded 775 RSUs under the Chairman's award program on April 1, 2010. The fair market value (average of the high and low price) of Caterpillar stock on the award date of April 1, 2010 was \$63.795 per share. The RSU award of \$49,441 is also included in this column. In addition to the 3,257 RSUs granted to Mr. Rapp, he was also awarded 1,175 RSUs under the Chairman's award program. The fair market value (average of the high and low price) of Caterpillar stock on the award date of April 1, 2010 was \$63.795 per share. The RSU award of \$74,959 is also included in this column.

⁴ The following SARs were granted to NEOs on March 1, 2010: Mr. Oberhelman — 272,282; Mr. Lavin — 129,394; Mr. Levenick — 134,851; Mr. Rapp — 145,765; Mr. Vittecoq — 129,394; Mr. Wunning — 134,851; and Mr. Burritt — 68,572. The amounts included in this column represent the aggregate grant date fair market value for SARs granted in the years shown in accordance with FASB ASC Topic 718. In general, the aggregate grant date fair market value is the amount of the total expense the Company expects to report in its financial reporting over the equity award's vesting schedule. The amounts reported reflect the total accounting expense and do not reflect the actual value that will be realized by the NEO. Assumptions made in the calculation of these amounts are included in Note 2 "Stock based compensation" to the Company's consolidated financial statements for the fiscal year ended December 31, 2010, included in the Company's Form 10-K filed with the SEC on February 22, 2011.

⁵ The amounts in this column reflect the cash payments made to NEOs under the LTCPP with respect to performance over a three-year plan cycle from 2008 through 2010, and the 2010 performance plan of the ESTIP or STIP.

⁶ Because NEOs do not receive "preferred" or "above market" earnings on compensation deferred into SDCP, SEIP and/or DEIP, the amount shown represents only the change between the actuarial present value of each officer's total accumulated pension benefit between December 31, 2009, and December 31, 2010. The amount assumes the pension benefit is payable at each NEO's earliest unreduced retirement age based upon the officer's current compensation, or the NEOs actual retirement date in the case of Mr. Owens and Mr. Burritt. For Mr. Owens the change in pension value for 2010 is (\$102,347), and for Mr. Burritt the change in pension value for 2010 is (\$48,941).

⁷ All Other Compensation for 2010 consists of the following items detailed in a separate table appearing on page 52: Matching contributions to the Company's 401(k) plan; matching contributions to SDCP/EIP, corporate aircraft usage, home security, life insurance premiums for Mr. Owens under the Directors' Charitable Award Program, and ISE allowances.

⁸ All amounts reported for Mr. Vittecoq were paid in Swiss Francs and have been converted to U.S. dollars using the exchange rate in effect on December 31, 2010 (1 Swiss Franc = .94055 US Dollar). Mr. Vittecoq's 2010 Swiss Franc base salary has remained constant from 2009's level at CHF 929,994.

2010 All Other Compensation Table										
Name	Year	Matching Contributions 401(k)	Matching Contributions SDCP/EIP	Financial Counseling ²	Corporate Aircraft ³	Tax Gross-Up on Corporate Aircraft ³	Home Security ⁴	Director's Charitable Award Insurance Premiums ⁵	Other ⁶	Total All Other Compensation
J.W. Owens	2010	\$14,700	\$ 62,800	\$ N/A	\$108,167	\$ N/A	\$10,719	\$32,557	\$ 319,878	\$ 548,821
	2009	\$14,700	\$189,494	\$ N/A	\$116,523	\$ —	\$ 5,201	\$32,560	\$ 2,520	\$ 360,998
	2008	\$13,800	\$213,780	\$13,530	\$ 89,044	\$9,936	\$ 1,952	\$32,851	\$ 2,520	\$ 377,413
D.R. Oberhelman	2010	\$14,700	\$ —	\$ N/A	\$ 45,000	\$ N/A	\$ 2,405	\$ N/A	\$ 1,620	\$ 63,725
	2009	\$14,700	\$ 71,491	\$ N/A	\$ 21,190	\$ —	\$55,718	\$ N/A	\$ 1,620	\$ 164,719
	2008	\$13,800	\$ 83,544	\$ 5,325	\$ 13,585	\$3,273	\$ 4,385	\$ N/A	\$ 900	\$ 124,812
R.P. Lavin	2010	\$14,700	\$ 20,340	\$ N/A	\$ 3,125	\$ N/A	\$ 1,063	\$ N/A	\$ 49,362	\$ 88,590
	2009	\$14,700	\$ 51,974	\$ N/A	\$ 520	\$ —	\$ 950	\$ N/A	\$ 80,743	\$ 148,887
	2008	\$13,800	\$ 50,972	\$ 8,000	\$ —	\$ 98	\$ 1,520	\$ N/A	\$ 544,827	\$ 619,217
S.L. Levenick	2010	\$14,700	\$ —	\$ N/A	\$ 76,167	\$ N/A	\$ 1,028	\$ N/A	\$ 1,620	\$ 93,515
	2009	\$14,700	\$ 68,491	\$ N/A	\$ 58,500	\$ —	\$ 928	\$ N/A	\$ 1,620	\$ 144,239
	2008	\$13,800	\$ 35,280	\$ 8,000	\$ 51,376	\$2,572	\$ 1,094	\$ N/A	\$ 100,786	\$ 212,908
E.J. Rapp	2010	\$14,700	\$ 20,340	\$ N/A	\$ 64,667	\$ N/A	\$ 825	\$ N/A	\$ 900	\$ 101,432
	2009	\$14,700	\$ 51,974	\$ N/A	\$ 32,587	\$ —	\$ 725	\$ N/A	\$ 900	\$ 100,886
	2008	\$13,800	\$ 21,240	\$ 8,000	\$ 3,458	\$1,047	\$ 903	\$ N/A	\$ 900	\$ 49,348
G.R. Vittecoq	2010	\$ N/A ¹	\$ 41,377	\$ N/A	\$ —	\$ N/A	\$ —	\$ N/A	\$ —	\$ 41,377
	2009	\$ N/A ¹	\$ 35,838	\$ N/A	\$ —	\$ —	\$ —	\$ N/A	\$ —	\$ 35,838
	2008	\$ N/A ¹	\$ 35,240	\$10,000	\$ —	\$ —	\$ —	\$ N/A	\$ —	\$ 45,240
S.H. Wunning	2010	\$14,700	\$ 29,100	\$ N/A	\$ 52,417	\$ N/A	\$ —	\$ N/A	\$ 1,620	\$ 97,837
	2009	\$14,700	\$ 68,491	\$ N/A	\$ 83,200	\$ —	\$ —	\$ N/A	\$ 1,620	\$ 168,011
	2008	\$13,800	\$ 75,242	\$18,575	\$ 81,181	\$ —	\$ —	\$ N/A	\$ 1,620	\$ 190,418
D.B. Burritt	2010	\$14,700	\$ 1,512	\$ N/A	\$ —	\$ N/A	\$ —	\$ N/A	\$1,347,927	\$1,364,139
	2009	\$14,700	\$ 42,684	\$ N/A	\$ —	\$ —	\$ 928	\$ N/A	\$ 900	\$ 59,212
	2008	\$13,800	\$ 44,390	\$ 6,600	\$ 20,254	\$1,423	\$ 902	\$ N/A	\$ 900	\$ 88,269

¹Mr. Vittecoq participates in a non-U.S. Employee Investment Plan.

²The Officers Financial Counseling Program was eliminated effective January 1, 2009.

³Several of our NEOs serve as board members for other corporations at the request of the Company, and the personal usage noted above primarily consists of NEO flights to attend these outside board meetings. Under the rules of the SEC, use of aircraft for this purpose is deemed to be personal, even though Caterpillar considers these flights beneficial to the Company and for a business purpose. Other personal usage is limited to the NEOs, their spouses or other guests, and CEO approval is required for all personal use. The value of personal aircraft usage reported above is based on Caterpillar's incremental cost per flight hour, including the weighted average variable operating cost of fuel, oil, aircraft maintenance, landing and parking fees, related ground transportation, catering and other smaller variable costs. Occasionally, a spouse or other guest may accompany the NEO, and if the Company aircraft is already scheduled for business purposes and can accommodate additional passengers, no additional variable operating cost is incurred. Effective January 1, 2009, the tax gross-up on spousal accompanied travel was eliminated. Company aircraft is provided for security purposes and allows the NEOs to devote additional time to Caterpillar business.

⁴Amounts reported for Home Security represent the cost provided by an outside security provider for hardware and monitoring service. The incremental cost associated with the home security services is determined based upon the amounts paid to the outside service provider.

⁵Mr. Owens received no direct compensation for serving on the Board, but is entitled to participate in the Directors' Charitable Award Program. The amount reported includes Company paid life insurance premiums and administrative fees for Mr. Owens' participation in the program.

⁶Mr. Lavin is currently an International Service Employee (ISE) based in Hong Kong. The amount shown includes foreign service allowances typically paid by the Company on behalf of ISEs, including allowances for Mr. Lavin's foreign and U.S. taxes attributable to his international service assignment. These allowances are intended to ensure that our ISEs are in the same approximate financial position as they would have been if they lived in the U.S. during the time of their international service. Mr. Owens' post retirement benefits of \$317,358 include the cost of an administrative assistant, and IT support for a period of up to 5 years after retirement and home security through December 31, 2012. Mr. Burritt's other compensation includes his separation payment of \$1,347,027.

The amount shown also includes the premium cost of Company provided basic life insurance under a Group Variable Universal Life policy. The coverage amount is two times base salary, capped at \$500,000. The premium cost is as follows: Mr. Owens — \$2,520; Mr. Oberhelman — \$1,620; Mr. Lavin — \$1,620; Mr. Levenick — \$1,620; Mr. Rapp — \$900; Mr. Wunning — \$1,620; and Mr. Burritt — \$900. Mr. Vittecoq is not covered under a Company sponsored life insurance product.

Grants of Plan-Based Awards in 2010								
Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards ¹			All Other Stock Awards: Number of Shares of Stock or Units ²	All Other Option Awards: Number of Securities Underlying Options ³	Exercise or Base Price of Option Awards (\$/share)	Grant Date Fair Value of Stock and Option Awards (\$) ⁴
		Threshold	Target	Maximum				
J.W. Owens	LTCPP	\$ 1,317,503	\$ 2,635,007	\$ 3,952,510	—	—	\$ —	\$ —
	ESTIP	\$ 627,752	\$ 2,092,505	\$ 4,000,000	—	—	\$ —	\$ —
	03/01/2010	\$ —	\$ —	\$ —	300,000	—	\$ —	\$ 16,005,000
D.R. Oberhelman	LTCPP	\$ 1,038,201	\$ 2,076,402	\$ 3,114,602	—	—	\$ —	\$ —
	ESTIP	\$ 399,368	\$ 1,331,226	\$ 2,662,453	—	—	\$ —	\$ —
	03/01/2010	\$ —	\$ —	\$ —	9,271	—	\$ —	\$ 494,608
	03/01/2010	\$ —	\$ —	\$ —	—	272,282	\$ 57.85	\$ 6,074,611
R.P. Lavin	LTCPP	\$ 321,202	\$ 642,404	\$ 963,607	—	—	\$ —	\$ —
	ESTIP	\$ 175,201	\$ 584,004	\$ 1,168,008	—	—	\$ —	\$ —
	03/01/2010	\$ —	\$ —	\$ —	3,257	—	\$ —	\$ 173,761
	03/01/2010	\$ —	\$ —	\$ —	—	129,394	\$ 57.85	\$ 2,886,780
	04/01/2010	\$ —	\$ —	\$ —	775	—	\$ —	\$ 49,441
S.L. Levenick	LTCPP	\$ 401,498	\$ 802,996	\$ 1,204,493	—	—	\$ —	\$ —
	ESTIP	\$ 218,999	\$ 729,996	\$ 1,459,992	—	—	\$ —	\$ —
	03/01/2010	\$ —	\$ —	\$ —	3,257	—	\$ —	\$ 173,761
	03/01/2010	\$ —	\$ —	\$ —	—	134,581	\$ 57.85	\$ 3,008,526
E.J. Rapp	LTCPP	\$ 321,202	\$ 642,404	\$ 963,607	—	—	\$ —	\$ —
	ESTIP	\$ 175,201	\$ 584,004	\$ 1,168,008	—	—	\$ —	\$ —
	03/01/2010	\$ —	\$ —	\$ —	3,257	—	\$ —	\$ 173,761
	03/01/2010	\$ —	\$ —	\$ —	—	145,765	\$ 57.85	\$ 3,252,017
	04/01/2010	\$ —	\$ —	\$ —	1,175	—	\$ —	\$ 74,959
G.R. Vittecoq	LTCPP	\$ 481,088	\$ 962,176	\$ 1,443,265	—	—	\$ —	\$ —
	ESTIP	\$ 262,412	\$ 874,706	\$ 1,749,412	—	—	\$ —	\$ —
	03/01/2010	\$ —	\$ —	\$ —	3,257	—	\$ —	\$ 173,761
	03/01/2010	\$ —	\$ —	\$ —	—	129,394	\$ 57.85	\$ 2,886,780
S.H. Wunning	LTCPP	\$ 401,498	\$ 802,996	\$ 1,204,493	—	—	\$ —	\$ —
	ESTIP	\$ 218,999	\$ 729,996	\$ 1,459,992	—	—	\$ —	\$ —
	03/01/2010	\$ —	\$ —	\$ —	3,257	—	\$ —	\$ 173,761
	03/01/2010	\$ —	\$ —	\$ —	—	134,851	\$ 57.85	\$ 3,008,526
D.B. Burritt	LTCPP	\$ 226,800	\$ 453,600	\$ 680,400	—	—	\$ —	\$ —
	STIP	\$ 136,080	\$ 453,600	\$ 907,200	—	—	\$ —	\$ —
	03/01/2010	\$ —	\$ —	\$ —	3,261	—	\$ —	\$ 173,974
	03/01/2010	\$ —	\$ —	\$ —	—	68,572	\$ 57.85	\$ 1,529,841

¹The amounts reported in this column represent estimated potential awards under the LTCPP, ESTIP and STIP. The LTCPP estimates are based upon a predetermined percentage of an executive's base salary throughout the three-year cycle, and actual payouts will be determined based on Caterpillar's achievement of specified performance levels (relative PPS growth and return on assets) over the three-year period. The threshold amount is earned if at least 50 percent of the targeted performance level is achieved. The target amount is earned if at least 100 percent of the targeted performance level is achieved. The maximum award is earned at 150 percent or greater of the targeted performance level. Base salary levels for 2010 were used to calculate the estimated dollar value of future payments for the 2010 to 2012 performance cycle. The ESTIP and STIP estimates are based upon the executive's base salary for 2010, and, actual payout was based on the achievement of a corporate return on assets performance metric. Prior to any ESTIP or STIP payout, a profit per share of \$2.50 must be achieved. For the 2010 ESTIP and STIP, the threshold amount was earned if at least 30 percent of the targeted performance level was achieved. The target amount was earned if at least 100 percent of the targeted performance level was achieved. The maximum award was earned at 200 percent or greater of the targeted performance level, with a plan cap set at \$4 million. The 2010 ESTIP and STIP performance metrics were achieved, and the actual cash payouts for the 2010 plan year is reported in the column "Non-Equity Incentive Plan Compensation" of the "2010 Summary Compensation Table." As noted in footnote (1) in the "2010 Summary Compensation Table," since Mr. Owens and Mr. Burritt retired prior to December 31st, the above amounts represent the maximum opportunity if they were actively employed throughout the three-year LTCPP cycle. Mr. Owens' and Mr. Burritt's actual payout will be based upon a prorated period of time they were actively employed during the three-year cycle.

²RSUs granted to the NEOs under the LTIP vest three years from the grant date. Plan provisions exist for accelerated vesting in the event of termination due to long-service separation (age 55 with 10 or more years of Company service), death, total disability or change in control. The actual realizable value of the RSU will depend on the fair market value of Caterpillar stock at the time of vesting. In addition to the 3,257 RSUs granted to Mr. Lavin, he was also awarded 775 RSUs under the Chairman's award program on April 1, 2010. In addition to the 3,257 RSUs granted to Mr. Rapp, he was also awarded 1,175 RSUs under the Chairman's award program on April 1, 2010. The Chairman's award RSUs vest over a five-year period, with one third vesting after three years from the grant date, one third vesting on the fourth year from the grant date, and the final third vesting on the fifth year from the grant date.

³Amounts reported represent SARs granted under the LTIP. The base price for all SARs granted to the NEOs is the closing price of Caterpillar stock on the grant date (\$57.85). All SARs granted to the NEOs will vest three years from the grant date. Plan provisions exist for accelerated vesting in the event of termination due to long-service separation (age 55 with 10 or more years of Company service), death, total disability or change in control. The actual realizable value of the SAR will depend on the fair market value of Caterpillar stock at the time of exercise.

⁴The amounts shown do not reflect realized compensation by the NEO. The amounts shown represent the value of the SAR and RSU awards granted to the NEOs based upon the grant date value of the award as determined in accordance with FASB ASC Topic 718. The fair market value for the RSUs granted under the Chairman's award program is based upon the average of the high and low price of Caterpillar stock on the award date of April 1, 2010.

Outstanding Equity Awards at 2010 Fiscal Year-End								
Name	Grant Date	Vesting Date	Option Awards			Stock Awards		
			Number of Securities Underlying Unexercised SARs/Options		SAR/Option Exercise Price	SAR/Option Expiration Date ¹	Number of Shares or Units of Stock That Have Not Vested ²	Market Value of Shares or Units of Stock That Have Not Vested ³
			Exercisable	Unexercisable				
J.W. Owens	06/08/2004	12/31/2004	460,000	—	\$38.6275	06/08/2014	—	\$ —
	02/18/2005	02/18/2005	460,000	—	\$45.6425	02/18/2015	—	\$ —
	02/17/2006	02/17/2009	300,000	—	\$72.0500	10/31/2015	—	\$ —
	03/02/2007	03/02/2010	344,198	—	\$63.0400	10/31/2015	—	\$ —
	03/03/2008	11/01/2010	334,288	—	\$73.2000	10/31/2015	—	\$ —
	03/02/2009	11/01/2010	504,180	—	\$22.1700	10/31/2015	—	\$ —
	03/01/2010	11/01/2010	—	—	\$ —	—	—	\$ —
D.R. Oberhelman	06/12/2001	06/12/2004	48,000	—	\$26.7650	06/12/2011	—	\$ —
	06/11/2002	06/11/2005	122,000	—	\$25.3575	06/11/2012	—	\$ —
	06/10/2003	06/10/2006	140,000	—	\$27.1425	06/10/2013	—	\$ —
	06/08/2004	12/31/2004	140,000	—	\$38.6275	06/08/2014	—	\$ —
	02/18/2005	02/18/2005	140,000	—	\$45.6425	02/18/2015	—	\$ —
	02/17/2006	02/17/2009	110,000	—	\$72.0500	02/17/2016	—	\$ —
	03/02/2007	03/02/2010	125,884	—	\$63.0400	03/02/2017	—	\$ —
	03/03/2008	03/03/2011	—	115,484	\$73.2000	03/03/2018	—	\$ —
	03/02/2009	03/02/2012	—	166,252	\$22.1700	03/02/2019	—	\$ —
	03/01/2010	03/01/2013	—	272,282	\$57.8500	03/01/2020	—	\$ —
	—	—	—	—	\$ —	—	20,715 ⁴	\$1,940,167
	—	—	—	—	\$ —	—	332 ⁵	\$ 31,095
R.P. Lavin	06/08/2004	12/31/2004	70,000	—	\$38.6275	06/08/2014	—	\$ —
	02/18/2005	02/18/2005	70,000	—	\$45.6425	02/18/2015	—	\$ —
	02/17/2006	02/17/2009	48,000	—	\$72.0500	02/17/2016	—	\$ —
	03/02/2007	03/02/2010	47,580	—	\$63.0400	03/02/2017	—	\$ —
	03/03/2008	03/03/2011	—	111,294	\$73.2000	03/03/2018	—	\$ —
	03/02/2009	03/02/2012	—	148,722	\$22.1700	03/02/2019	—	\$ —
	03/01/2010	03/01/2013	—	129,394	\$57.8500	03/01/2020	—	\$ —
	—	—	—	—	\$ —	—	13,927 ⁶	\$1,304,403
	—	—	—	—	\$ —	—	2,441 ⁷	\$ 228,624
S.L. Levenick	06/08/2004	12/31/2004	126,000	—	\$38.6275	06/08/2014	—	\$ —
	02/18/2005	02/18/2005	130,000	—	\$45.6425	02/18/2015	—	\$ —
	02/17/2006	02/17/2009	105,000	—	\$72.0500	02/17/2016	—	\$ —
	03/02/2007	03/02/2010	124,396	—	\$63.0400	03/02/2017	—	\$ —
	03/03/2008	03/03/2011	—	115,484	\$73.2000	03/03/2018	—	\$ —
	03/02/2009	03/02/2012	—	148,722	\$22.1700	03/02/2019	—	\$ —
	03/01/2010	03/01/2013	—	134,851	\$57.8500	03/01/2020	—	\$ —
	—	—	—	—	\$ —	—	13,927 ⁸	\$1,304,403
	—	—	—	—	\$ —	—	332 ⁹	\$ 31,095
E.J. Rapp	06/10/2003	06/10/2006	54,000	—	\$27.1425	06/10/2013	—	\$ —
	06/08/2004	12/31/2004	60,000	—	\$38.6275	06/08/2014	—	\$ —
	02/18/2005	02/18/2005	60,000	—	\$45.6425	02/18/2015	—	\$ —
	02/17/2006	02/17/2009	48,000	—	\$72.0500	02/17/2016	—	\$ —
	03/02/2007	03/02/2010	47,044	—	\$63.0400	03/02/2017	—	\$ —
	03/03/2008	03/03/2011	—	109,898	\$73.2000	03/03/2018	—	\$ —
	03/02/2009	03/02/2012	—	148,722	\$22.1700	03/02/2019	—	\$ —
	03/01/2010	03/01/2013	—	145,765	\$57.8500	03/01/2020	—	\$ —
	—	—	—	—	\$ —	—	13,927 ¹⁰	\$1,304,403
	—	—	—	—	\$ —	—	2,341 ¹¹	\$ 219,258

(table continued on next page)

Outstanding Equity Awards at 2010 Fiscal Year-End (continued)

Name	Grant Date	Vesting Date	Option Awards				Stock Awards	
			Number of Securities Underlying Unexercised SARs/Options		SAR/Option Exercise Price	SAR/Option Expiration Date ¹	Number of Shares or Units of Stock That Have Not Vested ²	Market Value of Shares or Units of Stock That Have Not Vested ³
			Exercisable	Unexercisable				
G.R. Vittecoq	06/11/2002	06/11/2005	54,000	—	\$25.3575	06/11/2012	—	\$ —
	06/10/2003	06/10/2006	54,000	—	\$27.1425	06/10/2013	—	\$ —
	06/08/2004	12/31/2004	126,000	—	\$38.6275	06/08/2014	—	\$ —
	02/18/2005	02/18/2005	130,000	—	\$45.6425	02/18/2015	—	\$ —
	02/17/2006	02/17/2009	95,000	—	\$72.0500	02/17/2016	—	\$ —
	03/02/2007	03/02/2010	109,516	—	\$63.0400	03/02/2017	—	\$ —
	03/03/2008	03/03/2011	—	111,294	\$73.2000	03/03/2018	—	\$ —
	03/02/2009	03/02/2012	—	156,962	\$22.1700	03/02/2019	—	\$ —
	03/01/2010	03/01/2013	—	129,394	\$57.8500	03/01/2020	—	\$ —
	—	—	—	—	\$ —	—	14,291 ¹²	\$1,338,495
	—	—	—	—	\$ —	—	1,489 ¹³	\$ 139,460
S.H. Wunning	06/10/2003	06/10/2006	54,000	—	\$27.1425	06/10/2013	—	\$ —
	06/08/2004	12/31/2004	126,000	—	\$38.6275	06/08/2014	—	\$ —
	02/18/2005	02/18/2005	130,000	—	\$45.6425	02/18/2015	—	\$ —
	02/17/2006	02/17/2009	95,000	—	\$72.0500	02/17/2016	—	\$ —
	03/02/2007	03/02/2010	124,694	—	\$63.0400	03/02/2017	—	\$ —
	03/03/2008	03/03/2011	—	111,294	\$73.2000	03/03/2018	—	\$ —
	03/02/2009	03/02/2012	—	148,722	\$22.1700	03/02/2019	—	\$ —
	03/01/2010	03/01/2013	—	134,851	\$57.8500	03/01/2020	—	\$ —
	—	—	—	—	\$ —	—	13,927 ¹⁴	\$1,304,403
D.B. Burritt	06/10/2003	06/10/2006	23,100	—	\$27.1425	06/10/2013	—	\$ —
	06/08/2004	12/31/2004	23,100	—	\$38.6275	06/08/2014	—	\$ —
	02/18/2005	02/18/2005	54,000	—	\$45.6425	02/18/2015	—	\$ —
	02/17/2006	02/17/2009	48,000	—	\$72.0500	09/30/2015	—	\$ —
	03/02/2007	10/01/2010	47,342	—	\$63.0400	09/30/2015	—	\$ —
	03/03/2008	10/01/2010	45,909	—	\$73.2000	09/30/2015	—	\$ —
	03/02/2009	10/01/2010	71,176	—	\$22.1700	09/30/2015	—	\$ —
	03/01/2010	10/01/2010	68,572	—	\$57.8500	09/30/2015	—	\$ —

¹ SARs granted in 2010 are exercisable three years after the grant date. The SARs were granted with a 10-year term, subject to earlier termination in the event of separation from service.

² In addition to the RSUs granted in 2010 to the NEOs (reported in the 2010 Summary Compensation Table), the amounts shown also include the portion of any prior grants that were not vested as of December 31, 2010. Plan provisions exist for accelerated vesting in the event of termination due to long-service separation (age 55 with 10 or more years of company service), death, total disability or change in control.

³ The market value of the non-vested RSUs and restricted shares (or equivalent shares in the case of Mr. Vittecoq) is calculated using the closing price of Caterpillar common stock on December 31, 2010 (\$93.66 per share).

⁴ This amount includes 4,109 RSUs scheduled to vest on March 3, 2011; 7,335 RSUs scheduled to vest on March 2, 2012; and 9,271 RSUs scheduled to vest on March 1, 2013.

⁵ This amount includes 332 restricted shares scheduled to vest on March 1, 2011.

⁶ This amount includes 4,109 RSUs scheduled to vest on March 3, 2011; 6,561 RSUs scheduled to vest on March 2, 2012; and 3,257 RSUs scheduled to vest on March 1, 2013.

⁷ This amount includes 334 restricted shares scheduled to vest on April 1, 2011; 333 restricted shares scheduled to vest on April 2, 2011; 333 restricted shares scheduled to vest on April 1, 2012; 333 restricted shares scheduled to vest on April 2, 2012; 333 restricted shares and 259 RSUs scheduled to vest on April 1, 2013; 258 RSUs scheduled to vest on April 1, 2014; and 258 RSUs scheduled to vest on April 1, 2015.

⁸ This amount includes 4,109 RSUs scheduled to vest on March 3, 2011; 6,561 RSUs scheduled to vest on March 2, 2012; and 3,257 RSUs that are scheduled to vest on March 1, 2013.

⁹ This amount includes 332 shares scheduled to vest on March 1, 2011.

¹⁰ This amount includes 4,109 RSUs scheduled to vest on March 3, 2011; 6,561 RSUs scheduled to vest on March 2, 2012; and 3,257 RSUs scheduled to vest on March 1, 2013.

¹¹ This amount includes 167 restricted shares scheduled to vest on April 1, 2011; 333 restricted shares scheduled to vest on April 2, 2011; 167 restricted shares scheduled to vest on April 1, 2012; 333 restricted shares scheduled to vest on April 2, 2012; 166 restricted shares and 392 RSUs scheduled to vest on April 1, 2013; 392 RSUs scheduled to vest on April 1, 2014; and 391 RSUs scheduled to vest on April 1, 2015.

¹² This amount includes 4,109 RSUs scheduled to vest on March 3, 2011; 6,925 RSUs scheduled to vest on March 2, 2012; and 3,257 RSUs scheduled to vest on March 1, 2013.

¹³ This amount includes 745 restricted shares (in phantom form) scheduled to vest on April 2, 2011 and 744 restricted shares (in phantom form) scheduled to vest on April 2, 2012.

¹⁴ This amount includes 4,109 RSUs scheduled to vest on March 3, 2011; 6,561 RSUs scheduled to vest on March 2, 2012; and 3,257 RSUs scheduled to vest on March 1, 2013.

2010 Option Exercises and Stock Vested				
Name	Option Awards ¹		Stock Awards ²	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
J.W. Owens	370,000	\$17,096,595	360,247	\$28,119,501
D.R. Oberhelman	45,399	\$ 1,780,404	5,830	\$ 339,985
R.P. Lavin	20,000	\$ 878,420	3,260	\$ 192,312
S.L. Levenick	54,000	\$ 2,397,195	5,166	\$ 301,596
E.J. Rapp	24,000	\$ 917,640	2,928	\$ 173,118
G.R. Vittecoq	—	\$ —	5,563	\$ 329,519
S.H. Wunning	60,000	\$ 2,628,612	4,832	\$ 282,285
D.B. Burritt	—	\$ —	12,754	\$ 1,029,365

¹ Upon exercise, option holders may surrender shares to pay the option exercise price and satisfy income tax-withholding requirements. The amounts shown are gross amounts absent netting for shares surrendered.

² Upon release of the restricted stock, shares are surrendered to satisfy income tax withholding requirements. The amounts shown are gross amounts absent netting for shares surrendered. The amounts reported for Mr. Owens include 300,000 RSUs that vested in 2010, but are subject to a three-year trading restriction and 34,345 RSUs from his 2008 and 2009 RSU award that vested in 2010 but will be distributed following the six-month anniversary of his separation from the Company. Mr. Vittecoq received a cash payment for the value of his equivalent restricted shares. Equivalent restricted shares are issued to Mr. Vittecoq as they provide a tax efficient award under Swiss tax law.

2010 Pension Benefits				
Name	Plan Name ¹	Number of Years of Credited Service ²	Present Value of Accumulated Benefit ³	Payments During Last Fiscal Year ⁴
J.W. Owens	RIP	35.00	\$ 2,134,958	\$31,640
	SERP	35.00	\$16,588,544	\$ —
D.R. Oberhelman	RIP	35.00	\$ 1,876,912	\$ —
	SERP	35.00	\$ 5,497,257	\$ —
R.P. Lavin	RIP	26.25	\$ 1,487,934	\$ —
	SERP	26.25	\$ 2,528,165	\$ —
S.L. Levenick	RIP	33.50	\$ 1,796,473	\$ —
	SERP	33.50	\$ 4,461,706	\$ —
E.J. Rapp	RIP	31.50	\$ 1,353,960	\$ —
	SERP	31.50	\$ 2,055,031	\$ —
G.R. Vittecoq	Caprevi, Prevoyance	35.17	\$14,092,379	\$ —
S.H. Wunning	RIP	35.00	\$ 2,078,982	\$ —
	SERP	35.00	\$ 5,274,562	\$ —
D.B. Burritt	RIP	32.67	\$ 1,800,106	\$28,574
	SERP	32.33	\$ 2,113,524	\$77,551

¹ Caterpillar Inc. Retirement Income Plan (RIP) is a noncontributory U.S. qualified defined benefit pension plan, and the Supplemental Retirement Plan (SERP) is a U.S. non-qualified pension plan. The benefit formula is 1.5 percent for each year of service (capped at 35 years) multiplied by the final average earnings during the highest five of the final ten years of employment. Final average earnings include base salary, short-term incentive compensation and deferred compensation. If an employee's annual retirement income benefit under the qualified plan exceeds the Internal Revenue Code limitations, the excess benefits are paid from SERP. SERP is not funded. The same formula is used to calculate the benefits payable in both the SERP and RIP. Mr. Vittecoq participates in Caprevi, Prevoyance Caterpillar, a Swiss pension benefit plan. The Swiss plan requires participants to contribute approximately 7 percent of pensionable income to the plan. The benefit formula is 1.75 percent for each year of service multiplied by the final average earnings for the highest three years of a participant's career. Final average earnings consist of base salary and short-term incentive pay, reduced by a prescribed percentage to arrive at "salary considered for contribution." The benefit can be received in a 100 percent lump sum payment or annuity.

² Mr. Owens, Mr. Oberhelman, and Mr. Wunning have more than 35 years of service with the Company. Amounts payable under both RIP and SERP are based upon a maximum of 35 years of service. All RIP participants may receive their benefit immediately following termination of employment, or may defer benefit payments until any time between early retirement age and normal retirement age. SERP participants receive their benefit six months after their retirement date. Normal retirement age is defined as age 65 with five years of service. Early retirement is defined as: any age with 30 years of service, age 55 with 15 years of service, age plus service = 85 points, or age 60 with 10 years of service. If a participant elects early retirement, benefits are reduced by 4 percent per year, before age 62. Currently, all NEOs are eligible to retire. Mr. Lavin, Mr. Levenick, Mr. Oberhelman, Mr. Rapp, Mr. Wunning are eligible for early retirement, with a four percent reduction per year under age 62. Mr. Vittecoq is eligible under the Swiss pension plan for a retirement benefit with no reduction.

³ Mr. Owens and Mr. Burritt retired from the Company in 2010 and elected to commence their pension benefits. The amount in this column represents the actuarial present value for each NEO's accumulated pension benefit on December 31, 2010. For each NEO except Mr. Owens and Mr. Burritt, it assumes benefits are payable at each NEO's earliest unreduced retirement age based upon current level of pensionable income. For Mr. Owens and Mr. Burritt, the amount in this column represents the actuarial present value on December 31, 2010, of their future life annuities based on their actual retirement benefits. The interest rate of 5.22 percent and the RP2000 mortality table used in the calculations are based upon the FASB ASC 715 disclosure on December 31, 2010. Mr. Vittecoq's pension measurement date changed from a fiscal (September to September) date to a calendar date in 2010. Mr. Vittecoq's lump sum present value accumulated benefit is based upon the 12 month pension measurement date ending on December 31, 2010. The BVG 2005 mortality table and the Swiss disclosure interest rate of 2.75 percent were used to calculate Mr. Vittecoq's benefit.

⁴ The amount in this column represents the total RIP and SERP payments made during 2010 to Mr. Owens and Mr. Burritt, respectively, due to their retirement from the Company. Their SERP payments were delayed until six months after their separation of service in accordance with the SERP plan provisions.

2010 Nonqualified Deferred Compensation					
Name	Plan Name	Executive Contributions in 2010 ¹	Registrant Contributions in 2010 ²	Aggregate Earnings in 2010 ³	Aggregate Balance at 12/31/10 ⁴
J.W. Owens	SDCP	\$62,800	\$62,800	\$ 364,151	\$2,322,908
	SEIP	\$ —	\$ —	\$ 252,669	\$ 962,601
	DEIP	\$ —	\$ —	\$ 213,021	\$1,318,337
D.R. Oberhelman	SDCP	\$ —	\$ —	\$ 821,462	\$2,041,732
	SEIP	\$ —	\$ —	\$ 337,008	\$ 837,332
	DEIP	\$ —	\$ —	\$ 444,106	\$1,103,429
R.P. Lavin	SDCP	\$72,904	\$20,340	\$ 548,686	\$1,402,111
	SEIP	\$ —	\$ —	\$ 123,758	\$ 307,491
	DEIP	\$ —	\$ —	\$ 8,275	\$ 20,560
S.L. Levenick	SDCP	\$ —	\$ —	\$ 650,338	\$2,776,247
	SEIP	\$ —	\$ —	\$ 3,116	\$ 33,560
	DEIP	\$ —	\$ —	\$ 341,096	\$3,658,711
E.J. Rapp	SDCP	\$20,340	\$20,340	\$ 784,924	\$2,047,732
	SEIP	\$ —	\$ —	\$ 7,368	\$ 54,964
	DEIP	\$ —	\$ —	\$ 48,574	\$ 660,560
G.R. Vittecoq	EIP	\$59,327	\$41,377	\$1,515,164	\$3,813,728
S.H. Wunning	SDCP	\$29,100	\$29,100	\$ 255,083	\$2,675,591
	SEIP	\$ —	\$ —	\$ 218,118	\$ 546,684
	DEIP	\$ —	\$ —	\$ 597,480	\$1,506,690
D.B. Burritt	SDCP	\$39,679	\$ 1,512	\$ 489,828	\$1,137,383
	SEIP	\$ —	\$ —	\$ 8,719	\$ —
	DEIP	\$ —	\$ —	\$ 47,464	\$ —
¹ The Supplemental Deferred Compensation Plan (SDCP) is a non-qualified deferred compensation plan created in March of 2007 with a retroactive effective date of January 1, 2005, which effectively replaced the existing plans, Supplemental Employees' Investment Plan (SEIP) and Deferred Employees' Investment Plan (DEIP). All future contributions will be made under SDCP.					
² SDCP allows eligible U.S. employees, including all NEOs (except Mr. Vittecoq), to voluntarily defer a portion of their base salary and short-term incentive pay into the plan and receive a Company matching contribution. LTCPP pay may also be deferred, but does not qualify for any Company matching contributions. Mr. Vittecoq is a participant in a non-U.S. Employee Investment Plan that allows him to contribute a portion of his base salary to the plan and receive a Company matching contribution. Amounts deferred by executives in 2010 for base salary, short-term incentive pay and/or long-term cash performance payouts are included in the 2010 Summary Compensation Table. Matching contributions in non-qualified deferred compensation plans made by Caterpillar in 2010 are also included in the 2010 All Other Compensation Table under the Matching Contributions SDCP column. SDCP participants may elect a lump sum payment, or an installment distribution payable for up to 15 years after separation.					
³ Aggregate earnings comprise interest, dividends, capital gains and appreciation/depreciation of investment results.					
⁴ This column includes any amounts deferred under SEIP and/or DEIP prior to the creation of SDCP. The investment choices available to the participant mirror those of our 401(k) plan. Amounts in this column were previously reported in the Summary Compensation table for the years 2008 — 2010 as follows: Mr. Owens \$932,148; Mr. Oberhelman \$310,070; Mr. Lavin \$408,562; Mr. Levenick \$571,320; Mr. Rapp \$187,108; Mr. Vittecoq \$278,399; Mr. Wunning \$1,011,498; and Mr. Burritt \$323,959.					

Potential Payments Upon Termination or Change in Control

General

Caterpillar does not have any special severance agreements or packages (such as golden parachutes) under which payments are to be made to any NEO. Potential payments to NEOs may, however, be available under the terms of existing compensation and benefit programs in the case of termination (including voluntary separation, termination for cause or long-service separation) or a change in control of the Company. The terms applicable to these potential payments in various termination scenarios are discussed below.

The following payments are not quantified in the following tabular information: Payments that would be provided to an NEO under plans generally available to management employees who are similarly situated to the NEOs in age, years of service, date of hire, etc. and that do not discriminate in favor of the NEOs (such as death and disability benefits, retiree medical and life insurance benefits). The discussion below assumes that each NEO is eligible for benefits unless otherwise noted.

The following narrative and tabular information describes and quantifies certain payments and benefits that would become payable under existing plans and arrangements if the named executive's employment had terminated on December 31, 2010. The information is provided relative to the NEO's compensation and service levels as of the date specified. If applicable, they are based on the Company's closing stock price on December 31, 2010.

Terms of Potential Payments — Termination

The terms of potential payments to NEOs in each of the following termination scenarios under existing compensation and benefit programs follows:

- Voluntary Separation (resignation or termination without cause)
- Termination for Cause (termination)
- Long-Service Separation (retirement after age 55 with 10 or more years of Company service).

Equity awards

Unvested equity awards granted to NEOs in accordance with the long-term plan become fully vested and exercisable upon retirement. If terminated, equity awards that are outstanding (whether vested or unvested) will expire. Potential amounts and assumptions regarding equity awards are included in the "Potential Payments upon Termination or Change in Control" table (Potential Payments table) on page 60. These terms are applicable to all employees covered by the LTIP.

Short-term incentive pay

In the event of retirement at December 31, 2010, NEOs would be eligible to receive the amount otherwise payable to them for the 2010 plan year under their applicable STIP. NEOs must be employed on the last day of the year to receive the full amount payable to them under ESTIP or STIP. NEOs who retire during the year, receive a pro-rated payment. Potential amounts and assumptions regarding the short-term incentive pay are included in the Potential Payments table on page 60.

Long-term performance awards

In the event of retirement at December 31, 2010, NEOs would be eligible to receive amounts otherwise payable to them under the LTCPP feature of the Caterpillar Inc. 2006 Long-Term Incentive Plan and the 1996 Stock Option and Long-Term Incentive Plan. The NEOs' eligibility and award amount would be determined at the conclusion of the performance period, depending on the achievement of the established performance criteria. Potential amounts and assumptions regarding the long-term incentive pay are included in the Potential Payments table on page 60. These terms are applicable to all employees covered by these long-term plans.

Deferred compensation

The "2010 Nonqualified Deferred Compensation" table on page 57 describes unfunded, non-qualified deferred compensation plans that permit the deferral of salary, bonus and short-term cash performance awards by NEOs. These plans also provide for matching contributions by the Company. LTCPP pay may also be deferred, but is not eligible for a Company matching contribution.

NEOs are eligible to receive the amount in their deferred compensation accounts following termination under any termination scenario unless the named executive elects to further defer payment as permitted by the plans. The "Non-Qualified Deferred Compensation" column of the Potential Payments table assumes the NEO terminated employment at December 31, 2010, with no further deferral of payments.

Severance pay

Other than in accordance with the terms of existing compensation and benefit programs, the Company is not obligated to provide any special severance payments to any NEOs. As noted in the CD&A, in connection with Mr. Burritt's retirement, the company and Mr. Burritt entered into a separation agreement pursuant to which the Company agreed to continue Mr. Burritt's salary and benefits through September 30, 2010, his last day of employment, pay Mr. Burritt an aggregate amount of \$1,347,027 and provide Mr. Burritt with outplacement services for six months or until his commencement of employment with another employer. The amounts paid to Mr. Burritt in connection with his separation are reflected in the Potential Payments table on page 60 of this proxy.

Perquisites

In the event of retirement, perquisites such as security may be provided to the NEO at the discretion of the Compensation Committee. June 8, 2010, the Compensation Committee approved the following retirement benefits for Mr. Owens.

- Provision of an office in the Peoria area for up to 5 years following retirement.
- Administrative assistant support for 2 years following retirement, up to 30 hours per week. Following this 2-year period, the Company will reimburse Mr. Owens up to \$4,500 per month for administrative needs for an additional 3 years.
- The Company will continue to provide home security to Mr. Owens at the current level through December 31, 2012. Beginning January 1, 2013, the Company will provide security upon Mr. Owens' request at his Peoria residence on an out-of-pocket cost recovery basis.
- The Company will provide Mr. Owens and his administrative assistant with a laptop computer, standard home/office equipment and software. IT support will be provided to both individuals at the Company's expense for 5 years following retirement.
- Mr. Owens will have continued use of the Company's travel agency for up to 5 years following retirement, but he will be responsible for all costs and expenses associated with that service.
- Mr. Owens will not have use of the Company aircraft following retirement.
- The Company will not provide for any tax gross-ups and the tax consequences of the benefits listed here are the responsibility of Mr. Owens.

Pension benefits

The footnotes to the "2010 Pension Benefits" table on page 56 include a description of the defined benefit pension plans (qualified and non-qualified) in which the NEOs participate, including the years of credited service and the present value of each NEO's accumulated pension benefit. These pension benefits are available to management employees generally and are not quantified in the tabular information in the Potential Payments table.

Terms & Potential Payments — Change in Control

Change in control provisions within our long and short-term plans generally provide for accelerated vesting. Potential payment amounts and assumptions are included in the following Potential Payments table. These change in control provisions are designed so that employees are not harmed in the event of termination of employment without cause or for good reason within 12 months following a change in control. The provisions are intended to ensure that executives evaluate business opportunities in the best interests of stockholders. The terms are applicable to all employees covered by these plans, and there are no payments made for voluntary separation, resignation or termination for cause.

Potential Payments Upon Termination or Change in Control								
Name	Termination Scenario	Equity Awards		Incentive		Post Termination Benefits ⁵	Non-Qualified Deferred Compensation ⁶	Total
		Stock Options/ SARs ¹	Restricted Stock/ RSUs ²	Short-term Incentive ³	Long-term Incentive ⁴			
J.W. Owens	Voluntary Separation/Resignation	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
	Long-Service Separation/Retirement	\$30,884,884	\$26,794,749	\$2,134,755	\$2,342,228	\$ 317,358	\$4,603,846	\$67,077,820
	Termination for Cause	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
	Change in Control	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
D.R. Oberhelman	Voluntary Separation/Resignation	\$ —	\$ —	\$ —	\$ —	\$ —	\$3,981,771	\$ 3,981,771
	Long-Service Separation/Retirement	\$23,998,577	\$ 1,971,262	\$1,632,657	\$1,738,045	\$ —	\$3,981,771	\$33,322,312
	Termination for Cause	\$ —	\$ —	\$ —	\$ —	\$ —	\$3,981,771	\$ 3,981,771
	Change in Control	\$23,998,577	\$ 1,971,262	\$2,662,453	\$2,607,068	\$ —	\$3,981,771	\$35,221,131
R.P. Lavin	Voluntary Separation/Resignation	\$ —	\$ —	\$ —	\$ —	\$ —	\$1,730,162	\$ 1,730,162
	Long-Service Separation/Retirement	\$17,542,810	\$ 1,533,027	\$ 715,347	\$ 642,404	\$ —	\$1,730,162	\$22,163,750
	Termination for Cause	\$ —	\$ —	\$ —	\$ —	\$ —	\$1,730,162	\$ 1,730,162
	Change in Control	\$17,542,810	\$ 1,533,027	\$1,168,008	\$ 963,607	\$ —	\$1,730,162	\$22,937,614
S.L. Levenick	Voluntary Separation/Resignation	\$ —	\$ —	\$ —	\$ —	\$ —	\$6,468,518	\$ 6,468,518
	Long-Service Separation/Retirement	\$17,823,953	\$ 1,335,498	\$ 894,172	\$ 802,996	\$ —	\$6,468,518	\$27,325,137
	Termination for Cause	\$ —	\$ —	\$ —	\$ —	\$ —	\$6,468,518	\$ 6,468,518
	Change in Control	\$17,823,953	\$ 1,335,498	\$1,459,992	\$1,204,493	\$ —	\$6,468,518	\$28,292,454
E.J. Rapp	Voluntary Separation/Resignation	\$ —	\$ —	\$ —	\$ —	\$ —	\$2,763,256	\$ 2,763,256
	Long-Service Separation/Retirement	\$18,100,494	\$ 1,523,661	\$ 715,347	\$ 642,404	\$ —	\$2,763,256	\$23,745,162
	Termination for Cause	\$ —	\$ —	\$ —	\$ —	\$ —	\$2,763,256	\$ 2,763,256
	Change in Control	\$18,100,494	\$ 1,523,661	\$1,168,008	\$ 963,607	\$ —	\$2,763,256	\$24,519,026
G.R. Vittecoq	Voluntary Separation/Resignation	\$ —	\$ —	\$ —	\$ —	\$ —	\$3,813,728	\$ 3,813,728
	Long-Service Separation/Retirement	\$18,131,888	\$ 1,477,955	\$1,296,460	\$ 955,687	\$ —	\$3,813,728	\$25,675,718
	Termination for Cause	\$ —	\$ —	\$ —	\$ —	\$ —	\$3,813,728	\$ 3,813,728
	Change in Control	\$18,131,888	\$ 1,477,955	\$1,791,912	\$1,433,530	\$ —	\$3,813,728	\$26,649,013
S.H. Wunning	Voluntary Separation/Resignation	\$ —	\$ —	\$ —	\$ —	\$ —	\$4,728,965	\$ 4,728,965
	Long-Service Separation/Retirement	\$17,738,225	\$ 1,304,403	\$ 894,172	\$ 802,996	\$ —	\$4,728,965	\$25,468,761
	Termination for Cause	\$ —	\$ —	\$ —	\$ —	\$ —	\$4,728,965	\$ 4,728,965
	Change in Control	\$17,738,225	\$ 1,304,403	\$1,459,992	\$1,204,493	\$ —	\$4,728,965	\$26,436,078
D.B. Burritt	Voluntary Separation/Resignation	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
	Long-Service Separation/Retirement	\$ 5,613,905	\$ 794,563	\$ 415,569	\$ 378,000	\$1,347,027	\$1,137,383	\$ 9,686,447
	Termination for Cause	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
	Change in Control	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
¹ In the event of termination of employment due to a change in control, maximum payout factors are assumed for amounts payable under the Caterpillar Inc. 2006 Long-Term Incentive Plan (LTIP) and the prior plan, the Caterpillar Inc. 1996 Stock Option and Long-Term Incentive Plan and ESTIP. Additionally, all unvested stock options, SARs, restricted stock and RSUs vest immediately. Stock options and SARs remain exercisable over the normal life of the grant. For valuation purposes, as of December 31, 2010, when the closing price of Caterpillar common stock was \$93.66, all outstanding grants were in the money. The 2008, 2009 and 2010 grants were not fully vested as of December 31, 2010. For separations due to long-service separation/retirement, death and disability, the life of the equity grant is reduced to a maximum of 60 months from the date of separation or 10 years from the original granting date, whichever occurs first. For voluntary separations, the equity grant life is reduced to 60 days from the date of separation. As noted in footnote (1) in the 2010 Summary Compensation Table, since Mr. Owens and Mr. Burritt retired prior to December 31st, all outstanding grants vested per the Long Service Separation provision of the 2006 LTIP.								
² The LTIP allows immediate vesting to occur on outstanding restricted stock and RSUs in the event of a change in control. The valuation shown is based upon the number of shares vesting multiplied by the closing price of Caterpillar common stock on December 31, 2010, which was \$93.66 per share. As noted in footnote (1) in the 2010 Summary Compensation Table, since Mr. Owens and Mr. Burritt retired prior to December 31st, all outstanding grants vested per the Long Service Separation provision of the 2006 LTIP.								
³ ESTIP provisions provide for the maximum payout allowed under the plan in the event of a change in control. The plan provisions limit the payout to a maximum of \$4 million in any single year. Amounts shown for change in control represent the maximum payout available under ESTIP for all NEOs, with the exception of Mr. Burritt. Mr. Burritt is a participant in STIP, which has no plan provisions for a change in control. Thus, Mr. Burritt's amount shown for change in control is his actual payout available under the plan. In the event of a voluntary separation or termination for cause before the completion of the performance period, both the ESTIP and STIP plan participant forfeit any benefit. Participants in both the ESTIP and STIP who separate due to long-service separation/retirement receive a prorated benefit based on the time of active employment during the performance period.								
⁴ The LTCPP provisions provide for maximum payout allowed for each open plan cycle in the event of a change in control. Participants who separate via a change in control receive a prorated benefit based on the time of active employment during the performance period. Change in control amounts shown for all NEOs represent a prorated benefit at maximum payout for plan cycles 2009-2011 and 2010-2012, both of which are open cycles as of December 31, 2010. Plan provisions in effect for the 2009-2011 and 2010-2012 performance cycle restrict Mr. Owens and Mr. Oberhelman's payout to \$5 million per plan cycle. The 2008-2010 plan cycle amounts are not shown as this cycle was fully vested as of December 31, 2010. Participants who separate via a long-service separation/retirement receive a prorated benefit based on the time of active employment during the performance period. The amount shown for long-service separation/retirement is the NEO's prorated benefit based on a target payout for plan cycles 2009-2011 and 2010-2012, both of which were open cycles as of December 31, 2010. Participants forfeit any benefit upon a voluntary separation or a termination for cause that occurs prior to the completion of the performance period.								
⁵ For a description of these benefits refer to Note 6 in the "2010 All Other Compensation Table."								
⁶ Amounts assume Termination or Change in Control separation occurring on December 31, 2010, with no further deferral of available funds.								

Director Compensation

Of our current Board members, only Mr. Oberhelman is a salaried employee of Caterpillar. Non-employee directors are compensated for Board service. For 2010, compensation for non-employee directors was comprised of the following components:

Retainer:	\$208,000 annually (effective April, 2009)	
Committee Chairman Stipend:	Audit	\$15,000 annually
	Compensation	\$10,000 annually
	Governance	\$10,000 annually
	Public Policy	\$10,000 annually
Audit Committee Members Stipend:	\$10,000 annually	

In February of 2011, the Board modified the director compensation to include a mixture of cash and equity and increased the total compensation to \$250,000. The new cash retainer fee is \$150,000, and \$100,000 of restricted stock will be granted with a one-year vesting period. The Audit and Compensation committee chair will receive a \$20,000 stipend, and the Governance and Public Policy chair will receive a \$15,000 stipend, with no additional fee for serving on the audit committee. This new compensation structure more aligns the Board compensation with our benchmarking peer group. In conjunction with this overall increase in the director compensation, target ownership guidelines require directors to own Caterpillar common stock in the amount of two and one half times their annual compensation. Directors have a five-year period from date of election or appointment to meet the target ownership guidelines.

In addition to the above, the Company reimburses non-employee directors' expenses related to meeting attendance.

Under Caterpillar's Directors' Deferred Compensation Plan (DDCP), directors may defer 50 percent or more of their annual retainer and stipend in an interest-bearing account or an account representing equivalent shares of Caterpillar stock.

Directors appointed or elected to the Board of Directors prior to April 1, 2008, may also participate in a Charitable Award Program. Under the program, a donation of up to \$1 million will be made by the Company, in the director's name, in 10 equal annual installments, with the first installment to be made as soon as practicable after the director's death. Of the total donation, half will be donated to the eligible tax-exempt organization(s) selected by the director, and the remainder will be directed to the Caterpillar Foundation. The maximum amount payable is \$1 million on behalf of each eligible director. The sum is based on the director's length of service. The program is financed through the purchase of life insurance policies. Directors derive no financial benefit from the program. Premiums paid by the Company for this program are included in the following "2010 All Other Director Compensation Table" for non-employee directors and in the "2010 All Other Compensation Table" on page 52 for Mr. Owens.

Director Compensation for 2010					
Director	Fees Earned or Paid in Cash	Stock Awards ¹	Option Awards ¹	All Other Compensation ²	Total
W. Frank Blount	\$218,004	\$ N/A	\$ N/A	\$ 5,500	\$223,504
John R. Brazil	\$208,008	\$ N/A	\$ N/A	\$ 1,500	\$209,508
Daniel M. Dickinson	\$218,004	\$ N/A	\$ N/A	\$ 4,000	\$222,004
John T. Dillon	\$223,008	\$ N/A	\$ N/A	\$ 3,500	\$226,508
Eugene V. Fife	\$208,008	\$ N/A	\$ N/A	\$34,879	\$242,887
Gail D. Fosler	\$218,004	\$ N/A	\$ N/A	\$ —	\$218,004
Juan Gallardo	\$208,008	\$ N/A	\$ N/A	\$ 1,500	\$209,508
David R. Goode	\$218,004	\$ N/A	\$ N/A	\$40,611	\$258,615
Peter A. Magowan	\$208,008	\$ N/A	\$ N/A	\$ 1,500	\$209,508
William A. Osborn	\$218,004	\$ N/A	\$ N/A	\$ 1,500	\$219,504
Charles D. Powell	\$218,004	\$ N/A	\$ N/A	\$34,879	\$252,883
Edward B. Rust, Jr.	\$208,008	\$ N/A	\$ N/A	\$36,557	\$244,565
Susan C. Schwab	\$208,008	\$ N/A	\$ N/A	\$ 9,000	\$217,008
Joshua I. Smith	\$208,008	\$ N/A	\$ N/A	\$ 1,500	\$209,508
¹ As of December 31, 2010, the number of shares of stock/vested and non-vested options held by each non-employee director was: Mr. Blount: 18,323/54,439 (which consists of 40,000 non-qualified stock options (NQs), 12,833 SARs and 1,606 RSUs); Mr. Brazil: 8,803/30,439 (which consists of 16,000 NQs, 12,833 SARs and 1,606 RSUs); Mr. Dickinson: 3,820/7,439 (which consists of 5,833 SARs and 1,606 RSUs); Mr. Dillon: 31,787/54,439 (which consists of 40,000 NQs, 12,833 SARs and 1,606 RSUs); Mr. Fife: 20,000/38,439 (which consists of 24,000 NQs, 12,833 SARs and 1,606 RSUs); Ms. Fosler: 8,515/30,439 (which consists of 16,000 NQs, 12,833 SARs and 1,606 RSUs); Mr. Gallardo: 220,756/54,439 (which consists of 40,000 NQs, 12,833 SARs and 1,606 RSUs); Mr. Goode: 58,253/46,439 (which consists of 32,000 NQs, 12,833 SARs and 1,606 RSUs); Mr. Magowan: 304,984/30,439 (which consists of 16,000 NQs, 12,833 SARs and 1,606 RSUs); Mr. Osborn: 34,725/30,439 (which consists of 16,000 NQs, 12,833 SARs and 1,606 RSUs); Mr. Powell: 7,147/54,439 (which consists of 40,000 NQs, 12,833 SARs and 1,606 RSUs); Mr. Rust: 12,933/30,439 (which consists of 16,000 NQs, 12,833 SARs and 1,606 RSUs); Ms. Schwab: 4,098/0 and Mr. Smith: 10,985/34,439 (which consists of 20,000 NQs, 12,833 SARs and 1,606 RSUs. Mr. Dickinson, Mr. Dillon, Mr. Gallardo, Mr. Goode, Mr. Magowan, and Mr. Rust deferred 100 percent of their 2010 retainer fee into the Directors' Deferred Compensation Plan.					
² All Other Compensation represents Company matching gift contributions and premium cost, plus administrative fees associated with the Directors' Charitable Award Program.					

2010 All Other Director Compensation Table			
Director	Company Matching Gift Contributions ¹	Directors' Charitable Award Program — Insurance Premiums and Administrative Costs ²	Total
W. Frank Blount	\$ 4,000	\$ 1,500	\$ 5,500
John R. Brazil	\$ —	\$ 1,500	\$ 1,500
Daniel M. Dickinson	\$ 3,000	\$ 1,000	\$ 4,000
John T. Dillon	\$ 2,000	\$ 1,500	\$ 3,500
Eugene V. Fife	\$ —	\$34,879	\$34,879
Gail D. Fosler	\$ —	\$ —	\$ —
Juan Gallardo	\$ —	\$ 1,500	\$ 1,500
David R. Goode	\$39,111	\$ 1,500	\$40,611
Peter A. Magowan	\$ —	\$ 1,500	\$ 1,500
William A. Osborn	\$ —	\$ 1,500	\$ 1,500
Charles D. Powell	\$ —	\$34,879	\$34,879
Edward B. Rust, Jr.	\$ 4,000	\$32,557	\$36,557
Susan C. Schwab	\$ 9,000	\$ —	\$ 9,000
Joshua I. Smith	\$ —	\$ 1,500	\$ 1,500
¹ Outside directors are eligible to participate in the Caterpillar Foundation Matching Gift Program. The Foundation will match contributions to eligible two-year or four-year colleges or universities, arts and cultural institutions, public policy and environmental organizations, up to a maximum of \$2,000 per eligible organization per calendar year.			
² The amounts listed represent the named directors' year 2010 insurance premium and administrative fee. For directors whose policy premiums are fully paid, the amount shown represents only the administrative fee of \$1,500. Ms. Schwab is not eligible to participate in this program, as she joined the Board after the program's elimination period for new participants.			

Compensation Risk

The Compensation Committee regularly reviews the Company's compensation policies and practices, including the risks created by the Company's compensation plans. In addition, the Company also conducted a review of its compensation plans and related risks to the Company. The Company reviewed its analysis with the Compensation Committee, and the Compensation Committee concluded that the compensation plans reflected the appropriate compensation goals and philosophy. Based on this review and analysis, the Company has concluded that any risks arising from the Company's compensation policies and practices are not reasonably likely to have a material adverse effect on the Company.

Other Matters

Section 16(a) Beneficial Ownership Reporting Compliance

Based upon a review of our records, all reports required to be filed pursuant to Section 16(a) of the Securities Exchange Act of 1934 were filed on a timely basis.

Director Legal Proceedings

On May 11, 2000, the First Circuit Court in Mexico City granted Grupo Azucarero México, S.A. de C.V., a public company of which Juan Gallardo is the controlling stockholder, suspension of payments protection, which was at that time a legal protection under Mexican law similar to Chapter 11 of the U.S. Bankruptcy Code. This protection enabled the company to continue its operations pending a debt restructuring. In August 2006, the company and its subsidiaries reached an agreement with its creditors and such agreement was approved by the Mexican Court. As a result of the foregoing Grupo Azucarero México, S.A. de C.V. is no longer under the suspension of payments protection.

Matters Raised at the Annual Meeting not Included in this Statement

We do not know of any matters to be acted upon at the Annual Meeting other than those discussed in this statement. If any other matter is properly presented, proxy holders will vote on the matter in their discretion.

Under Caterpillar's Bylaws, a stockholder may bring a matter to vote at the Annual Meeting by giving adequate notice to Caterpillar Inc. by mail c/o Corporate Secretary at 100 NE Adams Street, Peoria, Illinois 61629. To qualify as adequate, the notice must contain the information specified in our Bylaws. In the case of stockholder nominations of directors, notice must be received by us not less than 90 days prior to the Annual Meeting. In the case of all other matters, notice must be received by us not less than 45 days nor more than 90 days prior to the Annual Meeting. However, in the case of matters other than stockholder nominations of directors, if less than 60 days' notice of the Annual Meeting date is given to stockholders, notice of a matter to be brought before the Annual Meeting may be provided to us up to the 15th day following the date the notice of the Annual Meeting was provided. For more information regarding stockholder nominations of directors, see "Governance Committee—Stockholder Nominations" in Part Two of this proxy statement.

Access to Form 10-K

On written request, we will provide, without charge to each record or beneficial holder of Caterpillar common stock as of April 11, 2011, a copy of our Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the SEC, including the financial statements and schedules thereto. Written requests should be directed to Caterpillar Inc. c/o Corporate Secretary at 100 NE Adams Street, Peoria, Illinois 61629.

Admission and Ticket Request Procedure

Admission

Admission is limited to stockholders of record on April 11, 2011 and one immediate family member, or one individual designated as a stockholder's authorized proxy holder or one representative designated in writing to present a stockholder proposal. In each case, the individual must have an admission ticket and valid government issued photo identification to be admitted to the Annual Meeting. In addition, share ownership will be verified.

Ticket Request Deadline

Ticket requests must include all information specified in the applicable table below and be submitted in writing and received by Caterpillar on or before May 27, 2011. No requests will be processed after that date.

To Submit a Request

Submit ticket requests by mail to Corporate Secretary, 100 NE Adams Street, Peoria, Illinois 61629-6490 or by facsimile to 309-494-1467. Ticket requests by telephone will not be accepted.

Authorized Proxy Representative

A stockholder may appoint a representative to attend the Annual Meeting and/or vote on his/her behalf. The admission ticket must be requested by the stockholder but will be issued in the name of the authorized representative. Individuals holding admission tickets that are not issued in their name will not be admitted to the Annual Meeting. The stockholder information specified below and a written proxy authorization must accompany the ticket request.

Proponent of a Stockholder Proposal

For each stockholder proposal included in this proxy statement, the stockholder sponsor should notify the Company in writing of the individual authorized to present the proposal on behalf of the stockholder at the Annual Meeting. One admission ticket will be issued for the designated representative.

Media

Accredited members of the media must register with the Company prior to the Annual Meeting. To register, please contact Jim Dugan by phone 309-494-4100 or e-mail (Dugan_Jim@CAT.com).

Analysts

Analysts must register with the Company prior to the Annual Meeting. To register, please contact Mike DeWalt by phone 309-675-4549 or e-mail (CATir@CAT.com).

Registered Stockholders

For ownership verification provide:

Option A

- Name(s) of stockholder,
- Address,
- Phone number, and
- Social security number or stockholder account key or

Option B

- A copy of your proxy card or notice showing stockholder name and address

Also include:

- Name of immediate family member guest, if not a stockholder
- Name of authorized proxy representative, if applicable
- Address where tickets should be mailed and phone number

Beneficial Holders

For ownership verification provide one of the following:

- A copy of your April brokerage account statement showing Caterpillar stock ownership as of the record date (4/11/11); or
- A letter from your broker, bank or other nominee verifying your record date (4/11/11) ownership; or
- A copy of your brokerage account voting instruction card showing stockholder name and address

Also include:

- Name of immediate family member guest, if not a stockholder
- Name of authorized proxy representative, if applicable
- Address where tickets should be mailed and phone number

Appendix A — Amended and Restated Caterpillar Inc. Executive Short-Term Incentive Plan

CATERPILLAR INC. EXECUTIVE SHORT-TERM INCENTIVE PLAN (Amended and Restated, January 1, 2011)

Section 1. PURPOSE

Effective as of January 1, 2002, Caterpillar Inc. (the “Company”) established the Caterpillar Inc. Executive Incentive Compensation Plan to advance the interests of the Company and its subsidiaries by providing an annual incentive bonus to be paid to certain executive officers of the Company based on the achievement of pre-established quantitative performance goals. In 2006, the Company amended and restated such plan and renamed it the “Caterpillar Inc. Executive Short-Term Incentive Plan” (the “Plan”). By this document, the Company hereby continues the Plan by amending and restating the Plan in its entirety effective January 1, 2011.

The Plan is a performance-based compensation plan as defined in Section 162(m) of the Internal Revenue Service of 1986, as amended (“Code”) and payments under the Plan are intended to qualify for tax deductibility under Section 162(m). Payments under the Plan are intended to constitute performance-based compensation, and distributions are intended to be short-term deferrals (and, therefore, not deferred compensation), for purposes of Section 409A of the Code.

Section 2. ADMINISTRATION

The Plan shall be administered by the Compensation Committee (“Committee”) of the Board of Directors of the Company (“Board”), which is composed solely of members of the Board that are outside directors, as that term is defined in Section 162(m) of the Code. The Committee shall have the authority to grant awards under the Plan to executive officers of the Company. Except as limited by the express provisions of the Plan or by resolutions adopted by the Board, the Committee also shall have the authority and discretion to interpret the Plan, to establish and revise rules and regulations relating to the Plan, and to make any other determinations that it believes necessary or advisable for administration of the Plan.

Section 3. PERFORMANCE AWARDS

3.1. Eligible Participants

Individuals who occupy the positions of Chief Executive Officer and Group President as well as any other Company officers specifically designated by the Committee are eligible to participate in the Plan (“Eligible Participants”). Absent a specific designation by the Committee, participation in the Plan will be limited to the Chief Executive Officer and Group Presidents.

3.2. Award Criteria

On or prior to the ninetieth day of each fiscal year of the Company (“Performance Period”) for which an award (“Performance Award”) is payable hereunder, the Committee shall establish the performance factors (“Performance Measures”) applicable to the award for that Performance Period, the objective criteria based on those Performance Measures pursuant to which the bonus for that Performance Period is to be payable (“Performance Targets”) and the amounts potentially payable based on the achievement or partial achievement of those Performance Targets. The Committee shall have sole discretion to determine the Company Performance Measures and Performance Targets applicable to the Performance Award, and the method of Performance Award calculation. Performance Measures may be based on any of the following factors, alone or in combination, as the Committee deems appropriate: (i) revenue; (ii) primary or fully-diluted earnings per share; (iii) earnings before interest, taxes, depreciation, and/or amortization; (iv) pretax income; (v) cash flow from operations; (vi) total cash flow; (vii) return on equity; (viii) return on invested capital; (ix) return on assets; (x) net operating profits after taxes; (xi) economic value added; (xii) total stockholder return; (xiii) return on sales; (xiv) realized 6 Sigma benefits; or (xv) operating profit after capital charge; or (xvi) any individual performance objective which is measured solely in terms of quantifiable targets related to the Company or the Company’s business. Performance Targets may include a minimum, maximum and target level of performance with the size of Performance Awards based on the level attained. Once established, Performance Targets and Performance Measures shall not be changed during the Performance Period; provided, however, that the Committee may, in its discretion, eliminate or decrease the amount of a Performance Award otherwise payable to an Eligible Participant.

The maximum dollar amount that any Eligible Participant may be paid in any single year under the Plan may not exceed \$4 million.

3.3. Payment of Awards

As soon as practicable after the Company's audited financial statements are available for the Performance Period for which the incentive compensation will be paid, the Committee shall determine the Company's performance in relation to the Performance Targets for that Performance Period. The Committee shall certify in writing the extent to which Performance Targets were satisfied.

The Committee may provide, when it establishes Performance Measures under Section 3.2, that in determining the Company's performance in relation to the Performance Targets for the Performance Period, adjustments shall be made in the method of calculating attainment of performance objectives for one or more of the following reasons: (i) to exclude the dilutive effects of acquisitions or joint ventures; (ii) to assume that any business divested by the Company achieved performance objectives at targeted levels during the balance of a Performance Period following such divestiture; (iii) to exclude restructuring and/or other nonrecurring charges; (iv) to exclude exchange rate effects, as applicable, for non-U.S. dollar denominated net sales and operating earnings; (v) to exclude the effects of changes to generally accepted accounting standards required by the Financial Accounting Standards Board (FASB); (vi) to exclude the effects to any statutory adjustments to corporate tax; (vii) to exclude the impact of any "extraordinary items" as determined under generally accepted accounting principles (GAAP); or (viii) to exclude the effect of any change in the outstanding shares of common stock of the Company by reason of any stock dividend or split, stock repurchase, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other similar corporate change, or any distributions to common stockholders other than regular cash dividends; and (ix) to exclude any other unusual, non-recurring gain or loss or other extraordinary item. Any adjustment provided for pursuant to the foregoing shall be set forth in objective terms meeting the requirements for performance-based compensation under Section 162(m) of the Code.

Performance Awards shall be paid in cash within two and one-half months after the end of the Performance Period and shall be made in a manner that will cause Performance Awards paid hereunder to be short-term deferrals as described in Treas. Reg. Section 409A-1(b)(4). Federal, state and local taxes will be withheld as appropriate.

Notwithstanding anything in the Plan to the contrary, an Eligible Participant shall not be vested in any Performance Awards and an Eligible Participant shall not be entitled to payment hereunder in advance of actual receipt by such Eligible Participant of the payment.

3.4. Termination of Employment

To receive a Performance Award, the Eligible Participant must be employed by the Company or one of its subsidiaries on the last day of the Performance Period. If an Eligible Participant terminates employment before such date by reason of death, disability or retirement, a payout based on the time of employment during the Performance Period shall be distributed. Eligible Participants employed on the last day of the Performance Period, but not for the entire Performance Period, shall receive a payout prorated for that part of the Performance Period for which they were Eligible Participants. If the Eligible Participant is deceased at the time of a Performance Award payment for which the Eligible Participant is eligible, the payment shall be made to the Eligible Participant's estate.

3.5. Clawback Provision

Any Eligible Participant whose negligent, intentional or gross misconduct contributes to the Company's having to restate all or a portion of its financial statements shall be required to reimburse the Company for any payments received under this Plan, as determined by the Board of Directors, an authorized committee, or its designee, pursuant to the Caterpillar Inc. Guidelines on Corporate Governance Issues, as adopted on February 14, 2007 and any subsequent amendments thereto.

Section 4. CHANGE OF CONTROL

4.1. Effect on Awards

Unless the Committee shall otherwise expressly provide in the agreement relating to an award under the Plan, upon the occurrence of a Change of Control as defined below, all Performance Awards for a Performance Period not completed at the time of the Change of Control shall be payable to Eligible Participants in an amount equal to the product of the maximum award opportunity for the Performance Award and a fraction, the numerator of which is the number of months that have elapsed since the beginning of the Performance Period through the later of (i) the date of the Change of Control or (ii) for each Eligible Participant, the date the Eligible Participant terminates employment, and the denominator of which is twelve; provided, however, that if this Plan shall remain in effect after a Change of Control, a Performance Period is completed during that time, and the Eligible Participant's employment has not terminated, this provision shall not apply.

4.2. Change of Control Defined

For purposes of the Plan, a "Change of Control" shall be deemed to have occurred if:

- (a) Any person becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934 ("Exchange Act")), directly or indirectly, of securities of the Company representing 15 percent or more of the combined voting power of the Company's then outstanding common stock, unless the Board by resolution negates the effect of this provision in a particular circumstance, deeming that resolution to be in the best interests of Company stockholders;
- (b) During any period of two consecutive Performance Periods, there shall cease to be a majority of the Board comprised of individuals who at the beginning of such period constituted the Board;
- (c) The stockholders of the Company approve a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) less than fifty percent of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or
- (d) Company stockholders approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of its assets.

Section 5. AMENDMENT AND TERMINATION

The Committee may amend, suspend or terminate the Plan at any time (including but not limited to any time following the close of the Performance Period and prior to the date payment is made) in its sole and absolute discretion. The Committee may amend the Plan without stockholder approval, unless such approval is necessary to comply with applicable laws, including provisions of the Exchange Act or the Code. Termination of the Plan shall not affect any Performance Awards previously paid under the Plan.

Section 6. SECTION 162(M) COMPLIANCE

The Company intends that awards made pursuant to the Plan constitute "qualified performance-based compensation" satisfying the requirements of Section 162(m) of the Code. Accordingly, the Plan shall be interpreted in a manner consistent with 162(m) of the Code. If any provision of the Plan is intended to but does not comply with, or is inconsistent with, the requirements of Section 162(m) of the Code, such provision shall be construed or deemed amended to the extent necessary to conform to and comply with, Section 162(m) of the Code.

Nothing in this Plan precludes the Company from making additional payments or special awards to Eligible Participants outside of the Plan that may or may not qualify as "performance-based" compensation under Section 162(m), provided that such payment or award does not affect the qualification of any incentive compensation payable under the Plan as "performance-based" compensation.

Section 7. EMPLOYMENT RIGHTS

No provision of the Plan nor any action taken by the Committee or the Company pursuant to the Plan shall give or be construed as giving any Eligible Participant any right to be retained in the employ of the Company or affect or limit the right of the Company to terminate such employment.

Section 8. TERM

8.1. Effective Date

This amendment and restatement of the Plan shall continue the Plan effective January 1, 2011, provided the Plan as amended and restated herein is approved by Company stockholders at the next regularly scheduled meeting of Company stockholders following January 1, 2011 and provided that no payments are made hereunder for Performance Periods beginning on or after January 1, 2011 until such stockholder approval is obtained. If Company stockholders do not approve the Plan as amended and restated herein, this amendment and restatement of the Plan shall become null and void. Notwithstanding the foregoing, nothing shall prevent the payment of awards on or after January 1, 2011 for the Performance Period ending on December 31, 2010.

8.2. Expiration Date

Unless extended by appropriate Company action, this amendment and restatement of the Plan shall expire December 31, 2015 except that such expiration shall not affect the payment of awards for the Performance Period ending on December 31, 2015.

Appendix B

CATERPILLAR INC.

GENERAL AND FINANCIAL INFORMATION

2010

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Caterpillar Inc.

The management of Caterpillar Inc. (company) is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined under Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2010. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on our assessment we concluded that, as of December 31, 2010, the company's internal control over financial reporting was effective based on those criteria.

Management has excluded Electro-Motive Diesel, Inc. (EMD) from our assessment of internal control over financial reporting as of December 31, 2010 because we acquired EMD in August 2010. EMD is a wholly owned subsidiary of Caterpillar Inc. whose total assets and total revenues represent approximately 2% and 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2010.

The effectiveness of the company's internal control over financial reporting as of December 31, 2010 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Their report appears on page A-4.



Douglas R. Oberhelman
Chairman of the Board
and Chief Executive Officer



Edward J. Rapp
Group President
and Chief Financial Officer

February 22, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Caterpillar Inc.:

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of results of operations, changes in stockholders' equity, and of cash flow, including pages A-5 through A-56, present fairly, in all material respects, the financial position of Caterpillar Inc. and its subsidiaries at December 31, 2010, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing on page A-3. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded Electro-Motive Diesel, Inc. (EMD) from its assessment of internal control over financial reporting as of December 31, 2010 because EMD was acquired by the Company in August 2010. We have also excluded EMD from our audit of internal control over financial reporting. EMD is a wholly-owned subsidiary of the Company whose total assets and total revenues represent approximately 2% and 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2010.

PricewaterhouseCoopers LLP

Peoria, Illinois
February 22, 2011

STATEMENT 1

Consolidated Results of Operations for the Years Ended December 31

Caterpillar Inc.

(Dollars in millions except per share data)

	2010	2009	2008
Sales and revenues:			
Sales of Machinery and Engines	\$ 39,867	\$ 29,540	\$ 48,044
Revenues of Financial Products	2,721	2,856	3,280
Total sales and revenues	42,588	32,396	51,324
Operating costs:			
Cost of goods sold	30,367	23,886	38,415
Selling, general and administrative expenses	4,248	3,645	4,399
Research and development expenses	1,905	1,421	1,728
Interest expense of Financial Products	914	1,045	1,153
Other operating (income) expenses	1,191	1,822	1,181
Total operating costs	38,625	31,819	46,876
Operating profit	3,963	577	4,448
Interest expense excluding Financial Products	343	389	274
Other income (expense)	130	381	327
Consolidated profit before taxes	3,750	569	4,501
Provision (benefit) for income taxes	968	(270)	953
Profit of consolidated companies	2,782	839	3,548
Equity in profit (loss) of unconsolidated affiliated companies	(24)	(12)	37
Profit of consolidated and affiliated companies	2,758	827	3,585
Less: Profit (loss) attributable to noncontrolling interests	58	(68)	28
Profit ¹	\$ 2,700	\$ 895	\$ 3,557
Profit per common share	\$ 4.28	\$ 1.45	\$ 5.83
Profit per common share — diluted ²	\$ 4.15	\$ 1.43	\$ 5.66
Weighted-average common shares outstanding (millions)			
— Basic	631.5	615.2	610.5
— Diluted ²	650.4	626.0	627.9
Cash dividends declared per common share	\$ 1.74	\$ 1.68	\$ 1.62

¹ Profit attributable to common stockholders.

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

See accompanying notes to Consolidated Financial Statements.

STATEMENT 2

Consolidated Financial Position at December 31

(Dollars in millions)

	2010	2009	2008
Assets			
Current assets:			
Cash and short-term investments	\$ 3,592	\$ 4,867	\$ 2,736
Receivables — trade and other	8,494	5,611	9,397
Receivables — finance	8,298	8,301	8,731
Deferred and refundable income taxes	931	1,216	1,223
Prepaid expenses and other current assets	908	862	1,017
Inventories	9,587	6,360	8,781
Total current assets	31,810	27,217	31,885
Property, plant and equipment — net	12,539	12,386	12,524
Long-term receivables — trade and other	793	971	1,479
Long-term receivables — finance	11,264	12,279	14,264
Investments in unconsolidated affiliated companies	164	105	94
Noncurrent deferred and refundable income taxes	2,493	2,714	3,311
Intangible assets	805	465	511
Goodwill	2,614	2,269	2,261
Other assets	1,538	1,632	1,453
Total assets	\$ 64,020	\$ 60,038	\$ 67,782
Liabilities			
Current liabilities:			
Short-term borrowings:			
Machinery and Engines	\$ 204	\$ 433	\$ 1,632
Financial Products	3,852	3,650	5,577
Accounts payable	5,856	2,993	4,827
Accrued expenses	2,880	2,641	3,254
Accrued wages, salaries and employee benefits	1,670	797	1,242
Customer advances	1,831	1,217	1,898
Dividends payable	281	262	253
Other current liabilities	1,521	1,281	1,450
Long-term debt due within one year:			
Machinery and Engines	495	302	456
Financial Products	3,430	5,399	5,036
Total current liabilities	22,020	18,975	25,625
Long-term debt due after one year:			
Machinery and Engines	4,505	5,652	5,736
Financial Products	15,932	16,195	17,098
Liability for postemployment benefits	7,584	7,420	9,975
Other liabilities	2,654	2,496	2,634
Total liabilities	52,695	50,738	61,068
Commitments and contingencies (Notes 20 and 21)			
Redeemable noncontrolling interest (Note 24)	461	477	524
Stockholders' equity			
Common stock of \$1.00 par:			
Authorized shares: 2,000,000,000			
Issued shares: (2010, 2009 and 2008 — 814,894,624) at paid-in amount	3,888	3,439	3,057
Treasury stock: (2010 — 176,071,910 shares; 2009 — 190,171,905 shares and 2008 — 213,367,983 shares) at cost	(10,397)	(10,646)	(11,217)
Profit employed in the business	21,384	19,711	19,826
Accumulated other comprehensive income (loss)	(4,051)	(3,764)	(5,579)
Noncontrolling interests	40	83	103
Total stockholders' equity	10,864	8,823	6,190
Total liabilities, redeemable noncontrolling interest and stockholders' equity	\$ 64,020	\$ 60,038	\$ 67,782

See accompanying notes to Consolidated Financial Statements.

STATEMENT 3
Caterpillar Inc.
Changes in Consolidated Stockholders' Equity for the Years Ended December 31

(Dollars in millions)

	Common stock	Treasury stock	Profit employed in the business	Accum- ulated other comprehen- sive income (loss)	Noncon- trolling interests	Total	Compre- hensive income (loss)
Balance at January 1, 2008	\$ 2,744	\$ (9,451)	\$ 17,365	\$ (1,791)	\$ 113	\$ 8,980	
Profit of consolidated and affiliated companies	—	—	3,557	—	28	3,585	\$ 3,585
Foreign currency translation, net of tax of \$133	—	—	—	(488)	23	(465)	(465)
Pension and other postretirement benefits							
Current year actuarial gain (loss), net of tax of \$1,854	—	—	—	(3,415)	(30)	(3,445)	(3,445)
Amortization of actuarial (gain) loss, net of tax of \$84	—	—	—	150	1	151	151
Current year prior service cost, net of tax of \$5	—	—	—	(9)	—	(9)	(9)
Amortization of transition (asset) obligation, net of tax of \$1	—	—	—	2	—	2	2
Derivative financial instruments							
Gains (losses) deferred, net of tax of \$67	—	—	—	100	—	100	100
(Gains) losses reclassified to earnings, net of tax of \$14	—	—	—	(22)	2	(20)	(20)
Retained interests							
Gains (losses) deferred, net of tax of \$13	—	—	—	(22)	—	(22)	(22)
(Gains) losses reclassified to earnings, net of tax of \$8	—	—	—	13	—	13	13
Available-for-sale securities							
Gains (losses) deferred, net of tax of \$67	—	—	—	(125)	—	(125)	(125)
(Gains) losses reclassified to earnings, net of tax of \$15	—	—	—	28	—	28	28
Dividends declared	—	—	(981)	—	—	(981)	—
Distributions to noncontrolling interests	—	—	—	—	(10)	(10)	—
Change in ownership for noncontrolling interests	—	—	—	—	(26)	(26)	—
Common shares issued from treasury stock	7	128	—	—	—	135	—
for stock-based compensation: 4,807,533	—	—	—	—	—	—	—
Stock-based compensation expense	194	—	—	—	—	194	—
Net excess tax benefits from stock-based compensation	56	—	—	—	—	56	—
Shares repurchased: 27,267,026 ³	—	(1,894)	—	—	—	(1,894)	—
Stock repurchase derivative contracts	56	—	—	—	—	56	—
Cat Japan share redemption ⁴	—	—	(115)	—	2	(113)	—
Balance at December 31, 2008	\$ 3,057	\$ (11,217)	\$ 19,826	\$ (5,579)	\$ 103	\$ 6,190	\$ (207)
Profit of consolidated and affiliated companies	—	—	895	—	(68)	827	\$ 827
Foreign currency translation, net of tax of \$37	—	—	—	342	21	363	363
Pension and other postretirement benefits							
Current year actuarial gain (loss), net of tax of \$401	—	—	—	924	1	925	925
Amortization of actuarial (gain) loss, net of tax of \$113	—	—	—	187	—	187	187
Current year prior service cost, net of tax of \$249	—	—	—	300	—	300	300
Amortization of prior service cost, net of tax of \$8	—	—	—	(2)	—	(2)	(2)
Amortization of transition (asset) obligation, net of tax of \$1	—	—	—	1	—	1	1
Derivative financial instruments							
Gains (losses) deferred, net of tax of \$16	—	—	—	19	—	19	19
(Gains) losses reclassified to earnings, net of tax of \$36	—	—	—	(54)	(2)	(56)	(56)
Retained interests							
Gains (losses) deferred, net of tax of \$9 ⁵	—	—	—	(16)	—	(16)	(16)
(Gains) losses reclassified to earnings, net of tax of \$11	—	—	—	20	—	20	20
Available-for-sale securities							
Gains (losses) deferred, net of tax of \$47	—	—	—	86	—	86	86
(Gains) losses reclassified to earnings, net of tax of \$5	—	—	—	8	—	8	8
Dividends declared	—	—	(1,038)	—	—	(1,038)	—
Distributions to noncontrolling interests	—	—	—	—	(10)	(10)	—
Change in ownership for noncontrolling interests	(3)	—	—	—	(15)	(18)	—
Common shares issued from treasury stock	(14)	103	—	—	—	89	—
for stock-based compensation: 3,571,268	—	—	—	—	—	—	—
Common shares issued from treasury stock	250	468	—	—	—	718	—
for benefit plans: 19,624,810 ¹	—	—	—	—	—	—	—
Stock-based compensation expense	132	—	—	—	—	132	—
Net excess tax benefits from stock-based compensation	17	—	—	—	—	17	—
Cat Japan share redemption ⁴	—	—	28	—	53	81	—
Balance at December 31, 2009	\$ 3,439	\$ (10,646)	\$ 19,711	\$ (3,764)	\$ 83	\$ 8,823	\$ 2,662

(Continued)

See accompanying notes to Consolidated Financial Statements.

STATEMENT 3

Changes in Consolidated Stockholders' Equity for the Years Ended December 31 (Continued)

(Dollars in millions)

	Common stock	Treasury stock	Profit employed in the business	Accumulated other comprehensive income (loss)	Noncontrolling interests	Total	Comprehensive income (loss)
Balance at December 31, 2009	\$ 3,439	\$(10,646)	\$ 19,711	\$ (3,764)	\$ 83	\$ 8,823	\$ 2,662
Adjustment to adopt consolidation of variable interest entities ²	—	—	(6)	3	—	(3)	—
Balance at January 1, 2010	\$ 3,439	\$(10,646)	\$ 19,705	\$ (3,761)	\$ 83	\$ 8,820	
Profit of consolidated and affiliated companies.....	—	—	2,700	—	58	2,758	\$ 2,758
Foreign currency translation, net of tax of \$73	—	—	—	(52)	18	(34)	(34)
Pension and other postretirement benefits.....	—	—	—	—	—	—	—
Current year actuarial gain (loss), net of tax of \$214.....	—	—	—	(539)	(1)	(540)	(540)
Amortization of actuarial (gain) loss, net of tax of \$173	—	—	—	307	3	310	310
Current year prior service cost, net of tax of \$3.....	—	—	—	(8)	—	(8)	(8)
Amortization of prior service cost, net of tax of \$12	—	—	—	(17)	—	(17)	(17)
Amortization of transition (asset) obligation, net of tax of \$1	—	—	—	1	—	1	1
Derivative financial instruments.....	—	—	—	—	—	—	—
Gains (losses) deferred, net of tax of \$29.....	—	—	—	(50)	—	(50)	(50)
(Gains) losses reclassified to earnings, net of tax of \$18.....	—	—	—	35	—	35	35
Available-for-sale securities.....	—	—	—	—	—	—	—
Gains (losses) deferred, net of tax of \$25.....	—	—	—	37	—	37	37
(Gains) losses reclassified to earnings, net of tax of \$2	—	—	—	(4)	—	(4)	(4)
Dividends declared.....	—	—	(1,103)	—	—	(1,103)	—
Change in ownership for noncontrolling interests.....	(69)	—	—	—	(66)	(135)	—
Common shares issued from treasury stock for stock-based compensation: 12,612,514	74	222	—	—	—	296	—
Common shares issued from treasury stock for benefit plans: 1,487,481 ¹	67	27	—	—	—	94	—
Stock-based compensation expense.....	226	—	—	—	—	226	—
Net excess tax benefits from stock-based compensation.....	151	—	—	—	—	151	—
Cat Japan share redemption ⁴	—	—	82	—	(55)	27	—
Balance at December 31, 2010	\$ 3,888	\$(10,397)	\$ 21,384	\$ (4,051)	\$ 40	\$ 10,864	\$ 2,488

¹ See Note 12 regarding shares issued for benefit plans.

² See Note 6 for additional information.

³ Amount consists of \$1,800 million of cash-settled purchases and \$94 million of derivative contracts.

⁴ See Notes 23 and 24 regarding the Cat Japan share redemption.

⁵ Includes noncredit component of other-than-temporary impairment losses on retained interests of \$(8) million, net of tax of \$4 million, for the twelve months ended December 31, 2009. See Note 6 and 17 for additional information.

STATEMENT 4
Consolidated Statement of Cash Flow for the Years Ended December 31
(Millions of dollars)

Caterpillar Inc.

	2010	2009	2008
Cash flow from operating activities:			
Profit of consolidated and affiliated companies.....	\$ 2,758	\$ 827	\$ 3,585
Adjustments for non-cash items:			
Depreciation and amortization	2,296	2,336	1,980
Other	469	137	355
Changes in assets and liabilities, net of acquisitions:			
Receivables — trade and other	(2,320)	4,014	(545)
Inventories	(2,667)	2,501	(833)
Accounts payable	2,570	(1,878)	(129)
Accrued expenses	117	(505)	660
Accrued wages, salaries and employee benefits	847	(534)	154
Customer advances	604	(646)	286
Other assets — net	358	235	(470)
Other liabilities — net	(23)	12	(371)
Net cash provided by (used for) operating activities.....	<u>5,009</u>	<u>6,499</u>	<u>4,672</u>
Cash flow from investing activities:			
Capital expenditures — excluding equipment leased to others.....	(1,575)	(1,504)	(2,320)
Expenditures for equipment leased to others	(1,011)	(968)	(1,566)
Proceeds from disposals of leased assets and property, plant and equipment	1,469	1,242	982
Additions to finance receivables	(8,498)	(7,107)	(14,031)
Collections of finance receivables	8,987	9,288	9,717
Proceeds from sale of finance receivables	16	100	949
Investments and acquisitions (net of cash acquired)	(1,126)	(19)	(117)
Proceeds from sale of available-for-sale securities.....	228	291	357
Investments in available-for-sale securities	(217)	(349)	(339)
Other — net	132	(128)	197
Net cash provided by (used for) investing activities.....	<u>(1,595)</u>	<u>846</u>	<u>(6,171)</u>
Cash flow from financing activities:			
Dividends paid	(1,084)	(1,029)	(953)
Distribution to noncontrolling interests.....	—	(10)	(10)
Common stock issued, including treasury shares reissued	296	89	135
Payment for stock repurchase derivative contracts	—	—	(38)
Treasury shares purchased.....	—	—	(1,800)
Excess tax benefit from stock-based compensation	153	21	56
Acquisitions of noncontrolling interests	(132)	(6)	—
Proceeds from debt issued (original maturities greater than three months):			
— Machinery and Engines	216	458	1,673
— Financial Products.....	8,108	11,833	16,257
Payments on debt (original maturities greater than three months):			
— Machinery and Engines	(1,298)	(918)	(296)
— Financial Products.....	(11,163)	(11,769)	(14,143)
Short-term borrowings (original maturities three months or less) — net	291	(3,884)	2,074
Net cash provided by (used for) financing activities.....	<u>(4,613)</u>	<u>(5,215)</u>	<u>2,955</u>
Effect of exchange rate changes on cash.....	(76)	1	158
Increase (decrease) in cash and short-term investments.....	(1,275)	2,131	1,614
Cash and short-term investments at beginning of period	4,867	2,736	1,122
Cash and short-term investments at end of period	<u>\$ 3,592</u>	<u>\$ 4,867</u>	<u>\$ 2,736</u>

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

Non-cash activities:

During 2010 and 2009, we contributed 1.5 million and 19.6 million shares of company stock with a fair value of \$94 million and \$718 million, respectively, to our U.S. benefit plans. See Note 12 for further discussion.

See accompanying notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Operations and summary of significant accounting policies

A. 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-scrappers, track and wheel excavators, backhoe loaders, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, skid steer loaders, underground mining equipment, tunnel boring equipment and related parts. In addition, this line of business also includes Electro-Motive Diesel, Inc., (EMD), a manufacturer of diesel-electric locomotives, which we acquired in 2010. Also includes the design, manufacture, remanufacture, maintenance and services of rail-related products and logistics services for other companies.

(2) **Engines** — A principal line of business including the design, manufacture, marketing and sales of engines for Caterpillar machinery; electric power generation systems; 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 10 to 21,700 horsepower (8 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) 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.

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

Our products are sold primarily under the brands “Caterpillar,” “CAT,” design versions of “CAT” and “Caterpillar,” “Electro-Motive,” “FG Wilson,” “MaK,” “Olympian,” “Perkins,” “Progress Rail” and “Solar Turbines”.

We conduct operations in our Machinery and Engines lines of business under highly competitive conditions, including intense price competition. We place great emphasis on the high quality and performance of our products and our dealers’ service support. Although no one competitor is believed to produce all of the same types of machines and engines that we do, there are numerous companies, large and small, which compete with us in the sale of each of our products.

Machines are distributed principally through a worldwide organization of dealers (dealer network), 50 located in the United States and 138 located outside the United States. Worldwide, these dealers serve 182 countries and operate 3,475 places of business, including 1,341 dealer rental outlets. Reciprocating engines are sold principally through the dealer network and to other manufacturers for use in products manufactured by them. Some of the reciprocating engines manufactured by Perkins are also sold through a worldwide network of 142 distributors located in 183 countries. The FG Wilson branded electric power generation

systems are sold through a worldwide network of 154 distributors located in 179 countries. Some of the large, medium speed reciprocating engines are also sold under the MaK brand through a worldwide network of 19 distributors located in 130 countries. Our dealers do not deal exclusively with our products; however, in most cases sales and servicing of our products are the dealers’ principal business. Turbines are sold through sales forces employed by the company. At times, these employees are assisted by independent sales representatives.

Manufacturing activities of the Machinery and Engines lines of business are conducted in 94 plants in the United States; 16 in the United Kingdom; nine each in Italy and Mexico; eight in China; six in Canada; five in France; four each in Australia, Brazil and India; three in Poland; two each in Germany, Indonesia, Japan and the Netherlands; and one each in Belgium, Hungary, Malaysia, Nigeria, Russia, South Korea, Switzerland and Tunisia. Twelve parts distribution centers are located in the United States and 17 are located outside the United States.

The Financial Products line of business also conducts operations under highly competitive conditions. Financing for users of Caterpillar products is available through a variety of competitive sources, principally commercial banks and finance and leasing companies. We emphasize prompt and responsive service to meet customer requirements and offer various financing plans designed to increase the opportunity for sales of our products and generate financing income for our company. Financial Products activity is conducted primarily in the United States, with additional offices in Africa, Asia, Australia, Canada, the Commonwealth of Independent States, Europe, Latin America and the Middle East.

B. Basis of consolidation

The financial statements include the accounts of Caterpillar Inc. and its subsidiaries. Investments in companies that are owned 20% to 50% or are less than 20% owned and for which we have significant influence are accounted for by the equity method. See Note 9 for further discussion.

We consolidate all variable interest entities (VIEs) where Caterpillar Inc. is the primary beneficiary. For VIEs, we assess whether we are the primary beneficiary as prescribed by the accounting guidance on the consolidation of VIEs. The primary beneficiary of a VIE is the party that has both the power to direct the activities that most significantly impact the entity’s economic performance, and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. We adopted the consolidation of variable interest entities guidance issued in June 2009 effective January 1, 2010. See Note 1K for additional information.

Certain amounts for prior years have been reclassified to conform with the current-year financial statement presentation.

Shipping and handling costs are included in Cost of goods sold in Statement 1. Other operating (income) expenses primarily include Cat Financial’s depreciation of equipment leased to others, Cat Insurance’s underwriting expenses, gains (losses) on disposal of long-lived assets, long-lived asset impairment charges, employee separation charges and benefit plan curtailment, settlement and special termination benefits.

Prepaid expenses and other current assets in Statement 2 include prepaid rent, prepaid insurance and other prepaid items. In addition, at December 31, 2008, this line included a security deposit of \$232 million related to a deposit obligation due in 2009. See Note 14 for further discussion.

C. Sales and revenue recognition

Sales of Machinery and Engines are generally recognized when title transfers and the risks and rewards of ownership have passed to customers or independently owned and operated dealers. Typically, where product is produced and sold in the same country, title and risk of ownership transfer when the product is shipped. Products that are exported from a country for sale typically pass title and risk of ownership at the border of the destination country.

Sales of certain turbine machinery units are recognized under accounting for construction-type contracts, primarily using the percentage-of-completion method. Revenue is recognized based upon progress towards completion, which is estimated and continually updated over the course of construction. We provide for any loss that we expect to incur on these contracts when that loss is probable.

No right of return exists on sales of equipment. Replacement part returns are estimable and accrued at the time a sale is recognized.

We provide discounts to dealers through merchandising programs. We have numerous programs that are designed to promote the sale of our products. The most common dealer programs provide a discount when the dealer sells a product to a targeted end user. The cost of these discounts is estimated based on historical experience and known changes in merchandising programs and is reported as a reduction to sales when the product sale is recognized.

Our standard invoice terms are established by marketing region. When a sale is made to a dealer, the dealer is responsible for payment even if the product is not sold to an end customer and must make payment within the standard terms to avoid interest costs. Interest at or above prevailing market rates is charged on any past due balance. Our policy is to not forgive this interest. In 2010, terms were extended to not more than one year for \$221 million of receivables, which represents less than 1% of consolidated sales. In 2009 and 2008, terms were extended to not more than one year for \$312 million and \$544 million of receivables, respectively, which represent approximately 1% of consolidated sales.

We establish a bad debt allowance for Machinery and Engines receivables when it becomes probable that the receivable will not be collected. Our allowance for bad debts is not significant.

Revenues of Financial Products primarily represent the following Cat Financial revenues:

- Retail (end-customer) finance revenue on finance leases and installment sale contracts is recognized over the term of the contract at a constant rate of return on the scheduled outstanding principal balance. Revenue on retail notes is recognized based on the daily balance of retail receivables outstanding and the applicable effective interest rate.
- Operating lease revenue is recorded on a straight-line basis in the period earned over the life of the contract.
- Wholesale (dealer) finance revenue on installment contracts and finance leases is recognized over the term of the contract at a constant rate of return on the scheduled outstanding principal balance. Revenue on wholesale notes is recognized based on the daily balance of wholesale receivables outstanding and the applicable effective interest rate.
- Loan origination and commitment fees are deferred and then amortized to revenue using the interest method over the life of the finance receivables.

Recognition of income is suspended when collection of future income is not probable. Accrual is resumed, and previously suspended income is recognized, when the receivable becomes contractually current and/or collection doubts are removed. Cat Financial provides wholesale inventory financing to dealers. See Note 6 for more information.

Sales and revenues are presented net of sales and other related taxes.

D. Inventories

Inventories are stated at the lower of cost or market. Cost is principally determined using the last-in, first-out (LIFO) method. The value of inventories on the LIFO basis represented about 70% of total inventories at December 31, 2010, 2009 and 2008.

If the FIFO (first-in, first-out) method had been in use, inventories would have been \$2,575 million, \$3,022 million and \$3,216 million higher than reported at December 31, 2010, 2009 and 2008, respectively.

E. Securitized receivables

Cat Financial periodically transfers certain finance receivables relating to retail installment sale contracts and finance leases to special purpose entities (SPEs) as part of their asset-backed securitization program. When finance receivables are securitized, Cat Financial retains interests in the receivables in the form of subordinated certificates, an interest in future cash flows (excess), reserve accounts and servicing rights. In accordance with the new consolidation accounting guidance adopted January 1, 2010, these SPEs were concluded to be VIEs. Cat Financial determined that it was the primary beneficiary based on its power to direct activities through its role as servicer and its obligation to absorb losses and right to receive benefits and therefore consolidated the entities using the carrying amounts of the SPEs' assets and liabilities. Prior to January 1, 2010, the retained interests were recorded in Other assets at fair value. Cat Financial estimated fair value and cash flows using a valuation model and key assumptions for credit losses, prepayment rates and discount rates. See Note 6 and Note 17 for more information.

F. Depreciation and amortization

Depreciation of plant and equipment is computed principally using accelerated methods. Depreciation on equipment leased to others, primarily for Financial Products, is computed using the straight-line method over the term of the lease. The depreciable basis is the original cost of the equipment less the estimated residual value of the equipment at the end of the lease term. In 2010, 2009 and 2008, Cat Financial depreciation on equipment leased to others was \$690 million, \$713 million and \$724 million, respectively, and was included in Other operating (income) expenses in Statement 1. In 2010, 2009 and 2008, consolidated depreciation expense was \$2,202 million, \$2,254 million and \$1,907 million, respectively. Amortization of purchased finite-lived intangibles is computed principally using the straight-line method, generally not to exceed a period of 20 years.

G. Foreign currency translation

The functional currency for most of our Machinery and Engines consolidated companies is the U.S. dollar. The functional currency for most of our Financial Products and affiliates accounted for under the equity method is the respective local currency. Gains and losses resulting from the translation of foreign currency amounts to the functional currency are included in Other income (expense) in Statement 1. Gains and losses resulting from translating assets and liabilities from the functional currency

to U.S. dollars are included in Accumulated other comprehensive income (loss) in Statement 2.

H. Derivative financial instruments

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, commodity price and Caterpillar stock price exposures and not for the purpose of creating speculative positions. Derivatives that we use are primarily foreign currency forward and option contracts, interest rate swaps, commodity forward and option contracts and stock repurchase contracts. All derivatives are recorded at fair value. See Note 3 for more information.

I. Income taxes

The provision for income taxes is determined using the asset and liability approach. Tax laws require items to be included in tax filings at different times than the items are reflected in the financial statements. A current liability is recognized for the estimated taxes payable for the current year. Deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. Deferred taxes are adjusted for enacted changes in tax rates and tax laws. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

J. Estimates in financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts. The more significant estimates include: residual values for leased assets, fair values for goodwill impairment tests, impairment of available-for-sale securities, warranty liability, stock-based compensation and reserves for product liability and insurance losses, postretirement benefits, post-sale discounts, credit losses and income taxes.

K. New accounting guidance

Fair value measurements — In September 2006, the FASB issued accounting guidance on fair value measurements, which 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, this guidance expands disclosures about fair value measurements. In February 2008, the FASB issued additional guidance that (1) deferred the effective date of the original guidance for one year for certain nonfinancial assets and nonfinancial liabilities and (2) removed certain leasing transactions from the scope of the original guidance. We applied this new guidance to financial assets and liabilities effective January 1, 2008 and nonfinancial assets and liabilities effective January 1, 2009. The adoption of this guidance did not have a material impact on our financial statements. See Note 17 for additional information.

In January 2010, the FASB issued new accounting guidance that requires the gross presentation of activity within the Level 3 fair value measurement roll forward and details of transfers in and out of Level 1 and 2 fair value measurements. It also clarifies existing disclosure requirements regarding the level of disaggregation of fair value measurements and disclosures on inputs. We adopted this new accounting guidance for the quarterly period ended March 31, 2010. The adoption of this guidance

did not have a material impact on our financial statements. See Note 17 for additional information.

Employers' accounting for defined benefit pension and other postretirement plans — In September 2006, the FASB issued accounting guidance on employers' accounting for defined benefit pension and other postretirement plans. This guidance requires recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under this guidance, gains and losses, prior service costs and credits and any remaining transition amounts under previous guidance that have not yet been recognized through net periodic benefit cost are recognized in Accumulated other comprehensive income (loss), net of tax effects, until they are amortized as a component of net periodic benefit 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.

We adopted the balance sheet recognition provisions at December 31, 2006. We 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 is allocated proportionately between amounts to be recognized as an adjustment of Profit employed in the business 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 12 for additional information.

Adoption of postretirement benefit year-end measurement date

(Millions of dollars)	January 1, 2008 Prior to adoption	Adjustment	January 1, 2008 Post adoption
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

Business combinations and noncontrolling interests in consolidated financial statements — In December 2007, the FASB issued accounting guidance on business combinations and noncontrolling interests in consolidated financial statements. The guidance on business combinations requires the acquiring entity in a business combination to recognize the assets acquired and liabilities assumed. Further, it changes the accounting for acquired in-process research and development assets, contingent consideration, partial acquisitions and transaction costs. Under the guidance on noncontrolling interests, 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 are treated as equity transactions. We adopted this new guidance on January 1, 2009. As required, the guidance on noncontrolling interests was adopted through retrospective application, and all prior period information has been adjusted accordingly. The adoption of this guidance did not have a material impact on our financial statements. See Note 23 for further details.

Disclosures about derivative instruments and hedging activities — In March 2008, the FASB issued accounting guidance on disclosures about derivative instruments and hedging activities. This guidance expands disclosures for derivative instruments by requiring entities to disclose the fair value of derivative instruments and their gains or losses in tabular format. It 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. We adopted this new guidance on January 1, 2009. The adoption of this guidance did not have a material impact on our financial statements. See Note 3 for additional information.

Employers' disclosures about postretirement benefit plan assets — In December 2008, the FASB issued accounting guidance on employers' disclosures about postretirement benefit plan assets. This guidance expands the disclosure set forth in previous guidance by adding required disclosures about (1) how investment allocation decisions are made by management, (2) major categories of plan assets, and (3) significant concentration of risk. Additionally, this guidance requires an employer to disclose information about the valuation of plan assets similar to that required under the accounting guidance on fair value measurements. We adopted this guidance for our financial statements for the annual period ended December 31, 2009. The adoption of this guidance did not have a material impact on our financial statements. See Note 12 for additional information.

Recognition and presentation of other-than-temporary impairments — In April 2009, the FASB issued accounting guidance on the recognition and presentation of other-than-temporary impairments. This new guidance amends the existing impairment guidance relating to certain debt securities and requires a company to assess the likelihood of selling the security prior to recovering its cost basis. When a security meets the criteria for impairment, the impairment charges related to credit losses would be recognized in earnings, while noncredit losses would be reflected in other comprehensive income. Additionally, it requires a more detailed, risk-oriented breakdown of major security types and related information. We adopted this guidance on April 1, 2009. The adoption of this guidance did not have a material impact on our financial statements. See Notes 6 and 11 for additional information.

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

Consolidation of variable-interest entities — In June 2009, the FASB issued accounting guidance on the consolidation of VIEs. This new guidance revises previous guidance by eliminating the exemption for qualifying special purpose entities, by

establishing a new approach for determining who should consolidate a VIE and by changing when it is necessary to reassess who should consolidate a VIE. We adopted this new guidance on January 1, 2010. The adoption of this guidance resulted in the consolidation of QSPEs related to Cat Financial's asset-backed securitization program that were previously not recorded on our consolidated financial statements. The restricted assets (Receivables-finance, Long-term receivables-finance, Prepaid expenses and other current assets, and Other assets) of the consolidated QSPEs totaled \$324 million at January 1, 2010. The liabilities (Accrued expenses, Long-term debt due within one year-Financial Products and Long-term debt due after one year-Financial Products) of the consolidated QSPEs totaled \$327 million at January 1, 2010. See Note 6 for additional information.

Disclosures about the credit quality of financing receivables and the allowance for credit losses — In July 2010, the FASB issued accounting guidance on disclosures about the credit quality of financing receivables and the allowance for credit losses. The guidance expands disclosures for the allowance for credit losses and financing receivables by requiring entities to disclose information at disaggregated levels. It also requires disclosure of credit quality indicators, past due information and modifications of financing receivables. For end of period balances, the new disclosures were effective December 31, 2010 and did not have a material impact on our financial statements. For activity during a reporting period, the disclosures will be effective January 1, 2011 and we do not expect the adoption to have a material impact on our financial statements. See Note 6 for additional information.

L. Goodwill

Goodwill represents the excess of the cost of a business combination over the fair value of the net assets acquired. We are required to test goodwill for impairment, at the reporting unit level, annually and when events or circumstances indicate the fair value of a reporting unit may be below its carrying value. A reporting unit is an operating segment or sub-segment to which goodwill is assigned when initially recorded. We assign goodwill to reporting units based on our integration plans and the expected synergies resulting from the business combination. Because Caterpillar is a highly integrated company, the businesses we acquire are sometimes combined with or integrated into existing reporting units. When changes occur in the composition of our operating segments or reporting units, goodwill is reassigned to the affected reporting units based on their relative fair values.

We test goodwill for impairment annually and whenever events or circumstances make it more likely than not that an impairment may have occurred. We perform our annual goodwill impairment test as of October 1 and monitor for interim triggering events on an ongoing basis. Goodwill is reviewed for impairment utilizing a two-step process. The first step requires us to compare the fair value of each reporting unit, which we primarily determine using an income approach based on the present value of discounted cash flows, to the respective carrying value, which includes goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is higher than the fair value, there is an indication that an impairment may exist and the second step is required. In step two, the implied fair value of goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss. See Note 10 for further details.

M. Accumulated other comprehensive income (loss)

Comprehensive income (loss) and its components are presented in Statement 3. Accumulated other comprehensive income (loss), net of tax, consisted of the following at December 31:

(Millions of dollars)	December 31,		
	2010	2009	2008
Foreign currency translation	\$ 551	\$ 603	\$ 261
Pension and other postretirement benefits	(4,695)	(4,439)	(5,849)
Derivative financial instruments	45	60	95
Retained interests	—	(3)	(7)
Available-for-sale securities	48	15	(79)
Total accumulated other comprehensive income (loss)	<u>\$ (4,051)</u>	<u>\$ (3,764)</u>	<u>\$ (5,579)</u>

N. Cash flow revision

The Company has revised previously reported cash flows from operating and investing activities for the years ended December 31, 2009 and 2008 in this Form 10-K to adjust for the impact of accrued but unpaid capital expenditures for each period.

Cash provided by operating activities increased from amounts previously reported by \$156 million in 2009 and decreased by \$125 million in 2008; while cash provided by investing activities decreased by \$156 million in 2009, and cash used for investing activities was reduced by \$125 million in 2008.

Unaudited cash flows from operating activities were increased by \$165 million, \$168 million and \$115 million for the three, six and nine month periods ended March 31, June 30 and September 30, 2010 respectively, and cash flows from investing activities were decreased by the same amounts for the respective periods. These amounts will be revised in future quarterly filings.

Management has concluded that the impact was not material to any annual or quarterly period.

2. Stock-based compensation

Our stock-based compensation plans primarily provide for the granting of stock options, stock-settled stock appreciation rights (SARs) and restricted stock units (RSUs) to Officers and other key employees, as well as non-employee Directors. Stock options permit a holder to buy Caterpillar stock at the stock's price when the option was granted. SARs permit a holder the right to receive the value in shares of the appreciation in Caterpillar stock that occurred from the date the right was granted up to the date of exercise. A restricted stock unit (RSU) is an agreement to issue shares of Caterpillar stock at the time of vesting.

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 Compensation Committee approved the exercise price methodology to be the closing price of the Company stock on the date of the grant.

Common stock issued from Treasury stock under the plans totaled 12,612,514 for 2010, 3,571,268 for 2009 and 4,807,533 for 2008.

The 2010, 2009 and 2008 awards generally vest three years after the date of grant. At grant, SARs and option awards have a term life of ten years. Upon separation from service, if the participant is 55 years of age or older with more than ten years of service, the participant meets the criteria for a "Long Service Separation." If the "Long Service Separation" criteria are met, the vested options/SARs will have a life that is the lesser of 10 years from the original grant date or five years from the separation date.

Our stock-based compensation plans allow for the immediate vesting upon separation for employees who meet the criteria for a "Long Service Separation" and who have fulfilled the requisite service period of six months. Compensation expense is recognized over the period from the grant date to the end date of the requisite service period for employees who meet the immediate vesting upon retirement requirements. For those employees who become eligible for immediate vesting upon retirement subsequent to the requisite service period and prior to the completion of the vesting period, compensation expense is recognized over the period from grant date to the date eligibility is achieved.

Accounting guidance on share-based payments requires companies to estimate the fair value of options/SARs on the date of grant using an option-pricing model. The fair value of the option/SAR grant was estimated using a lattice-based option-pricing model. The lattice-based option-pricing model considers a range of assumptions related to volatility, risk-free interest rate and historical employee behavior. Expected volatility was based on historical and current implied volatilities from traded options on our stock. The risk-free rate was based on U.S. Treasury security yields at the time of grant. The weighted-average dividend yield was based on historical information. The expected life was determined from the lattice-based model. The lattice-based model incorporated exercise and post vesting forfeiture assumptions based on analysis of historical data. The following table provides the assumptions used in determining the fair value of the stock-based awards for the years ended December 31, 2010, 2009 and 2008, respectively.

	Grant Year		
	2010	2009	2008
Weighted-average dividend yield	2.3%	3.1%	1.9%
Weighted-average volatility	36.4%	36.0%	27.1%
Range of volatilities	35.2-51.8%	35.8-61.0%	27.1-29.0%
Range of risk-free interest rates	0.32-3.61%	0.17-2.99%	1.60-3.64%
Weighted-average expected lives	7 years	8 years	8 years

The fair value of the RSU grant was determined by reducing the stock price on the day 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 yield.

The amount of stock-based compensation expense capitalized for the years ended December 31, 2010, 2009 and 2008 did not have a significant impact on our financial statements.

At December 31, 2010, there was \$134 million of total unrecognized compensation cost from stock-based compensation arrangements granted under the plans, which is related to non-vested stock-based awards. The compensation expense is expected to be recognized over a weighted-average period of approximately 1.9 years.

Please refer to Tables I and II below for additional information on our stock-based awards.

TABLE I — Financial Information Related to Stock-based Compensation

	2010		2009		2008			
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price		
Stock options/SARs activity:								
Outstanding at beginning of year	63,082,787	\$ 44.24	60,398,074	\$ 45.68	60,855,854	\$ 42.18		
Granted to officers and key employees ¹	7,556,481	\$ 57.85	6,823,227	\$ 22.17	4,886,601	\$ 73.20		
Exercised	(12,568,232)	\$ 32.83	(3,906,785)	\$ 28.13	(5,006,435)	\$ 30.04		
Forfeited/expired	(188,038)	\$ 43.64	(231,729)	\$ 38.05	(337,946)	\$ 46.45		
Outstanding at end of year	57,882,998	\$ 48.50	63,082,787	\$ 44.24	60,398,074	\$ 45.68		
Exercisable at year-end	41,658,033	\$ 48.23	48,256,847	\$ 43.14	43,083,319	\$ 35.81		
RSUs activity:								
Outstanding at beginning of year	4,531,545		2,673,474		1,253,326			
Granted to officers and key employees	1,711,771		2,185,674		1,490,645			
Granted to outside directors	—		—		20,878			
Vested	(1,538,047)		(286,413)		(61,158)			
Forfeited	(55,028)		(41,190)		(30,217)			
Outstanding at end of year	4,650,241		4,531,545		2,673,474			
Stock options/SARs outstanding and exercisable:								
	Outstanding				Exercisable			
Exercise Prices	# Outstanding at 12/31/10	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value ²	# Outstanding at 12/31/10	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value ²
\$ 22.17-25.36	8,716,831	6.49	\$ 22.96	\$ 616	3,189,844	3.58	\$ 24.32	\$ 221
\$ 26.03-29.43	5,614,162	2.23	\$ 27.11	373	5,614,162	2.23	\$ 27.11	373
\$ 38.63-40.64	9,355,978	3.44	\$ 38.65	514	9,355,978	3.44	\$ 38.65	514
\$ 44.90-57.85	16,257,410	6.47	\$ 51.28	688	9,244,580	4.42	\$ 46.30	437
\$ 63.04-73.20	17,938,617	5.92	\$ 70.22	420	14,253,469	5.60	\$ 69.45	344
	57,882,998		\$ 48.50	\$ 2,611	41,658,033		\$ 48.23	\$ 1,889

¹ Of the 7,556,481 awards granted during the year ended December 31, 2010, 7,125,210 were SARs. Of the 6,823,227 awards granted during the year ended December 31, 2009, 6,260,647 were SARs. Of the 4,886,601 awards granted during the year ended December 31, 2008, 4,476,095 were SARs.

² The difference between a stock award's exercise price and the underlying stock's market price at December 31, 2010, for awards with market price greater than the exercise price. Amounts are in millions of dollars.

The computations of weighted-average exercise prices and aggregate intrinsic values are not applicable to RSUs since an RSU represents an agreement to issue shares of stock at the time of vesting. At December 31, 2010, there were 4,650,241 outstanding RSUs with a weighted average remaining contractual life of 1.2 years.

TABLE II — Additional Stock-based Award Information

(Dollars in millions except per share data)				2010	2009	2008
Stock Options/SARs activity:						
Weighted-average fair value per share of stock awards granted				\$ 22.31	\$ 7.10	\$ 22.32
Intrinsic value of stock awards exercised				\$ 518	\$ 77	\$ 232
Fair value of stock awards vested				\$ 119	\$ 213	\$ 18
Cash received from stock awards exercised				\$ 325	\$ 89	\$ 130
RSUs activity:						
Weighted-average fair value per share of stock awards granted				\$ 53.35	\$ 20.22	\$ 69.17
Fair value of stock awards vested				\$ 99	\$ 10	\$ 4

Before tax, stock-based compensation expense for 2010, 2009 and 2008 was \$226 million, \$132 million and \$194 million, respectively, with a corresponding income tax benefit of \$73 million, \$42 million and \$62 million, respectively. Included in the 2010 pre-tax stock-based compensation expense was \$19 million relating to the modification of awards resulting from separations due to the streamlining of our corporate structure as announced in the second quarter.

In accordance with guidance on share-based payments, we classify stock-based compensation within cost of goods sold, selling, general and administrative expenses and research and development expenses corresponding to the same line item as the cash compensation paid to respective employees, officers and non-employee directors.

We currently use shares in treasury stock to satisfy share award exercises.

The cash tax benefits realized from stock awards exercised for December 31, 2010, 2009 and 2008 were \$188 million, \$26 million and \$60 million, respectively. We use the direct only method and tax law ordering approach to calculate the tax effects of stock-based compensation. In certain jurisdictions, tax deductions for exercises of stock-based awards did not generate a cash benefit. A tax benefit of approximately \$30 million will be recorded in APIC when these deductions reduce our future income taxes payable.

3. Derivative financial instruments and risk management

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

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

within the same category as the item being hedged on Statement 4. Cash flow from undesignated derivative financial instruments are included in the investing category on Statement 4.

We formally document all relationships between hedging instruments and hedged items, as well as the risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value hedges to specific assets and liabilities in Statement 2 and linking cash flow hedges to specific forecasted transactions or variability of cash flow.

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

A. Foreign currency exchange rate risk

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

Our Machinery and 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 five years.

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

As of December 31, 2010, \$40 million of deferred net gains, net of tax, included in equity (Accumulated other comprehensive income (loss) in Statement 2), are expected to be reclassified to current earnings (Other income (expense) in Statement 1) over the next twelve months when earnings are affected by the hedged transactions. The actual amount recorded in Other income (expense) will vary based on exchange rates at the time the hedged transactions impact earnings.

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

B. Interest rate risk

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

Machinery and 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.

Financial Products operations have a match-funding policy that addresses interest rate risk by aligning the interest rate profile (fixed or floating rate) of Cat Financial's debt portfolio with the interest rate profile of their receivables portfolio within predetermined ranges on an ongoing basis. In connection with that policy, we use interest rate derivative instruments to modify the debt structure to match assets within the receivables portfolio. This 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. We designate fixed-to-floating interest rate swaps as fair value hedges to protect debt against changes in fair value due to changes in the benchmark interest rate. We designate most floating-to-fixed interest rate swaps as cash flow hedges to protect against the variability of cash flows due to changes in the benchmark interest rate.

As of December 31, 2010, \$12 million of deferred net losses, net of tax, included in equity (Accumulated other comprehensive income (loss) in Statement 2), related to Financial Products floating-to-fixed interest rate swaps, are expected to be reclassified to current earnings (Interest expense of Financial Products in Statement 1) over the next twelve months. The actual amount recorded in Interest expense of Financial Products will vary based on interest rates at the time the hedged transactions impact earnings.

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

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

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

The location and fair value of derivative instruments reported in Statement 2 are as follows:

(Millions of dollars)	Consolidated Statement of Financial Position Location	Asset (Liability) Fair Value	
		December 31, 2010	December 31, 2009
Designated derivatives			
Foreign exchange contracts			
Machinery and Engines	Receivables — trade and other	\$ 65	\$ 27
Machinery and Engines	Long-term receivables — trade and other	52	125
Machinery and Engines	Accrued expenses	(66)	(22)
Machinery and Engines	Other liabilities	(1)	(3)
Interest rate contracts			
Machinery and Engines	Receivables — trade and other	1	1
Machinery and Engines	Accrued expenses	—	(1)
Financial Products	Receivables — trade and other	14	18
Financial Products	Long-term receivables — trade and other	197	127
Financial Products	Accrued expenses	(18)	(100)
		<u>\$ 244</u>	<u>\$ 172</u>
Undesignated derivatives			
Foreign exchange contracts			
Machinery and Engines	Receivables — trade and other	\$ 120	\$ —
Machinery and Engines	Long-term receivables — trade and other	—	66
Machinery and Engines	Accrued expenses	(46)	—
Machinery and Engines	Other liabilities	(58)	(3)
Financial Products	Receivables — trade and other	6	20
Financial Products	Accrued expenses	(9)	(18)
Interest rate contracts			
Machinery and Engines	Accrued expenses	(6)	(7)
Financial Products	Receivables — trade and other	—	1
Financial Products	Long-term receivables — trade and other	—	1
Financial Products	Accrued expenses	(1)	(6)
Commodity contracts			
Machinery and Engines	Receivables — trade and other	17	10
		<u>\$ 23</u>	<u>\$ 64</u>

The effect of derivatives designated as hedging instruments on Statement 1 is as follows:

Fair Value Hedges

(Millions of dollars)	Classification	Year ended December 31, 2010		Year ended December 31, 2009	
		Gains (Losses) on Derivatives	Gains (Losses) on Borrowings	Gains (Losses) on Derivatives	Gains (Losses) on Borrowings
Interest rate contracts					
Machinery and Engines	Other income (expense)	\$ —	\$ —	\$ 1	\$ (1)
Financial Products	Other income (expense)	<u>107</u>	<u>(98)</u>	<u>(205)</u>	<u>220</u>
		<u>\$ 107</u>	<u>\$ (98)</u>	<u>\$ (204)</u>	<u>\$ 219</u>

Cash Flow Hedges

(Millions of dollars)	Classification	Year ended December 31, 2010			
		Recognized in Earnings			
		Recognized in AOCI — Effective Portion	Classification of Gains (Losses)	Reclassified from AOCI — Effective Portion	Recognized in Earnings — Ineffective Portion
Foreign exchange contracts					
Machinery and Engines		\$ (72)	Other income (expense)	\$ (1)	\$ 2
Interest rate contracts					
Machinery and Engines		—	Other income (expense)	(3)	—
Financial Products		<u>(7)</u>	Interest expense of Financial Products	<u>(49)</u>	<u>(1)¹</u>
		<u>\$ (79)</u>		<u>\$ (53)</u>	<u>\$ 1</u>
(Millions of dollars)	Classification	Year ended December 31, 2009			
		Recognized in Earnings			
		Recognized in AOCI — Effective Portion	Classification of Gains (Losses)	Reclassified from AOCI — Effective Portion	Recognized in Earnings — Ineffective Portion
Foreign exchange contracts					
Machinery and Engines		\$ 102	Other income (expense)	\$ 176	\$ 2
Interest rate contracts					
Machinery and Engines		(30)	Other income (expense)	(3)	—
Financial Products		<u>(37)</u>	Interest expense of Financial Products	<u>(83)</u>	<u>9¹</u>
		<u>\$ 35</u>		<u>\$ 90</u>	<u>\$ 11</u>

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

The effect of derivatives not designated as hedging instruments on Statement 1 is as follows:

(Millions of dollars)	Classification of Gains or (Losses)	Year ended December 31, 2010	Year ended December 31, 2009
Foreign exchange contracts			
Machinery and Engines	Other income (expense)	\$ (45)	\$ 35
Financial Products	Other income (expense)	<u>16</u>	<u>(134)</u>
Interest rate contracts			
Machinery and Engines	Other income (expense)	(8)	(3)
Financial Products	Other income (expense)	<u>2</u>	<u>3</u>
Commodity contracts			
Machinery and Engines	Other income (expense)	<u>15</u>	<u>10</u>
		<u>\$ (20)</u>	<u>\$ (89)</u>

D. Stock repurchase risk

Payments for stock repurchase derivatives are accounted for as a reduction in stockholders' equity. In February 2007, the Board of Directors authorized a \$7.5 billion stock repurchase program, expiring on December 31, 2011. The amount of Caterpillar stock that can be repurchased under the authorization is impacted

by movements in the price of the stock. In August 2007, the Board of Directors authorized the use of derivative contracts to reduce stock repurchase price volatility.

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. 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 matured and was exercised within one year after the call was established. If we exercised a call, we could elect to settle the transaction with the bank by physical settlement (paying cash and receiving shares), cash settlement (receiving a net amount of cash) or net share settlement (receiving a net amount of shares). Premiums paid were accounted for as a reduction of stockholders' equity.

We paid total bank premiums under this program of \$94 million for the establishment of calls for 6.0 million shares, of which \$38 million (representing 2.5 million shares) was paid in 2008. For the year ended December 31, 2008, \$268 million of cash was used to repurchase 5.0 million shares pursuant to calls exercised under this program. Premiums previously paid associated with these exercised calls were \$78 million. In December 2008, a call for 1.0 million shares matured, but was not exercised. Premiums previously paid associated with this unexercised call were \$16 million. All outstanding calls under this program expired in 2008.

4. Other income (expense)

	Years ended December 31,		
(Millions of dollars)	2010	2009	2008
Investment and interest income	\$ 86	\$ 98	\$ 101
Foreign exchange gains (losses) ¹	(55)	184	100
License fee income	54	49	73
Gains (losses) on sale of securities and affiliated companies	9	(2)	55
Impairment of available-for-sale securities ..	(3)	(12)	(37)
Miscellaneous income (loss)	39	64	35
	<u>\$ 130</u>	<u>\$ 381</u>	<u>\$ 327</u>

¹ Includes gains (losses) from foreign exchange derivative contracts. See Note 3 for further details.

5. Income taxes

The components of profit (loss) before taxes were:

	Years ended December 31,		
(Millions of dollars)	2010	2009	2008
U.S.	\$ 778	\$ (648)	\$ 2,146
Non-U.S.	2,972	1,217	2,355
	<u>\$ 3,750</u>	<u>\$ 569</u>	<u>\$ 4,501</u>

Profit (loss) before taxes, as shown above, is based on the location of the entity to which such earnings are attributable. Where an entity's earnings are subject to taxation, however, may not correlate solely to where an entity is located. Thus, the income tax provision shown below as U.S. or non-U.S. may not correspond to the earnings shown above.

The components of the provision (benefit) for income taxes were:

	Years ended December 31,		
(Millions of dollars)	2010	2009	2008
Current tax provision (benefit):			
U.S.	\$ 247	\$ (443)	\$ 673
Non-U.S.	645	350	446
State (U.S.)	44	(13)	41
	<u>936</u>	<u>(106)</u>	<u>1,160</u>
Deferred tax provision (benefit):			
U.S.	103	1	(335)
Non-U.S.	(75)	(149)	99
State (U.S.)	4	(16)	29
	<u>32</u>	<u>(164)</u>	<u>(207)</u>
Total provision (benefit) for income taxes	<u>\$ 968</u>	<u>\$ (270)</u>	<u>\$ 953</u>

We paid net income tax and related interest of \$264 million and \$1,318 million in 2010 and 2008, respectively, compared to net income tax and related interest refunds of \$136 million in 2009.

Reconciliation of the U.S. federal statutory rate to effective rate:

	Years ended December 31,					
	2010		2009		2008	
Taxes at U.S. statutory rate	\$ 1,313	35.0%	\$ 199	35.0%	\$ 1,575	35.0%
(Decreases) increases in taxes resulting from:						
Non-U.S. subsidiaries taxed at other than 35%	(339)	(9.0)%	(261)	(46.0)%	(124)	(2.8)%
State and local taxes, net of federal	27	0.7%	(19)	(3.3)%	46	1.0%
Interest and penalties, net of tax	16	0.4%	20	3.5%	11	0.2%
U.S. tax credits	(57)	(1.5)%	(47)	(8.2)%	(40)	(0.8)%
Other — net	(22)	(0.6)%	(29)	(5.1)%	(59)	(1.3)%
	<u>938</u>	<u>25.0%</u>	<u>(137)</u>	<u>(24.1)%</u>	<u>1,409</u>	<u>31.3%</u>
Tax law change related to Medicare subsidies	90	2.4%	—	—	—	—
Prior year tax and interest adjustments	(34)	(0.9)%	(133)	(23.4)%	—	—
Release of valuation allowances	(26)	(0.7)%	—	—	—	—
Non-U.S. earnings reinvestment changes	—	—	—	—	(456)	(10.1)%
Provision (benefit) for income taxes	<u>\$ 968</u>	<u>25.8%</u>	<u>\$ (270)</u>	<u>(47.5)%</u>	<u>\$ 953</u>	<u>21.2%</u>

The provision for income taxes for 2010 included a deferred tax charge of \$90 million due to the enactment of U.S. healthcare legislation effectively making government subsidies received for Medicare equivalent prescription drug coverage taxable. Guidance on accounting for income taxes requires that the deferred tax effects of changes in laws be reflected in the financial statements

in the period in which the legislation is enacted regardless of the effective date. Deferred tax assets had previously been recorded based on the liability for other postretirement benefits without regard to the tax-free subsidy. As a result of the law change, deferred tax assets were reduced to reflect the expected future income tax on the subsidy. Beginning in 2013, a cash tax cost

will be incurred when the subsidies received increase taxable income.

This deferred tax charge was offset by a \$34 million benefit related to the recognition of refund claims for prior tax years and a \$26 million benefit for the release of a valuation allowance against the deferred tax assets of certain non-U.S. entities due to tax planning actions implemented in 2010.

The prior year tax benefits recorded in 2009 of \$133 million primarily resulted from the U.S. settlement of tax years 1995 to 1999 and the true-up of estimated amounts used in the 2008 tax provision to the U.S. tax return as filed. The settlement with the U.S. Internal Revenue Service (IRS) for tax years 1995 through 1999 resulted in a \$46 million tax benefit related primarily to the true-up of estimated credits, a \$14 million tax benefit to remeasure previously unrecognized tax benefits related to foreign sales corporation (FSC) commissions, and a \$25 million benefit to adjust related interest, net of tax.

The provision for income taxes for 2008 includes tax benefits of \$456 million related to changes in the reinvestment status of earnings of certain non-U.S. subsidiaries. Repatriation of non-U.S. earnings resulted in a tax benefit of \$409 million due to available foreign tax credits in excess of the U.S. tax liability on the dividend. A benefit of \$47 million was also recorded 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.

We have recorded income tax expense at U.S. tax rates on all profits, except for undistributed profits of non-U.S. subsidiaries of approximately \$11 billion which are considered indefinitely reinvested. Determination of the amount of unrecognized deferred tax liability related to indefinitely reinvested profits is not feasible. If management intentions or U.S. tax law changes in the future, there may be a significant negative impact on the provision for income taxes to record an incremental tax liability in the period the change occurs. A deferred tax asset is recognized only if we have definite plans to generate a U.S. tax benefit by repatriating earnings in the foreseeable future. While uncertain, it is possible that we will change our assertion related to undistributed profits of certain non-U.S. subsidiaries in the next year resulting in the recognition of a tax benefit.

Accounting for income taxes under U.S. GAAP guidance requires that individual tax-paying entities of the company offset all current deferred tax liabilities and assets within each particular tax jurisdiction and present them as a single amount in the Consolidated Financial Position. A similar procedure is followed for all noncurrent deferred tax liabilities and assets. Amounts in different tax jurisdictions cannot be offset against each other. The amount of deferred income taxes at December 31, included on the following lines in Statement 2, are as follows:

(Millions of dollars)	December 31,		
	2010	2009	2008
Assets:			
Deferred and refundable income taxes	\$ 824	\$ 802	\$ 785
Noncurrent deferred and refundable income taxes	2,493	2,704	3,298
	3,317	3,506	4,083
Liabilities:			
Other current liabilities	7	11	9
Other liabilities	141	138	130
Deferred income taxes — net	\$3,169	\$ 3,357	\$ 3,944

Deferred income tax assets and liabilities:

(Millions of dollars)	December 31,		
	2010	2009	2008
Deferred income tax assets:			
Pension	\$ 1,065	\$ 1,207	\$ 1,888
Postemployment benefits other than pensions	1,501	1,362	1,530
Tax carryforwards	1,117	1,185	712
Warranty reserves	253	243	312
Unrealized profit excluded from inventories	269	229	275
Stock based compensation	215	182	148
Post sale discounts	142	112	140
Allowance for credit losses	111	102	134
Deferred compensation	106	95	78
Other — net	394	396	427
	5,173	5,113	5,644
Deferred income tax liabilities:			
Capital and intangible assets	(1,423)	(1,185)	(1,233)
Translation	(169)	(96)	(133)
	(1,592)	(1,281)	(1,366)
Valuation allowance for deferred tax assets	(412)	(475)	(334)
Deferred income taxes — net	\$ 3,169	\$ 3,357	\$ 3,944

At December 31, 2010, approximately \$718 million of U.S. state tax net operating losses (NOLs) and \$100 million of U.S. state tax credit carryforwards were available. The state NOLs primarily expire between 2014 and 2030. The state tax credit carryforwards expire over the next ten years. We established a valuation allowance of \$118 million for those state NOLs and credit carryforwards likely to expire prior to utilization.

At December 31, 2010, amounts and expiration dates of net operating loss carryforwards in various non-U.S. taxing jurisdictions were:

(Millions of dollars)						
2011	2012	2013	2014	2015-2030	Unlimited	Total
\$ 1	\$ 4	\$ 10	\$ 34	\$ 430	\$ 905	\$ 1,384

A valuation allowance of \$294 million has been recorded at certain non-U.S. entities that have not yet demonstrated consistent and/or sustainable profitability to support the recognition of net deferred tax assets.

At December 31, 2010, amounts and expiration dates of U.S. tax credits available to carry forward were:

(Millions of dollars)						
2016	2017	2018	2019	2020	Unlimited	Total
\$ 26	—	—	\$ 354	\$ 130	\$ 9	\$ 519

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits for uncertain tax positions, including positions impacting only the timing of tax benefits, follows.

Reconciliation of unrecognized tax benefits:¹

(Millions of dollars)	Years ended December 31,		
	2010	2009	2008
Balance at January 1,.....	\$ 761	\$ 803	\$ 703
Additions for tax positions related to current year	21	37	126
Additions for tax positions related to prior years	59	43	38
Reductions for tax positions related to prior years	(49)	(45)	(48)
Reductions for settlements ²	—	(61)	(4)
Reductions for expiration of statute of limitations	(3)	(16)	(12)
Balance at December 31,.....	\$ 789	\$ 761	\$ 803
Amount that, if recognized, would impact the effective tax rate	\$ 667	\$ 593	\$ 646

¹ Foreign currency translation amounts are included within each line as applicable.

² Includes cash payment or other reduction of assets to settle liability.

We classify interest and penalties on income taxes as a component of the provision for income taxes. We recognized interest and penalties of \$27 million, \$(13) million and \$18 million during the years ended December 31, 2010, 2009 and 2008, respectively. The 2009 amount includes a benefit from adjustments for the 1995 through 1999 settlement as discussed above. The total amount of interest and penalties accrued was \$201 million, \$170 million and \$116 million as of December 31, 2010, 2009 and 2008, respectively.

It is reasonably possible 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.

The Internal Revenue Service (IRS) is currently examining U.S. tax returns for 2007 to 2009 and has completed its field examination of our tax returns for 1992 to 2006. For tax years 1992 to 1994, we expect to litigate the unagreed adjustments related to transfer pricing. In 2009, we reached a settlement with the IRS for tax years 1995 to 1999. For tax years 2000 to 2006, we are in the appeals process for unagreed adjustments primarily related to export tax benefits. 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.

In our major non-U.S. jurisdictions, tax years are typically subject to examination for three to six years.

6. Cat Financial Financing Activities**A. Wholesale inventory receivables**

Wholesale inventory receivables are receivables of Cat Financial that arise when Cat Financial provides financing for a dealer's purchase of inventory. These receivables are included in Receivables — trade and other and Long-term receivables — trade and other in Statement 2 and were \$1,361 million, \$937 million, and \$1,555 million at December 31, 2010, 2009 and 2008, respectively.

Contractual maturities of outstanding wholesale inventory receivables:

(Millions of dollars)	December 31, 2010			
	Wholesale Installment Contracts	Wholesale Finance Leases	Wholesale Notes	Total
Amounts Due In				
2011	\$ 103	\$ 115	\$ 824	\$ 1,042
2012	16	48	77	141
2013	11	27	40	78
2014	1	15	4	20
2015	—	5	—	5
Thereafter	—	4	—	4
	131	214	945	1,290
Guaranteed residual value	—	111	—	111
Unguaranteed residual value	—	1	—	1
Less:				
Unearned income	(6)	(27)	(8)	(41)
Total	\$ 125	\$ 299	\$ 937	\$ 1,361

Please refer to Note 17 and Table III for fair value information.

B. Finance receivables

Finance receivables are receivables of Cat Financial, which generally can be repaid or refinanced without penalty prior to contractual maturity. Total finance receivables reported in Statement 2 are net of an allowance for credit losses.

Cat Financial provides financing only when acceptable criteria are met. Credit decisions are based on, among other things, the customer's credit history, financial strength and intended use of equipment. Cat Financial typically maintains a security interest in retail financed equipment and requires physical damage insurance coverage on financed equipment.

Contractual maturities of outstanding finance receivables:

(Millions of dollars)	December 31, 2010			
	Retail Installment Contracts	Retail Finance Leases	Retail Notes	Total
Amounts Due In				
2011	\$ 2,126	\$ 3,053	\$ 3,549	\$ 8,728
2012	1,384	1,968	1,454	4,806
2013	841	1,061	1,222	3,124
2014	445	462	911	1,818
2015	146	173	571	890
Thereafter	30	149	734	913
	4,972	6,866	8,441	20,279
Guaranteed residual value	—	497	—	497
Unguaranteed residual value	—	503	—	503
Less:				
Unearned income	(430)	(756)	(170)	(1,356)
Total	\$ 4,542	\$ 7,110	\$ 8,271	\$ 19,923

Please refer to Note 17 and Table III for fair value information.

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

We adopted the accounting guidance on disclosures about the credit quality of financing receivables and the allowance for credit losses as of December 31, 2010. See Note 1K for additional

information. This guidance requires information to be disclosed at disaggregated levels, defined as portfolio segments and classes.

We apply a systematic methodology to determine the allowance for credit losses for finance receivables. Based upon our analysis of credit losses and risk factors, our two portfolio segments are as follows:

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

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

- North America — Finance receivables originated in the United States or Canada.
- Europe — Finance receivables originated in Europe, Africa, Middle East and the Commonwealth of Independent States.
- Asia Pacific — Finance receivables originated in Australia, New Zealand, China, Japan, South Korea and South-east Asia, as well as large mining customers worldwide.
- Latin America — Finance receivables originated in Central and South American countries and Mexico.

- Global Power Finance — Finance receivables related to marine vessels with Caterpillar engines, for all countries and Caterpillar electrical power generation, gas compression and co-generation systems and non-Caterpillar equipment that is powered by these systems, for all countries.

Impaired loans and finance leases

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

At December 31, 2010, there were no impaired loans or finance leases for the Dealer portfolio segment. The average recorded investment for impaired loans and finance leases for the Europe finance receivables class within the dealer portfolio segment was \$19 million during 2010. As of December 31, 2010, the impaired loans and finance leases for customers were as follows:

(Millions of dollars)

Impaired Loans and Finance Leases With No Allowance Recorded¹

	As of December 31, 2010			2010	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Customer					
North America.....	\$ 87	\$ 87	\$ —	\$ 39	\$ 2
Europe.....	6	4	—	7	—
Asia Pacific.....	13	13	—	9	—
Latin America.....	3	3	—	5	—
Global Power Finance.....	174	174	—	92	—
Total	\$ 283	\$ 281	\$ —	\$ 152	\$ 2

Impaired Loans and Finance Leases With An Allowance Recorded

Customer					
North America.....	\$ 191	\$ 185	\$ 44	\$ 271	\$ 11
Europe.....	62	57	15	85	4
Asia Pacific.....	27	27	7	40	3
Latin America.....	44	43	9	39	3
Global Power Finance.....	34	33	4	17	—
Total	\$ 358	\$ 345	\$ 79	\$ 452	\$ 21

Total Impaired Loans and Finance Leases

Customer					
North America.....	\$ 278	\$ 272	\$ 44	\$ 310	\$ 13
Europe.....	68	61	15	92	4
Asia Pacific.....	40	40	7	49	3
Latin America.....	47	46	9	44	3
Global Power Finance.....	208	207	4	109	—
Total	\$ 641	\$ 626	\$ 79	\$ 604	\$ 23

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

As of December 31, 2009 and 2008, the impaired loans and finance leases were as follows:

(Millions of dollars)	2009	2008
Impaired loans/finance leases for which there is a related allowance for credit losses (related allowance of \$117 million and \$59 million, respectively).....	\$ 448	\$ 258
Impaired loans/finance leases for which there is no related allowance for credit losses (due to sufficient collateral value).....	65	221
Total investment in impaired loans/finance leases as of December 31,	\$ 513	\$ 479
Average investment in impaired loans/finance leases	\$ 425	\$ 306

Non-accrual and past due loans and finance leases

For all classes, we consider a loan or finance lease past due if any portion of a contractual payment is due and unpaid for more than 30 days. Recognition of income is suspended and the loan or finance lease is placed on non-accrual status when management determines that collection of future income is not probable (generally after 120 days past due). Accrual is resumed,

and previously suspended income is recognized, when the loan or finance lease becomes contractually current and/or collection doubts are removed.

As of December 31, 2010, there were no loans or finance leases on non-accrual status for the Dealer portfolio segment. The investment in customer loans and finance leases on non-accrual status as of December 31, 2010 was as follows:

(Millions of dollars)	2010
Customer	
North America.....	\$ 217
Europe.....	89
Asia Pacific.....	31
Latin America.....	139
Global Power Finance.....	163
Total¹	\$ 639

¹ As of December 31, 2009 and 2008, the investments in loans and finance leases on non-accrual status were \$678 million and \$422 million, respectively.

As of December 31, 2010, past due loans and finance leases were as follows:

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

¹ As of December 31, 2009 and 2008, the investments in loans and finance leases past due over 90 days and still accruing were \$134 million and \$119 million, respectively.

Allowance for credit loss activity

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

The allowance for credit losses as of December 31, were as follows:

(Millions of dollars)	2010	2009	2008
Allowance for Credit Loss Activity:			
Balance at beginning of year	\$ 376	\$ 391	\$ 351
Adjustment to adopt consolidation of variable-interest entities.....	18	—	—
Provision for credit losses	205	225	192
Receivables written off	(288)	(281)	(144)
Recoveries on receivables previously written off.....	51	28	23
Other — net.....	—	13	(31)
Balance at end of year	\$ 362	\$ 376	\$ 391

The Allowance for credit losses and recorded investment in finance receivables as of December 31, 2010 was as follows:

(Millions of dollars)	Customer	Dealer	Total
Allowance for Credit Losses:			
Individually evaluated for impairment.....	\$ 79	\$ —	\$ 79
Collectively evaluated for impairment.....	278	5	283
Ending Balance.....	\$ 357	\$ 5	\$ 362
Recorded Investment in Finance Receivables:			
Individually evaluated for impairment.....	\$ 641	\$ —	\$ 641
Collectively evaluated for impairment.....	17,339	1,943	19,282
Ending Balance.....	\$17,980	\$1,943	\$19,923

Credit quality of finance receivables

The credit quality of finance receivables is reviewed on a monthly basis. Credit quality indicators include performing and non-performing. Non-performing is defined as finance receivables currently over 120 days past due and/or on non-accrual status

or in bankruptcy. Finance receivables not meeting the criteria listed above are considered performing. Non-performing receivables have the highest probability for credit loss. The allowance for credit losses attributable to non-performing receivables is based on the most probable source of repayment, which is normally the liquidation of collateral. In determining collateral value, we estimate the current fair market value of the collateral and factor in credit enhancements such as additional collateral and third-party guarantees.

As of December 31, 2010, the recorded investment of performing and non-performing finance receivables were as follows:

(Millions of dollars)	Customer	Dealer	Total
Performing			
North America	\$ 6,231	\$1,291	\$ 7,522
Europe	2,421	41	2,462
Asia Pacific	3,498	151	3,649
Latin America	2,287	457	2,744
Global Power Finance	2,904	3	2,907
Total Performing	17,341	1,943	19,284
Non-Performing			
North America	217	—	217
Europe	89	—	89
Asia Pacific	31	—	31
Latin America	139	—	139
Global Power Finance	163	—	163
Total Non-Performing	639	—	639
Performing & Non-Performing			
North America	6,448	1,291	7,739
Europe	2,510	41	2,551
Asia Pacific	3,529	151	3,680
Latin America	2,426	457	2,883
Global Power Finance	3,067	3	3,070
Total	\$17,980	\$1,943	\$19,923

D. Securitized Retail Installment Sale Contracts and Finance Leases

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

In accordance with the new consolidation accounting guidance adopted January 1, 2010, these SPEs were concluded to be VIEs. Cat Financial determined that it was the primary beneficiary

based on its power to direct activities through its role as servicer and its obligation to absorb losses and right to receive benefits and therefore consolidated the entities using the carry-ing amounts of the SPEs' assets and liabilities.

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

Prior to January 1, 2010, the SPEs were considered to be QSPEs and thus not consolidated. Cat Financial's retained interests in the securitized assets were classified as available-for-sale securities and were included in Other assets in Statement 2 at fair value. Cat Financial estimated fair value and cash flows using a valuation model and key assumptions for credit losses, prepayment rates and discount rates. These assumptions were based on Cat Financial's historical experience, market trends and anticipated performance relative to the particular assets securitized. Cat Financial periodically evaluated for impairment and recognized the credit component of an other-than-temporary impairment in Profit and the noncredit component in Accumulated other comprehensive income (loss) for those retained interests in which Cat Financial did not intend to sell and it was not likely that they would be required to sell prior to recovery.

During 2008, Cat Financial sold certain finance receivables relating to retail installment sale contracts and finance leases to SPEs as part of their asset-backed securitization program. Net gains of \$12 million were recorded in Revenues of Financial Products in Statement 1 and were based on the estimated fair value of the assets sold and retained and liabilities incurred, net of transaction costs. Subordinated retained interests included certificates with an initial fair value of \$27 million, an interest in certain 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 at the time of the transaction were:

	2008
Discount rate	7.2%
Weighted-average prepayment rate	14.5%
Expected credit losses	1.6%

As of December 31, 2009 and 2008, the fair value of the retained interests in all securitizations of retail finance receivables outstanding totaled \$102 million (cost basis of \$107 million) and \$52 million (cost basis of \$62 million), respectively. The fair value of the retained interests as of December 31, 2009 that have been in a continuous unrealized loss position for twelve months or longer totaled \$102 million (cost basis of \$107 million). As of December 31, 2008, there were no retained interests in a continuous unrealized loss position for twelve months or longer. Key assumptions used to determine the fair value of the retained interests as of such dates were:

	December 31,	
	2009	2008
Cash flow weighted average discount rates on retained interests	7.7 to 12.4%	16.7 to 23.3%
Weighted-average maturity	22 months	28 months
Expected prepayment rate	18.0%	19.0%
Expected credit losses	4.7 to 4.8%	1.7 to 3.1%

During 2009 and 2008, the assumptions used to determine the expected cash flows for Cat Financial's securitization transactions were revised, which resulted in other-than-temporary impairments to earnings of \$34 million and \$27 million, respectively. The impairments recognized in earnings were primarily driven by an increase in the credit loss assumption due to the continuing adverse economic conditions in the U.S. The noncredit related losses of \$12 million for the year ended December 31, 2009, recorded in Accumulated other comprehensive income (loss), were primarily driven by changes in discount rates.

To maintain competitiveness in the capital markets and to have effective and efficient use of alternative funding sources, Cat Financial may from time to time provide additional reserve support to previously issued asset-backed securitizations.

Cat Financial also retained servicing responsibilities and received a servicing fee of approximately one percent of the remaining value of the finance receivables.

Cash flows from retail securitizations:

(Millions of dollars)	Years ended December 31,	
	2009	2008
Cash proceeds from initial sales of receivables	\$ —	\$ 600
Purchases of contracts through clean-up calls	95	81
Servicing fees received	6	12
Other cash flows received on retained interests	10	25

Characteristics of securitized retail receivables:

(Millions of dollars)	Years ended December 31,	
	2009	2008
Total securitized principal balance at December 31,	\$ 346	\$ 909
Average securitized principal balance for the year ended December 31,	583	1,147
Loans > 30 days past due at year ended December 31, ..	62	98
Net credit losses during the year	36	23

E. Sales and Servicing of Trade Receivables

Our Machinery and Engines operations generate trade receivables from the sale of inventory to dealers and customers. Certain of these receivables are sold to Cat Financial.

During 2009 and 2008, Cat Financial sold interests in a certain pool of trade receivables through a revolving structure to third-party commercial paper conduits, which are asset-backed commercial paper issuers that are special purpose entities (SPEs) of the sponsor bank and are not consolidated by Cat Financial. Cat Financial services the sold trade receivables and receives an annual servicing fee of approximately 0.5 percent of the average outstanding principal balance. Consolidated expenses of \$4 million and \$10 million related to the sale of trade receivables were recognized during 2009 and 2008, respectively, and are included in Other income (expense) in Statement 1.

As of December 31, 2010 and 2009, there were no outstanding trade receivables sold to the third-party commercial paper conduits. As of December 31, 2008, the outstanding principal balance of the sold trade receivables was \$240 million. Cat Financial's remaining interest in the pool of trade receivables as of December 31, 2008 of \$1,432 million is included in Receivables-trade and other in Statement 2.

The cash collections from this pool of trade receivables are first applied to satisfy any obligations of Cat Financial to the third-party commercial paper conduits. The third-party commercial paper conduits have no recourse to Cat Financial's assets, other than the remaining interest, for failure of debtors to pay when due.

Cash flows from sale of trade receivables:

(Millions of dollars)	Years ended December 31,	
	2009	2008
Cash proceeds from sales of receivables to the conduits	\$ 887	\$ 1,510
Servicing fees received	1	1
Cash flows received on the interests that continue to be held	7,548	11,270

7. Inventories

Inventories (principally using the LIFO method) are comprised of the following:

(Millions of dollars)	December 31,		
	2010	2009	2008
Raw materials	\$ 2,766	\$ 1,979	\$ 2,678
Work-in-process	1,483	656	1,508
Finished goods	5,098	3,465	4,316
Supplies	240	260	279
Total inventories	\$ 9,587	\$ 6,360	\$ 8,781

We had long-term material purchase obligations of approximately \$927 million at December 31, 2010.

During 2009 inventory quantities were reduced. This reduction resulted in a liquidation of LIFO inventory layers carried at lower costs prevailing in prior years as compared with current costs. In 2009, the effect of this reduction of inventory decreased Cost of goods sold in Statement 1 by approximately \$300 million and increased Profit by approximately \$240 million or \$0.39 per share. There were no significant LIFO liquidations during 2010 or 2008.

8. Property, plant and equipment

(Millions of dollars)	Useful Lives (Years)	December 31,		
		2010	2009	2008
Land	—	\$ 682	\$ 639	\$ 575
Buildings and land improvements	20-45	5,174	4,914	4,647
Machinery, equipment and other	3-10	13,414	12,917	12,173
Equipment leased to others	1-10	4,444	4,717	4,561
Construction-in-process	—	1,192	1,034	1,531
Total property, plant and equipment, at cost		24,906	24,221	23,487
Less: Accumulated depreciation		(12,367)	(11,835)	(10,963)
Property, plant and equipment — net ..		\$ 12,539	\$ 12,386	\$ 12,524

We had commitments for the purchase or construction of capital assets of approximately \$593 million at December 31, 2010.

Assets recorded under capital leases¹:

(Millions of dollars)	December 31,		
	2010	2009	2008
Gross capital leases ²	\$ 251	\$ 493	\$ 565
Less: Accumulated depreciation	(134)	(258)	(221)
Net capital leases	\$ 117	\$ 235	\$ 344

¹ Included in Property, plant and equipment table above.

² Consists primarily of machinery and equipment.

At December 31, 2010, scheduled minimum rental payments on assets recorded under capital leases were:

(Millions of dollars)					
2011	2012	2013	2014	2015	Thereafter
\$ 54	\$ 26	\$ 14	\$ 8	\$ 5	\$ 28

Equipment leased to others (primarily by Cat Financial):

(Millions of dollars)	December 31,		
	2010	2009	2008
Equipment leased to others — at original cost	\$ 4,444	\$ 4,717	\$ 4,561
Less: Accumulated depreciation	(1,533)	(1,616)	(1,416)
Equipment leased to others — net	\$ 2,911	\$ 3,101	\$ 3,145

At December 31, 2010, scheduled minimum rental payments to be received for equipment leased to others were:

(Millions of dollars)					
2011	2012	2013	2014	2015	Thereafter
\$ 735	\$ 477	\$ 298	\$ 146	\$ 55	\$ 32

9. Investments in unconsolidated affiliated companies

Our investments in affiliated companies accounted for by the equity method have historically consisted primarily of a 50 percent interest in Shin Caterpillar Mitsubishi Ltd. (SCM) located in Japan. On August 1, 2008, SCM redeemed half of Mitsubishi Heavy Industries Ltd.'s (MHI's) shares in SCM. As a result, Caterpillar now owns 67 percent of the renamed entity, Caterpillar Japan Ltd. (Cat Japan) and consolidates its financial statements. See Note 23 for additional information. In February 2008, we sold our 23 percent equity investment in A.S.V. Inc. (ASV) resulting in a \$60 million pre-tax gain, recognized in Other income (expense) in Statement 1. Accordingly, the financial position and equity investment amounts noted below do not include ASV or Cat Japan.

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

Results of Operations of unconsolidated affiliated companies:

(Millions of dollars)	Years ended December 31,		
	2010	2009	2008
Results of Operations:			
Sales	\$ 812	\$ 569	\$ 3,727
Cost of sales	627	434	3,082
Gross profit	\$ 185	\$ 135	\$ 645
Profit (loss)	\$ (36)	\$ (39)	\$ 55

Sales from SCM, while an unconsolidated affiliate, to Caterpillar of approximately \$1.67 billion in 2008 are included in the affiliated company sales. In addition, SCM purchases of Caterpillar product, while an unconsolidated affiliate, were \$353 million in 2008.

Financial Position of unconsolidated affiliated companies:

(Millions of dollars)	December 31,		
	2010	2009	2008
Financial Position:			
Assets:			
Current assets	\$ 414	\$ 223	\$ 209
Property, plant and equipment — net	196	219	227
Other assets	39	5	26
	649	447	462
Liabilities:			
Current liabilities	274	250	173
Long-term debt due after one year	72	41	110
Other liabilities	40	17	35
	386	308	318
Equity	\$ 263	\$ 139	\$ 144

Caterpillar's investments in unconsolidated affiliated companies:

(Millions of dollars)	December 31,		
	2010	2009	2008
Investments in equity method companies	\$ 135	\$ 70	\$ 66
Plus: Investments in cost method companies	29	35	28
Total investments in unconsolidated affiliated companies	\$ 164	\$ 105	\$ 94

At December 31, 2010, consolidated Profit employed in the business in Statement 2 included no net undistributed profits of the unconsolidated affiliated companies.

10. Intangible assets and goodwill

A. Intangible assets

Intangible assets are comprised of the following:

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

(Millions of dollars)	Weighted Amortizable Life (Years)	December 31, 2009		
		Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships ...	18	\$ 396	\$ (75)	\$ 321
Intellectual property	10	211	(143)	68
Other	11	130	(54)	76
Total intangible assets	15	\$ 737	\$ (272)	\$ 465

(Millions of dollars)	Weighted Amortizable Life (Years)	December 31, 2008		
		Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships ...	18	\$ 388	\$ (50)	\$ 338
Intellectual property	10	210	(122)	88
Other	11	122	(37)	85
Total intangible assets	15	\$ 720	\$ (209)	\$ 511

During 2010, we acquired finite-lived intangible assets aggregating \$409 million primarily due to purchases of Electro-Motive Diesel, Inc. (EMD) (\$329 million), GE Transportation's Inspection Products business (\$28 million), JCS Company, Ltd. (JCS) (\$12 million) and FCM Rail Ltd. (FCM) (\$10 million). Also, associated with the purchase of EMD, we acquired \$18 million of indefinite-lived intangible assets. See Note 23 for details on these business combinations.

During 2008, the Cat Japan share redemption resulted in additional finite-lived intangible assets of \$54 million. In 2008, we acquired finite-lived intangible assets of \$17 million due to the purchase of Lovat Inc. See Note 23 for details on these business combinations. Also in 2008, we acquired finite-lived intangible assets of \$32 million from other acquisitions.

Finite-lived intangible assets are amortized over their estimated useful lives and tested for impairment if events or changes in circumstances indicate that the asset may be impaired. Indefinite-lived intangible assets are tested for impairment at least annually.

Amortization expense related to intangible assets was \$76 million, \$61 million and \$61 million for 2010, 2009 and 2008, respectively.

Amortization expense related to intangible assets is expected to be:

(Millions of dollars)					
2011	2012	2013	2014	2015	Thereafter
\$ 86	\$ 80	\$ 73	\$ 69	\$ 63	\$ 434

B. Goodwill

During 2010, we acquired net assets with related goodwill of \$286 million as part of the purchase of EMD. In 2010, we also acquired net assets with related goodwill as part of the purchases of FCM (\$17 million), GE Transportation's Inspection Products business (\$15 million), JCS (\$8 million) and other acquisitions (\$8 million). See Note 23 for details on the acquisition of these assets.

During 2008, the Cat Japan share redemption resulted in \$206 million of goodwill. In 2008, we also acquired net assets with related goodwill as part of the purchase of Gremada Industries, Inc. (\$41 million) and Lovat Inc. (\$22 million). See Note 23

for details on these business combinations. Also during 2008, we acquired net assets with related goodwill of \$8 million from other acquisitions.

See Note 1L regarding the accounting policy for goodwill and impairment testing. No goodwill was impaired or disposed of during 2010 or 2008.

The 2009 annual impairment test, completed in the fourth quarter, indicated the fair value of each of our reporting units was well above its respective carrying value with the exception of our Forest Products reporting unit, included in the All Other category. Because the carrying value of Forest Products exceeded its fair value, step two in the impairment test process was required. We allocated the fair value to the unit's assets and liabilities and determined the implied fair value of the goodwill was insignificant. Accordingly, a goodwill impairment charge of \$22 million for Forest Products was recognized in Other operating (income) expense in Statement 1. The primary factor contributing to the impairment was the historic decline in demand for purpose built forest product machines caused by the significant reduction in U.S. housing construction, lower prices for pulp, paper, and wood product commodities, and reduced capital availability in the forest products industry.

The changes in carrying amount of goodwill by reportable segment for the years ended December 31, 2010, 2009 and 2008 were as follows:

(Millions of dollars)	Building Construction Products	Cat Japan	Core Components	Earthmoving	Electric Power	
Balance at January 1, 2008	\$ 4	\$ —	\$ —	\$ 43	\$ 203	
Business combinations	—	206	—	—	—	
Other adjustments ²	—	27	—	—	—	
Balance at December 31, 2008	4	233	—	43	203	
Impairments	—	—	—	—	—	
Other adjustments ²	—	23	—	—	—	
Balance at December 31, 2009	4	256	—	43	203	
Business combinations	—	—	8	—	—	
Other adjustments ²	—	10	1	—	—	
Balance at December 31, 2010	<u>\$ 4</u>	<u>\$ 266</u>	<u>\$ 9</u>	<u>\$ 43</u>	<u>\$ 203</u>	

(Millions of dollars)	Excavation	Large Power Systems	Marine & Petroleum Power	Mining	All Other ¹	Consolidated Total
Balance at January 1, 2008	\$ 39	\$ 569	\$ 60	\$ 8	\$ 1,037	\$ 1,963
Business combinations	—	—	—	22	49	277
Other adjustments ²	—	—	—	(3)	(3)	21
Balance at December 31, 2008	39	569	60	27	1,083	2,261
Impairments	—	—	—	—	(22)	(22)
Other adjustments ²	—	—	—	3	4	30
Balance at December 31, 2009	39	569	60	30	1,065	2,269
Business combinations	—	—	—	—	326	334
Other adjustments ²	—	—	—	1	(1)	11
Balance at December 31, 2010	<u>\$ 39</u>	<u>\$ 569</u>	<u>\$ 60</u>	<u>\$ 31</u>	<u>\$ 1,390</u>	<u>\$ 2,614</u>

¹ Includes all other operating segments (See Note 22).

² Other adjustments are comprised primarily of foreign currency translation.

11. Available-for-sale securities

We have investments in certain debt and equity securities, primarily at Cat Insurance, that have been classified as available-for-sale and recorded at fair value based upon quoted market prices. These fair values are primarily included in Other assets in Statement 2. 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 Statement 2). Realized gains and losses on sales of

NOTES *continued*

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 Statement 1.

Effective April 1, 2009, we adopted the new accounting and disclosure requirements regarding recognition and presentation of other-than-temporary impairments. See Note 1K for additional information.

	December 31, 2010			December 31, 2009			December 31, 2008		
	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value
(Millions of dollars)									
Government debt									
U.S. treasury bonds	\$ 12	\$ —	\$ 12	\$ 14	\$ —	\$ 14	\$ 14	\$ 1	\$ 15
Other U.S. and non-U.S. government bonds	76	1	77	65	—	65	15	(1)	14
Corporate bonds									
Corporate bonds	481	30	511	455	20	475	343	(22)	321
Asset-backed securities	136	—	136	141	(7)	134	165	(27)	138
Mortgage-backed debt securities									
U.S. governmental agency mortgage-backed securities...	258	15	273	295	13	308	319	5	324
Residential mortgage-backed securities	43	(3)	40	61	(10)	51	79	(19)	60
Commercial mortgage-backed securities	164	4	168	175	(13)	162	176	(47)	129
Equity securities									
Large capitalization value	100	22	122	76	13	89	126	(13)	113
Smaller company growth	23	8	31	19	5	24	20	(2)	18
Total	<u>\$1,293</u>	<u>\$ 77</u>	<u>\$1,370</u>	<u>\$ 1,301</u>	<u>\$ 21</u>	<u>\$ 1,322</u>	<u>\$ 1,257</u>	<u>\$ (125)</u>	<u>\$ 1,132</u>

During 2010, 2009 and 2008, charges for other-than-temporary declines in the market values of securities were \$3 million, \$12 million and \$37 million, respectively. These charges were accounted for as a realized loss and were included in Other income (expense) in Statement 1. The cost basis of the impacted securities was adjusted to reflect these charges.

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

	December 31, 2010					
	Less than 12 months ¹		12 months or more ¹		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Millions of dollars)						
Government debt						
Other U.S. and non-U.S. government bonds	\$ 13	\$ —	\$ 3	\$ —	\$ 16	\$ —
Corporate bonds						
Corporate bonds	29	—	1	—	30	—
Asset-backed securities	19	—	19	4	38	4
Mortgage-backed debt securities						
U.S. governmental agency mortgage-backed securities...	16	—	—	—	16	—
Residential mortgage-backed securities	2	—	25	4	27	4
Commercial mortgage-backed securities	3	—	14	1	17	1
Equity securities						
Large capitalization value	14	1	12	2	26	3
Smaller company growth	3	—	1	—	4	—
Total	<u>\$ 99</u>	<u>\$ 1</u>	<u>\$ 75</u>	<u>\$ 11</u>	<u>\$174</u>	<u>\$ 12</u>

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, 2009					
	Less than 12 months ¹		12 months or more ¹		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Millions of dollars)						
Government debt						
U.S. treasury bonds	\$ 4	\$ —	\$ —	\$ —	\$ 4	\$ —
Other U.S. and non-U.S. government bonds	14	—	2	—	16	—
Corporate bonds						
Corporate bonds	25	—	10	1	35	1
Asset-backed securities	4	1	44	10	48	11
Mortgage-backed debt securities						
U.S. governmental agency mortgage-backed securities...	—	—	3	—	3	—
Residential mortgage-backed securities	—	—	49	10	49	10
Commercial mortgage-backed securities	24	—	73	14	97	14
Equity securities						
Large capitalization value	2	—	23	3	25	3
Smaller company growth	1	—	2	—	3	—
Total	<u>\$ 74</u>	<u>\$ 1</u>	<u>\$206</u>	<u>\$ 38</u>	<u>\$280</u>	<u>\$ 39</u>

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, 2008					
	Less than 12 months ¹		12 months or more ¹		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Millions of dollars)						
Government debt						
Other U.S. and non-U.S. government bonds	\$ —	\$ —	\$ 8	\$ 1	\$ 8	\$ 1
Corporate bonds						
Corporate bonds	176	18	33	5	209	23
Asset-backed securities	101	16	30	11	131	27
Mortgage-backed debt securities						
U.S. governmental agency mortgage-backed securities...	7	—	19	1	26	1
Residential mortgage-backed securities	32	6	27	14	59	20
Commercial mortgage-backed securities	71	15	59	32	130	47
Equity securities						
Large capitalization value	60	13	5	2	65	15
Smaller company growth	7	2	—	—	7	2
Total	\$ 454	\$ 70	\$ 181	\$ 66	\$ 635	\$ 136

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

Government Debt. The unrealized losses on our investments in other U.S. and non-U.S. government bonds are the result of changes in interest rates since time of purchase. We do not intend to sell the investments and it is not likely that we will be required to sell these investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of December 31, 2010.

Corporate Bonds. The unrealized losses on our investments in corporate bonds and asset-backed securities relate primarily to changes in interest rates and credit-related yield spreads since time of purchase. We do not intend to sell the investments and it is not likely that we will be required to sell the investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of December 31, 2010.

Mortgage-Backed Debt Securities. The unrealized losses on our investments in mortgage-backed securities and mortgage-related asset-backed securities relate primarily to the continuation of elevated housing delinquencies and default rates, credit-related yield spreads and risk aversion. We do not intend to sell the investments and it is not likely that we will be required to sell these investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of December 31, 2010.

Equity Securities. Cat Insurance maintains a well-diversified equity portfolio consisting of two specific mandates: large capitalization value stocks and smaller company growth stocks. U.S. equity valuations were generally higher in 2010 due to improved corporate earnings and the improving U.S. and global economies. In each case where unrealized losses exist, the respective company's management is taking corrective action in order to increase shareholder value. We do not consider these investments to be other-than-temporarily impaired as of December 31, 2010.

The fair value of the available-for-sale debt securities at December 31, 2010, 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	\$ 75
Due after one year through five years	\$ 428
Due after five years through ten years	\$ 230
Due after ten years	\$ 484

Proceeds from sale of available-for-sale securities during 2010, 2009 and 2008 were \$228 million, \$291 million and \$357 million, respectively. Gross gains of \$10 million, \$9 million and \$17 million and gross losses of \$1 million, \$10 million and \$23 million have been included in current earnings as a result of these sales for 2010, 2009 and 2008, respectively.

12. Postemployment benefit plans

We have both U.S. and non-U.S. pension plans covering substantially all of our U.S. employees and a portion of our non-U.S. employees, primarily in our European and Japanese facilities. Our defined benefit plans provide a benefit based on years of service and/or the employee's average earnings near retirement. Our defined contribution plans allow employees to contribute a portion of their salary to help save for retirement, and in certain cases, we provide a matching contribution. We also have defined-benefit retirement health care and life insurance plans covering substantially all of our U.S. employees.

As discussed in Note 1K, we adopted the balance sheet recognition provisions of the guidance on employers' accounting for defined benefit pension and other postretirement plans 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 is allocated proportionately between amounts to be recognized as an adjustment of Profit employed in the business 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. Year-end asset and obligation amounts are disclosed as of the plan measurement dates.

As discussed in Note 25, during 2009 voluntary and involuntary separation programs impacted employees participating in certain U.S. and non-U.S. pension and other postretirement benefit plans. Due to the significance of these events, certain plans were re-measured as follows:

U.S. Separation Programs — Plan re-measurements as of January 31, 2009, March 31, 2009 and December 31, 2009 resulted in net curtailment losses of \$127 million to pension and \$55 million to other postretirement benefit plans. Early retirement pension benefit costs of \$6 million were also recognized.

Non-U.S. Separation Programs — Certain plans were re-measured as of March 31, 2009 and December 31, 2009, resulting in pension settlement losses of \$34 million, special termination benefits of \$2 million to pension and curtailment losses of \$1 million to other postretirement benefit plans.

In March 2009, we amended our U.S. support and management other postretirement benefit plan. Beginning in 2010, certain retirees age 65 and older enrolled in individual health plans that work with Medicare and will no longer participate in a Caterpillar-sponsored group health plan. In addition, Caterpillar began funding

a tax-advantaged Health Reimbursement Arrangement (HRA) to assist the retirees with medical expenses. The plan amendment required a plan re-measurement as of March 31, 2009, which resulted in a decrease in our Liability for postretirement benefits of \$432 million and an increase in Accumulated other comprehensive income (loss) of \$272 million, net of tax. The plan was further amended in December 2009 to define the HRA benefit that active employees will receive once they are retired and reach age 65. The plan was re-measured at year-end 2009 and the December amendment resulted in a decrease in our Liability for postretirement benefits of \$101 million and an increase in Accumulated other comprehensive income (loss) of \$64 million, net of tax. These decreases will be amortized into earnings on a straight-line basis over approximately 7 years, the average remaining service period of active employees in the plan. The amendments reduced other postretirement benefits expense by approximately \$110 million and \$60 million in 2010 and 2009, respectively.

In August 2010, we announced changes in our U.S. support and management pension plans. Beginning January 1, 2011, retirement benefits for U.S. support and management employees will transition from defined benefit pension plans to defined

contribution plans. The transition date is determined for each employee based upon age and years of service or proximity to retirement. Pension benefit accruals will freeze on either December 31, 2010 or December 31, 2019 at which time the employees will move to the new retirement benefit. This benefit will provide employees with a frozen pension benefit and a 401(k) plan that will include a matching contribution and a new annual employer contribution. The plan change required a re-measurement as of August 31, 2010, which resulted in an increase in our Liability for postretirement benefits of \$1.32 billion and a decrease in Accumulated other comprehensive income (loss) of \$831 million, net of tax. The increase in the liability was due to a decline in the discount rate and lower than expected asset returns at the re-measurement date. Curtailment expense of \$28 million was also recognized in 2010 as a result of the plan change.

In March 2010, the Patient Protection and Affordable Care Act (the PPACA) and the Health Care and Education Reconciliation Act of 2010 (H.R. 4872) which amends certain provisions of the PPACA were signed into law. As discussed in Note 5, the Medicare Part D retiree drug subsidies effectively become taxable beginning in 2013.

A. Benefit Obligations

(Millions of dollars)	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Change in benefit obligation:									
Benefit obligation, beginning of year	\$ 12,064	\$11,493	\$11,132	\$3,542	\$ 3,219	\$ 3,012	\$4,537	\$ 5,017	\$ 5,455
Effect of eliminating early measurement date ¹	N/A	N/A	11	N/A	N/A	26	N/A	N/A	—
Service cost	210	176	199	92	86	92	68	70	87
Interest cost	652	688	629	162	146	156	245	280	307
Plan amendments	4	—	13	35	—	—	—	(549)	—
Actuarial losses (gains)	1,140	380	222	153	45	(18)	602	(58)	(522)
Foreign currency exchange rates	—	—	—	34	322	(534)	14	29	(19)
Participant contributions	—	—	—	9	10	14	45	51	41
Benefits paid — gross	(820)	(796)	(713)	(168)	(212)	(155)	(379)	(390)	(351)
Less: federal subsidy on benefits paid	—	—	—	—	—	—	15	21	19
Curtailments, settlements and special termination benefits	(235)	123	—	(52)	(74)	—	—	66	—
Acquisitions/other ²	9	—	—	60	—	626	37	—	—
Benefit obligation, end of year	\$ 13,024	\$12,064	\$11,493	\$3,867	\$ 3,542	\$ 3,219	\$5,184	\$ 4,537	\$ 5,017
Accumulated benefit obligation, end of year	\$ 12,558	\$11,357	\$10,681	\$3,504	\$ 3,082	\$ 2,938			

Weighted-average assumptions used to determine benefit obligation:

Discount rate ³	5.1%	5.7%	6.1%	4.6%	4.8%	4.5%	5.0%	5.6%	6.0%
Rate of compensation increase ³	4.5%	4.5%	4.5%	4.2%	4.2%	3.8%	4.4%	4.4%	4.4%

¹ Change in benefit obligation during the period from the early measurement date to December 31, 2007.

² See Note 23 regarding the 2008 Cat Japan share redemption and the 2010 Electro-Motive Diesel acquisition.

³ End of year rates are used to determine net periodic cost for the subsequent year. See Note 12E.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(Millions of dollars)	One-percentage-point increase	One-percentage-point decrease
Effect on 2010 service and interest cost components of other postretirement benefit cost	\$ 19	\$ (15)
Effect on accumulated postretirement benefit obligation	\$ 311	\$(266)

B. Plan Assets

(Millions of dollars)	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Change in plan assets:									
Fair value of plan assets, beginning of year.....	\$ 9,029	\$ 6,745	\$ 10,441	\$ 2,797	\$ 2,175	\$ 2,773	\$ 1,063	\$ 1,042	\$ 1,584
Effect of eliminating early measurement date ¹ ...	N/A	N/A	17	N/A	N/A	23	N/A	N/A	15
Actual return on plan assets.....	1,628	2,194	(3,288)	193	390	(751)	129	266	(587)
Foreign currency exchange rates.....	—	—	—	17	243	(407)	—	—	—
Company contributions ²	919	886	288	58	263	134	138	94	340
Participant contributions.....	—	—	—	9	10	14	45	51	41
Benefits paid.....	(820)	(796)	(713)	(168)	(212)	(155)	(379)	(390)	(351)
Settlements and special termination benefits....	—	—	—	(51)	(72)	—	—	—	—
Acquisitions/other ³	4	—	—	25	—	544	—	—	—
Fair value of plan assets, end of year	<u>\$ 10,760</u>	<u>\$ 9,029</u>	<u>\$ 6,745</u>	<u>\$ 2,880</u>	<u>\$ 2,797</u>	<u>\$ 2,175</u>	<u>\$ 996</u>	<u>\$ 1,063</u>	<u>\$ 1,042</u>

¹ Change in plan assets during the period from the early measurement date to December 31, 2007.

² Includes \$650 million of Caterpillar stock contributed to U.S. pension plans in 2009.

³ See Note 23 regarding the 2008 Cat Japan share redemption and the 2010 Electro-Motive Diesel acquisition.

As discussed in Note 1K, we adopted the accounting guidance on employers' disclosures about postretirement benefit plan assets for the annual period ending December 31, 2009. The guidance expands the disclosure set forth in the previous guidance by adding required disclosures about (1) how investment allocation decisions are made by management, (2) major categories of plan assets, and (3) significant concentrations of risk. Additionally, this guidance requires an employer to disclose information about the valuation of plan assets similar to that required under the accounting guidance on fair value measurements.

Our U.S. pension target asset allocations reflect our investment strategy of maximizing the long-term rate of return on plan assets and the resulting funded status, within an appropriate level of risk. Our target allocations for the U.S. pension plans are 70% equities and 30% debt securities. Within equity securities, approximately 60% includes investments in U.S. large and small-cap companies. The remaining portion is invested in international companies, including emerging markets, and private equity. Fixed income securities primarily include corporate bonds, mortgage backed securities and U.S. Treasuries.

In general, our non-U.S. pension target asset allocations reflect our investment strategy of maximizing the long-term rate of return on plan assets and the resulting funded status, within an appropriate level of risk. The weighted-average target allocations for the non-U.S. pension plans are 62% equities, 31% debt securities, 6% real estate and 1% other. The target allocations for each plan vary based upon local statutory requirements, demographics of plan participants and funded status. Plan assets are primarily invested in non-U.S. securities.

Our target allocations for the other postretirement benefit plans are 80% equities and 20% debt securities. Within equity securities, approximately two-thirds include investments in U.S. large and small-cap companies. The remaining portion is invested in international companies, including emerging markets. Fixed

income securities primarily include corporate bonds, mortgage backed securities and U.S. Treasuries.

The U.S. plans are rebalanced to plus or minus five percentage points of the target asset allocation ranges on a monthly basis. The frequency of rebalancing for the non-U.S. plans varies depending on the plan. As a result of our diversification strategies, there are no significant concentrations of risk within the portfolio of investments except for the holdings in Caterpillar stock as discussed below.

The use of certain derivative instruments is permitted where appropriate and necessary for achieving overall investment policy objectives. The U.S. plans utilize futures contracts to offset current equity positions in order to rebalance the total portfolio to the target asset allocation. During 2008, approximately 5% of the U.S. pension plans' assets were rebalanced from equity to fixed income positions through the use of futures contracts. The plans do not engage in futures contracts for speculative purposes.

The accounting guidance on fair value measurements specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques (Level 1, 2 and 3). See Note 17 for a discussion of the fair value hierarchy.

Fair values are determined as follows:

- Equity securities are primarily based on valuations for identical instruments in active markets.
- Fixed income securities are primarily based upon models that take into consideration such market-based factors as recent sales, risk-free yield curves and prices of similarly rated bonds.
- Real estate is stated at the fund's net asset value or at appraised value.
- Cash, short-term instruments and other are based on the carrying amount, which approximated fair value, or at the fund's net asset value.

The fair value of the pension and other postretirement benefit plan assets by category is summarized below:

(Millions of dollars)	December 31, 2010			Total Assets, at Fair Value
	Level 1	Level 2	Level 3	
U.S. Pension				
Equity securities:				
U.S. equities	\$4,975	\$ 1	\$ 46	\$ 5,022
Non-U.S. equities	2,884	—	4	2,888
Fixed income securities:				
U.S. corporate bonds	—	1,412	38	1,450
Non-U.S. corporate bonds	—	92	1	93
U.S. government bonds	—	299	5	304
U.S. governmental agency mortgage-backed securities	—	634	4	638
Non-U.S. government bonds	—	22	—	22
Real estate	—	—	10	10
Cash, short-term instruments and other	70	263	—	333
Total U.S. pension assets	<u>\$7,929</u>	<u>\$2,723</u>	<u>\$ 108</u>	<u>\$10,760</u>

(Millions of dollars)	December 31, 2009			Total Assets, at Fair Value
	Level 1	Level 2	Level 3	
U.S. Pension				
Equity securities:				
U.S. equities	\$ 4,634	\$ 2	\$ 17	\$ 4,653
Non-U.S. equities	1,803	—	34	1,837
Fixed income securities:				
U.S. corporate bonds	—	1,179	56	1,235
Non-U.S. corporate bonds	—	70	1	71
U.S. government bonds	—	323	—	323
U.S. governmental agency mortgage-backed securities	—	562	—	562
Non-U.S. government bonds	—	9	—	9
Real estate	—	—	10	10
Cash, short-term instruments and other	113	216	—	329
Total U.S. pension assets	<u>\$ 6,550</u>	<u>\$ 2,361</u>	<u>\$ 118</u>	<u>\$ 9,029</u>

(Millions of dollars)

Non-U.S. Pension

	December 31, 2010			Total Assets, at Fair Value
	Level 1	Level 2	Level 3	
Equity securities:				
U.S. equities	\$ 359	\$ —	\$ —	\$ 359
Non-U.S. equities	916	90	1	1,007
Global equities ¹	153	37	—	190
Fixed income securities:				
U.S. corporate bonds	—	18	2	20
Non-U.S. corporate bonds	—	374	5	379
U.S. government bonds	—	5	—	5
Non-U.S. government bonds	—	163	1	164
Global fixed income ¹	—	374	—	374
Real estate	—	89	90	179
Other:				
Cash and short-term instruments	59	3	—	62
Other ²	2	104	35	141
Total non-U.S. pension assets	<u>\$ 1,489</u>	<u>\$ 1,257</u>	<u>\$ 134</u>	<u>\$ 2,880</u>

(Millions of dollars)

Non-U.S. Pension

	December 31, 2009			Total Assets, at Fair Value
	Level 1	Level 2	Level 3	
Equity securities:				
U.S. equities	\$ 330	\$ —	\$ —	\$ 330
Non-U.S. equities	863	84	5	952
Global equities ¹	144	14	—	158
Fixed income securities:				
U.S. corporate bonds	—	22	1	23
Non-U.S. corporate bonds	—	355	11	366
U.S. government bonds	—	1	—	1
Non-U.S. government bonds	—	156	2	158
Global fixed income ¹	—	361	—	361
Real estate	—	80	71	151
Other:				
Cash and short-term instruments	104	4	—	108
Other ²	3	135	51	189
Total non-U.S. pension assets	<u>\$ 1,444</u>	<u>\$ 1,212</u>	<u>\$ 141</u>	<u>\$ 2,797</u>

¹ Includes funds that invest in both U.S. and non-U.S. securities.² Includes funds that invest in multiple asset classes, hedge funds and other.

NOTES *continued*

(Millions of dollars)	December 31, 2010			Total Assets, at Fair Value
	Level 1	Level 2	Level 3	
Other Postretirement Benefits				
Equity securities:				
U.S. equities	\$ 512	\$ —	\$ —	\$ 512
Non-U.S. equities	289	—	—	289
Fixed income securities:				
U.S. corporate bonds	—	79	—	79
Non-U.S. corporate bonds	—	6	—	6
U.S. government bonds	—	14	—	14
U.S. governmental agency mortgage-backed securities	—	43	—	43
Non-U.S. government bonds	—	1	—	1
Cash, short-term instruments and other	19	33	—	52
Total other postretirement benefit assets	<u>\$ 820</u>	<u>\$ 176</u>	<u>\$ —</u>	<u>\$ 996</u>

(Millions of dollars)	December 31, 2009			Total Assets, at Fair Value
	Level 1	Level 2	Level 3	
Other Postretirement Benefits				
Equity securities:				
U.S. equities	\$ 531	\$ —	\$ —	\$ 531
Non-U.S. equities	273	6	—	279
Fixed income securities:				
U.S. corporate bonds	—	95	—	95
Non-U.S. corporate bonds	—	8	—	8
U.S. government bonds	—	24	—	24
U.S. governmental agency mortgage-backed securities	—	54	—	54
Non-U.S. government bonds	—	1	—	1
Cash, short-term instruments and other	19	52	—	71
Total other postretirement benefit assets	<u>\$ 823</u>	<u>\$ 240</u>	<u>\$ —</u>	<u>\$ 1,063</u>

Below are roll-forwards of assets measured at fair value using Level 3 inputs for the years ended December 31, 2010 and 2009. These instruments were valued using pricing models that, in management's judgment, reflect the assumptions a marketplace participant would use.

(Millions of dollars)	Equities	Fixed Income	Real Estate	Other
U.S. Pension				
Balance at December 31, 2008.....	\$ 16	\$ 73	\$ 9	\$ —
Unrealized gains (losses)	3	34	1	—
Realized gains (losses).....	—	(2)	—	—
Purchases, issuances and settlements.....	31	(12)	—	—
Transfers in and/or out of Level 3.....	1	(36)	—	—
Balance at December 31, 2009.....	\$ 51	\$ 57	\$ 10	\$ —
Unrealized gains (losses)	11	1	—	—
Realized gains (losses).....	(1)	3	—	—
Purchases, issuances and settlements.....	32	(9)	—	—
Transfers in and/or out of Level 3.....	(43)	(4)	—	—
Balance at December 31, 2010.....	<u>\$ 50</u>	<u>\$ 48</u>	<u>\$ 10</u>	<u>\$ —</u>
Non-U.S. Pension				
Balance at December 31, 2008.....	\$ —	\$ 5	\$ 61	\$ 67
Unrealized gains (losses)	2	1	10	63
Realized gains (losses).....	—	—	—	(41)
Purchases, issuances and settlements.....	3	6	—	(38)
Transfers in and/or out of Level 3.....	—	2	—	—
Balance at December 31, 2009.....	\$ 5	\$ 14	\$ 71	\$ 51
Unrealized gains (losses)	(1)	—	7	1
Realized gains (losses).....	1	—	—	5
Purchases, issuances and settlements.....	(2)	(3)	12	(22)
Transfers in and/or out of Level 3.....	(2)	(3)	—	—
Balance at December 31, 2010.....	<u>\$ 1</u>	<u>\$ 8</u>	<u>\$ 90</u>	<u>\$ 35</u>

Equity securities within plan assets include Caterpillar Inc. common stock in the amounts of:

(Millions of dollars)	U.S. Pension Benefits ¹			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2010	2009 ²	2008	2010	2009	2008	2010	2009	2008
Caterpillar Inc. common stock	<u>\$ 779</u>	<u>\$ 1,016</u>	<u>\$ 11</u>	<u>\$ 2</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 3</u>	<u>\$ 1</u>	<u>\$ 2</u>

¹ Amounts represent 7% of total plan assets for 2010, 11% for 2009 and less than 1% of total plan assets for 2008.

² Includes \$650 million of Caterpillar stock contributed to U.S. pension plans in 2009.

C. Funded status

The funded status of the plans, reconciled to the amount reported on Statement 2, is as follows:

(Millions of dollars)	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
End of Year									
Fair value of plan assets	\$10,760	\$ 9,029	\$ 6,745	\$ 2,880	\$ 2,797	\$ 2,175	\$ 996	\$ 1,063	\$ 1,042
Benefit obligations	13,024	12,064	11,493	3,867	3,542	3,219	5,184	4,537	5,017
Over (under) funded status recognized in financial position	\$ (2,264)	\$ (3,035)	\$ (4,748)	\$ (987)	\$ (745)	\$ (1,044)	\$ (4,188)	\$ (3,474)	\$ (3,975)
Components of net amount recognized in financial position:									
Other assets (non-current asset)	\$ —	\$ —	\$ —	\$ 4	\$ 22	\$ —	\$ —	\$ —	\$ —
Accrued wages, salaries and employee benefits (current liability)	(18)	(17)	(14)	(18)	(18)	(2)	(171)	(113)	(29)
Liability for postemployment benefits (non-current liability)	(2,246)	(3,018)	(4,734)	(973)	(749)	(1,042)	(4,017)	(3,361)	(3,946)
Net liability recognized	\$ (2,264)	\$ (3,035)	\$ (4,748)	\$ (987)	\$ (745)	\$ (1,044)	\$ (4,188)	\$ (3,474)	\$ (3,975)
Amounts recognized in Accumulated other comprehensive income (pre-tax) consist of:									
Net actuarial loss (gain)	\$ 4,795	\$ 5,132	\$ 6,419	\$ 1,273	\$ 1,200	\$ 1,319	\$ 1,195	\$ 659	\$ 881
Prior service cost (credit)	83	132	170	43	8	13	(122)	(177)	320
Transition obligation (asset)	—	—	—	—	—	—	7	9	10
Total	\$ 4,878	\$ 5,264	\$ 6,589	\$ 1,316	\$ 1,208	\$ 1,332	\$ 1,080	\$ 491	\$ 1,211

The estimated amounts that will be amortized from Accumulated other comprehensive income (loss) at December 31, 2010 into net periodic benefit cost (pre-tax) in 2011 are as follows:

(Millions of dollars)	U.S. Pension Benefits	Non-U.S. Pension Benefits	Other Postretirement Benefits
Actuarial loss (gain)	\$ 451	\$ 71	\$ 108
Prior service cost (credit)	20	3	(55)
Transition obligation (asset)	—	—	2
Total	\$ 471	\$ 74	\$ 55

The following amounts relate to our pension plans with projected benefit obligations in excess of plan assets:

(Millions of dollars)	U.S. Pension Benefits at Year-end			Non-U.S. Pension Benefits at Year-end		
	2010	2009	2008	2010	2009	2008
Projected benefit obligation	\$ (13,024)	\$ (12,064)	\$ (11,493)	\$ (3,846)	\$ (3,350)	\$ (3,194)
Accumulated benefit obligation	\$ (12,558)	\$ (11,357)	\$ (10,681)	\$ (3,485)	\$ (2,933)	\$ (2,917)
Fair value of plan assets	\$ 10,760	\$ 9,029	\$ 6,745	\$ 2,855	\$ 2,584	\$ 2,151

The following amounts relate to our pension plans with accumulated benefit obligations in excess of plan assets:

(Millions of dollars)	U.S. Pension Benefits at Year-end			Non-U.S. Pension Benefits at Year-end		
	2010	2009	2008	2010	2009	2008
Projected benefit obligation	\$ (13,024)	\$ (12,064)	\$ (11,493)	\$ (3,452)	\$ (1,594)	\$ (3,040)
Accumulated benefit obligation	\$ (12,558)	\$ (11,357)	\$ (10,681)	\$ (3,179)	\$ (1,503)	\$ (2,796)
Fair value of plan assets	\$ 10,760	\$ 9,029	\$ 6,745	\$ 2,514	\$ 1,145	\$ 2,022

The accumulated postretirement benefit obligation exceeds plan assets for all of our other postretirement benefit plans.

D. Expected cash flow

Information about the expected cash flow for the pension and other postretirement benefit plans is as follows:

(Millions of dollars)	U.S. Pension Benefits	Non-U.S. Pension Benefits	Other Postretirement Benefits
Employer contributions:			
2011 (expected)	\$ 790	\$ 210	\$ 180
Expected benefit payments:			
2011	\$ 820	\$ 180	\$ 380
2012	830	230	390
2013	840	230	400
2014	860	240	410
2015	870	250	410
2016-2020	4,480	1,210	2,110
Total	\$ 8,700	\$ 2,340	\$ 4,100

The above table reflects the total employer contributions and benefits expected to be paid from the plan or from company assets and does not include the participants' share of the cost. The expected benefit payments for our other postretirement benefits include payments for prescription drug benefits. Medicare Part D subsidy amounts expected to be received by the company which will offset other postretirement benefit payments are as follows:

(Millions of dollars)	2011	2012	2013	2014	2015	2016-2020	Total
Other postretirement benefits	\$ 15	\$ 20	\$ 20	\$ 20	\$ 25	\$ 130	\$ 230

E. Net periodic cost

(Millions of dollars)	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Components of net periodic benefit cost:									
Service cost	\$ 210	\$ 176	\$ 199	\$ 92	\$ 86	\$ 92	\$ 68	\$ 70	\$ 87
Interest cost	652	688	629	162	146	156	245	280	307
Expected return on plan assets	(773)	(777)	(882)	(192)	(181)	(201)	(93)	(111)	(138)
Curtailments, settlements and special termination benefits ¹	28	133	—	22	36	1	—	56	—
Amortization of:									
Transition obligation (asset)	—	—	—	—	—	1	2	2	2
Prior service cost (credit) ²	25	29	32	1	1	3	(55)	(40)	(35)
Net actuarial loss (gain)	385	248	134	65	35	36	33	20	64
Total cost included in operating profit	\$ 527	\$ 497	\$ 112	\$ 150	\$ 123	\$ 88	\$ 200	\$ 277	\$ 287
Other changes in plan assets and benefit obligations recognized in other comprehensive income (pre-tax):									
Effect of eliminating early measurement date ³	\$ N/A	\$ N/A	\$ (14)	\$ N/A	\$ N/A	\$ (9)	\$ N/A	\$ N/A	\$ (3)
Current year actuarial loss (gain)	47	(1,037)	4,401	136	(88)	696	570	(200)	172
Amortization of actuarial (loss) gain	(385)	(248)	(134)	(62)	(32)	(36)	(33)	(20)	(64)
Current year prior service cost (credit)	(24)	(10)	16	35	(2)	1	—	(537)	(3)
Amortization of prior service (cost) credit	(25)	(29)	(32)	(1)	(1)	(3)	55	40	35
Amortization of transition (obligation) asset	—	—	—	—	—	(1)	(2)	(2)	(2)
Total recognized in other comprehensive income	(387)	(1,324)	4,237	108	(123)	648	590	(719)	135
Total recognized in net periodic cost and other comprehensive income	\$ 140	\$ (827)	\$ 4,349	\$ 258	\$ —	\$ 736	\$ 790	\$ (442)	\$ 422

Weighted-average assumptions used to determine net cost:

Discount rate	5.4%	6.3%	5.8%	4.8%	4.7%	5.3%	5.6%	6.3%	5.8%
Expected return on plan assets ⁴	8.5%	8.5%	9.0%	7.0%	6.6%	7.6%	8.5%	8.5%	9.0%
Rate of compensation increase	4.5%	4.5%	4.5%	4.2%	3.8%	4.0%	4.4%	4.4%	4.4%

¹ 2010 and 2009 curtailments, settlements and special termination benefits were recognized in Other operating (income) expenses in Statement 1.

² 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.

³ Amortization during the period from the early measurement date to December 31, 2007.

⁴ The weighted-average rates for 2011 are 8.5% and 7.1% for U.S. and non-U.S. plans, respectively.

The assumed discount rate is used to discount future benefit obligations back to today's dollars. The U.S. discount rate is based on a benefit cash flow-matching approach and represents the rate at which our benefit obligations could effectively be settled as of our measurement date, December 31. The benefit cash flow-matching approach involves analyzing Caterpillar's projected cash flows against a high quality bond yield curve, calculated using a wide population of corporate Aa bonds available on the measurement date. The very highest and lowest yielding bonds (top and bottom 10%) are excluded from the analysis. A similar process is used to determine the assumed discount rate for our most significant non-U.S. plans. This rate is sensitive to changes in interest rates. A decrease in the discount rate would increase our obligation and future expense.

Our 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 pension assets. Based on historical performance, we increase the passive returns due to our active management of the plan assets. To arrive at our expected long-term return, the amount added for active management was 1% for 2010, 2009 and 2008. A similar process is used to determine this rate for our non-U.S. plans.

The assumed health care trend rate represents the rate at which health care costs are assumed to increase. To calculate the 2010 benefit expense, we assumed a weighted-average increase of 7.0% for 2010. We expect a weighted-average increase of 7.9% during 2011. The 2011 rates are assumed to decrease gradually to the ultimate health care trend rate of 5.0% in 2019. This rate represents 3.0% general inflation plus 2.0% additional health care inflation.

F. Other postemployment benefit plans

We offer long-term disability benefits, continued health care for disabled employees, survivor income benefit insurance and supplemental unemployment benefits to substantially all eligible U.S. employees.

G. Defined contribution plans

We have both U.S. and non-U.S. employee defined contribution plans to help employees save for retirement. Our U.S. 401(k) plan allows eligible employees to contribute a portion of their salary to the plan on a tax-deferred basis, and we provide a matching contribution equal to 100% of employee contributions to the plan up to 6% of their compensation. Various other U.S. and non-U.S. defined contribution plans allow eligible employees to contribute a portion of their salary to the plans, and in some cases, we provide a matching contribution to the funds.

Beginning January 1, 2011, matching contributions to our U.S. 401(k) plan will change for certain employees that are still accruing benefits under a defined benefit pension plan. Matching contributions will be equal to 50% of employee contributions to the plan up to 6% of their compensation. For employees whose defined benefit pension accruals were frozen as of December 31, 2010, we will begin providing a new annual employer contribution in 2011.

From June 2009 to October 2010, we funded our employer matching contribution for certain U.S. defined contribution plans in Caterpillar stock, held as treasury stock. In 2010 and 2009, we made \$94 million (1.5 million shares) and \$68 million (1.4 million shares) of matching contributions in Caterpillar stock, respectively.

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

(Millions of dollars)	2010	2009	2008
U.S. plans	\$ 231	\$ 206	\$ 107
Non-U.S. plans	39	29	34
	<u>\$ 270</u>	<u>\$ 235</u>	<u>\$ 141</u>

H. Summary of long-term liability:

(Millions of dollars)	2010	December 31, 2009	2008
Pensions:			
U.S. pensions	\$ 2,246	\$ 3,018	\$ 4,734
Non-U.S. pensions	973	749	1,042
Total pensions	3,219	3,767	5,776
Postretirement benefits other than pensions	4,017	3,361	3,946
Other postemployment benefits	69	63	73
Defined contribution	279	229	180
	<u>\$ 7,584</u>	<u>\$ 7,420</u>	<u>\$ 9,975</u>

13. Short-term borrowings

(Millions of dollars)	2010	December 31, 2009	2008
Machinery and Engines:			
Notes payable to banks	\$ 204	\$ 260	\$ 668
Commercial paper	—	173	964
	204	433	1,632
Financial Products:			
Notes payable to banks	479	793	817
Commercial paper	2,710	2,162	4,217
Demand notes	663	695	543
	3,852	3,650	5,577
Total short-term borrowings	<u>\$ 4,056</u>	<u>\$ 4,083</u>	<u>\$ 7,209</u>

The weighted-average interest rates on short-term borrowings outstanding were:

	2010	December 31, 2009	2008
Notes payable to banks	4.1%	4.6%	5.5%
Commercial paper	1.5%	1.2%	2.0%
Demand notes	1.1%	2.0%	3.6%

Please refer to Note 17 and Table III for fair value information on short-term borrowings.

14. Long-term debt

(Millions of dollars)	2010	December 31, 2009	2008
Machinery and Engines:			
Notes — 6.550% due 2011	\$ —	\$ 251	\$ 250
Notes — 5.700% due 2016	512	515	517
Debentures — 9.375% due 2011	—	123	123
Debentures — 7.000% due 2013	350	350	350
Debentures — 7.900% due 2018	899	899	898
Debentures — 9.375% due 2021	120	120	120
Debentures — 8.000% due 2023	82	82	82
Debentures — 6.625% due 2028	299	299	299
Debentures — 7.300% due 2031	349	349	349
Debentures — 5.300% due 2035 ¹	205	204	203
Debentures — 6.050% due 2036	748	748	748
Debentures — 8.250% due 2038	248	248	248
Debentures — 6.950% due 2042	249	249	249
Debentures — 7.375% due 2097	297	297	297
Capital lease obligations	81	211	293
Other	66	707	710
Total Machinery and Engines	4,505	5,652	5,736
Financial Products:			
Commercial paper	—	71	1,500
Medium-term notes	14,993	15,363	15,073
Other	939	761	525
Total Financial Products	15,932	16,195	17,098
Total long-term debt due after one year	<u>\$20,437</u>	<u>\$ 21,847</u>	<u>\$ 22,834</u>

¹ Debentures due in 2035 have a face value of \$307 million and an effective yield to maturity of 8.55%.

All outstanding notes and debentures are unsecured.

On December 3, 2008, Caterpillar issued \$350 million of 7.00% debentures due in 2013, \$900 million of 7.90% debentures due in 2018 and \$250 million of 8.25% debentures due in 2038.

We may redeem the 6.55% and 5.70% notes and the 6.625%, 7.30%, 5.30%, 6.05%, 6.95% and 7.375% debentures in whole or in part at our option at any time at a redemption price equal to the greater of 100% of the principal amount of the debentures to be redeemed or the sum of the present value of the remaining scheduled payments. The terms of other notes and debentures do not specify a redemption option prior to maturity.

Based on Cat Financial's medium-term note issuances subsequent to year-end, \$71 million and \$1,500 million of Financial Products' commercial paper outstanding at December 31, 2009 and 2008, respectively, was classified as long-term debt due after one year. Medium-term notes are offered by prospectus and are issued through agents at fixed and floating rates. These notes have a weighted average interest rate of 4.6% with remaining maturities up to 18 years at December 31, 2010.

The aggregate amounts of maturities of long-term debt during each of the years 2011 through 2015, including amounts due within one year and classified as current, are:

	December 31,				
(Millions of dollars)	2011	2012	2013	2014	2015
Machinery and Engines	\$ 495	\$ 81	\$ 366	\$ 8	\$ 5
Financial Products	3,430	4,825	4,243	2,015	887
	<u>\$ 3,925</u>	<u>\$ 4,906</u>	<u>\$ 4,609</u>	<u>\$ 2,023</u>	<u>\$ 892</u>

The above table includes \$684 million of medium-term notes that can be called at par.

Interest paid on short-term and long-term borrowings for 2010, 2009 and 2008 was \$1,247 million, \$1,411 million and \$1,451 million, respectively.

Please refer to Note 17 and Table III for fair value information on long-term debt.

15. Credit commitments

	December 31, 2010		
(Millions of dollars)	Consolidated	Machinery and Engines	Financial Products
Credit lines available:			
Global credit facilities	\$ 7,230	\$ 1,500	\$ 5,730
Other external	4,658	853	3,805
Total credit lines available	11,888	2,353	9,535
Less: Global credit facilities supporting commercial paper	(2,710)	—	(2,710)
Less: Utilized credit	(2,217)	(135)	(2,082)
Available credit	<u>\$ 6,961</u>	<u>\$ 2,218</u>	<u>\$ 4,743</u>

We have three global credit facilities with a syndicate of banks totaling \$7.23 billion (Credit Facility) available in the aggregate to both Caterpillar and Cat Financial to support their commercial paper programs in the event those programs become unavailable and for general liquidity purposes. Based on management's allocation decision, which can be revised from time to time, the portion of the Credit Facility available to Cat Financial as of December 31, 2010 was \$5.73 billion.

- The 364-day facility of \$3.52 billion expires in September 2011.

- The five-year facility of \$1.62 billion expires in September 2012.
- The four-year facility of \$2.09 billion expires in September 2014.

Other consolidated credit lines with banks as of December 31, 2010 totaled \$4.66 billion. These committed and uncommitted credit lines, which may be eligible for renewal at various future dates or have no specified expiration date, are used primarily by our subsidiaries for local funding requirements. Caterpillar or Cat Financial may guarantee subsidiary borrowings under these lines.

At December 31, 2010, Caterpillar's consolidated net worth was \$15.56 billion, which was above the \$9.00 billion required under the Credit Facility. The consolidated net worth is defined as the consolidated stockholder's equity including preferred stock but excluding the pension and other postretirement benefits balance within Accumulated other comprehensive income (loss).

At December 31, 2010, Cat Financial's covenant interest coverage ratio was 1.34 to 1. This is above the 1.15 to 1 minimum ratio of (1) profit excluding income taxes, interest expense and net gain/(loss) from interest rate derivatives to (2) interest expense calculated at the end of each calendar quarter for the rolling four quarter period then most recently ended.

In addition, at December 31, 2010, Cat Financial's covenant leverage ratio was 7.02 to 1. This is below the maximum ratio of debt to net worth of 10 to 1, calculated (1) on a monthly basis as the average of the leverage ratios determined on the last day of each of the six preceding calendar months and (2) at each December 31 required by the Credit Facility.

In the event Caterpillar or Cat Financial does not meet one or more of their respective financial covenants under the Credit Facility in the future (and are unable to obtain a consent or waiver), the bank group may terminate the commitments allocated to the party that does not meet its covenants. Additionally, in such event, certain of Cat Financial's other lenders under other loan agreements where similar financial covenants or cross default provisions are applicable, may, at their election, choose to pursue remedies under those loan agreements, including accelerating the repayment of outstanding borrowings. At December 31, 2010, there were no borrowings under the Credit Facility.

On November 14, 2010, Caterpillar entered into a bridge facility commitment letter related to the planned acquisition of Bucyrus International, Inc. The commitment letter provided for an aggregate principal amount of \$8.6 billion under a one-year unsecured term loan credit facility (Bridge Facility). On December 3, 2010, Caterpillar entered into a Bridge Loan Agreement that contains the negotiated terms and conditions originally contemplated in the commitment letter. The principal amount available to Caterpillar under the Bridge Loan Agreement is not included in the credit commitments table shown above. Caterpillar paid certain customary fees and expenses in connection with the Bridge Facility, and pays certain customary fees and expenses in connection with the Bridge Loan Agreement. In 2010, Caterpillar paid \$46 million in fees related to the Bridge Facility and the Bridge Loan Agreement. We estimate payments of approximately \$20 million in additional fees related to the Bridge Loan Agreement in 2011. These fees will be amortized over the term of the Bridge Loan Agreement. At December 31, 2010, there were no borrowings under the Bridge Loan Agreement.

16. Profit per share**Computations of profit per share:**

(Dollars in millions except per share data)	2010	2009	2008
Profit for the period (A) ¹	\$ 2,700	\$ 895	\$ 3,557
Determination of shares (in millions):			
Weighted average number of common shares outstanding (B).....	631.5	615.2	610.5
Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price	18.9	10.8	17.4
Average common shares outstanding for fully diluted computation (C).....	650.4	626.0	627.9
Profit per share of common stock:			
Assuming no dilution (A/B).....	\$ 4.28	\$ 1.45	\$ 5.83
Assuming full dilution (A/C).....	\$ 4.15	\$ 1.43	\$ 5.66
Shares outstanding as of December 31 (in millions).....	638.8	624.7	601.5

¹ Profit attributable to common stockholders.

SARs and stock options to purchase 5,228,763, 18,577,553 and 5,468,512 common shares were outstanding in 2010, 2009 and 2008, respectively, but were not included in the computation of diluted earnings per share because the effect would have been antidilutive.

17. Fair value disclosures**A. Fair value measurements**

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

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

When available, we use quoted market prices to determine fair value, and we classify such measurements within Level 1. In some cases where market prices are not available, we make

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

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

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

Available-for-sale securities

Our available-for-sale securities, primarily at Cat Insurance, include a mix of equity and debt instruments (see Note 11 for additional information). Fair values for our U.S. treasury bonds and equity securities are based upon valuations for identical instruments in active markets. Fair values for other government bonds, corporate bonds and mortgage-backed debt securities are based upon models that take into consideration such market-based factors as recent sales, risk-free yield curves and prices of similarly rated bonds.

Derivative financial instruments

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

Securitized retained interests

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

Guarantees

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

Assets and liabilities measured at fair value, primarily related to Financial Products, included in Statement 2 as of December 31, 2010, 2009 and 2008 are summarized below:

(Millions of dollars)

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

(Millions of dollars)

(Millions of dollars)	December 31, 2009			
	Level 1	Level 2	Level 3	Total Assets/ Liabilities, at Fair Value
Assets				
Available-for-sale securities				
Government debt				
U.S. treasury bonds	\$ 14	\$ —	\$ —	\$ 14
Other U.S. and non-U.S. government bonds	—	65	—	65
Corporate bonds				
Corporate bonds	—	475	—	475
Asset-backed securities	—	134	—	134
Mortgage-backed debt securities				
U.S. governmental agency mortgage-backed securities	—	308	—	308
Residential mortgage-backed securities	—	51	—	51
Commercial mortgage-backed securities	—	162	—	162
Equity securities				
Large capitalization value	89	—	—	89
Smaller company growth	24	—	—	24
Total available-for-sale securities..	127	1,195	—	1,322
Derivative financial instruments, net	—	236	—	236
Securitized retained interests	—	—	102	102
Total Assets	\$ 127	\$ 1,431	\$ 102	\$ 1,660
Liabilities				
Guarantees	\$ —	\$ —	\$ 17	\$ 17
Total Liabilities	\$ —	\$ —	\$ 17	\$ 17

(Millions of dollars)

(Millions of dollars)	December 31, 2008			
	Level 1	Level 2	Level 3	Total Assets/ Liabilities, at Fair Value
Assets				
Available-for-sale securities.....	\$ 140	\$ 992	\$ —	\$ 1,132
Derivative financial instruments, net	—	625	—	625
Securitized retained interests	—	—	52	52
Total Assets.....	<u>\$ 140</u>	<u>\$ 1,617</u>	<u>\$ 52</u>	<u>\$ 1,809</u>
Liabilities				
Guarantees	\$ —	\$ —	\$ 14	\$ 14
Total Liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 14</u>	<u>\$ 14</u>

Below are roll-forwards of assets and liabilities measured at fair value using Level 3 inputs for the years ended December 31, 2010, 2009 and 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
Gains or losses included in earnings (realized and unrealized)	(21)	7
Changes in Accumulated other comprehensive income (loss).....	(13)	—
Purchases, issuances and settlements.....	37	(5)
Balance at December 31, 2008.....	\$ 52	\$ 14
Gains or losses included in earnings (realized and unrealized)	(31)	—
Changes in Accumulated other comprehensive income (loss).....	6	—
Purchases, issuances and settlements.....	75	3
Balance at December 31, 2009.....	\$ 102	\$ 17
Adjustment to adopt accounting for variable-interest entities	(102)	—
Valuation adjustment.....	—	(6)
Issuance of guarantees	—	7
Expiration of guarantees	—	(8)
Balance at December 31, 2010.....	<u>\$ —</u>	<u>\$ 10</u>

The amount of unrealized losses on securitized retained interests recognized in earnings for the years ended December 31, 2009 and 2008 related to assets still held at December 31, 2009 and 2008 were \$28 million and \$23 million, respectively. These losses were reported in Revenues of Financial Products in Statement 1. There were no unrealized losses on guarantees recognized in earnings for the years ended December 31, 2010 or 2009 related to liabilities still held at December 31, 2010 or 2009, respectively. The amount of unrealized losses on guarantees recognized in earnings for the year ended December 31, 2008 related to liabilities still held at December 31, 2008 were \$8 million. These losses were reported in Selling, general and administrative expenses in Statement 1.

In addition to the amounts above, we had impaired loans of \$171 million, \$208 million and \$108 million for the years ended December 31, 2010, 2009 and 2008, respectively. A loan is considered impaired when management determines that collection of contractual amounts due is not probable. In these cases, an allowance for loan losses is established based primarily on the fair value of associated collateral. As the collateral's fair value is based on observable market prices and/or current appraised values, the impaired loans are classified as Level 2 measurements.

B. Fair values of financial instruments

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

Cash and short-term investments

Carrying amount approximated fair value.

Restricted cash and short-term investments

Carrying amount approximated fair value. Restricted cash and short-term investments are included in Prepaid expenses and other current assets in Statement 2.

Finance receivables

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

Wholesale inventory receivables

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

Short-term borrowings

Carrying amount approximated fair value.

Long-term debt

Fair value for Machinery and Engines and Financial Products fixed rate debt was estimated based on quoted market prices. For Financial Products, floating rate notes and commercial paper carrying amounts approximated fair value. For deposit obligations, carrying value approximated fair value.

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

TABLE III — Fair Values of Financial Instruments

	TABLE III Fair Values of Financial Instruments						
	2010		2009		2008		
(Millions of dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Reference
Assets at December 31							
Cash and short-term investments.....	\$ 3,592	\$ 3,592	\$ 4,867	\$ 4,867	\$ 2,736	\$ 2,736	Statement 2
Restricted cash and short-term investments.....	91	91	37	37	12	12	Statement 2
Available-for-sale securities.....	1,370	1,370	1,322	1,322	1,132	1,132	Notes 11 and 18
Finance receivables — net (excluding finance leases ¹).....	12,568	12,480	13,077	13,234	14,367	13,483	Note 6
Wholesale inventory receivables — net (excluding finance leases ¹).....	1,062	1,017	660	646	1,232	1,154	Note 6
Foreign currency contracts — net.....	63	63	192	192	254	254	Notes 3 and 18
Interest rate swaps — net.....	187	187	34	34	371	371	Note 3
Commodity contracts — net.....	17	17	10	10	—	—	Note 3
Securitized retained interests.....	—	—	102	102	52	52	Note 6
Liabilities at December 31							
Short-term borrowings.....	4,056	4,056	4,083	4,083	7,209	7,209	Note 13
Long-term debt (including amounts due within one year):							
Machinery and Engines.....	5,000	5,968	5,954	6,674	6,192	6,290	Note 14
Financial Products.....	19,362	20,364	21,594	22,367	22,134	21,259	Note 14
Guarantees.....	10	10	17	17	14	14	Note 20

¹ Total excluded items have a net carrying value at December 31, 2010, 2009 and 2008 of \$7,292 million, \$7,780 million and \$8,951 million, respectively.

18. Concentration of credit risk

Financial instruments with potential credit risk consist primarily of trade and finance receivables and short-term and long-term investments. Additionally, to a lesser extent, we have a potential credit risk associated with counterparties to derivative contracts.

Trade receivables are primarily short-term receivables from independently owned and operated dealers and customers which arise in the normal course of business. We perform regular credit evaluations of our dealers and customers. Collateral generally is not required, and the majority of our trade receivables are unsecured. We do, however, when deemed necessary, make use of various devices such as security agreements and letters of credit to protect our interests. No single dealer or customer represents a significant concentration of credit risk.

Finance receivables and wholesale inventory receivables primarily represent receivables under installment sales contracts, receivables arising from leasing transactions and notes receivable. We generally maintain a secured interest in the equipment financed. No single customer or dealer represents a significant concentration of credit risk.

Short-term and long-term investments are held with high quality institutions and, by policy, the amount of credit exposure to any one institution is limited. Long-term investments, primarily included in Other assets in Statement 2, are comprised primarily of available for sale securities at Cat Insurance.

For derivative contracts, collateral is generally not required of the counterparties or of our company. The company generally enters into International Swaps and Derivatives Association (ISDA) master netting agreements which permit the net settlement of amounts owed. Our exposure to credit loss in the event of non-performance by the counterparties is limited to only those gains that we have recorded, but for which we have not yet received cash payment. The master netting agreements reduce the amount of loss the company would incur should the counterparties fail

to meet their obligations. At December 31, 2010, 2009 and 2008, the maximum exposure to credit loss was \$576 million, \$514 million and \$1,051 million, respectively, before the application of any master netting agreements. Please refer to Note 17 and Table III above for fair value information.

19. Operating leases

We lease certain computer and communications equipment, transportation equipment and other property through operating leases. Total rental expense for operating leases was \$359 million, \$381 million, and \$402 million for 2010, 2009 and 2008, respectively.

Minimum payments for operating leases having initial or remaining non-cancelable terms in excess of one year are:

Years ended December 31, (Millions of dollars)						
2011	2012	2013	2014	2015	Thereafter	Total
\$ 284	\$ 228	\$ 177	\$ 156	\$ 124	\$ 379	\$ 1,348

20. Guarantees and product warranty

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

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

credit issued to third parties on behalf of their customers. These standby letters of credit have varying terms and beneficiaries and are secured by customer assets.

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

No loss has been experienced or is anticipated under any of these guarantees. At December 31, 2010, 2009 and 2008, the related liability was \$10 million, \$17 million and \$14 million, respectively. The maximum potential amount of future payments (undiscounted and without reduction for any amounts that may possibly be recovered under recourse or collateralized provisions) we could be required to make under the guarantees at December 31 are as follows:

(Millions of dollars)	2010	2009	2008
Caterpillar dealer guarantees.....	\$ 185	\$ 313	\$ 375
Customer guarantees.....	170	226	136
Limited indemnity.....	17	20	25
Other guarantees.....	48	64	43
Total guarantees.....	<u>\$ 420</u>	<u>\$ 623</u>	<u>\$ 579</u>

We provide guarantees to repurchase certain loans of Caterpillar dealers from a special purpose corporation (SPC) that qualifies as a VIE. The purpose of the SPC is to provide short-term working capital loans to Caterpillar dealers. This SPC issues commercial paper and uses the proceeds to fund its loan program. We have a loan purchase agreement with the SPC that obligates us to purchase certain loans that are not paid at maturity. We receive a fee for providing this guarantee, which provides a source of liquidity for the SPC. We are the primary beneficiary of the SPC as our guarantees result in us having both the power to direct the activities that most significantly impact the SPC's economic performance and the obligation to absorb losses, and therefore we have consolidated the financial statements of the SPC. As of December 31, 2010, 2009 and 2008, the SPC's assets of \$365 million, \$231 million and \$477 million, respectively, are primarily comprised of loans to dealers, and the SPC's liabilities of \$365 million, \$231 million and \$477 million, respectively, are primarily comprised of commercial paper. No loss has been experienced or is anticipated under this loan purchase agreement. Our assets are not available to pay creditors of the SPC, except to the extent we may be obligated to perform under the guarantee, and assets of the SPC are not available to pay our creditors.

Cat Financial is party to agreements in the normal course of business with selected customers and Caterpillar dealers in which we commit to provide a set dollar amount of financing on a pre-approved basis. We also provide lines of credit to selected customers and Caterpillar dealers, of which a portion remains unused as of the end of the period. Commitments and lines of credit generally have fixed expiration dates or other termination clauses. It has been our experience that not all commitments and lines of credit will be used. Management applies the same credit policies when making commitments and granting lines of credit as it does for any other financing.

Cat Financial does not require collateral for these commitments/lines, but if credit is extended, collateral may be required upon funding. The amount of the unused commitments and lines of credit for dealers as of December 31, 2010, 2009 and 2008 was \$6,408 million, \$7,312 million and \$8,918 million, respectively. The amount of the unused commitments and lines of credit

for customers as of December 31, 2010, 2009 and 2008 was \$2,613 million, \$2,089 million and \$3,085 million, respectively.

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)	2010	2009	2008
Warranty liability, January 1.....	\$ 1,049	\$ 1,201	\$ 1,045
Reduction in liability (payments).....	(855)	(1,032)	(1,074)
Increase in liability (new warranties).....	841	880	1,230
Warranty liability, December 31.....	<u>\$ 1,035</u>	<u>\$ 1,049</u>	<u>\$ 1,201</u>

The 2009 provision includes approximately \$181 million for changes in estimates for pre-existing warranties due to higher than expected actual warranty claim experience. These amounts for 2010 and 2008 were not significant.

21. Environmental and legal matters

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

We are engaged in remedial activities at a number of locations, often with other companies, pursuant to federal and state laws. When it is reasonably 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 the line item Accrued expenses in Statement 2.

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

We have disclosed certain individual legal proceedings in this filing. Additionally, we are involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance liability (including claimed asbestos and welding fumes exposure), contracts, employment issues, environmental matters or intellectual property rights. Although it is not possible to predict with certainty the outcome of these unresolved legal actions, we believe that these actions will not individually or in the aggregate have a material adverse effect on our consolidated results of operations, financial position or liquidity.

On May 14, 2007, the U.S. Environmental Protection Agency (EPA) issued a Notice of Violation to Caterpillar Inc., alleging various violations of Clean Air Act Sections 203, 206 and 207. EPA claims that Caterpillar violated such sections by shipping engines and catalytic converter after-treatment devices separately, introducing into commerce a number of uncertified and/or

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

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

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

22. 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 matrix organization comprised of multiple profit and cost center divisions.

Our divisional reporting structure and responsibilities are as follows:

- Machine business divisions are profit centers primarily responsible for product management, development, marketing, sales and product support. Machine business divisions also have select manufacturing responsibilities. Inter-segment sales of components are a source of revenue for some of these divisions.

- Engine business divisions are profit centers primarily responsible for product management, development, manufacturing, marketing, sales and product support. Inter-segment sales of engines and/or components are a source of revenue for some of these divisions.
- Component business divisions are profit centers primarily responsible for product management, development, manufacturing, marketing, sales and product support for internal and external customers. Inter-segment sales of components are a source of revenue for these divisions.
- Service business divisions are profit centers primarily responsible for various services and service-related products to customers including financial, logistics, remanufacturing and rail services. Inter-segment sales of services and service-related products are a source of revenue for some of these divisions.
- Manufacturing services divisions are cost centers primarily responsible for the manufacture of products and/or components within the geographic regions of the Americas and EAME.
- Corporate services divisions are cost centers primarily responsible for the performance of certain support functions globally (e.g., Finance, Human Resources, Information Technology, Legal and Purchasing) and to provide centralized services.
- Regional distribution services divisions are cost centers primarily responsible for the total portfolio of business with each dealer, the dealer relationship, dealer development and ensuring the most efficient and effective distribution of machines, engines and parts.
- Centers of excellence divisions are cost centers primarily responsible for Caterpillar's most critical/differentiating processes in the areas of Marketing and Product Support, Production and Product Development.

The segment information for 2008 and 2009 has been retrospectively adjusted to conform to the 2010 presentation. Core Components, formerly included in the all other category, is now a reportable segment. The portion of postretirement benefit expense (\$356 million and \$105 million for the years ended December 31, 2009 and 2008, respectively) that was allocated to Machinery and Engines business divisions based on budgeted external and inter-segment sales, is now a methodology difference between segment and external reporting.

Our measurement system is complex and is designed to evaluate performance and to drive continuous improvement. We have chosen to disclose financial results by our three principal lines of business (Machinery, Engines and Financial Products) in our Management's Discussion and Analysis rather than by reportable segment based on the following:

- Our Machinery and Engines businesses are vertically integrated and there are a significant amount of inter-segment transactions that make information for individual segments less meaningful.
- A significant amount of corporate and other costs (\$839 million, \$988 million and \$1,229 million for the years ended December 31, 2010, 2009 and 2008, respectively) are allocated to Machinery and Engines business divisions based on budgeted external and inter-segment sales. It would be difficult to provide meaningful information by reportable segment for these costs as the allocation method does not directly reflect the benefited segment and the allocation is done in total, not by financial statement line item. In addition, the budgeted amount is allocated

to segments; any differences from budget are treated as a reconciling item between reportable segment and consolidated results.

- As discussed below, there are various methodology differences between our segment reporting and U.S. GAAP. This results in numerous reconciling items between reportable segment and consolidated results.
- We have twenty-five operating segments, of which twelve are reportable segments. Reporting financial information for this number of businesses, especially considering our level of vertical integration, would not be meaningful to our financial statement users.

In summary, due to Caterpillar's high level of integration and our concern that segment disclosures have limited value for our 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 A-58.

Effective January 1, 2011, we implemented revised internal financial measurements in line with changes to our organizational structure that were announced during 2010. Our segments will be modified to reflect this reporting structure in the first quarter of 2011.

B. Description of segments

Profit center divisions meet the definition of "operating segments" specified in the accounting guidance on segment reporting; however, the cost center divisions do not. Following is a brief description of our twelve reportable segments and the business activities included in all other operating segments:

Building Construction Products: A machine business division primarily responsible for the product management, development, manufacture, marketing, sales and product support of light construction machines and select work tools.

Cat Japan: A business division primarily responsible for the development of small, medium and large hydraulic excavators, manufacturing of select machinery and components, marketing, sales and product support of machinery, engines and components in Japan. Inter-segment sales of machinery and components are a source of revenue for this division.

Core Components: A component business division primarily responsible for the product management, development, manufacture, marketing and product support of undercarriage, specialty products, hardened barstock components and ground engaging tools. Inter-segment sales of components are a source of revenue for this division.

Earthmoving: A machine business division primarily responsible for the product management, development, marketing, sales and product support of medium wheel loaders, medium track-type tractors, track-type loaders, motor graders and pipelayers. Also responsible for manufacturing of select machines in Asia.

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

Excavation: A machine business division primarily responsible for the product management, development, marketing, sales and product support of small, medium and large excavators, wheel excavators and articulated trucks. Also responsible for manufacturing of select machines in Asia and articulated trucks.

Large Power Systems: An engine business division primarily responsible for the product management, development, manufacture and product support of reciprocating engines supplied to Caterpillar machinery and the electric power, petroleum, marine and industrial industries. Also responsible for engine component manufacturing. Inter-segment sales of engines and components are a source of revenue for this division.

Logistics: A service business division primarily responsible for logistics services for Caterpillar and other companies.

Marine & Petroleum Power: An engine business division primarily responsible for the product management, development, marketing, sales and product support of reciprocating engines supplied to the marine and petroleum industries. Also responsible for manufacturing of certain reciprocating engines for marine, petroleum and electric power applications.

Mining: A machine business division primarily responsible for the product management, development, marketing, sales and product support of large track-type tractors, large mining trucks, underground mining equipment and tunnel boring equipment. Also responsible for manufacturing of underground mining equipment and tunnel boring equipment. Inter-segment sales of components are a source of revenue for this division.

Turbines: An engine business division primarily responsible for the product management, development, manufacture, marketing, sales and product support of turbines and turbine-related services.

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 product management, development, marketing, sales and product support of large wheel loaders, quarry and construction trucks, wheel tractor scrapers, wheel dozers, compactors and select work tools. Also responsible for manufacturing of select machines in Asia; the product management, development, manufacture, marketing, sales and product support of forestry products; the product management, development, manufacture, marketing, sales and product support of reciprocating engines used in industrial applications; the product management, development, manufacture, marketing, sales and product support of machinery and engine components, electronics and control systems; the product management, development, manufacture, remanufacture, maintenance, leasing and service of rail-related products and services; remanufacturing of Caterpillar engines and components and remanufacturing services for other companies; the product management, development, manufacture, marketing, sales and product support of paving products. Inter-segment sales are a source of revenue for some of these divisions. Results for All Other operating segments are included as reconciling items between reportable segments and consolidated external reporting.

C. Segment measurement and reconciliations

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

- 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.
- 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.
- Postretirement benefit expenses are split; segments are generally responsible for service and prior service costs, with the remaining elements of net periodic benefit cost included as a methodology difference.
- Interest expense is not included in Machinery and Engines segment results.
- Accountable profit is determined on a pretax basis.

Reconciling items are created based on accounting differences between segment reporting and our consolidated external reporting. Please refer to pages A-47 to A-52 for financial information regarding significant reconciling items. Most of our reconciling items are self-explanatory given the above explanations.

For the reconciliation of profit (loss), we have grouped the reconciling items as follows:

- **Corporate costs:** Certain corporate costs are allocated and included in the business division's accountable profit at budgeted levels. Any differences are treated as reconciling items. These costs are related to corporate requirements and strategies that are considered to be for the benefit of the entire organization.
- **Redundancy costs:** Redundancy costs include pension and other postretirement benefit plan curtailments, settlements and special termination benefits as well as employee separation charges. Most of these costs are reconciling items between accountable profit and consolidated profit before tax. A table, Reconciliation of Redundancy Costs on page A-50, has been included to illustrate how segment accountable profit would have been impacted by the redundancy costs. See Notes 12 and 25 for more information.
- **Methodology differences:** See previous discussion of significant accounting differences between segment reporting and consolidated external reporting.
- **Timing:** Timing differences in the recognition of costs and capital expenditures between segment reporting and consolidated external reporting.

Table IV — Segment Information (Millions of dollars)

Reportable Segments:	External sales and revenues	Inter-segment sales and revenues	Total sales and revenues	Depreciation and amortization	Accountable profit (loss)	Accountable assets at December 31	Capital expenditures
2010							
Building Construction Products	\$ 2,217	\$ 33	\$ 2,250	\$ 27	\$ 84	\$ 885	\$ 72
Cat Japan	1,225	2,352	3,577	200	59	2,533	85
Core Components	1,234	1,618	2,852	81	589	1,140	73
Earthmoving	5,045	113	5,158	107	63	2,886	189
Electric Power	2,847	16	2,863	24	236	840	28
Excavation	4,562	98	4,660	69	26	1,806	134
Large Power Systems	2,885	3,911	6,796	215	527	3,148	215
Logistics	659	1,566	2,225	104	462	854	135
Marine & Petroleum Power	2,132	82	2,214	24	202	687	21
Mining	3,975	275	4,250	53	786	1,518	69
Turbines	3,321	5	3,326	61	726	850	92
Total Machinery & Engines	\$ 30,102	\$ 10,069	\$ 40,171	\$ 965	\$ 3,760	\$ 17,147	\$ 1,113
Financing & Insurance Services	2,946	—	2,946	715	429	30,346	960
Total	\$ 33,048	\$ 10,069	\$ 43,117	\$ 1,680	\$ 4,189	\$ 47,493	\$ 2,073

Continued on Page A-48

Table IV Continued — Segment Information (Millions of dollars)

Reportable Segments: (Continued)

	External sales and revenues	Inter-segment sales and revenues	Total sales and revenues	Depreciation and amortization	Accountable profit (loss)	Accountable assets at December 31	Capital expenditures
2009							
Building Construction Products	\$ 1,136	\$ 18	\$ 1,154	\$ 29	\$ (193)	\$ 615	\$ 17
Cat Japan	1,219	873	2,092	272	(303)	2,440	109
Core Components	919	954	1,873	76	222	955	50
Earthmoving	3,154	74	3,228	96	(324)	2,197	130
Electric Power	2,268	18	2,286	26	154	702	23
Excavation	2,265	54	2,319	63	(348)	1,325	69
Large Power Systems	2,227	3,073	5,300	193	109	2,703	207
Logistics	695	1,256	1,951	107	412	828	51
Marine & Petroleum Power	2,664	64	2,728	19	248	747	56
Mining	2,905	119	3,024	73	352	1,141	40
Turbines	3,490	9	3,499	60	807	734	78
Total Machinery & Engines	\$ 22,942	\$ 6,512	\$ 29,454	\$ 1,014	\$ 1,136	\$ 14,387	\$ 830
Financing & Insurance Services	3,139	—	3,139	742	399	32,230	976
Total	\$ 26,081	\$ 6,512	\$ 32,593	\$ 1,756	\$ 1,535	\$ 46,617	\$ 1,806
2008							
Building Construction Products	\$ 3,043	\$ 44	\$ 3,087	\$ 28	\$ (55)	\$ 706	\$ 51
Cat Japan	345	774	1,119	55	(28)	3,165	99
Core Components	1,129	1,757	2,886	69	357	1,079	145
Earthmoving	7,467	144	7,611	85	450	2,477	315
Electric Power	3,634	24	3,658	24	258	1,068	75
Excavation	5,918	115	6,033	54	31	1,646	132
Large Power Systems	3,220	5,469	8,689	194	595	3,055	375
Logistics	850	1,570	2,420	111	391	971	125
Marine & Petroleum Power	4,066	85	4,151	15	429	758	80
Mining	4,270	226	4,496	63	598	1,338	71
Turbines	3,413	17	3,430	55	628	943	94
Total Machinery & Engines	\$ 37,355	\$ 10,225	\$ 47,580	\$ 753	\$ 3,654	\$ 17,206	\$ 1,562
Financing & Insurance Services	3,561	—	3,561	755	548	34,578	1,608
Total	\$ 40,916	\$ 10,225	\$ 51,141	\$ 1,508	\$ 4,202	\$ 51,784	\$ 3,170

Reconciliation of Sales and Revenues:

	Machinery and Engines	Financial Products	Consolidating Adjustments	Consolidated Total
2010				
Total external sales and revenues from reportable segments	\$ 30,102	\$ 2,946	\$ —	\$ 33,048
All other operating segments	9,786	15	—	9,801
Other	(21)	25	(265) ¹	(261)
Total sales and revenues	\$ 39,867	\$ 2,986	\$ (265)	\$ 42,588
2009				
Total external sales and revenues from reportable segments	\$ 22,942	\$ 3,139	\$ —	\$ 26,081
All other operating segments	6,594	—	—	6,594
Other	4	29	(312) ¹	(279)
Total sales and revenues	\$ 29,540	\$ 3,168	\$ (312)	\$ 32,396
2008				
Total external sales and revenues from reportable segments	\$ 37,355	\$ 3,561	\$ —	\$ 40,916
All other operating segments	10,738	—	—	10,738
Other	(49)	27	(308) ¹	(330)
Total sales and revenues	\$ 48,044	\$ 3,588	\$ (308)	\$ 51,324

¹ Elimination of Financial Products revenues from Machinery and Engines.

Table IV Continued — Segment Information (Millions of dollars)

Reconciliation of Profit Before Taxes:

	Machinery and Engines	Financial Products	Consolidated Total
2010			
Total accountable profit from reportable segments	\$ 3,760	\$ 429	\$ 4,189
All other operating segments	1,384	1	1,385
Cost centers	(91)	—	(91)
Corporate costs	(581)	—	(581)
Timing	(87)	—	(87)
Redundancy charges	(33)	—	(33)
Methodology differences:			
Inventory/cost of sales	(114)	—	(114)
Postretirement benefit expense	(584)	—	(584)
Financing costs	(342)	—	(342)
Equity in profit of unconsolidated affiliated companies	24	—	24
Currency	(3)	—	(3)
Other methodology differences	(30)	17	(13)
Total profit before taxes	<u>\$ 3,303</u>	<u>\$ 447</u>	<u>\$ 3,750</u>
2009			
Total accountable profit from reportable segments	\$ 1,136	\$ 399	\$ 1,535
All other operating segments	(207)	—	(207)
Cost centers	(2)	—	(2)
Corporate costs	(4)	—	(4)
Timing	188	—	188
Redundancy charges	(654)	(10)	(664)
Methodology differences:			
Inventory/cost of sales	161	—	161
Postretirement benefit expense	(318)	—	(318)
Financing costs	(389)	—	(389)
Equity in profit of unconsolidated affiliated companies	12	—	12
Currency	256	—	256
Other methodology differences	(5)	6	1
Total profit before taxes	<u>\$ 174</u>	<u>\$ 395</u>	<u>\$ 569</u>
2008			
Total accountable profit from reportable segments	\$ 3,654	\$ 548	\$ 4,202
All other operating segments	887	—	887
Cost centers	65	—	65
Corporate costs	(195)	—	(195)
Timing	(30)	—	(30)
Redundancy charges	(30)	—	(30)
Methodology differences:			
Inventory/cost of sales	(30)	—	(30)
Postretirement benefit expense	(52)	—	(52)
Financing costs	(268)	—	(268)
Equity in profit of unconsolidated affiliated companies	(38)	1	(37)
Currency	(48)	—	(48)
Other methodology differences	32	5	37
Total profit before taxes	<u>\$ 3,947</u>	<u>\$ 554</u>	<u>\$ 4,501</u>

Continued on Page A-50

Table IV Continued — Segment Information (Millions of dollars)

Reconciliation of Redundancy Costs:

As noted above, redundancy costs are a reconciling item between Accountable profit (loss) and Consolidated profit (loss) before tax. For the year ended December 31, 2009, redundancy costs of \$42 million were charged to operating segments. Had we included the remaining amounts in the segments' results, the Accountable profit (loss) would have been as shown below:

	Accountable profit (loss)	Redundancy costs	Accountable profit (loss) with redundancy costs
2009			
Building Construction Products	\$ (193)	\$ (40)	\$ (233)
Cat Japan	(303)	(26)	(329)
Core Components	222	(6)	216
Earthmoving	(324)	(85)	(409)
Electric Power	154	(22)	132
Excavation	(348)	(61)	(409)
Large Power Systems	109	(90)	19
Logistics	412	(29)	383
Marine & Petroleum Power	248	(13)	235
Mining	352	(54)	298
Turbines	807	—	807
Financing & Insurance Services	399	(10)	389
All other operating segments	(207)	(228)	(435)
Consolidated Total	<u>\$ 1,328</u>	<u>\$ (664)</u>	<u>\$ 664</u>

Reconciliation of Assets:

	Machinery and Engines	Financial Products	Consolidating Adjustments	Consolidated Total
2010				
Total accountable assets from reportable segments	\$ 17,147	\$ 30,346	\$ —	\$ 47,493
All other operating segments	9,977	139	—	10,116
Items not included in segment assets:				
Cash and short-term investments	1,825	—	—	1,825
Intercompany receivables	618	—	(618)	—
Investment in Financial Products	4,275	—	(4,275)	—
Deferred income taxes and prepaids	3,687	—	(532)	3,155
Goodwill, intangibles and other assets	1,172	—	—	1,172
Liabilities included in segment assets	3,187	—	—	3,187
Inventory methodology differences	(2,940)	—	—	(2,940)
Other	543	(372)	(159)	12
Total assets	<u>\$ 39,491</u>	<u>\$ 30,113</u>	<u>\$ (5,584)</u>	<u>\$ 64,020</u>
2009				
Total accountable assets from reportable segments	\$ 14,387	\$ 32,230	\$ —	\$ 46,617
All other operating segments	7,356	—	—	7,356
Items not included in segment assets:				
Cash and short-term investments	2,239	—	—	2,239
Intercompany receivables	106	—	(106)	—
Investment in Financial Products	4,514	—	(4,514)	—
Deferred income taxes and prepaids	4,131	—	(460)	3,671
Goodwill, intangibles and other assets	1,364	—	—	1,364
Liabilities included in segment assets	2,270	—	—	2,270
Inventory methodology differences	(2,735)	—	—	(2,735)
Other	564	(255)	(1,053)	(744)
Total assets	<u>\$ 34,196</u>	<u>\$ 31,975</u>	<u>\$ (6,133)</u>	<u>\$ 60,038</u>

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Table IV Continued — Segment Information (Millions of dollars)

Reconciliation of Assets: (Continued)

	Machinery and Engines	Financial Products	Consolidating Adjustments	Consolidated Total
2008				
Total accountable assets from reportable segments	\$ 17,206	\$ 34,578	\$ —	\$ 51,784
All other operating segments	8,335	—	—	8,335
Items not included in segment assets:				
Cash and short-term investments	1,517	—	—	1,517
Intercompany receivables	540	—	(540)	—
Investment in Financial Products	3,788	—	(3,788)	—
Deferred income taxes and prepaids	4,739	—	(474)	4,265
Goodwill, intangibles and other assets	1,197	—	—	1,197
Liabilities included in segment assets	2,968	—	—	2,968
Inventory methodology differences	(2,746)	—	—	(2,746)
Other	735	(197)	(76)	462
Total assets	<u>\$ 38,279</u>	<u>\$ 34,381</u>	<u>\$ (4,878)</u>	<u>\$ 67,782</u>

Reconciliation of Depreciation and Amortization:

	Machinery and Engines	Financial Products	Consolidating Adjustments	Consolidated Total
2010				
Total accountable depreciation and amortization from reportable segments	\$ 965	\$ 715	\$ —	\$ 1,680
Items not included in segment depreciation and amortization:				
All other operating segments	456	8	—	464
Cost centers	151	—	—	151
Other	1	—	—	1
Total depreciation and amortization	<u>\$ 1,573</u>	<u>\$ 723</u>	<u>\$ —</u>	<u>\$ 2,296</u>

2009				
Total accountable depreciation and amortization from reportable segments	\$ 1,014	\$ 742	\$ —	\$ 1,756
Items not included in segment depreciation and amortization:				
All other operating segments	417	—	—	417
Cost centers	173	—	—	173
Other	(10)	—	—	(10)
Total depreciation and amortization	<u>\$ 1,594</u>	<u>\$ 742</u>	<u>\$ —</u>	<u>\$ 2,336</u>

2008				
Total accountable depreciation and amortization from reportable segments	\$ 753	\$ 755	\$ —	\$ 1,508
Items not included in segment depreciation and amortization:				
All other operating segments	363	—	—	363
Cost centers	168	—	—	168
Other	(59)	—	—	(59)
Total depreciation and amortization	<u>\$ 1,225</u>	<u>\$ 755</u>	<u>\$ —</u>	<u>\$ 1,980</u>

Continued on Page A-52

Table IV Continued — Segment Information (Millions of dollars)

Reconciliation of Capital Expenditures:

	Machinery and Engines	Financial Products	Consolidating Adjustments	Consolidated Total
2010				
Total accountable capital expenditures from reportable segments	\$ 1,113	\$ 960	\$ —	\$ 2,073
Items not included in segment capital expenditures:				
All other operating segments	546	32	—	578
Cost centers	141	—	—	141
Timing	(180)	—	—	(180)
Other	43	—	(69)	(26)
Total capital expenditures	\$ 1,663	\$ 992	\$ (69)	\$ 2,586

2009				
Total accountable capital expenditures from reportable segments	\$ 830	\$ 976	\$ —	\$ 1,806
Items not included in segment capital expenditures:				
All other operating segments	380	—	—	380
Cost centers	119	—	—	119
Timing	156	—	—	156
Other	15	—	(4)	11
Total capital expenditures	<u>\$ 1,500</u>	<u>\$ 976</u>	<u>\$ (4)</u>	<u>\$ 2,472</u>

2008				
Total accountable capital expenditures from reportable segments	\$ 1,562	\$ 1,608	\$ —	\$ 3,170
Items not included in segment capital expenditures:				
All other operating segments	616	—	—	616
Cost centers	242	—	—	242
Timing	(125)	—	—	(125)
Other	1	4	(22)	(17)
Total capital expenditures	<u>\$ 2,296</u>	<u>\$ 1,612</u>	<u>\$ (22)</u>	<u>\$ 3,886</u>

Enterprise-wide Disclosures:**External sales and revenues from products and services:**

	2010	2009	2008
Machinery	\$ 27,767	\$ 18,148	\$ 31,804
Engines	12,100	11,392	16,240
Financial Products	2,721	2,856	3,280
Total consolidated	\$ 42,588	<u>\$ 32,396</u>	<u>\$ 51,324</u>

Information about Geographic Areas:

	External Sales & Revenues ¹			Net property, plant and equipment December 31,		
	2010	2009	2008	2010	2009	2008
Inside United States	\$ 13,674	\$ 10,560	\$ 17,291	\$ 6,427	\$ 6,260	\$ 6,473
Outside United States	28,914	21,836	34,033	6,112²	6,126 ²	6,051 ²
Total	\$ 42,588	<u>\$ 32,396</u>	<u>\$ 51,324</u>	\$ 12,539	<u>\$ 12,386</u>	<u>\$ 12,524</u>

¹ Sales of machinery and engines are based on dealer or customer location. Revenues from services provided are based on where service is rendered.

² Amount includes \$1,266 million, \$1,432 million and \$1,533 million of net property, plant and equipment located in Japan as of December 31, 2010, 2009 and 2008, respectively. Additionally, amount includes \$893 million, \$943 million and \$882 million of net property, plant and equipment located in Canada as of December 31, 2010, 2009 and 2008, respectively. Also, amount includes \$745 million, \$731 million and \$725 million of net property, plant and equipment located in the United Kingdom as of December 31, 2010, 2009 and 2008, respectively.

23. Business combinations and alliances

Electro-Motive Diesel, Inc.

In August 2010, we acquired 100 percent of the equity in privately held Electro-Motive Diesel, Inc. (EMD) for approximately \$901 million, consisting of \$928 million paid at closing less a final net working capital adjustment of \$27 million received in the fourth quarter of 2010. Headquartered in LaGrange, Illinois with additional manufacturing facilities in Canada and Mexico, EMD designs, manufactures and sells diesel-electric locomotives for commercial railroad applications and sells its products to customers throughout the world. EMD has a significant field population in North America and throughout the world supported by an aftermarket business offering customers replacement parts, maintenance solutions, and a range of value-added services. EMD is also a global provider of diesel engines for marine propulsion, offshore and land-based oil well drilling rigs, and stationary power generation. The acquisition supports our strategic plan to grow our presence in the global rail industry. The EMD acquisition will enable us to provide rail and transit customers a range of locomotive, engine and emissions solutions, as well as aftermarket product and parts support and a full line of rail-related services and solutions.

The transaction was financed with available cash. Tangible assets acquired of \$890 million, recorded at their fair values, primarily were receivables of \$186 million, inventories of \$549 million and property, plant and equipment of \$131 million. Finite-lived intangible assets acquired of \$329 million were primarily related to customer relationships and also included intellectual property and trade names. The finite-lived intangible assets are being amortized on a straight-line basis over a weighted-average amortization period of approximately 15 years. An additional intangible asset acquired of \$18 million, related to in-process research and development, is considered indefinite-lived until the completion or abandonment of the development activities. Liabilities assumed of \$518 million, recorded at their fair values, primarily included accounts payable of \$124 million and accrued expenses of \$161 million. Additionally, net deferred tax liabilities were \$104 million. Goodwill of \$286 million, substantially all of which is non-deductible for income tax purposes, represents the excess of cost over the fair value of the net tangible and intangible assets acquired. Factors that contributed to a purchase price resulting in the recognition of goodwill include EMD's strategic fit into our product and services portfolio, aftermarket support opportunities and the acquired assembled workforce. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and are reported in the "All Other" category in Note 22. 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.

FCM Rail Ltd.

In May 2010, we acquired 100 percent of the equity in privately held FCM Rail Ltd. (FCM) for approximately \$97 million, including the assumption of \$59 million in debt. We paid \$32 million at closing and an additional \$1 million post-closing adjustment paid in October 2010. There is also an additional \$5 million to be paid by May 2012. FCM is one of the largest lessors of maintenance-of-way (MOW) equipment in the United States, and is located in Fenton, Michigan. This acquisition strengthens Progress Rail's position in the MOW industry by expanding its service offerings.

The transaction was financed with available cash. Tangible assets acquired of \$93 million, primarily consisting of property,

plant and equipment, were recorded at their fair values. Finite-lived intangible assets acquired of \$10 million related to customer relationships are being amortized on a straight-line basis over 15 years. Liabilities assumed of \$82 million, including \$59 million of assumed debt, were recorded at their fair values. Goodwill of \$17 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. 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 22. 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.

GE Transportation's Inspection Products Business

In March 2010, we acquired the Inspection Products business from GE Transportation's Intelligent Control Systems division for approximately \$46 million, which includes \$1 million paid for post-closing adjustments. The acquired business has operations located primarily in the United States, Germany and Italy that design, manufacture and sell hot wheel and hot box detectors, data acquisition systems, draggers and other related inspection products for the global freight and passenger rail industries. The acquisition supports our strategic initiative to expand the scope and product range of our rail signaling business and will provide a foundation for further global expansion of this business.

The transaction was financed with available cash. Tangible assets acquired of \$12 million and liabilities assumed of \$9 million were recorded at their fair values. Finite-lived intangible assets acquired of \$28 million related to customer relationships and intellectual property are being amortized on a straight-line basis over a weighted-average amortization period of approximately 13 years. Goodwill of \$15 million, approximately \$8 million of which is deductible for income tax purposes, represents the excess of cost over the fair value of the net tangible and finite-lived intangible assets acquired. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and are reported in the "All Other" category in Note 22. 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.

JCS Company, Ltd.

In March 2010, we acquired 100 percent of the equity in privately held JCS Company Ltd. (JCS) for approximately \$34 million, consisting of \$32 million paid at closing and an additional \$2 million post-closing adjustment paid in June 2010. Based in Pyongtaek, South Korea, JCS is a leading manufacturer of centrifugally cast metal face seals used in many of the idlers and rollers contained in our undercarriage components. JCS is also a large supplier of seals to external customers in Asia and presents the opportunity to expand our customer base. The purchase of this business provides Caterpillar access to proprietary technology and expertise, which we will be able to replicate across our own seal production processes.

The transaction was financed with available cash. Tangible assets acquired of \$22 million and liabilities assumed of \$8 million were recorded at their fair values. Finite-lived intangible assets acquired of \$12 million related to intellectual property and customer relationships are being amortized on a straight-line basis over a weighted-average amortization period of approximately 9 years. Goodwill of \$8 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. 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 "Core Components" segment in Note 22. 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.

NC² Joint Venture

In September 2009, we entered into a joint venture with Navistar International Corporation (Navistar), resulting in a new company, NC² Global LLC (NC²). NC² will develop, manufacture, market, distribute and provide product support for heavy and medium duty trucks outside of North America, the Indian subcontinent, Myanmar (Burma) and Malaysia. Initially, NC² will focus its activities in Australia, Brazil, and South Africa. NC²'s product line will feature both conventional and cab-over truck designs and will be sold under both the Caterpillar and International brands.

Under the joint venture operating agreement, Caterpillar and Navistar each contributed \$19 million during 2009 and \$80 million during 2010. Our investment in NC², accounted for by the equity method, is included in Investments in unconsolidated affiliated companies in Statement 2.

Lovat Inc.

In April 2008, we 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. 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 "Mining" segment in Note 22. 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.

Gremada Industries Inc.

In July 2008, we acquired certain assets and assumed certain liabilities of Gremada Industries, Inc. (Gremada), a supplier to our remanufacturing business. The cost of the acquisition was \$62 million, consisting of \$60 million paid at closing and an additional \$2 million post-closing adjustment paid in August 2008. Gremada is a remanufacturer of transmissions, torque converters, final drives and related components. This acquisition increases our product and service offerings for our existing customers, while providing a platform for further growth opportunities.

This transaction was financed with available cash and commercial paper borrowings. Net tangible assets acquired and liabilities assumed of \$21 million were recorded at their fair values. Goodwill of \$41 million, deductible for income tax purposes, represents the excess of cost over the fair value of net tangible

assets acquired. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and are reported in the "All Other" category in Note 22. 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.

Shin Caterpillar Mitsubishi Ltd. (SCM)

On August 1, 2008, SCM completed the first phase of a share redemption plan whereby SCM redeemed half of MHI's shares in SCM for \$464 million. This resulted in Caterpillar owning 67 percent of the outstanding shares of SCM and MHI owning the remaining 33 percent. As part of the share redemption, SCM was renamed Caterpillar Japan Ltd. (Cat Japan). Both Cat Japan and MHI have options, exercisable beginning August 1, 2013, to require the redemption of the remaining shares owned by MHI, which if exercised, would make Caterpillar the sole owner of Cat Japan. The 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 Cat Japan's manufacturing, design and process expertise to be fully leveraged across the global Caterpillar enterprise.

The change in Caterpillar's ownership interest from 50 percent to 67 percent was accounted for as a business combination. The \$464 million redemption price was assigned to 17 percent of Cat Japan's assets and liabilities based upon their respective fair values as of the transaction date. The revaluation resulted in an increase in property, plant and equipment of \$78 million and an increase in inventory of \$8 million over the book value of these assets. Finite-lived intangible assets of \$54 million were recognized and related primarily to customer relationships, intellectual property and trade names. These intangibles are being amortized on a straight-line basis over a weighted-average amortization period of approximately 9 years. Deferred tax liabilities of \$57 million were also recognized as part of the business combination. Goodwill of \$206 million, non-deductible for income tax purposes, represents the excess of the redemption price over the 17 percent of Cat Japan's net tangible and finite-lived intangible assets that were reported at their fair values.

Because Cat Japan is accounted for on a lag, we consolidated Cat Japan's August 1, 2008 financial position on September 30, 2008. We began consolidating Cat Japan's results of operations in the fourth quarter of 2008. Including the amounts assigned as part of the business combination, the initial consolidation of Cat Japan's financial position resulted in a net increase in assets of \$2,396 million (primarily property, plant and equipment of \$1,279 million, inventory of \$640 million, receivables of \$612 million, and goodwill and intangibles of \$260 million partially offset by a \$528 million reduction in investment in unconsolidated affiliates) and a net increase in liabilities of \$2,045 million (including \$1,388 million in debt). Cat Japan's functional currency is the Japanese yen.

The remaining 33 percent of Cat Japan owned by MHI has been reported as redeemable noncontrolling interest and classified as mezzanine equity (temporary equity) in Statement 2. On September 30, 2008, the redeemable noncontrolling interest was reported at its estimated future redemption value of \$464 million with the difference between the \$351 million book value of the 33 percent interest and the redemption value reported as a \$113 million reduction of Profit employed in the business. See Note 24 for information on the subsequent reporting of the redeemable noncontrolling interest.

Cat Japan is included in the "Cat Japan" segment in Note 22. 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.

24. Redeemable Noncontrolling Interest — Caterpillar Japan Ltd.

On August 1, 2008, Shin Caterpillar Mitsubishi Ltd. (SCM) completed the first phase of a share redemption plan whereby SCM redeemed half of Mitsubishi Heavy Industries (MHI's) shares in SCM. This resulted in Caterpillar owning 67 percent of the outstanding shares of SCM and MHI owning the remaining 33 percent. As part of the share redemption, SCM was renamed Caterpillar Japan Ltd. (Cat Japan). Both Cat Japan and MHI have options, exercisable beginning August 1, 2013, to require the redemption of the remaining shares owned by MHI, which if exercised, would make Caterpillar the sole owner of Cat Japan. See Note 23 for additional information.

The remaining 33 percent of Cat Japan owned by MHI has been reported as redeemable noncontrolling interest and classified as mezzanine equity (temporary equity) in Statement 2. The redeemable noncontrolling interest is reported at its estimated redemption value. Any adjustment to the redemption value impacts Profit employed in the business, but does not impact Profit. If the fair value of the redeemable noncontrolling interest falls below the redemption value, profit available to common stockholders would be reduced by the difference between the redemption value and the fair value. This would result in lower profit in the profit per common share computation in that period. Reductions impacting the profit per common share computation may be partially or fully reversed in subsequent periods if the fair value of the redeemable noncontrolling interest increases relative to the redemption value. Such increases in profit per common share would be limited to cumulative prior reductions. During 2010, the estimated redemption value decreased, resulting in adjustments to the carrying value of the redeemable noncontrolling interest. Profit employed in the business increased by \$27 million due to these adjustments. During 2009, the estimated redemption value decreased, resulting in adjustments to the carrying value of the redeemable noncontrolling interest. Profit employed in the business increased by \$81 million due to these adjustments. There was no change to the estimated redemption value in 2008. As of December 31, 2010, 2009 and 2008, the fair value of the redeemable noncontrolling interest remained greater than the estimated redemption value.

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

With the consolidation of Cat Japan's results of operations, 33 percent of Cat Japan's comprehensive income or loss is attributed to the redeemable noncontrolling interest, impacting its carrying value. Because the redeemable noncontrolling interest must be reported at its estimated future redemption value, the impact from attributing the comprehensive income or loss is

offset by adjusting the carrying value to the redemption value. This adjustment impacts Profit employed in the business, but not Profit. In 2010, the carrying value had increased by \$55 million due to Cat Japan's comprehensive income. This resulted in an offsetting adjustment of \$55 million to decrease the carrying value to the redemption value and a corresponding increase to Profit employed in the business. In 2009 and 2008, the carrying value had decreased by \$53 million and \$2 million, respectively, due to Cat Japan's comprehensive loss. This resulted in an offsetting adjustment of \$53 million in 2009 and \$2 million in 2008 to increase the carrying value to the redemption value and a corresponding reduction to Profit employed in the business. As Cat Japan's functional currency is the Japanese yen, changes in exchange rates affect the reported amount of the redeemable noncontrolling interest. At December 31, 2010, 2009 and 2008, the redeemable noncontrolling interest was \$461 million, \$477 million and \$524 million, respectively.

25. Employee separation charges

In 2008, we recognized employee separation charges of \$30 million in Other operating (income) expenses in Statement 1 related to various voluntary and involuntary separation programs. These programs, impacting 3,085 employees worldwide, were in response to a sharp decline in sales volume due to the global recession.

In 2009, continued cost reduction efforts worldwide resulted in additional separation charges of \$481 million, recognized in Other operating (income) expenses in Statement 1. These efforts related to the following separation programs:

U.S. Voluntary Separation Program — During December 2008, we announced a voluntary separation program for certain support and management employees based in the United States. Eligible employees had until January 12, 2009 to sign up for the program, and generally until January 31, 2009 to make a final decision. Participating employees received severance pay based on current salary level and years of service. During 2009, 2,182 employees accepted the program, all of which were separated from Caterpillar by the end of 2009.

Other U.S. Separation Programs — During 2009, we initiated plans to reduce U.S. based positions through a variety of programs. These programs represent both voluntary and involuntary separation plans. During 2009, 6,611 employees accepted or were subject to these programs.

Non-U.S. Separation Programs — During 2009, we initiated several other separation programs outside the U.S. These programs, designed specific to the laws and regulations of the individual countries, represent voluntary and involuntary plans. During 2009, 7,075 employees accepted or were subject to the various programs.

In 2010, we recognized employee separation charges of \$33 million in Other operating (income) expenses in Statement 1 primarily related to involuntary separations due to the streamlining of our corporate structure as announced in the second quarter. In addition, see Note 2 for information regarding stock-based compensation cost associated with the modification of equity awards for employees affected by the separations.

Our accounting for separations is dependent upon how the particular program is designed. For voluntary programs, eligible separation costs are recognized at the time of employee acceptance. For involuntary programs, eligible costs are recognized when management has approved the program, the affected employees have been properly identified and the costs are estimable.

The following table summarizes the 2008, 2009 and 2010 separation activity by geographic region:

(Millions of dollars)	Machinery and Engines					Total
	North America	Latin America	EAME	Asia/Pacific	Financial Products ¹	
Increase in liability (separation charges)	\$ 4	\$ 9	\$ 17	\$ —	\$ —	\$ 30
Reduction in liability (payments and other adjustments)	—	(7)	(12)	—	—	(19)
Liability balance at December 31, 2008	\$ 4	\$ 2	\$ 5	\$ —	\$ —	\$ 11
Increase in liability (separation charges)	\$ 323	\$ 15	\$ 102	\$ 31	\$ 10	\$ 481
Reduction in liability (payments and other adjustments)	(313)	(17)	(78)	(25)	(10)	(443)
Liability balance at December 31, 2009	\$ 14	\$ —	\$ 29	\$ 6	\$ —	\$ 49
Increase in liability (separation charges)	\$ 17	\$ —	\$ 8	\$ 7	\$ 1	\$ 33
Reduction in liability (payments and other adjustments)	(26)	—	(23)	(11)	—	(60)
Liability balance at December 31, 2010	\$ 5	\$ —	\$ 14	\$ 2	\$ 1	\$ 22

¹ Includes \$8 million for North America and \$2 million for EAME in 2009 and \$1 million for EAME in 2010.

The remaining liability balances as of December 31, 2010 represent costs for employees that have either not yet separated from the Company or their full severance has not yet been paid. The majority of these remaining costs are expected to be paid in 2011.

The number of employees affected by the separations in 2010 was not significant. The following table summarizes the number of employees that accepted or were subject to the 2008 and 2009 programs:

	2009	2008
Impacted employees at beginning of period	1,505	—
Impacted employees during the period	15,868	3,085
Employee separations during the period	(16,970)	(1,580)
Impacted employees remaining at the end of period	403	1,505

In addition to the 2009 separation charges noted above, we reported \$225 million of costs associated with certain pension and other postretirement benefit plans, which were also recognized in Other operating (income) expenses in Statement 1. See Note 12 for additional information.

The majority of the separation charges, made up primarily of cash severance payments, pension and other postretirement benefit costs, and stock-based compensation costs noted above were not assigned to operating segments. They are included in the reconciliation of total accountable profit from reportable segments to total profit before taxes. See Note 22 for additional details surrounding this reconciliation.

26. Selected quarterly financial results (unaudited)

(Dollars in millions except per share data)	2010 Quarter			
	1st	2nd	3rd	4th
Sales and revenues	\$ 8,238	\$ 10,409	\$ 11,134	\$ 12,807
Less: Revenues	(687)	(686)	(682)	(666)
Sales	7,551	9,723	10,452	12,141
Cost of goods sold	5,894	7,372	7,752	9,349
Gross margin	1,657	2,351	2,700	2,792
Profit (loss) ¹	\$ 233	\$ 707	\$ 792	\$ 968
Profit (loss) per common share	\$ 0.37	\$ 1.12	\$ 1.25	\$ 1.52
Profit (loss) per common share — diluted ^{2,3}	\$ 0.36	\$ 1.09	\$ 1.22	\$ 1.47

	2009 Quarter			
	1st	2nd	3rd	4th
Sales and revenues	\$ 9,225	\$ 7,975	\$ 7,298	\$ 7,898
Less: Revenues	(715)	(721)	(715)	(705)
Sales	8,510	7,254	6,583	7,193
Cost of goods sold	7,027	5,752	5,255	5,852
Gross margin	1,483	1,502	1,328	1,341
Profit (loss) ¹	\$ (112)	\$ 371	\$ 404	\$ 232
Profit (loss) per common share	\$ (0.19)	\$ 0.61	\$ 0.65	\$ 0.37
Profit (loss) per common share — diluted ^{2,3}	\$ (0.19)	\$ 0.60	\$ 0.64	\$ 0.36

¹ Profit (loss) attributable to common stockholders.

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

³ In the first quarter 2009, the assumed exercise of stock-based compensation awards was not considered because the impact would be anti-dilutive.

Five-year Financial Summary
(Dollars in millions except per share data)

Caterpillar Inc.

	2010	2009	2008	2007	2006
Years ended December 31,					
Sales and revenues	\$ 42,588	\$ 32,396	\$ 51,324	\$ 44,958	\$ 41,517
Sales	\$ 39,867	\$ 29,540	\$ 48,044	\$ 41,962	\$ 38,869
Percent inside the United States	32%	31%	33%	37%	46%
Percent outside the United States	68%	69%	67%	63%	54%
Revenues	\$ 2,721	\$ 2,856	\$ 3,280	\$ 2,996	\$ 2,648
Profit ^{4, 6}	\$ 2,700	\$ 895	\$ 3,557	\$ 3,541	\$ 3,537
Profit per common share ^{1, 6}	\$ 4.28	\$ 1.45	\$ 5.83	\$ 5.55	\$ 5.37
Profit per common share — diluted ^{2, 6}	\$ 4.15	\$ 1.43	\$ 5.66	\$ 5.37	\$ 5.17
Dividends declared per share of common stock	\$ 1.740	\$ 1.680	\$ 1.620	\$ 1.380	\$ 1.150
Return on average common stockholders' equity ^{3, 5, 6}	27.4%	11.9%	46.8%	44.4%	45.9%
Capital expenditures:					
Property, plant and equipment	\$ 1,575	\$ 1,504	\$ 2,320	\$ 1,682	\$ 1,531
Equipment leased to others	\$ 1,011	\$ 968	\$ 1,566	\$ 1,340	\$ 1,082
Depreciation and amortization	\$ 2,296	\$ 2,336	\$ 1,980	\$ 1,797	\$ 1,602
Research and development expenses	\$ 1,905	\$ 1,421	\$ 1,728	\$ 1,404	\$ 1,347
As a percent of sales and revenues	4.5%	4.4%	3.4%	3.1%	3.2%
Wages, salaries and employee benefits	\$ 9,187	\$ 7,416	\$ 9,076	\$ 8,331	\$ 7,512
Average number of employees	98,504	99,359	106,518	97,444	90,160
December 31,					
Total assets ⁶	\$ 64,020	\$ 60,038	\$ 67,782	\$ 56,132	\$ 51,449
Long-term debt due after one year:					
Consolidated	\$ 20,437	\$ 21,847	\$ 22,834	\$ 17,829	\$ 17,680
Machinery and Engines	\$ 4,505	\$ 5,652	\$ 5,736	\$ 3,639	\$ 3,694
Financial Products	\$ 15,932	\$ 16,195	\$ 17,098	\$ 14,190	\$ 13,986
Total debt:					
Consolidated	\$ 28,418	\$ 31,631	\$ 35,535	\$ 28,429	\$ 27,296
Machinery and Engines	\$ 5,204	\$ 6,387	\$ 7,824	\$ 4,006	\$ 4,277
Financial Products	\$ 23,214	\$ 25,244	\$ 27,711	\$ 24,423	\$ 23,019

¹ Computed on weighted-average number of shares outstanding.

² Computed on weighted-average number of shares outstanding diluted by assumed exercise of stock-based compensation awards, using the treasury stock method.

³ Represents profit divided by average stockholders' equity (beginning of year stockholders' equity plus end of year stockholders' equity divided by two).

⁴ Profit attributable to common stockholders.

⁵ Effective January 1, 2009, we changed the manner in which we accounted for noncontrolling interests. Prior periods have been revised, as applicable.

⁶ In 2007 we changed the manner in which we accounted for uncertain tax positions.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We reported sales and revenues of \$42.588 billion for 2010, an increase of 31 percent from \$32.396 billion in 2009. Profit in 2010 was \$2.700 billion, an increase of 202 percent from 2009 profit of \$895 million. Profit per share of \$4.15 was up from \$1.43 in 2009. Excluding **redundancy costs**, profit per share in 2009 was \$2.18.

Fourth-quarter sales and revenues were \$12.807 billion, an increase of 62 percent compared with \$7.898 billion in the fourth quarter of 2009. Fourth-quarter profit of \$968 million was 317 percent higher than profit of \$232 million in the fourth quarter of 2009. Profit per share of \$1.47 was up from \$0.36 per share in the fourth quarter of 2009. Excluding redundancy costs, profit for the fourth quarter of 2009 was \$0.41 per share.

As the global economy continued to improve, the demand for Caterpillar products increased with fourth-quarter sales and revenues up 62 percent. During 2010, we substantially ramped up production, improved factory efficiency, drove **Machinery and Engines (M&E)** operating cash flow to an all-time record, launched a number of capacity additions and new product programs to prepare us for the future and announced several acquisitions.

Highlights for 2010 include:

- 2010 sales and revenues of \$42.588 billion were 31 percent higher than 2009. The improvement is a result of economic

growth in the developing world and improvement from low levels of machine demand in 2009 in developed countries. **Machinery** sales increased 53 percent from 2009, **Engines** sales were up 6 percent and **Financial Products** revenues declined 5 percent.

- In 2010, dealers increased new machine inventories about \$800 million, while new engine inventories were about flat. In 2009, dealers reduced new machine inventories \$3.4 billion and new engine inventories \$600 million.
- Profit per share was \$4.15 in 2010, an increase from \$1.43 per share or \$2.18 per share excluding redundancy costs in 2009.
- **Manufacturing costs** improved \$909 million from 2009. Excluding pre-tax **LIFO inventory decrement benefits** of \$300 million in 2009, manufacturing costs improved \$1.209 billion.
- Machinery and Engines operating cash flow was a record \$5.638 billion in 2010, compared with \$3.147 billion in 2009.
- Machinery and Engines **debt-to-capital ratio** was 34.8 percent at the end of 2010, compared to 47.2 percent at year-end 2009.
- Portfolio performance metrics at Cat Financial continued to improve. For example, past dues declined to 3.87 percent at the end of 2010 from 5.54 percent at the end of 2009.

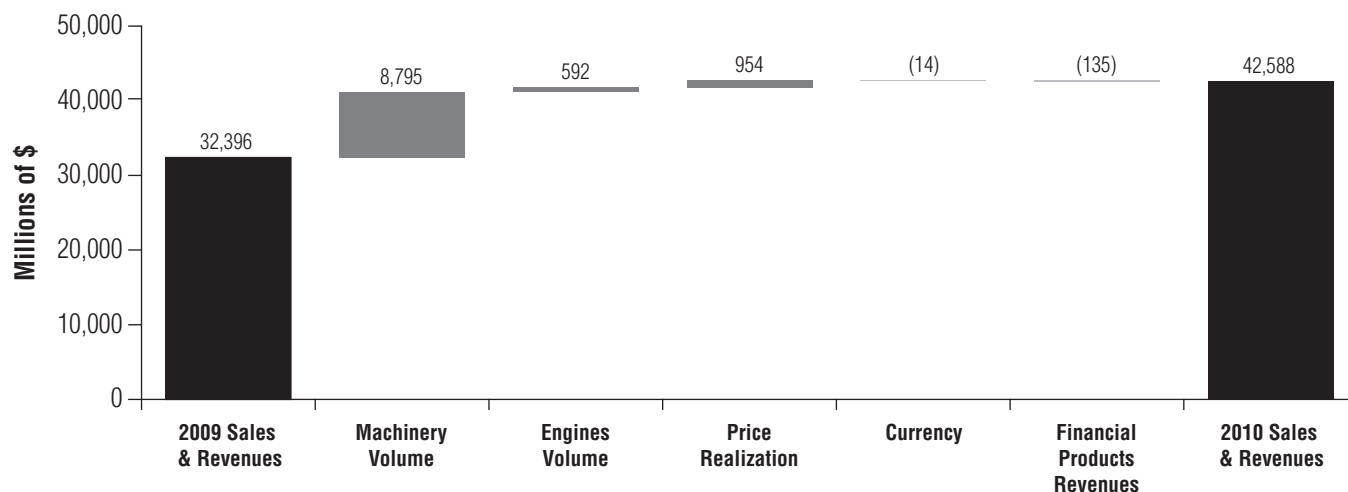
*Glossary of terms included on pages A-74 to A-75; first occurrence of terms shown in bold italics.

2010 COMPARED WITH 2009

SALES AND REVENUES

Consolidated Sales and Revenues Comparison

2010 vs. 2009



The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between 2009 (at left) and 2010 (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. The bar entitled Machinery Volume includes EMD sales. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Sales and revenues for 2010 were \$42.588 billion, up \$10.192 billion, or 31 percent, from 2009. Machinery **sales volume** was up \$8.795 billion primarily due to higher end-user demand and the absence of dealer inventory reductions that occurred in 2009. Engines sales volume increased \$592 million, primarily because of higher sales of engines for electric power and industrial applications

partially offset by lower sales of engines for marine and petroleum applications. **Price realization** improved \$954 million, and **currency** had a negative impact on sales of \$14 million. Financial Products revenues decreased \$135 million primarily due to lower average **earning assets**.

Our **integrated service businesses** tend to be more stable through the business cycle than new machines and engines. Sales and revenues for these businesses in 2010 were higher compared to 2009. However, with the increase in sales of new machines and

engines, integrated service businesses represented a lower percent of total company sales and revenues than the prior year. These businesses represented about 40 percent of total company sales and revenues in 2010, down from about 46 percent in 2009.

Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	Latin America	% Change	EAME	% Change	Asia/ Pacific	% Change
2010										
Machinery	\$27,767	53%	\$10,419	49%	\$ 4,292	68%	\$ 5,574	36%	\$ 7,482	67%
Engines ¹	12,100	6%	4,103	12%	1,565	45%	4,021	(6)%	2,411	2%
Financial Products ²	2,721	(5)%	1,571	(8)%	297	11%	427	(14)%	426	12%
	<u>\$42,588</u>	<u>31%</u>	<u>\$16,093</u>	<u>30%</u>	<u>\$ 6,154</u>	<u>58%</u>	<u>\$10,022</u>	<u>13%</u>	<u>\$10,319</u>	<u>43%</u>
2009										
Machinery	\$18,148		\$ 6,993		\$ 2,555		\$ 4,112		\$ 4,488	
Engines ¹	11,392		3,652		1,080		4,295		2,365	
Financial Products ²	2,856		1,714		268		495		379	
	<u>\$32,396</u>		<u>\$12,359</u>		<u>\$ 3,903</u>		<u>\$ 8,902</u>		<u>\$ 7,232</u>	

¹ Does not include internal engines transfers of \$2.523 billion and \$1.560 billion in 2010 and 2009, 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 \$265 million and \$312 million in 2010 and 2009, respectively.

Machinery Sales

Sales were \$27.767 billion, an increase of \$9.619 billion, or 53 percent, from 2009.

- Excluding EMD sales of \$573 million, sales volume increased \$8.222 billion.
- Price realization improved \$756 million, including \$20 million of favorable geographic mix between regions.
- Currency increased sales by \$68 million.
- The improvement in volume required our factories to increase machine shipments in 2010 by the largest amount, in both dollars and percent, in more than 30 years. Shipping volume late in 2010 was more than double what it was early in the year.
- Dealers added about \$800 million to inventories in 2010. In 2009 dealers reduced new machine inventories about \$3.4 billion. However, in months of supply, dealer inventories were lower than both year-end 2009 and the historical average.
- Economic recoveries in most countries encouraged users to increase machine purchases, either to expand fleets or slow their deterioration.
- Recovery in machine sales is further along in developing economies where recessions were less severe and governments acted aggressively to promote growth. In particular, dealer deliveries in Asia/Pacific hit a record high in 2010, and those in **Latin America** were near record highs.
- Developed economies responded slowly to economic downturns, and high unemployment remains a problem for the United States, Europe and Japan. Weak labor markets have impeded recoveries in housing, office and retail construction.
- Growth in developing economies drove demand for metals and energy at a time when supplies were limited. As a result, prices increased substantially in 2010. For example, Australian thermal coal prices increased 38 percent, and copper, gold and tin prices reached record highs. Higher prices lifted mining output in many countries, which increased demand for our equipment.

North America — Sales increased \$3.426 billion, or 49 percent.

- Excluding EMD sales of \$260 million, sales volume increased \$2.791 billion.
- Price realization improved \$373 million.
- Sales volume improved as a result of higher end-user demand and the absence of 2009 dealer inventory reductions. In 2009 dealers reduced inventories about \$900 million and in 2010 they added about \$100 million. Dealer-reported inventories in months of supply at year-end 2010 were lower than both the end of 2009 and the historical average.
- Low interest rates and modest economic recoveries in both Canada and the United States encouraged customers to increase purchases for the first time since 2006. Most industries improved with the largest gains in infrastructure-related construction and mining.
- As output in key industries either recovered weakly or declined further, we believe increased deliveries represented an effort by users to slow the extended deterioration in their fleets.
- Dealers increased the volume of machines they added to their rental fleets in 2010. However, despite higher additions than in 2009 the size of rental fleets declined in 2010, and the average fleet age increased.
- U.S. housing starts increased 6 percent, resulting in the second worst year for housing since 1945. The weak job market held household formations at approximately half the long-term average. As a result, new home sales declined 15 percent. Canadian housing starts increased 29 percent and are almost back to prerecession levels.
- Orders for U.S. nonresidential building construction dropped 15 percent, the third year of declines. Both office and industrial vacancy rates increased further, and selling prices for commercial properties declined. However, in Canada, non-residential construction permits increased 11 percent.
- Orders for U.S. highway construction increased 1 percent. Budget difficulties caused state governments to reduce overall investment spending about 4 percent, but the U.S. Federal

government offset that decline with a 14-percent increase in investment spending.

- The increase in metal prices, a result of demand from developing countries, encouraged mines to increase both production and investment. U.S. production increased 10 percent, and Canadian production increased 2 percent.
- The Central Appalachian coal price rose 23 percent, and U.S. coal production increased 1 percent. Utilities increased usage at a faster rate, causing their stocks to decline. Coal exports through September were up 47 percent. Canadian producers increased output 23 percent.

Latin America — Sales increased \$1.737 billion, or 68 percent.

- Excluding EMD sales of \$8 million, sales volume increased \$1.497 billion.
- Price realization increased \$137 million, and currency increased sales by \$95 million.
- Dealers added about \$200 million in inventory in 2010, compared to a reduction of about \$600 million in 2009. Inventories in months of supply at year-end 2010 were slightly lower than year-end 2009 but lagged the historical average considerably.
- Nearly all countries lowered interest rates, and financial conditions improved. Most economies grew, and exports recovered. Construction rebounded in several countries. Higher commodity prices benefited both mining and energy sectors.
- Brazil raised interest rates, and its currency strengthened. However, industrial production increased 11 percent, construction employment was up 27 percent, and higher iron ore prices triggered a 33-percent increase in ore production. Brazil was the largest contributor to higher machinery volume in the region.
- Mexico was the second largest contributor to volume growth. Positive factors were lower interest rates, higher mining production and a more than 30-percent increase in exports.
- Volume more than doubled in Peru, the third largest contributor to the region's higher sales volume. Peru benefited from a 200 basis point reduction in interest rates, increased exports and a 14-percent increase in manufacturing production.
- Lower interest rates and higher copper prices contributed to sales volume growth in Chile.

EAME — Sales increased \$1.462 billion, or 36 percent.

- Excluding EMD sales of \$160 million, sales volume increased \$1.428 billion.
- Price realization decreased \$12 million, and currency decreased sales by \$114 million.
- Dealer inventories at the end of 2010 were about the same as year-end 2009. During 2009, dealers reduced inventories by about \$1.2 billion. Dealer-reported inventories in months of supply at year-end 2010 were lower than year-end 2009 and also trailed the historical average.
- Despite modest economic growth and government debt problems in the Euro-zone, Europe was the biggest contributor to volume growth in the region.
- Interest rates declined in both the Euro-zone and the United Kingdom, and liquidity improved. Loans for home purchases increased.
- Euro-zone housing permits were at low levels early in 2010, but the subsequent slow recovery left permits down for the full year. In the United Kingdom, housing orders were up 39 percent. Nonresidential construction declined in both the Euro-zone and the United Kingdom.
- Oil-producing countries accounted for the largest part of the volume gain in Africa/Middle East. Oil prices rose 29 percent,

production increased 1 percent, and the number of operating drill rigs expanded by 11 percent.

- Sales volume also increased in the larger economies of Turkey and South Africa. Both countries reduced interest rates, and economic recoveries strengthened. Sales in Turkey benefited from an 18-percent increase in construction, and South African mining was up 6 percent.
- Russia and Kazakhstan were major contributors to volume growth in the CIS. Both countries cut interest rates by more than 350 basis points, and monetary growth exceeded 30 percent. Governments also increased spending on construction. In response to higher commodity prices, both mining and energy production increased more than 2 percent.

Asia/Pacific — Sales increased \$2.994 billion, or 67 percent.

- Excluding EMD sales of \$145 million, sales volume increased \$2.526 billion.
- Price realization improved \$238 million, and currency benefited sales by \$85 million.
- Dealers added about \$500 million to inventories in 2010, compared to a reduction of more than \$700 million in 2009. Dealer-reported inventories in months of supply at year-end 2010 were slightly below the historical average.
- Most governments maintained accommodative interest rate and budget policies implemented in response to the financial crisis. As a result, economic recoveries were among the strongest in the world, which raised demand for construction. Continued economic growth drove demand for metals, which benefited the region's large mining industry.
- China, the world's largest user of construction equipment, accounted for roughly half of the region's volume growth. While the Chinese government took actions to slow the economy, industrial production still increased 16 percent. Housing spending increased 33 percent. Nonresidential spending was up 19 percent, and coal mining expanded 21 percent.
- Australia raised interest rates 100 basis points, and some construction indicators softened. However, higher coal and metals prices easily offset construction difficulties, resulting in higher machinery sales compared with 2009. Mining production increased more than 7 percent, and capital spending rose nearly 10 percent.
- Indonesia held interest rates at a record low, allowing 6-percent growth in the economy. Increased construction and mining production led to higher sales volume.
- India raised interest rates, but industrial production increased nearly 11 percent. Both construction and mining production increased nearly 10 percent leading to an increase in sales volume.
- We believe that the Japanese economy grew more than 4 percent in 2010, the best growth since 1990. Housing construction improved, but nonresidential construction deteriorated further.

Engines Sales

Sales were \$12.100 billion, an increase of \$708 million, or 6 percent, from 2009.

- Sales volume increased \$592 million.
- Price realization increased \$198 million.
- Currency decreased sales by \$82 million.
- Geographic mix between regions (included in price realization) was \$19 million favorable.
- Dealer-reported inventories were about flat, and months of supply were down from 2009.

North America — Sales increased \$451 million, or 12 percent.

- Sales volume increased \$418 million.
- Price realization increased \$34 million.
- Currency decreased sales by \$1 million.
- Sales for industrial applications increased 24 percent due to higher sales to Original Equipment Manufacturers (OEMs) and higher demand in construction.
- Sales for electric power applications increased 27 percent primarily due to increased sales into dealer rental fleets and dealer inventory replenishment.
- Sales for petroleum applications decreased 4 percent primarily due to lower turbine sales and a decrease in sales of engines used for gas compression and drilling.

Latin America — Sales increased \$485 million, or 45 percent.

- Sales volume increased \$448 million.
- Price realization increased \$25 million.
- Currency increased sales by \$12 million.
- Sales of electric power applications increased 101 percent due to higher turbine sales from one large order and improvements in industry demand.
- Sales for petroleum applications increased 35 percent due to higher turbine sales from one large order.

EAME — Sales decreased \$274 million, or 6 percent.

- Sales volume decreased \$278 million.
- Price realization increased \$80 million.
- Currency decreased sales by \$76 million.
- Sales for petroleum applications decreased 29 percent primarily due to lower turbine sales as well as a slowdown in demand for engines used in production applications and land-based drilling.
- Sales for marine applications decreased 31 percent due to weak industry demand and a declining order backlog.

- Sales for industrial applications increased 34 percent due to higher demand in construction and agricultural applications.
- Sales for electric power applications were about flat with 2009, with declines in sales of turbines about offset by higher demand throughout the region for reciprocating generator sets.

Asia/Pacific — Sales increased \$46 million, or 2 percent.

- Sales volume increased \$23 million.
- Price realization increased \$40 million.
- Currency decreased sales by \$17 million.
- Sales for electric power applications increased 22 percent primarily due to higher demand throughout the region.
- Sales for industrial applications increased 47 percent primarily due to increased demand from OEMs.
- Sales for petroleum applications decreased 8 percent due to lower turbine sales, partially offset by an increase in sales associated with Chinese land-based drill activity.
- Sales for marine applications decreased 18 percent due to weak industry demand, partially offset by higher sales for workboat and general cargo vessels.

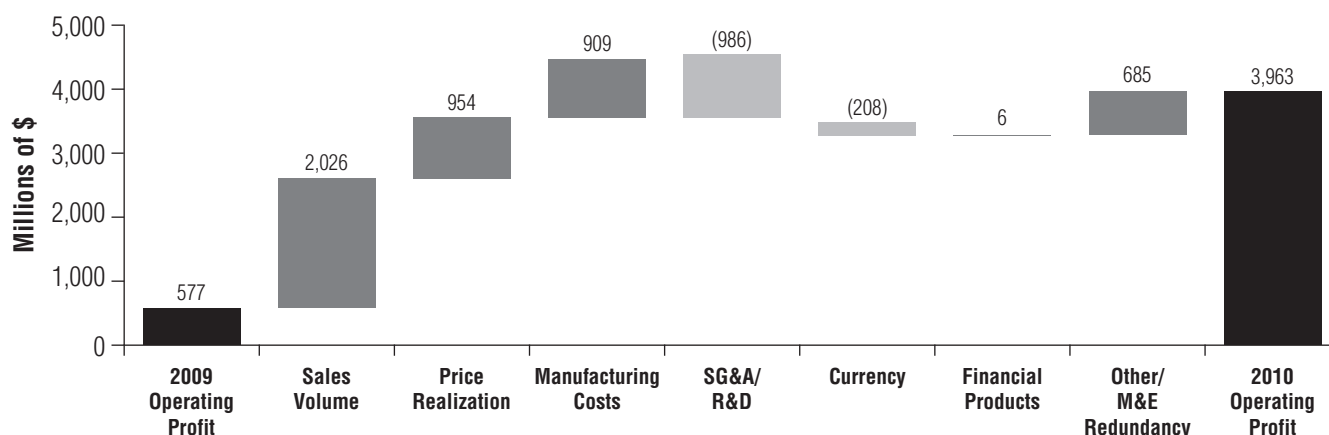
Financial Products Revenues

Revenues were \$2.721 billion, a decrease of \$135 million, or 5 percent, from 2009.

- Revenues decreased \$189 million due to a decrease in average earning assets.
- Other revenues at Cat Financial increased \$62 million, driven by a \$53 million favorable change from returned and repossessed equipment and the absence of \$34 million in write-downs on retained interests related to the securitized asset portfolio in 2009, partially offset by the unfavorable impact from various other revenue items.

OPERATING PROFIT**Consolidated Operating Profit Comparison**

2010 vs. 2009



The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between 2009 (at left) and 2010 (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. The bar entitled Other/M&E Redundancy includes the operating profit impact of EMD and **consolidating adjustments** and **Machinery and Engines other operating (income) expenses**, which include Machinery and Engines redundancy costs. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Operating profit in 2010 was \$3.963 billion compared to \$577 million in 2009. The improvement was primarily the result of higher sales volume, which included the impact of an unfavorable change in product mix of more than \$1 billion. In addition, price realization improved, and manufacturing costs were lower. The improvements were partially offset by higher selling, general and administrative (SG&A) and research and development (R&D) expenses and a \$208 million unfavorable impact from currency.

The negative change in product mix in 2010 compared to 2009 was primarily due to three key factors. First, product mix within Machinery and Engines were both negative as sales growth was higher in lower margin machines and engines than higher margin products. Second, Engines have a higher operating margin than Machinery, and Machinery sales grew 53 percent compared to 6 percent for Engines. Lastly, integrated service businesses sales were a lower percent of total sales in 2010 compared to 2009 which negatively impacted product mix as

integrated service businesses have higher operating margins than new equipment.

Manufacturing costs improved \$909 million primarily due to variable labor and burden efficiencies and lower warranty and material costs, partially offset by the absence of \$300 million of LIFO inventory decrement benefits.

SG&A and R&D expenses increased by \$986 million primarily due to provisions for incentive pay and increased costs to support new product development programs, including those related to emissions requirements.

Redundancy costs were \$706 million in 2009.

A key measure of performance is the amount of incremental operating profit we earn on incremental sales and revenues. Excluding EMD, sales and revenues increased \$9.619 billion from 2009 to 2010. Excluding redundancy costs and LIFO decrement benefits in 2009 and EMD operating profit of \$62 million in 2010, operating profit increased \$2.918 billion. The resulting incremental operating profit rate is 30 percent.

Operating Profit (Loss) by Principal Line of Business

(Millions of dollars)	2010	2009	\$ Change	% Change
Machinery ¹	\$ 1,991	\$(1,007)	\$ 2,998	— ²
Engines ¹	1,796	1,464	332	23%
Financial Products.....	387	381	6	2%
Consolidating Adjustments.....	(211)	(261)	50	
Consolidated Operating Profit	<u>\$ 3,963</u>	<u>\$ 577</u>	<u>\$ 3,386</u>	587%

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.

² Because 2009 was a loss for Machinery, the percent change is not meaningful.

- **Machinery** operating profit was \$1.991 billion compared to an operating loss of \$1.007 billion in 2009. Positive factors included higher sales volume, which included the impact of an unfavorable change in product mix, improved price realization, lower manufacturing costs (despite the absence of LIFO decrement benefits) and the absence of 2009 redundancy costs. These improvements were partially offset by higher SG&A and R&D expenses and the negative impact of currency.
- **Engines** operating profit of \$1.796 billion was up \$332 million from 2009. Improved manufacturing costs, absence of 2009 redundancy costs, improved price realization and higher sales volume, which included the impact of an unfavorable change in product mix, were partially offset by higher SG&A and R&D expenses and the negative impact of currency.

- **Financial Products** operating profit of \$387 million was up \$6 million, or 2 percent, from 2009. The increase was attributable to a \$53 million favorable change from returned and repossessed equipment, the absence of \$34 million in write-downs on retained interests related to the securitized asset portfolio in 2009, a \$25 million favorable impact due to lower claims experience at Cat Insurance and a \$20 million decrease in the provision for credit losses at Cat Financial, partially offset by an \$82 million unfavorable impact from lower average earning assets and a \$44 million increase in SG&A expenses (excluding the provision for credit losses).

OTHER PROFIT/LOSS ITEMS

- **Interest expense excluding Financial Products** decreased \$46 million from 2009 primarily due to a reduction in debt.
- **Other income/expense** was income of \$130 million compared with income of \$381 million in 2009. The decrease was primarily driven by an unfavorable impact from currency gains and losses. Machinery and Engines currency derivative losses were near \$50 million in 2010 compared with gains of more than \$200 million in 2009.
- **The provision for income taxes** of \$968 million for 2010 reflects a tax rate of 25 percent, excluding the discrete items discussed below, which is less than the U.S. corporate tax rate of 35 percent primarily due to profits in tax jurisdictions with rates lower than the U.S. rate.
The provision for income taxes for 2010 also includes a deferred tax charge of \$90 million due to the enactment of U.S. health care legislation, effectively making government subsidies received for Medicare equivalent prescription drug coverage taxable. This deferred tax charge was partially offset by a

\$34 million benefit related to the recognition of refund claims for prior tax years and a \$26 million benefit for the release of a valuation allowance against the deferred tax assets of certain non-U.S. entities due to tax planning actions implemented in 2010.

In 2009, income taxes were a benefit of \$270 million, driven primarily by a favorable geographic mix of profits and losses from a tax perspective along with tax benefits related to prior-year tax returns of \$133 million.

- **Equity in profit/loss of unconsolidated affiliated companies** negatively impacted profit by \$12 million compared to 2009. The change is primarily related to start-up expenses from NC² Global LLC, our joint venture with Navistar.
- **Profit/loss attributable to noncontrolling interests** negatively impacted profit by \$126 million compared to 2009, primarily due to improved financial performance of **Caterpillar Japan Ltd. (Cat Japan)**. Caterpillar owns two-thirds of Cat Japan, meaning one-third of its profits or losses are attributable to our partner, Mitsubishi Heavy Industries.

Supplemental Information

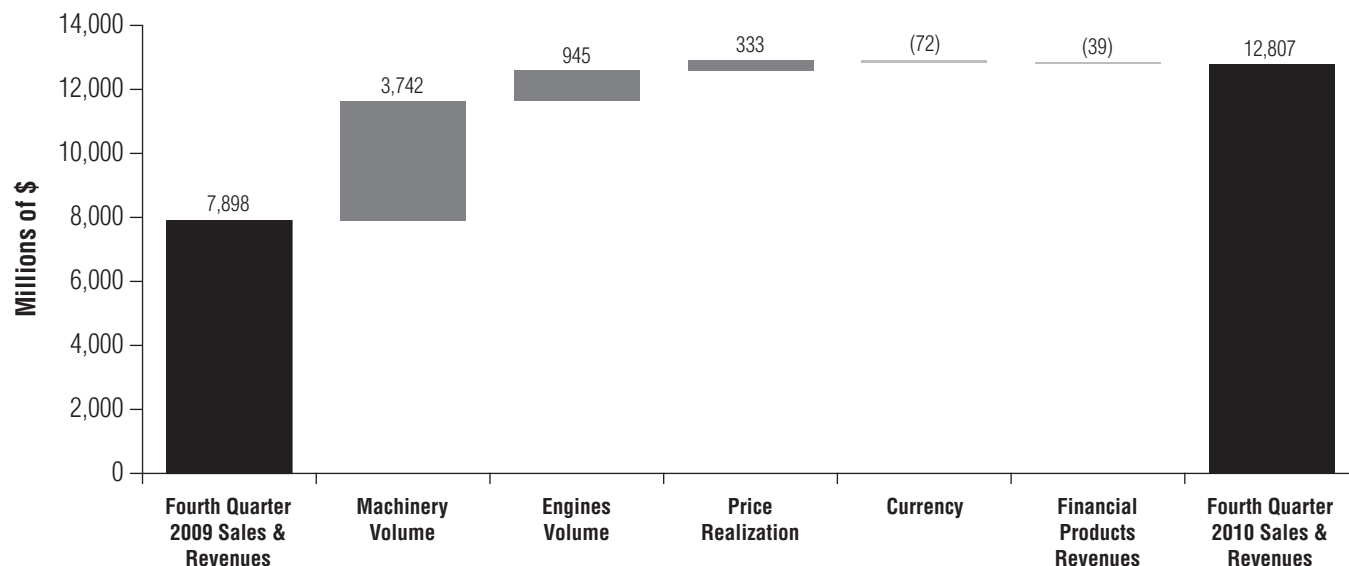
(Millions of dollars)

	2010	2009	2008
Assets:			
Machinery.....	\$ 26,329	\$ 22,037	\$ 24,607
Engines.....	13,162	12,159	13,672
Financial Products.....	30,113	31,975	34,381
Consolidating Adjustments.....	(5,584)	(6,133)	(4,878)
Total	<u>\$ 64,020</u>	<u>\$ 60,038</u>	<u>\$ 67,782</u>
Capital Expenditures:			
Machinery.....	\$ 1,111	\$ 910	\$ 1,559
Engines.....	552	590	737
Financial Products.....	992	976	1,612
Consolidating Adjustments.....	(69)	(4)	(22)
Total	<u>\$ 2,586</u>	<u>\$ 2,472</u>	<u>\$ 3,886</u>
Depreciation and Amortization:			
Machinery.....	\$ 1,062	\$ 1,120	\$ 839
Engines.....	511	474	386
Financial Products.....	723	742	755
Total	<u>\$ 2,296</u>	<u>\$ 2,336</u>	<u>\$ 1,980</u>

Caterpillar operations are highly integrated; therefore, the company uses a number of allocations to determine lines of business financial data.

FOURTH QUARTER 2010 COMPARED WITH FOURTH QUARTER 2009**SALES AND REVENUES****Consolidated Sales and Revenues Comparison**

Fourth Quarter 2010 vs. Fourth Quarter 2009



The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between the fourth quarter of 2009 (at left) and the fourth quarter of 2010 (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. The bar entitled Machinery Volume includes EMD sales. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Sales and revenues for the fourth quarter of 2010 were \$12.807 billion, up \$4.909 billion, or 62 percent, from the fourth quarter of 2009. Machinery sales volume was up \$3.742 billion due to higher end-user demand and changes in dealer inventory. Dealer inventory increased in the fourth quarter of 2010 and decreased in the fourth quarter of 2009. Engines sales volume increased \$945 million primarily because of higher sales of engines for electric power, petroleum and industrial applications. Price realization improved \$333 million, and currency had a negative impact on sales of \$72 million. Financial Products revenues decreased \$39 million primarily due to lower average earning assets.

Our integrated service businesses tend to be more stable through the business cycle than new machines and engines. Sales and revenues for these businesses in the fourth quarter of 2010 were higher compared to the fourth quarter of 2009. However, with the increase in sales of new machines and engines, integrated service businesses represented a lower percent of total company sales and revenues than the prior year. These businesses represented about 36 percent of total company sales and revenues in the fourth quarter of 2010, down from approximately 48 percent in the fourth quarter of 2009.

Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	Latin America	% Change	EAME	% Change	Asia/Pacific	% Change
Fourth Quarter 2010										
Machinery	\$ 8,571	88%	\$ 3,240	108%	\$ 1,228	53%	\$ 1,807	88%	\$ 2,296	85%
Engines ¹	3,570	36%	1,245	66%	489	91%	1,220	20%	616	1%
Financial Products ²	666	(6)%	374	(10)%	78	7%	103	(15)%	111	17%
	<u>\$ 12,807</u>	<u>62%</u>	<u>\$ 4,859</u>	<u>78%</u>	<u>\$ 1,795</u>	<u>59%</u>	<u>\$ 3,130</u>	<u>49%</u>	<u>\$ 3,023</u>	<u>55%</u>
Fourth Quarter 2009										
Machinery	\$ 4,564		\$ 1,557		\$ 801		\$ 962		\$ 1,244	
Engines ¹	2,629		751		256		1,013		609	
Financial Products ²	705		416		73		121		95	
	<u>\$ 7,898</u>		<u>\$ 2,724</u>		<u>\$ 1,130</u>		<u>\$ 2,096</u>		<u>\$ 1,948</u>	

¹ Does not include internal engines transfers of \$751 million and \$434 million in fourth quarter 2010 and 2009, 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 \$72 million and \$65 million in fourth quarter 2010 and 2009, respectively.

Machinery Sales

Sales were \$8.571 billion, an increase of \$4.007 billion, or 88 percent, from the fourth quarter of 2009.

- Excluding EMD sales of \$357 million, sales volume increased \$3.385 billion.
- Price realization increased \$281 million and included a favorable geographic mix between regions of \$30 million.
- Currency decreased sales by \$16 million.
- During the quarter dealers added about \$700 million to inventories. In the fourth quarter of 2009 dealers reduced inventories about \$800 million.
- Low interest rates and better economic growth encouraged users to increase purchases and dealers to begin to rebuild some inventory. Economic recoveries were uneven, with developing countries recovering better than the developed economies.
- Strong recoveries in the developing economies led to increased demand for metals and energy. This drove metals and coal prices higher. Mining production and deliveries into mining increased in all regions.
- Economic growth in the developing countries also led to increased construction, with Asia/Pacific and Latin America being the strongest performing regions. Dealer sales in Asia/Pacific were a record high, and Latin America was near the previous record high.
- Recoveries in the major developed economies remained weak given the severity of the prior recessions. Credit conditions remained constrained, and unemployment rates remained high. As a result, construction remained weak.
- Users in North America started reducing purchases of machines as far back as 2006, and we believe this extended decline caused aging and shrinking of machine fleets. Higher sales to end-users in the quarter reflected a slowing of user fleet deterioration.

North America — Sales increased \$1.683 billion, or 108 percent.

- Excluding EMD sales of \$183 million, sales volume increased \$1.322 billion.
- Price realization increased \$178 million.
- Dealer inventories rose about \$300 million in the quarter. In the fourth quarter of 2009 dealers reduced inventories by about \$400 million. In months of supply, inventories were lower than both year-end 2009 and the historical average.
- While sales improved in almost all industries, mining was stronger than construction.
- Mining benefited from higher prices. Central Appalachian coal prices strengthened further during the quarter and averaged 29 percent higher than in the fourth quarter of 2009. Metals prices also increased. As a result, U.S. coal mines increased production more than 6 percent, and metals mines increased output 20 percent.
- Overall, construction remained depressed. Higher deliveries reflected improved financial conditions and user decisions to slow fleet deteriorations. Housing starts declined in the United States and were up only 1 percent in Canada. Nonresidential construction activity declined in the United States.

Latin America — Sales increased \$427 million, or 53 percent.

- Excluding EMD sales of \$6 million, sales volume increased \$402 million.
- Price realization increased \$13 million, and currency benefited sales by \$6 million.

- Dealers reported slightly higher inventories during the quarter. In the fourth quarter of 2009 dealer inventories were about flat. In months of supply, inventories were lower than both year-end 2009 and the historical average.
- Dealer-reported deliveries improved in most industries and in most of the larger economies.
- Higher metals prices, particularly for copper, gold and iron ore, encouraged producers to increase production and machine purchases. Brazil increased iron ore production almost 26 percent. Recent data indicates that Chile has been increasing copper production, and Mexico raised mine output 1 percent.
- Low interest rates and economic growth increased construction activity. Gains ranged from 1 percent in Argentina to 20 percent in Colombia.

EAME — Sales increased \$845 million, or 88 percent.

- Excluding EMD sales of \$63 million, sales volume increased \$827 million.
- Price realization increased \$19 million, while currency decreased sales by \$64 million.
- Dealers reported modestly higher inventories. In the fourth quarter of 2009 dealers reduced inventories about \$300 million. In months of supply, inventories were much lower than year-end 2009 and also trailed the historical average.
- Sales to end-users increased in most industries and in all regions. Positive factors included low interest rates, some improvements in construction and higher commodity prices.
- Volume increased in most European countries. Both nonresidential and housing construction activity were generally down; but housing improved in a few countries, including France, Germany and the United Kingdom. Machinery volume growth was largely a result of end-users increasing machine purchases to slow the deterioration in their fleets.
- Volume increased in many countries in Africa/Middle East. Positives for the region included higher oil prices and increased oil production, lower interest rates, recoveries in the large economies of Turkey and South Africa and higher metals prices.
- Russia accounted for the largest share of the volume gain in the CIS as interest rates declined 250 basis points. Oil and mining production in Russia both increased.

Asia/Pacific — Sales increased \$1.052 billion, or 85 percent.

- Excluding EMD sales of \$105 million, sales volume increased \$864 million.
- Price realization increased \$41 million, and currency benefited sales by \$42 million.
- Dealer inventories increased about \$300 million during the fourth quarter. During the fourth quarter of 2009 inventories were about flat. In months of supply, dealer inventories were slightly below the historical average.
- The majority of volume growth came from an increase in sales to end-users. Increases occurred in most industries and most countries. Low interest rates and strong economic growth increased both demand for commodities and the need for construction.
- Australia had the largest gain in sales volume. Higher interest rates caused both housing and nonresidential building approvals to decline; however, coal and metals production increased in response to higher commodity prices.
- China, with the next largest gain in sales volume, continued to benefit from strong economic growth. Credit expanded 20 percent, and the economy grew 9.8 percent. Construction spending increased more than 20 percent.

- Volume gains in Indonesia resulted from record low interest rates, and construction growth estimated at more than 6 percent. Coal prices rose 49 percent, which encouraged increased production.

Engines Sales

Sales were \$3.570 billion, an increase of \$941 million, or 36 percent, from the fourth quarter of 2009.

- Sales volume increased \$945 million.
- Price realization increased \$52 million.
- Currency decreased sales by \$56 million.
- Geographic mix between regions (included in price realization) was \$8 million favorable.
- Dealer-reported inventories were about flat, and months of supply declined compared with year-end 2009.

North America — Sales increased \$494 million, or 66 percent.

- Sales volume increased \$478 million.
- Price realization increased \$18 million.
- Currency decreased sales by \$2 million.
- Sales for electric power applications increased 118 percent primarily due to increased sales into dealer rental fleets and dealer inventory replenishment.
- Sales for petroleum applications increased 109 percent due to increased sales into well service and higher turbine sales.
- Sales for industrial applications decreased 5 percent due to lower demand from OEMs, partially offset by higher demand in construction.

Latin America — Sales increased \$233 million, or 91 percent.

- Sales volume increased \$218 million.
- Price realization increased \$14 million.
- Currency increased sales by \$1 million.
- Sales for petroleum applications increased 81 percent due to higher turbine sales from one large order.
- Sales of electric power applications increased 216 percent due to improvements in industry demand and higher turbine sales from one large order.

EAME — Sales increased \$207 million, or 20 percent.

- Sales volume increased \$244 million.

- Price realization increased \$11 million.
- Currency decreased sales by \$48 million.
- Sales for electric power applications increased 11 percent primarily due to higher demand throughout the region, partially offset by lower turbine sales.
- Sales for industrial applications increased 98 percent due to higher demand in construction and agricultural applications.
- Sales for petroleum applications decreased 8 percent primarily due to lower turbine sales partially offset by slightly higher demand for engines used in production applications and land-based drilling.
- Sales for marine applications were flat as higher sales of engines into workboat applications were offset by lower sales of engines used in general cargo vessels.

Asia/Pacific — Sales increased \$7 million, or 1 percent.

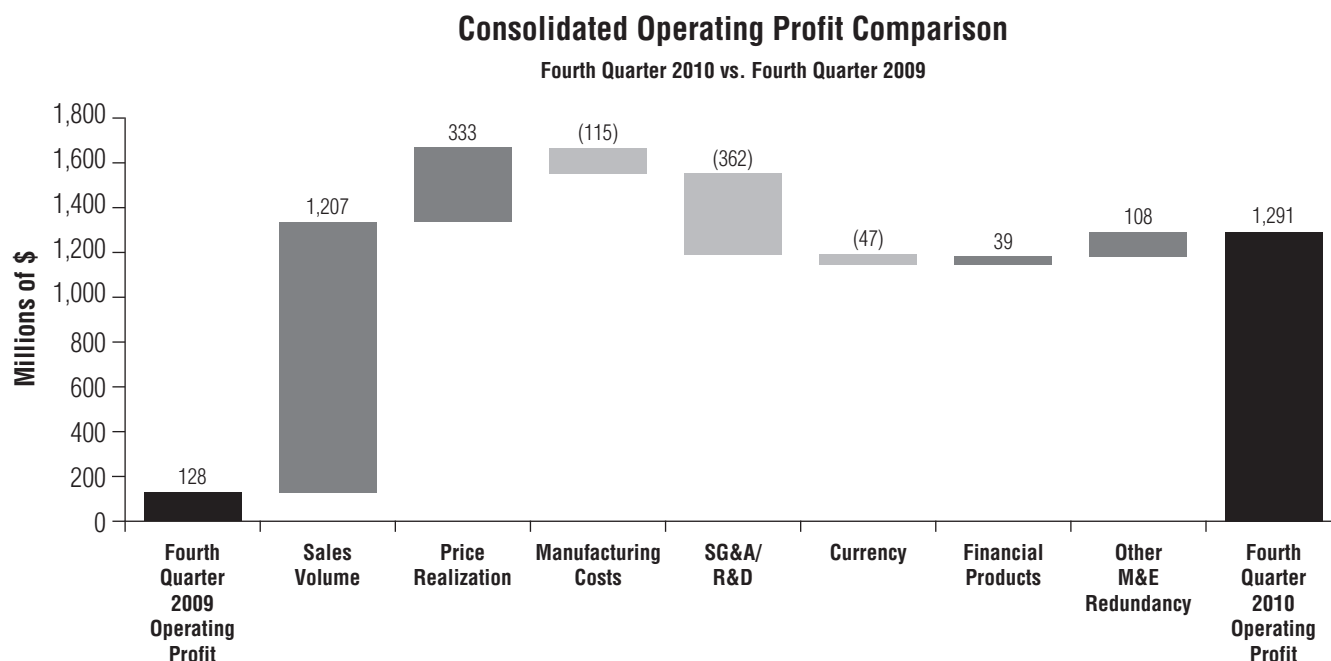
- Sales volume increased \$13 million.
- Price realization increased \$1 million.
- Currency decreased sales by \$7 million.
- Sales for electric power applications increased 39 percent primarily due to higher demand throughout the region, partially offset by lower turbine sales.
- Sales for industrial applications increased 45 percent primarily due to higher demand from OEMs.
- Sales for petroleum applications decreased 27 percent due to lower turbine sales and lower sales into China land-based drilling.
- Sales for marine applications decreased 17 percent due to weak industry demand.

Financial Products Revenues

Revenues were \$666 million, a decrease of \$39 million, or 6 percent, from the fourth quarter of 2009.

- Revenues decreased \$33 million due to a decrease in average earning assets and \$17 million due to the unfavorable impact of lower interest rates on new and existing finance receivables.
- Other revenues at Cat Financial increased \$23 million, driven by a favorable change from returned and repossessed equipment.

OPERATING PROFIT



The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between the fourth quarter of 2009 (at left) and the fourth quarter of 2010 (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. The bar entitled Other/M&E Redundancy includes the operating profit impact of EMD and consolidating adjustments and Machinery and Engines other operating (income) expenses, which include Machinery and Engines redundancy costs. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Operating profit in the fourth quarter of 2010 was \$1.291 billion compared with \$128 million in the fourth quarter of 2009. The improvement was primarily the result of higher sales volume, which included the impact of an unfavorable change in product mix of more than \$400 million and better price realization. The improvements were partially offset by higher selling, general and administrative (SG&A) and research and development (R&D) expenses and unfavorable manufacturing costs.

The negative change in product mix in the fourth quarter of 2010 compared to the fourth quarter of 2009 was primarily due to three key factors. First, integrated service businesses sales were a lower percent of total sales in fourth-quarter 2010 compared to fourth-quarter 2009 which negatively impacted product mix as integrated service businesses have higher operating margins than new equipment. Second, product mix within Machinery and Engines were both negative as sales growth was higher in lower margin machines and engines than higher margin products.

Lastly, Engines have a higher operating margin than Machinery, and Machinery sales grew 88 percent compared to 36 percent for Engines.

Manufacturing costs were up \$115 million primarily due to higher period manufacturing costs related to increased volume, provisions for incentive pay and the absence of \$70 million of LIFO inventory decrement benefits. Continued improvements in variable labor efficiency partially offset these factors.

SG&A and R&D expenses increased by \$362 million primarily due to increased costs to support new product development programs, including those related to emissions requirements, and due to provisions for incentive pay.

Currency had a \$47 million negative impact on operating profit as the negative impact on sales more than offset the benefit to costs. Redundancy costs were \$65 million in the fourth quarter of 2009.

Operating Profit (Loss) by Principal Line of Business

(Millions of dollars)	Fourth Quarter 2010	Fourth Quarter 2009	\$ Change	% Change
Machinery ¹	\$ 705	\$ (123)	\$ 828	— ²
Engines ¹	539	242	297	123%
Financial Products.....	102	63	39	62%
Consolidating Adjustments.....	(55)	(54)	(1)	
Consolidated Operating Profit	\$ 1,291	\$ 128	\$ 1,163	909%

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.

² Because the fourth quarter of 2009 was a loss for Machinery, the percent change is not meaningful.

- **Machinery** operating profit was \$705 million compared to an operating loss of \$123 million in the fourth quarter of 2009. Higher sales volume, which included the impact of an unfavorable mix of products, and improved price realization were partially offset by higher SG&A and R&D expenses and higher manufacturing costs.

- **Engines** operating profit of \$539 million was up \$297 million from the fourth quarter of 2009. Higher sales volume, which included the impact of an unfavorable mix of products, and improved price realization were partially offset by higher SG&A and R&D expenses.

- **Financial Products** operating profit of \$102 million was up \$39 million, or 62 percent, from the fourth quarter of 2009. The increase was primarily attributable to a \$26 million decrease in the provision for credit losses at Cat Financial, a \$23 million favorable change from returned or repossessed equipment and a \$13 million favorable impact due to lower claims experience at Cat Insurance, partially offset by a \$14 million unfavorable impact from lower average earning assets and \$11 million due to incentive pay.

OTHER PROFIT/LOSS ITEMS

- **Interest expense excluding Financial Products** decreased \$13 million from the fourth quarter of 2009 due to lower line of credit fees resulting from a reduction of global credit facilities and a reduction in debt.

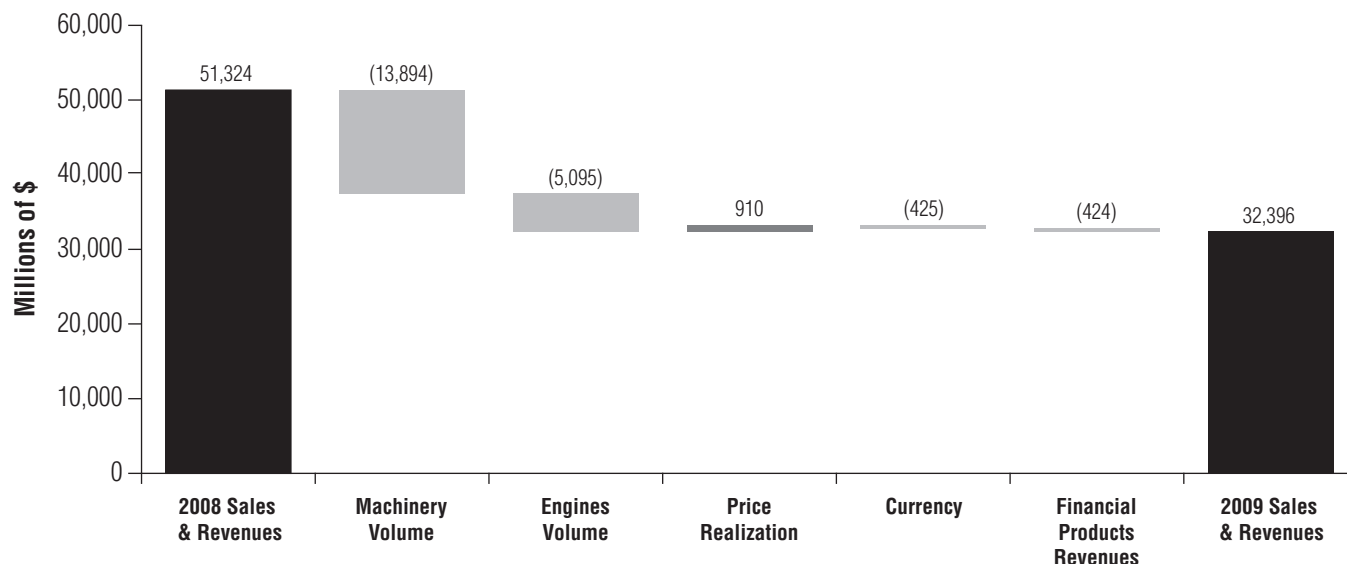
- **Other income/expense** was income of \$16 million compared with income of \$88 million in the fourth quarter of 2009. The decrease was primarily driven by an unfavorable impact from currency gains and losses. Machinery and Engines currency derivative losses were about \$25 million in the fourth quarter of 2010 compared with gains of about \$65 million in the fourth quarter of 2009.

- **The provision for income taxes** of \$233 million in the fourth quarter of 2010 reflects a tax rate of 25 percent, which is less than the U.S. corporate tax rate of 35 percent primarily due to profits in tax jurisdictions with rates lower than the U.S. rate. The provision for income taxes in the fourth quarter of 2010 also includes a \$75 million benefit related to the decrease from the third quarter estimated annual tax rate of 28 percent. The decrease is primarily due to renewal of U.S. tax benefits, including the research and development tax credit, in the fourth quarter along with a more favorable than expected geographic mix of profits from a tax perspective. In 2009, income taxes were a benefit of \$91 million, driven primarily by a favorable geographic mix of profits and losses from a tax perspective.

- **Profit/loss attributable to noncontrolling interests** negatively impacted profit by \$46 million compared to 2009, primarily due to improved financial performance of Caterpillar Japan Ltd. (Cat Japan). Caterpillar owns two-thirds of Cat Japan, meaning one-third of its profits or losses are attributable to our partner, Mitsubishi Heavy Industries.

2009 COMPARED WITH 2008**SALES AND REVENUES****Consolidated Sales and Revenues Comparison**

2009 vs. 2008



The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between 2008 (at left) and 2009 (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. The bar entitled Machinery Volume includes the impact of consolidation of Caterpillar Japan Ltd. (Cat Japan) sales. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Sales and revenues for 2009 were \$32.396 billion, down \$18.928 billion, or 37 percent, from 2008. Machinery sales volume was down \$13.894 billion, and Engines volume declined \$5.095 billion. Price realization improved \$910 million, and currency had a negative impact on sales of \$425 million, primarily due to a weaker euro and British pound. In addition, Financial Products revenues decreased \$424 million.

Our integrated service businesses tend to be more stable through the business cycle than new machines and engines. Although sales and revenues for these businesses declined by about 15 percent during 2009, this was much less than the decline in sales and revenues for the company in total. Integrated service businesses represented about 46 percent of total company sales and revenues in 2009, up from about 34 percent in 2008.

Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	Latin America	% Change	EAME	% Change	Asia/Pacific	% Change
2009										
Machinery	\$ 18,148	(43)%	\$ 6,993	(45)%	\$ 2,555	(38)%	\$ 4,112	(55)%	\$ 4,488	(21)%
Engines ¹	11,392	(30)%	3,652	(33)%	1,080	(31)%	4,295	(32)%	2,365	(19)%
Financial Products ²	2,856	(13)%	1,714	(14)%	268	(18)%	495	(16)%	379	5%
	<u>\$ 32,396</u>	<u>(37)%</u>	<u>\$ 12,359</u>	<u>(39)%</u>	<u>\$ 3,903</u>	<u>(35)%</u>	<u>\$ 8,902</u>	<u>(45)%</u>	<u>\$ 7,232</u>	<u>(19)%</u>
2008										
Machinery	\$ 31,804		\$ 12,769		\$ 4,106		\$ 9,220		\$ 5,709	
Engines ¹	16,240		5,445		1,574		6,311		2,910	
Financial Products ²	3,280		2,001		328		590		361	
	<u>\$ 51,324</u>		<u>\$ 20,215</u>		<u>\$ 6,008</u>		<u>\$ 16,121</u>		<u>\$ 8,980</u>	

¹ Does not include internal engine transfers of \$1.56 billion and \$2.822 billion in 2009 and 2008, respectively. Internal engine transfers are valued at prices comparable to those for unrelated parties.

² Does not include revenues earned from Machinery and Engines of \$312 million and \$308 million in 2009 and 2008, respectively.

Machinery Sales

Sales were \$18.148 billion, a decrease of \$13.656 billion, or 43 percent, from 2008.

- Excluding the consolidation of Cat Japan, sales volume decreased \$14.769 billion.
- Price realization increased \$388 million.
- Currency decreased sales by \$150 million.
- Geographic mix between regions (included in price realization) was \$25 million unfavorable.
- The consolidation of Cat Japan added \$875 million to sales.
- The severe worldwide recession caused construction spending to decline in many countries, and mining companies reduced output. As a result, end users significantly reduced purchases of equipment.
- Year-over-year declines in dealer-reported deliveries to end users were most severe in the second and third quarters of 2009. By year end, month-to-month trends in dealer deliveries were improving in all regions.
- Dealers reacted to the decline in end-user demand by reducing reported inventories more than \$3.3 billion, contributing further to lower sales volume. Dealer inventories were well below last year in both dollars and months of supply. Months of supply were near the historical average.
- Declines in sales volume were most severe in the developed economies of North America, Europe and Japan. Most of these economies were in recession throughout 2008, and credit market pressures in late 2008 caused output to drop sharply in early 2009.
- When the financial crisis worsened in late 2008, economic conditions in many developing countries were better than previous recessions. Most reacted quickly by cutting interest rates and increasing infrastructure spending.

North America — Sales decreased \$5.776 billion, or 45 percent.

- Sales volume decreased \$5.941 billion.
- Price realization increased \$166 million.
- Currency decreased sales by \$1 million.
- Severe recessions in both Canada and the United States caused the decline in sales volume. Machinery sales volume was the lowest since 1982.
- Economic activity in nearly all key industries dropped sharply in 2009. Deliveries of machines, as reported by dealers, were the lowest since 1992.
- Dealers responded to lower demand by reducing reported inventories to a 14-year low. Inventories were also well below a year earlier in months of supply.
- The U.S. housing industry had its worst year in decades. Starts of 554,000 units were down 39 percent from 2008 and were the lowest since 1945. Home prices declined 14 percent in 2009, resulting in an even larger peak-to-trough decline than occurred in the early 1930s. Canadian housing starts declined 31 percent, and new home prices declined 2 percent.
- U.S. nonresidential building construction orders dropped 38 percent. Office vacancy rates increased to more than 16 percent, and selling prices for office properties declined 24 percent. Retail property prices fell 17 percent. In Canada, nonresidential construction permits dropped 11 percent.
- U.S. highway construction orders increased 5 percent, with the gain occurring in the last half of the year. The American Recovery and Reinvestment Act provided additional funding for highways, which benefited resurfacing projects.

- The decline in construction activity caused U.S. quarry production to drop 16 percent, the third consecutive annual decline. Record-low operating rates prompted producers to reduce capacity 6 percent. Canadian producers cut production by 27 percent.
- Metals prices dropped sharply in late 2008, prompting mines to reduce production and curtail new investments. Subsequent price recoveries led to some improvements later in the year, but not enough to offset a poor first half. U.S. metal mining output declined 10 percent, and Canadian production was down 20 percent.
- Coal prices declined significantly, particularly in the first half of 2009. As a result, U.S. coal production dropped 7 percent, and Canadian production was off 17 percent. Contributing factors included reduced utility burn, higher utility stocks and a 29-percent decline in U.S. coal exports.

EAME — Sales decreased \$5.108 billion, or 55 percent.

- Sales volume decreased \$4.984 billion.
- Price realization increased \$50 million.
- Currency decreased sales by \$174 million.
- Dealers reduced reported inventories sharply, which reversed inventory increases that occurred in 2008. Inventories in months of supply fell to about half the year-earlier level.
- The worldwide credit crisis and recession impacted all regions, causing construction spending to weaken and commodity producers to reduce output. As a result, dealers in all regions reported lower deliveries to end users. Commonwealth of Independent States (CIS) dealers reported the largest decline; Africa/Middle East dealers reported the smallest decline.
- Europe experienced its worst postwar recession, with the economy declining an estimated 4 percent in 2009. Industrial production declined 15 percent in the euro-zone and 11 percent in the United Kingdom.
- Housing construction declined in response to tight credit standards and lower home prices in many countries. Construction permits fell 25 percent in the euro-zone and orders in the United Kingdom fell 23 percent.
- Lower sales volume in Africa/Middle East resulted mostly from dealer inventory reductions, recessions in Turkey and South Africa and the financial crisis in Dubai. Industrial production dropped 10 percent in Turkey and 12 percent in South Africa.
- The recession caused building permits in Turkey to fall 17 percent. South African housing permits were down 39 percent, and nonresidential permits were off 12 percent; mining production dropped 7 percent.
- The Organization of Petroleum Exporting Countries (OPEC) crude oil price dropped to \$60 per barrel, prompting producers to cut oil production by 8 percent.
- Sales volume declined significantly in the CIS region due to severe recessions and financial turmoil. Russia was one of the few countries to maintain higher average interest rates than in 2008, contributing to a 10-percent decline in its economy.

Asia/Pacific — Sales decreased \$1.221 billion, or 21 percent.

- Excluding the consolidation of Cat Japan, sales volume declined \$2.270 billion.
- Price realization increased \$118 million.
- Currency increased sales by \$56 million.
- The consolidation of Cat Japan added \$875 million to 2009 sales.
- Dealers reported large inventory reductions, more than offsetting additions made in 2008. Inventories in months of supply

were less than half the year-earlier level and were below the historical average.

- Asian governments and central banks reacted aggressively to the worldwide economic downturn. Most economies started recovering in the second quarter, which helped limit declines in end-user demand, as reported by dealers. Dealers in China reported a slight increase in deliveries.
- China's recovery program included a 31-percent increase in lending and massive infrastructure spending. The economy responded quickly and industrial production increased more than 10 percent. Housing construction increased 16 percent, and nonresidential construction was up 30 percent.
- India cut interest rates sharply and, as a result, industrial production increased 6 percent. Construction increased 7 percent.
- A sluggish economy reduced sales volume in Australia. Permits for housing construction declined 7 percent, but those for nonresidential construction were up 4 percent. Mining profits declined, and expenditures for exploration dropped 26 percent.
- A return to deflation and a significant decline in exports further weakened the Japanese economy. Orders for private construction fell 33 percent, and those for public construction declined 11 percent. Machine sales volume was the lowest in at least 30 years.

Latin America — Sales decreased \$1.551 billion, or 38 percent.

- Sales volume decreased \$1.599 billion.
- Price realization increased \$79 million.
- Currency decreased sales by \$31 million.
- Dealers reduced reported inventories, more than offsetting amounts added in 2008. Inventories in months of supply were half the year-earlier level and were lower than the historical average.
- The worldwide recession caused exports to decline in most countries. That, along with interest rate increases in 2008, caused lower industrial production in most countries. Construction and mining also declined, causing dealers to report lower deliveries to end users.
- The sales volume decline was most severe in Mexico. Close ties to the U.S. economy and relatively slow interest rate reductions caused industrial production to decline 8 percent and construction 7 percent.
- High interest rates in late 2008 caused Brazil's industrial production to drop 7 percent in 2009, with losses concentrated in the first half. Reduced worldwide steel production caused a 22-percent decline in iron ore mining. The decline in sales volume ended in the fourth quarter as interest rate reductions helped improve the economy.
- A large decline in sales volume occurred in Chile. Interest rate increases taken in 2008 impacted the economy in 2009, causing industrial production to decline 9 percent. Construction permits decreased 15 percent. Higher metals prices encouraged mines to increase production late in the year so that full-year production was about the same as 2008.

Engines Sales

Sales were \$11.392 billion, a decrease of \$4.848 billion, or 30 percent, from 2008.

- Sales volume decreased \$5.095 billion.
- Price realization increased \$522 million.
- Currency decreased sales by \$275 million.
- Geographic mix between regions (included in price realization) was \$13 million unfavorable.

- Dealer-reported inventories were down, but months of supply increased, as dealer deliveries declined.

North America — Sales decreased \$1.793 billion, or 33 percent.

- Sales volume decreased \$1.987 billion.
- Price realization increased \$196 million.
- Currency decreased sales by \$2 million.
- Sales for petroleum applications decreased 20 percent primarily due to a decrease in demand for petroleum engines used for gas compression and drilling along with lower turbine sales.
- Sales for electric power applications decreased 25 percent due to weak economic conditions and reduced availability of credit along with lower turbine sales.
- Sales for industrial applications decreased 48 percent in response to substantially lower demand in construction and agricultural applications due to economic uncertainty and tight credit conditions.

EAME — Sales decreased \$2.016 billion, or 32 percent.

- Sales volume decreased \$1.959 billion.
- Price realization increased \$197 million.
- Currency decreased sales by \$254 million.
- Sales for industrial applications decreased 47 percent based on significantly lower demand in construction and agricultural applications due to weak economic conditions and reduced availability of credit.
- Sales for electric power applications decreased 29 percent, as the impact of weak economic conditions and reduced availability of credit was partially offset by increased turbine sales as a result of timing of large power plant projects.
- Sales for marine applications decreased 36 percent due to weak economic conditions.
- Sales for petroleum applications decreased 15 percent primarily due to a slowdown in demand for engines used in production and drilling applications along with lower sales of turbines.

Asia/Pacific — Sales decreased \$545 million, or 19 percent.

- Sales volume decreased \$632 million.
- Price realization increased \$110 million.
- Currency decreased sales by \$23 million.
- Sales for petroleum applications decreased 23 percent, as a slowdown in Chinese land-based drill activity was partially offset by an increase in sales of turbines.
- Sales for electric power applications decreased 15 percent, as the impact of weak economic conditions and reduced availability of credit was partially offset by increased turbine sales as a result of timing of large power plant projects.
- Sales for industrial applications decreased 34 percent due to significantly lower demand in construction and mining support applications.
- Sales for marine applications decreased 2 percent due to weak economic conditions, partially offset by a strong order backlog for workboat and general cargo vessels.

Latin America — Sales decreased \$494 million, or 31 percent.

- Sales volume decreased \$530 million.
- Price realization increased \$32 million.
- Currency increased sales by \$4 million.
- Sales for electric power applications decreased 49 percent due to worsening economic conditions and reduced availability of credit.

- Sales for petroleum applications decreased 17 percent due to a slowdown in demand for production power applications and lower turbine sales.

Financial Products Revenues

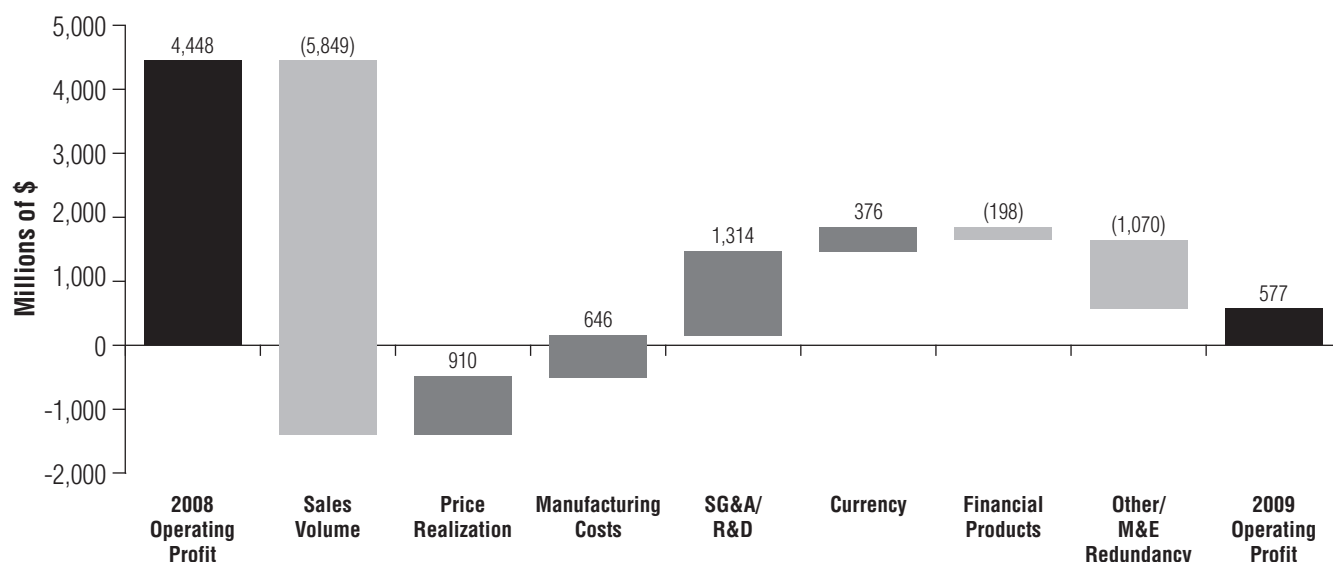
Revenues were \$2.856 billion, a decrease of \$424 million, or 13 percent, from 2008.

- Revenues decreased \$123 million due to the impact of lower interest rates on new and existing finance receivables and \$105 million due to a decrease in average earning assets.
- Other revenues at Cat Financial decreased \$120 million. The decrease was primarily due to a \$77 million unfavorable impact from returned or repossessed equipment and the absence of a \$12 million gain related to the sale of receivables in 2008.

OPERATING PROFIT

Consolidated Operating Profit Comparison

2009 vs. 2008



The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between 2008 (at left) and 2009 (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/M&E Redundancy includes the operating profit impact of consolidating adjustments, consolidation of Cat Japan and Machinery and Engines other operating (income) expenses, which include Machinery and Engines redundancy costs.

Operating profit in 2009 was \$577 million compared to an operating profit of \$4.448 billion in 2008. Lower sales volume was the primary reason for the decline. Sales volume includes the impact of a favorable mix of products for both Machinery and Engines. Price realization improved \$910 million.

Manufacturing costs improved \$646 million. Significant inventory reduction resulted in \$300 million (\$0.39 per share) of LIFO inventory decrement benefits. Excluding decrement benefits, manufacturing costs decreased \$346 million. Selling, general and

administrative (SG&A) and research and development (R&D) expenses declined \$1.314 billion as a result of significant cost-cutting measures.

Currency had a \$376 million favorable impact on operating profit as the benefit to costs more than offset the negative impact on sales.

Redundancy costs were \$706 million. Cat Japan unfavorably impacted operating profit by \$348 million.

Operating Profit (Loss) by Principal Line of Business

(Millions of dollars)	2009	2008	\$ Change	% Change
Machinery ¹	\$(1,007)	\$ 1,803	\$(2,810)	(156)%
Engines ¹	1,464	2,319	(855)	(37)%
Financial Products	381	579	(198)	(34)%
Consolidating Adjustments	(261)	(253)	(8)	
Consolidated Operating Profit	\$ 577	\$ 4,448	\$(3,871)	(87)%

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.

- **Machinery** operating loss was \$1.007 billion compared to an operating profit of \$1.803 billion for 2008. Sharply lower sales volume, redundancy costs and losses at Cat Japan were partially offset by lower SG&A and R&D expenses, a decline in manufacturing costs including LIFO inventory decrement benefits, improved price realization and favorable currency.
- **Engines** operating profit of \$1.464 billion was down \$855 million, or 37 percent, from 2008. Lower sales volume and redundancy costs were partially offset by improved price realization, lower SG&A and R&D expenses and favorable currency. Although total Engines operating profit declined during 2009, operating profit for turbines increased and represented about half of total Engines operating profit in 2009 compared with about one-quarter in 2008.
- **Financial Products** operating profit of \$381 million was down \$198 million, or 34 percent, from 2008. The decrease was primarily attributable to a \$77 million unfavorable impact from returned or repossessed equipment, a \$51 million impact from decreased net yield on average earning assets, a \$47 million unfavorable impact from lower average earning assets, a \$33 million increase in the provision for credit losses at Cat Financial, a \$20 million increase in other operating expenses and the absence of a \$12 million gain related to the sale of receivables in 2008, partially offset by a \$70 million decrease in SG&A expenses (excluding the provision for credit losses).

OTHER PROFIT/LOSS ITEMS

- **Interest expense excluding Financial Products** increased \$115 million due to higher average debt. As a result of the weak economic environment and uncertain capital markets, we have held more cash than usual.
- **Other income/expense** was income of \$381 million compared with income of \$327 million in 2008. The increase was primarily due to the favorable impact from net foreign exchange gains and losses.
- **The provision for income taxes** reflects a significantly more favorable effective tax rate than in 2008. The improvement was driven primarily by a more favorable geographic mix of profits and losses from a tax perspective, along with tax benefits related to prior-year tax returns of \$133 million and a larger percentage benefit from U.S. permanent differences and credits including the research and development tax credit. The prior-year tax benefits primarily resulted from the U.S. settlement of tax years 1995 to 1999 and the true-up of estimated amounts used in the 2008 tax provision to the U.S. tax return as filed. The 2008 provision for income taxes included \$456 million of benefits primarily related to the repatriation of non-U.S. earnings with available foreign tax credits in excess of the U.S. tax liability on the dividend.
- **Equity in profit/(loss) of unconsolidated affiliated companies** was a loss of \$12 million compared with income of \$37 million in 2008. The decrease was primarily related to the absence of equity profit in 2008 after the consolidation of Cat Japan.
- **Profit/loss attributable to noncontrolling interests** (formerly minority interest) favorably impacted profit by \$96 million from 2008, primarily due to adding back 33 percent of Cat Japan's losses attributable to Mitsubishi Heavy Industries.

Employee Separation Charges

In 2008, we recognized employee separation charges of \$30 million in Other operating (income) expenses in the Consolidated Results of Operations related to various voluntary and involuntary separation programs. These programs, impacting 3,085 employees worldwide, were in response to a sharp decline in sales volume due to the global recession.

In 2009, continued cost reduction efforts worldwide resulted in additional separation charges of \$481 million, recognized in Other operating (income) expenses in the Consolidated Results of Operations. These efforts related to the following separation programs:

U.S. Voluntary Separation Program — During December 2008, we announced a voluntary separation program for certain support and management employees based in the United States. Eligible employees had until January 12, 2009 to sign up for the program, and generally until January 31, 2009 to make a final decision. Participating employees received severance pay based on current salary level and years of service. During 2009, 2,182 employees accepted the program, all of which were separated from Caterpillar by the end of 2009.

Other U.S. Separation Programs — During 2009, we initiated plans to reduce U.S. based positions through a variety of programs. These programs represent both voluntary and involuntary separation plans. During 2009, 6,611 employees accepted or were subject to these programs.

Non-U.S. Separation Programs — During 2009, we initiated several other separation programs outside the U.S. These programs, designed specific to the laws and regulations of the individual countries, represent voluntary and involuntary plans. During 2009, 7,075 employees accepted or were subject to the various programs.

In 2010, we recognized employee separation charges of \$33 million in Other operating (income) expenses in the Consolidated Results of Operations primarily related to involuntary separations due to the streamlining of our corporate structure as announced in the second quarter.

Our accounting for separations is dependent upon how the particular program is designed. For voluntary programs, eligible separation costs are recognized at the time of employee acceptance. For involuntary programs, eligible costs are recognized when management has approved the program, the affected employees have been properly identified and the costs are estimable.

MANAGEMENT'S DISCUSSION AND ANALYSIS *continued*

The following table summarizes the 2008, 2009 and 2010 separation activity by geographic region:

(Millions of dollars)	Machinery and Engines				Financial Products ¹	Total
	North America	Latin America	EAME	Asia/Pacific		
Increase in liability (separation charges)	\$ 4	\$ 9	\$ 17	\$ —	\$ —	\$ 30
Reduction in liability (payments and other adjustments)	—	(7)	(12)	—	—	(19)
Liability balance at December 31, 2008	<u>\$ 4</u>	<u>\$ 2</u>	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 11</u>
Increase in liability (separation charges)	\$ 323	\$ 15	\$ 102	\$ 31	\$ 10	\$ 481
Reduction in liability (payments and other adjustments)	(313)	(17)	(78)	(25)	(10)	(443)
Liability balance at December 31, 2009	<u>\$ 14</u>	<u>\$ —</u>	<u>\$ 29</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ 49</u>
Increase in liability (separation charges)	\$ 17	\$ —	\$ 8	\$ 7	\$ 1	\$ 33
Reduction in liability (payments and other adjustments)	(26)	—	(23)	(11)	—	(60)
Liability balance at December 31, 2010	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ 14</u>	<u>\$ 2</u>	<u>\$ 1</u>	<u>\$ 22</u>

¹ Includes \$8 million for North America and \$2 million for EAME in 2009 and \$1 million for EAME in 2010.

The remaining liability balances as of December 31, 2010 represent costs for employees that have either not yet separated from the Company or their full severance has not yet been paid. The majority of these remaining costs are expected to be paid in 2011.

The number of employees affected by the separations in 2010 was not significant. The following table summarizes the number of employees that accepted or were subject to the 2008 and 2009 programs:

	2009	2008
Impacted employees at beginning of period...	1,505	—
Impacted employees during the period	15,868	3,085
Employee separations during the period	(16,970)	(1,580)
Impacted employees remaining at the end of period	<u>403</u>	<u>1,505</u>

In addition to the 2009 separation charges noted above, we reported \$225 million of costs associated with certain pension and other postretirement benefit plans, which were also recognized in Other operating (income) expenses in the Consolidated Results of Operations.

Electro-Motive Diesel, Inc.

In August 2010, we acquired 100 percent of the equity in privately held Electro-Motive Diesel, Inc. (EMD) for approximately \$901 million, consisting of \$928 million paid at closing less a final net working capital adjustment of \$27 million received in the fourth quarter of 2010. Headquartered in LaGrange, Illinois with additional manufacturing facilities in Canada and Mexico, EMD designs, manufactures and sells diesel-electric locomotives for commercial railroad applications and sells its products to customers throughout the world. EMD has a significant field population in North America and throughout the world supported by an aftermarket business offering customers replacement parts, maintenance solutions, and a range of value-added services. EMD is also a global provider of diesel engines for marine propulsion, offshore and land-based oil well drilling rigs, and stationary power generation. The acquisition supports our strategic plan to grow our presence in the global rail industry. The EMD acquisition will enable us to provide rail and transit customers a range of locomotive,

engine and emissions solutions, as well as aftermarket product and parts support and a full line of rail-related services and solutions.

The transaction was financed with available cash. Tangible assets acquired of \$890 million, recorded at their fair values, primarily were receivables of \$186 million, inventories of \$549 million and property, plant and equipment of \$131 million. Finite-lived intangible assets acquired of \$329 million were primarily related to customer relationships and also included intellectual property and trade names. The finite-lived intangible assets are being amortized on a straight-line basis over a weighted-average amortization period of approximately 15 years. An additional intangible asset acquired of \$18 million, related to in-process research and development, is considered indefinite-lived until the completion or abandonment of the development activities. Liabilities assumed of \$518 million, recorded at their fair values, primarily included accounts payable of \$124 million and accrued expenses of \$161 million. Additionally, net deferred tax liabilities were \$104 million. Goodwill of \$286 million, substantially all of which is non-deductible for income tax purposes, represents the excess of cost over the fair value of the net tangible and intangible assets acquired. Factors that contributed to a purchase price resulting in the recognition of goodwill include EMD's strategic fit into our product and services portfolio, aftermarket support opportunities and the acquired assembled workforce. 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.

GLOSSARY OF TERMS

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

3. **Consolidating Adjustments** — Eliminations of transactions between Machinery and Engines and Financial Products.
4. **Currency** — With respect to sales and revenues, currency represents the translation impact on sales resulting from changes in foreign currency exchange rates versus the U.S. dollar. With respect to operating profit, currency represents the net translation impact on sales and operating costs resulting from changes in foreign currency exchange rates versus the U.S. dollar. Currency includes the impact on sales and operating profit for the Machinery and 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.
5. **Debt-to-Capital Ratio** — A key measure of financial strength used by both management and our credit rating agencies. The metric is a ratio of Machinery and Engines debt (short-term borrowings plus long-term debt) and redeemable noncontrolling interest to the sum of Machinery and Engines debt, redeemable noncontrolling interest and stockholders' equity.
6. **EAME** — Geographic region including Europe, Africa, the Middle East and the Commonwealth of Independent States (CIS).
7. **Earning Assets** — Assets consisting primarily of total finance receivables net of unearned income, plus equipment on operating leases, less accumulated depreciation at Cat Financial.
8. **Engines** — A principal line of business including the design, manufacture, marketing and sales of engines for Caterpillar machinery; electric power generation systems; 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 10 to 21,700 horsepower (8 to over 16 000 kilowatts). Turbines range from 1,600 to 30,000 horsepower (1 200 to 22 000 kilowatts).
9. **Financial Products** — A principal line of business consisting primarily of Caterpillar Financial Services Corporation (Cat Financial), Caterpillar Insurance Holdings Inc. (Cat Insurance) 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.
10. **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, Cat Logistics, Cat Reman, Progress Rail, OEM Solutions and Solar Turbine Customer Services.
11. **Latin America** — Geographic region including Central and South American countries and Mexico.
12. **LIFO Inventory Decrement Benefits** — A significant portion of Caterpillar's inventory is valued using the last-in, first-out (LIFO) method. With this method, the cost of inventory is comprised of "layers" at cost levels for years when inventory increases occurred. A LIFO decrement occurs when inventory decreases, depleting layers added in earlier, generally lower cost, years. A LIFO decrement benefit represents the impact on profit of charging cost of goods sold with prior-year cost levels rather than current period costs.
13. **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-scrappers, track and wheel excavators, backhoe loaders, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, skid steer loaders, underground mining equipment, tunnel boring equipment and related parts. In addition, this line of business also includes Electro-Motive Diesel, Inc., (EMD), a manufacturer of diesel-electric locomotives, which we acquired in 2010. Also includes the design, manufacture, remanufacture, maintenance and services of rail-related products and logistics services for other companies.
14. **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.
15. **Machinery and Engines Other Operating (Income) Expenses** — Comprised primarily of gains/losses on disposal of long-lived assets, long-lived asset impairment charges, pension curtailment charges and employee redundancy costs.
16. **Manufacturing Costs** — Manufacturing costs exclude the impacts of currency and represent the volume-adjusted change for variable costs and the absolute dollar change for period manufacturing costs. Variable manufacturing costs are defined as having a direct relationship with the volume of production. This includes material costs, direct labor and other costs that vary directly with production volume such as freight, power to operate machines and supplies that are consumed in the manufacturing process. Period manufacturing costs support production but are defined as generally not having a direct relationship to short-term changes in volume. Examples include machinery and equipment repair, depreciation on manufacturing assets, facility support, procurement, factory scheduling, manufacturing planning and operations management.
17. **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.
18. **Redundancy Costs** — Costs related to employment reduction including employee severance charges, pension and other postretirement benefit plan curtailments and settlements and health care and supplemental unemployment benefits.
19. **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.

LIQUIDITY AND CAPITAL RESOURCES

Sources of funds

We generate significant capital resources from operating activities, which are the primary source of funding for our Machinery and Engines operations. Funding for these businesses is also provided by commercial paper and long-term debt issuances. Financial Products operations are funded primarily from commercial paper, term debt issuances and collections from their existing portfolio. Throughout 2010, we experienced favorable liquidity conditions in both our Machinery and Engines and Financial Products operations. On a consolidated basis, we ended 2010 with \$3.6 billion of cash, a decrease of \$1.3 billion from year-end 2009. Our cash balances are held in numerous locations throughout the world. We expect to meet our U.S. funding needs without repatriating non-U.S. cash and incurring incremental U.S. taxes.

Consolidated operating cash flow for 2010 was \$5.01 billion, down from \$6.50 billion in 2009. Improving economic conditions in 2010 compared with recessionary conditions a year ago have resulted in significant changes in the components of operating cash flow from 2009 to 2010. Operating cash flow in 2010 benefited from profit of consolidated and affiliated companies of \$2.76 billion and an increase in accounts payable, reflecting higher levels of material purchases for production to meet increasing demand. Offsetting these items were higher receivables resulting from improved sales volume, and an increase in inventory, also related to higher production. Operating cash flow in 2009 benefited from significant declines in receivables and inventory, partially offset by lower accounts payable and changes in other working capital items. See further discussion of operating cash flow under Machinery and Engines and Financial Products.

Total debt as of December 31, 2010, was \$28.42 billion, a decrease of \$3.21 billion from year-end 2009. Debt related to Machinery and Engines decreased \$1.18 billion in 2010. Debt related to Financial Products decreased \$2.03 billion reflecting declining portfolio balances and a lower cash position at Cat Financial.

We have three global credit facilities with a syndicate of banks totaling \$7.23 billion (Credit Facility) available in the aggregate to both Caterpillar and Cat Financial to support their commercial paper programs in the event those programs become unavailable and for general liquidity purposes. Based on management's allocation decision, which can be revised from time to time, the portion of the Credit Facility available to Cat Financial as of December 31, 2010 was \$5.73 billion.

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

At December 31, 2010, Caterpillar's consolidated net worth was \$15.56 billion, which was above the \$9.00 billion required under the Credit Facility. The consolidated net worth is defined as the consolidated stockholder's equity including preferred stock but excluding the pension and other postretirement benefits balance within Accumulated other comprehensive income (loss).

At December 31, 2010, Cat Financial's covenant interest coverage ratio was 1.34 to 1. This is above the 1.15 to 1 minimum ratio of (1) profit excluding income taxes, interest expense and net gain/(loss) from interest rate derivatives to (2) interest expense calculated at the end of each calendar quarter for the rolling four quarter period then most recently ended.

In addition, at December 31, 2010, Cat Financial's covenant leverage ratio was 7.02 to 1. This is below the maximum ratio of

debt to net worth of 10 to 1, calculated (1) on a monthly basis as the average of the leverage ratios determined on the last day of each of the six preceding calendar months and (2) at each December 31 required by the Credit Facility.

In the event Caterpillar or Cat Financial does not meet one or more of their respective financial covenants under the Credit Facility in the future (and are unable to obtain a consent or waiver), the bank group may terminate the commitments allocated to the party that does not meet its covenants. Additionally, in such event, certain of Cat Financial's other lenders under other loan agreements where similar financial covenants or cross default provisions are applicable, may, at their election, choose to pursue remedies under those loan agreements, including accelerating the repayment of outstanding borrowings. At December 31, 2010, there were no borrowings under the Credit Facility.

Our total credit commitments as of December 31, 2010 were:

(Millions of dollars)	December 31, 2010		
	Consolidated	Machinery and Engines	Financial Products
Credit lines available:			
Global credit facilities	\$ 7,230	\$ 1,500	\$ 5,730
Other external	4,658	853	3,805
Total credit lines available....	11,888	2,353	9,535
Less: Global credit facilities supporting commercial paper	(2,710)	—	(2,710)
Less: Utilized credit	(2,217)	(135)	(2,082)
Available credit	\$ 6,961	\$ 2,218	\$ 4,743

Other consolidated credit lines with banks as of December 31, 2010 totaled \$4.66 billion. These committed and uncommitted credit lines, which may be eligible for renewal at various future dates or have no specified expiration date, are used primarily by our subsidiaries for local funding requirements. Caterpillar or Cat Financial may guarantee subsidiary borrowings under these lines.

On November 14, 2010, Caterpillar entered into a bridge facility commitment letter related to the planned acquisition of Bucyrus International, Inc. The commitment letter provided for an aggregate principal amount of \$8.6 billion under a one-year unsecured term loan credit facility (Bridge Facility). On December 3, 2010, Caterpillar entered into a Bridge Loan Agreement that contains the negotiated terms and conditions originally contemplated in the commitment letter. The principal amount available to Caterpillar under the Bridge Loan Agreement is not included in the credit commitments table shown above. Caterpillar paid certain customary fees and expenses in connection with the Bridge Facility, and pays certain customary fees and expenses in connection with the Bridge Loan Agreement. In 2010, Caterpillar paid \$46 million in fees related to the Bridge Facility and the Bridge Loan Agreement. We estimate payments of approximately \$20 million in additional fees related to the Bridge Loan Agreement in 2011. These fees will be amortized over the term of the Bridge Loan Agreement. At December 31, 2010, there were no borrowings under the Bridge Loan Agreement.

In the event that Caterpillar or Cat Financial, or any of their debt securities, experiences a credit rating downgrade, it would likely result in an increase in our borrowing costs and make access to certain credit markets more difficult. While we expect continued growth in the global economy, in the event conditions deteriorate such that access to debt markets becomes unavailable, our Machinery and Engines operations would rely on cash

flow from operations, use of existing cash balances, borrowings from Cat Financial and access to our Credit Facility. Our Financial Products operations would rely on cash flow from its existing portfolio, utilization of existing cash balances, access to our Credit Facility and other credit line facilities of Cat Financial and potential borrowings from Caterpillar. In addition, Caterpillar maintains a support agreement with Cat Financial, which requires Caterpillar to remain the sole owner of Cat Financial and may, under certain circumstances, require Caterpillar to make payments to Cat Financial should Cat Financial fail to maintain certain financial ratios.

Machinery and Engines

Net cash provided by operating activities was \$5.64 billion in 2010 compared with \$3.15 billion in 2009. The change was primarily due to increased profit and a \$600 million dividend from Cat Financial in the first quarter of 2010. Profit of consolidated and affiliated companies in 2010 was \$2.75 billion compared with \$811 million for the same period a year ago. Improving economic conditions in 2010 compared with recessionary conditions a year ago have resulted in significant changes in the components of working capital from 2009 to 2010. During 2010, we experienced increased demand and a production ramp-up, resulting in an increase in accounts payable and customer advances, which was more than offset by increases in inventory and receivables. In 2009, we were executing our strategic "trough" plans as demand and production were decreasing. This resulted in significant decreases in inventory and receivables, which were partially offset by decreases in accounts payable and accrued expenses. Net cash used for investing activities in 2010 was \$3.18 billion compared with \$836 million for the same period in 2009. The change was primarily due to the use of cash for the acquisition of Electro-Motive Diesel (EMD) and loans to Cat Financial in 2010, compared with net payments from Cat Financial in 2009. Net cash used for financing activities in 2010 was \$2.86 billion, primarily a result of payments on long-term debt and dividend payments. During the same period in 2009, net cash used for financing activities was \$1.58 billion, as proceeds from loans with Cat Financial of \$963 million were more than offset by payments on short-term borrowings and dividends.

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

Strong financial position — A key measure of Machinery and 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, redeemable noncontrolling interest and long-term debt due after one year (debt) divided by the sum of debt (including redeemable noncontrolling interest) and stockholders' equity. Debt also includes borrowings from Financial Products. The debt-to-capital ratio for Machinery and Engines was 34.8 percent at December 31, 2010, slightly below our target range of 35 to 45 percent, compared with 47.2 percent at December 31, 2009. Lower debt levels along with higher profits during 2010 have contributed to the reduction in the debt-to-capital ratio. In addition to the debt-to-capital ratios, certain rating agencies have increased their focus on the extent to which Caterpillar and Cat Financial have cash and cash equivalents and unused credit lines available to meet short-term debt requirements. Caterpillar and Cat Financial have been taking this focus into account when planning for liquidity needs. This focus has resulted in higher cash balances for Caterpillar and Cat Financial.

Capital to support growth — Capital expenditures during 2010 were \$1.66 billion, an increase of \$163 million compared with 2009. We expect capital expenditures to be about \$3 billion in 2011, an increase of more than 80 percent compared with 2010. During 2010, we completed investments and acquisitions (net of cash acquired) for \$1.09 billion, including the acquisition of EMD for \$901 million. In 2011, we anticipate closing the acquisitions of Motoren-Werke Mannheim (MWM) for approximately euro 580 million and Bucyrus for approximately \$8.6 billion. The Bucyrus transaction value consists of a payment to Bucyrus shareholders of approximately \$7.6 billion and the assumption of net debt of approximately \$1.0 billion. The acquisition of MWM is expected to be funded by available cash. The Bucyrus acquisition is expected to be funded by a combination of available cash, new debt issuances, and up to \$2 billion in new equity issuances.

Appropriately funded employee benefit plans — At the end of 2010, our worldwide pension plans were 81 percent funded, up from 76 percent at the end of 2009. We contributed \$977 million to our pension plans in 2010. Strong asset returns that were well above our benchmarks contributed to the increase in funded status. We expect to make about \$1 billion in contributions in 2011. From June 2009 to October 2010, the company funded the 401(k) employer match with company stock. This equated to a contribution of \$94 million (1.5 million shares) in 2010.

Paying dividends — Dividends paid totaled \$1.08 billion in 2010, representing 42 cents per share paid in the first and second quarters and 44 cents per share paid in the third and fourth quarters. Each quarter, our Board of Directors reviews the company's dividend for the applicable quarter. The Board evaluates the financial condition of the company and considers the economic outlook, corporate cash flow, the company's liquidity needs, and the health and stability of global credit markets to determine whether to maintain or change the quarterly dividend. On June 9, 2010, we increased the quarterly cash dividend 5 percent to 44 cents per share.

Common stock repurchases — Pursuant to the February 2007 Board-authorized stock repurchase program, which expires on December 31, 2011, \$3.8 billion of the \$7.5 billion authorized was spent through 2008. The stock repurchase program has been suspended since the first quarter of 2009. Due to the size of acquisitions that we expect to close, particularly Bucyrus, we do not expect to buy back stock in 2011. Basic shares outstanding as of December 31, 2010 were 639 million.

Financial Products

Financial Products operating cash flow was \$878 million, compared with \$1.10 billion for 2009. The decrease in operating cash flow was primarily related to the absence of cash proceeds from liquidated interest rate swaps. Net cash provided by investing activities in 2010 was \$1.02 billion, compared with \$3.37 billion in 2009. This change is primarily the result of higher additions to finance receivables and lower proceeds from the sale of finance receivables at Cat Financial, partially offset by higher collections and the net impact of intercompany borrowings. Net cash used for financing activities in 2010 was \$2.69 billion, compared with \$3.08 billion in 2009, primarily related to the net impact of intercompany borrowings, partially offset by a \$600 million dividend payment to Caterpillar Inc.

During 2010, Cat Financial's overall portfolio quality reflected continued improvement in global economic conditions. At the end of 2010, past dues were 3.87 percent, down from 4.88 percent at the end of the third quarter of 2010 and 5.54 percent at the end of 2009. We expect past dues to continue to trend lower during 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS *continued*

Bad debt write-offs, net of recoveries, were \$61 million for the fourth quarter of 2010, down from \$78 million in the third quarter. Write-offs, net of recoveries, were \$237 million for full-year 2010, compared with \$253 million for 2009. Full-year 2010 write-offs, net of recoveries, were 1.04 percent of average annual retail portfolio, compared with 1.03 percent in 2009.

At year-end 2010, the allowance for credit losses was 1.57 percent of net finance receivables, compared with 1.61 percent at the end of the third quarter of 2010 and 1.64 percent at the end of 2009. The trend reflects improving portfolio performance metrics and the write-off of accounts previously identified as potential credit losses in the allowance account. Cat Financial's allowance for credit losses totaled \$363 million at December 31, 2010, compared with \$377 million at December 31, 2009.

Cat Financial experienced favorable liquidity conditions in all key global funding markets during 2010. Commercial Paper (CP) market liquidity and pricing continued to be favorable, with CP

outstanding totaling \$2.7 billion at year-end supported by the Credit Facility. During 2010, Cat Financial issued ¥10 billion in Japanese yen, €415 million in euro, A\$250 million in Australian dollar, C\$200 million in Canadian dollar, ¥1 billion in Chinese yuan and \$1.9 billion in medium-term notes. Throughout 2010, Cat Financial's CP, term debt issuance and year-to-date portfolio cash receipts have provided sufficient liquidity for operations.

Dividends paid per common share

Quarter	2010	2009	2008
First.....	\$.420	\$.420	\$.360
Second	.420	.420	.360
Third.....	.440	.420	.420
Fourth	.440	.420	.420
	<u>\$ 1.720</u>	<u>\$ 1.680</u>	<u>\$ 1.560</u>

Contractual obligations

The company has committed cash outflow related to long-term debt, operating lease agreements, postretirement obligations, purchase obligations, interest on long-term debt and other long-term contractual obligations. Minimum payments for these obligations are:

(Millions of dollars)	2011	2012	2013	2014	2015	After 2015	Total
Long-term debt:							
Machinery and Engines (excluding capital leases)	\$ 441	\$ 55	\$ 352	\$ —	\$ —	\$ 4,017	\$ 4,865
Machinery and Engines — capital leases	54	26	14	8	5	28	135
Financial Products	3,430	4,825	4,243	2,015	887	3,962	19,362
Total long-term debt	3,925	4,906	4,609	2,023	892	8,007	24,362
Operating leases	284	228	177	156	124	379	1,348
Postretirement obligations ¹	1,165	870	900	1,160	1,110	3,250	8,455
Purchase obligations:							
Accounts payable ²	5,856	—	—	—	—	—	5,856
Purchase orders ³	9,156	1	—	—	—	—	9,157
Other contractual obligations ⁴	269	184	186	183	46	59	927
Total purchase obligations	15,281	185	186	183	46	59	15,940
Interest on long-term debt ⁵	1,039	869	731	580	520	5,950	9,689
Other long-term obligations ⁶	198	135	96	55	34	13	531
Total contractual obligations	<u>\$ 21,892</u>	<u>\$ 7,193</u>	<u>\$ 6,699</u>	<u>\$ 4,157</u>	<u>\$ 2,726</u>	<u>\$ 17,658</u>	<u>\$ 60,325</u>

¹ Amounts represent expected contributions to our pension and other postretirement benefit plans through 2020, offset by expected Medicare Part D subsidy receipts.

² Amount represents invoices received and recorded as liabilities in 2010, but scheduled for payment in 2011. These represent short-term obligations made in the ordinary course of business.

³ Amount represents contractual obligations for material and services on order at December 31, 2010 but not yet delivered. These represent short-term obligations made in the ordinary course of business.

⁴ Amounts represent long-term commitments entered into with key suppliers for minimum purchases quantities.

⁵ Amounts represent estimated contractual interest payments on long-term debt, including capital lease interest payments.

⁶ Amounts represent contractual obligations primarily related to software license contracts, IT consulting contracts and outsourcing contracts for benefit plan administration and software system support.

The total amount of gross unrecognized tax benefits for uncertain tax positions, including positions impacting only the timing of tax benefits, was \$789 million at December 31, 2010. Payment of these obligations would result from settlements with taxing authorities. Due to the difficulty in determining the timing of settlements, these obligations are not included in the table above. We do not expect a significant tax payment related to these obligations within the next year.

CRITICAL ACCOUNTING POLICIES

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

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

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

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

The impairment test process requires valuation of the respective reporting unit, which we primarily determine using an income approach based on a discounted five year forecasted cash flow with a year-five residual value. The residual value is computed using the constant growth method, which values the forecasted cash flows in perpetuity. The income approach is supported by a reconciliation of our calculated fair value for Caterpillar to the company's market capitalization. The assumptions about future

cash flows and growth rates are based on each reporting unit's long-term forecast and are subject to review and approval by senior management. The discount rate is based on our weighted average cost of capital, which we believe approximates the rate from a market participant's perspective. The estimated fair value could be impacted by changes in market conditions, interest rates, growth rates, tax rates, costs, pricing and capital expenditures.

The 2010 annual impairment test, completed in the fourth quarter, indicated the fair value of each reporting unit was well above its respective carrying value, including goodwill. Additionally, Caterpillar's market capitalization has remained significantly above the net book value of the company. The 2009 annual impairment test indicated the fair value of each of our reporting units was above its respective carrying value, including goodwill, with the exception of our Forest Products reporting unit. Because the carrying value of Forest Products exceeded its fair value, step two in the impairment test process was required. We allocated the fair value to the unit's assets and liabilities and determined the implied fair value of the goodwill was insignificant. Accordingly, we recognized a \$22 million non-cash goodwill impairment charge in 2009 for Forest Products' entire goodwill amount. The primary factor contributing to the impairment was the historic decline in demand for purpose built forest product machines caused by the significant reduction in U.S. housing construction, lower prices for pulp, paper and wood product commodities, and reduced capital availability in the forest products industry.

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

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

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

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

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

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

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

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

- Volatility is a measure of the amount by which the stock price is expected to fluctuate each year during the expected term of the award and is based on historical and current implied volatilities from traded options on Caterpillar stock. The implied volatilities from traded options are impacted by changes in market conditions. An increase in the volatility would result in an increase in our expense.
- The expected term represents the period of time that awards granted are expected to be outstanding and is an output of the lattice-based option-pricing model. In determining the expected term of the award, future exercise and forfeiture patterns are estimated from Caterpillar employee historical exercise behavior. These patterns are also affected by the vesting conditions of the award. Changes in the future exercise behavior of employees or in the vesting period of the award could result in a change in the expected term. An increase in the expected term would result in an increase 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 — We determine these reserves based upon reported claims in process of settlement and actuarial estimates for losses incurred but not reported. Loss reserves, including incurred but not reported reserves, are based on estimates and ultimate settlements may vary significantly from such estimates due to increased claims frequency or severity over historical levels.

Postretirement benefits — Primary actuarial assumptions were determined as follows:

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

Post-sale discount reserve — We provide discounts to dealers through merchandising programs. We have numerous programs that are designed to promote the sale of our products. The most common dealer programs provide a discount when the dealer sells a product to a targeted end user. The amount of accrued post-sale discounts was \$779 million, \$662 million and \$828 million as of December 31, 2010, 2009 and 2008, respectively. The reserve represents discounts that we expect to pay on previously sold units and is reviewed at least quarterly. The reserve is adjusted if discounts paid differ from those estimated. Historically, those adjustments have not been material.

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

The allowance for credit losses attributable to specific accounts is based on the most probable source of repayment, which is normally the liquidation of collateral. In determining collateral value we estimate current fair value of collateral and 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, there can be no assurance that in the future, changes in economic conditions or other factors would not cause changes in the financial health of our customers. If the financial health of our customer deteriorates, the timing and level of payments received could be impacted and therefore, could result in a change to our estimated losses.

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

Despite our belief that our tax return positions are consistent with applicable tax laws, we believe that taxing authorities could challenge certain positions. Settlement of any challenge can result in no change, a complete disallowance, or some partial adjustment reached through negotiations or litigation. We record tax benefits for uncertain tax positions based upon management's evaluation of the information available at the reporting date. To be recognized in the financial statements, a tax benefit must be at least more likely than not of being sustained based on technical merits. The benefit for positions meeting the recognition threshold is

measured as the largest benefit more likely than not of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Significant judgment is required in making these determinations and adjustments to unrecognized tax benefits may be necessary to reflect actual taxes payable upon settlement. Adjustments related to positions impacting the effective tax rate affect the provision for income taxes. Adjustments related to positions impacting the timing of deductions impact deferred tax assets and liabilities.

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

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

GLOBAL WORKFORCE

Caterpillar worldwide full-time employment was 104,490 at the end of 2010 compared with 93,813 at year-end 2009, an increase of 10,677 full-time employees. In addition, we increased the flexible workforce by 11,046 for a total increase in the global workforce of 21,723.

The increase was a result of higher sales, led by demand from developing economies that drove significantly higher worldwide production and exports from the United States. In addition, acquisitions, primarily EMD, added 2,715 people.

Full-Time Employees at Year-End

	2010	2009	2008
Inside U.S.	47,319	43,251	53,509
Outside U.S.	57,171	50,562	59,378
Total	104,490	93,813	112,887
By Region:			
North America	48,540	43,999	54,284
EAME	22,977	22,790	26,983
Latin America.....	15,220	10,776	14,403
Asia/Pacific	17,753	16,248	17,217
Total.....	104,490	93,813	112,887

OTHER MATTERS**ENVIRONMENTAL AND LEGAL MATTERS**

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

We are engaged in remedial activities at a number of locations, often with other companies, pursuant to federal and state laws. When it is reasonably 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 the line item Accrued expenses in the Consolidated Statement of Financial Position.

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

We have disclosed certain individual legal proceedings in this filing. Additionally, we are involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance liability (including claimed asbestos and welding fumes exposure), contracts, employment issues, environmental matters or intellectual property rights. Although it is not possible to predict with certainty the outcome of these unresolved legal actions, we believe that these actions will not individually or in the aggregate have a material adverse effect on our consolidated results of operations, financial position or liquidity.

On May 14, 2007, the U.S. Environmental Protection Agency (EPA) issued a Notice of Violation to Caterpillar Inc., alleging various violations of Clean Air Act Sections 203, 206 and 207. EPA claims that Caterpillar violated such sections by shipping engines and catalytic converter after-treatment devices separately, introducing into commerce a number of uncertified and/or misbuilt engines, and failing to timely report emissions-related defects. Caterpillar is currently engaged in negotiations with EPA and the U.S. Department of Justice to resolve these issues. On July 9, 2010, the Department of Justice issued a penalty demand to Caterpillar seeking a civil penalty of \$3.2 million and implementation of injunctive relief involving expanded use of certain technologies. Caterpillar continues to cooperate with EPA and the Department of Justice and, while penalties will likely exceed \$100,000, management does not believe that this issue will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

On February 8, 2009, an incident at Caterpillar's Joliet, Illinois facility resulted in the release of approximately 3,000 gallons of wastewater into the Des Plaines River. In coordination with state and federal authorities, appropriate remediation measures have been taken. On February 23, 2009, the Illinois Attorney General filed a Complaint in Will County Circuit Court containing seven counts of violations of state environmental laws and regulations.

Caterpillar recently settled this matter with the State of Illinois, resolving all allegations in the Complaint. This settlement does not have a material adverse impact on our consolidated results of operations, financial position, or liquidity. In addition, on March 5, 2009, the EPA served Caterpillar with a Notice of Intent to file a Civil Administrative Action (notice), indicating the EPA's intent to seek civil penalties for alleged violations of the Clean Water Act and Oil Pollution Act. On January 25, 2010, the EPA issued a revised notice seeking civil penalties in the amount of \$167,800, and Caterpillar responded to the revised notice and is engaged in follow up discussions with the EPA. At this time, we do not believe this remaining proceeding will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

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

RETIREMENT BENEFITS

In September 2006, the FASB issued guidance on employers' accounting for defined benefit pension and other postretirement plans, which requires the 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 is allocated proportionately between amounts to be recognized as an adjustment of Profit employed in the business 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 the year-end measurement date provisions of this guidance increased January 1, 2008 assets by \$8 million, increased liabilities by \$24 million and reduced stockholders' equity by \$16 million. The adoption of this guidance did not impact our results of operations.

We recognized pension expense of \$677 million in 2010 as compared to \$620 million in 2009. The increase in expense was primarily the result of increased amortization of net actuarial losses due to significant asset losses in 2008, lower discount rates at the end of 2009 and \$28 million of curtailment costs due a U.S. pension plan change (discussed below), partially offset by the absence of \$169 million of curtailment, settlement and special termination benefit costs due to voluntary and involuntary separation programs (discussed below) recognized in 2009. Accounting guidance on retirement benefits requires companies to discount future benefit obligations back to today's dollars using a discount rate that is based on high-quality fixed-income investments. A

decrease in the discount rate increases the pension benefit obligation, while an increase in the discount rate decreases the pension benefit obligation. This increase or decrease in the pension benefit obligation is recognized in Accumulated other comprehensive income (loss) and subsequently amortized into earnings as an actuarial gain or loss. The guidance also requires companies to use an expected long-term rate of return on plan assets for computing current year pension expense. Differences between the actual and expected asset returns are also recognized in Accumulated other comprehensive income (loss) and subsequently amortized into earnings as actuarial gains and losses. At the end of 2010, total actuarial losses recognized in Accumulated other comprehensive income (loss) were \$6.07 billion, as compared to \$6.33 billion in 2009. The majority of the actuarial losses are due to lower discount rates, losses from other demographic and economic assumptions over the past several years and plan asset losses. The \$264 million decrease from 2009 to 2010 was primarily the result of better than expected asset returns and amortization into earnings of net actuarial losses during 2010, partially offset by a decrease in the discount rate.

In 2010, we recognized other postretirement benefit expense of \$200 million compared to \$277 million in 2009. The decrease in expense is primarily due to curtailment losses of \$56 million recognized in 2009 as a result of employee separation programs and the impact of amendments to our U.S. support and management other postretirement benefit plan on 2010 expense (both discussed below). Actuarial losses recognized in Accumulated other comprehensive income (loss) for other postretirement benefit plans were \$1.20 billion at the end of 2010 as compared to \$659 million at the end of 2009. These losses mainly reflect changes in our health care trend assumption and several years of declining discount rates, partially offset by gains from lower than expected health care costs. The losses were \$536 million higher at the end of 2010 as compared to 2009 due to a decrease in the discount rate and changes in our health care trend and other demographic assumptions.

Actuarial losses for both pensions and other postretirement benefits will be impacted in future periods by actual asset returns, actual health care inflation, discount rate changes, actual demographic experience and other factors that impact these expenses. These losses, reported in Accumulated other comprehensive income (loss), will be amortized as a component of net periodic benefit cost on a straight-line basis over the average remaining service period of active employees expected to receive benefits under the benefit plans. At the end of 2010, the average remaining service period of active employees was 11 years for our U.S. pension plans, 15 years for our non-U.S. pension plans and 7 years for other postretirement benefit plans. We expect our amortization of net actuarial losses to increase approximately \$150 million in 2011 as compared to 2010, primarily due to asset losses during 2008 and a decrease in the discount rate during 2010. We expect our total pension and other postretirement benefits expense to increase approximately \$100 million in 2011.

During 2009, voluntary and involuntary separation programs impacted employees participating in certain U.S. and non-U.S. pension and other postretirement benefit plans. Due to the significance of these events, certain plans were re-measured as of January 31, 2009, March 31, 2009 and December 31, 2009. Re-measurements for U.S. separation programs resulted in curtailment losses of \$127 million to pension and \$55 million to other postretirement benefit plans. Special termination benefits of \$6 million were also recognized for a U.S. pension early retirement program. Re-measurements for non-U.S. separation

programs resulted in pension settlement losses of \$34 million, special termination benefits of \$2 million to pension and curtailment losses of \$1 million to other postretirement benefit plans.

In March 2009, we amended our U.S. support and management other postretirement benefit plan. Beginning in 2010, certain retirees age 65 and older enrolled in individual health plans that work with Medicare, such as Medicare Advantage and Medicare Supplement plans, and no longer participate in a Caterpillar-sponsored group health plan. In addition, Caterpillar began funding a tax-advantaged Health Reimbursement Arrangement (HRA) to assist the retirees with medical expenses. The plan amendment required a plan re-measurement as of March 31, 2009, which resulted in a decrease in our Liability for postretirement benefits of \$432 million and an increase in Accumulated other comprehensive income (loss) of \$272 million net of tax. The plan was further amended in December 2009 to define the HRA benefit that active employees will receive once they are retired and reach age 65. The plan was re-measured at year-end 2009 and the December amendment resulted in a decrease in our Liability for postretirement benefits of \$101 million and an increase in Accumulated other comprehensive income (loss) of \$64 million net of tax. These decreases will be amortized into earnings on a straight-line basis over approximately 7 years, the average remaining service period of active employees in the plan. The amendments reduced other postretirement benefits expense by approximately \$110 million and \$60 million in 2010 and 2009, respectively.

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

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

For our U.S. pension plans, our year-end 2010 asset allocation was 74 percent equity securities, 23 percent debt securities and 3 percent other. The target allocation for 2011 is 70 percent equity securities and 30 percent debt securities. The year-end 2010 asset allocation for our non-U.S. pension plans was 54 percent equity securities, 33 percent debt securities, 6 percent real estate and 7 percent other. The 2011 target allocation for our non-U.S. pension plans is 62 percent equity securities, 31 percent debt securities, 6 percent real estate and 1 percent other. Our target asset allocations reflect our investment strategy of maximizing the rate of return on plan assets and the resulting funded status, within an appropriate level of risk. The U.S. plans are rebalanced to plus or minus five percentage points of the

target asset allocation ranges on a monthly basis. The frequency of rebalancing for the non-U.S. plans varies depending on the plan.

The use of certain derivative instruments is permitted where appropriate and necessary for achieving overall investment policy objectives. The U.S. plans utilize futures contracts to offset current equity positions in order to rebalance the total portfolio to the target asset allocation. During 2008, approximately 5% of the U.S. pension plans' assets were rebalanced from equity to fixed income positions through the use of futures contracts. The plans do not engage in futures contracts for speculative purposes.

During 2010, we made contributions of \$919 million to our U.S. defined benefit pension plans and \$58 million to our non-U.S.

pension plans. We made contributions of \$886 million to our U.S. defined benefit plans in 2009, including a voluntary contribution of 18.2 million shares (\$650 million) in Caterpillar stock, held as treasury stock. Cash contributions of \$263 million were made to our non-U.S. pension plans in 2009. We expect to make approximately \$1 billion of contributions during 2011, most of which are voluntary. We believe we have adequate liquidity resources to fund both U.S. and non-U.S. pension plans.

Actuarial assumptions have a significant impact on both pension and other postretirement benefit expenses. The effects of a one percentage point change in our primary actuarial assumptions on 2010 benefit costs and year-end obligations are included in the table below.

Postretirement Benefit Plan Actuarial Assumptions Sensitivity

Following are the effects of a one percentage-point change in our primary pension and other postretirement benefit actuarial assumptions (included in the following table) on 2010 pension and other postretirement benefits costs and obligations:

(Millions of dollars)	2010 Benefit Cost		Year-end Benefit Obligation	
	One percentage-point increase	One percentage-point decrease	One percentage-point increase	One percentage-point decrease
Pension benefits:				
Assumed discount rate.....	\$ (138)	\$ 155	\$(1,975)	\$ 2,251
Expected rate of compensation increase	49	(48)	366	(349)
Expected long-term rate of return on plan assets ...	(118)	118	—	—
Other postretirement benefits:				
Assumed discount rate.....	(18)	15	(512)	570
Expected rate of compensation increase	—	—	1	(1)
Expected long-term rate of return on plan assets ...	(11)	11	—	—
Assumed health care cost trend rate	27	(22)	304	(259)

Primary Actuarial Assumptions

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Weighted-average assumptions used to determine benefit obligations, end of year:									
Discount rate	5.1%	5.7%	6.1%	4.6%	4.8%	4.5%	5.0%	5.6%	6.0%
Rate of compensation increase	4.5%	4.5%	4.5%	4.2%	4.2%	3.8%	4.4%	4.4%	4.4%
Weighted-average assumptions used to determine net cost:									
Discount rate	5.4%	6.3%	5.8%	4.8%	4.7%	5.3%	5.6%	6.3%	5.8%
Expected return on plan assets	8.5%	8.5%	9.0%	7.0%	6.6%	7.6%	8.5%	8.5%	9.0%
Rate of compensation increase	4.5%	4.5%	4.5%	4.2%	3.8%	4.0%	4.4%	4.4%	4.4%
Health care cost trend rates at year-end:									
Health care trend rate assumed for next year							7.9%	7.0%	7.4%
Rate that the cost trend rate gradually declines to.....							5.0%	5.0%	5.0%
Year that the cost trend rate reaches ultimate rate.....							2019	2016	2016

SENSITIVITY

Foreign Exchange Rate Sensitivity

Machinery and Engines 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. Based on the anticipated and firmly committed cash inflow and outflow for our Machinery and Engines operations for the next 12 months and the foreign currency derivative instruments in place at year-end, a hypothetical 10 percent weakening of the U.S. dollar relative to all other currencies would adversely affect our expected 2011 cash flow for our Machinery and Engines operations by approximately \$421 million. Last year similar assumptions and calculations yielded a potential \$240 million adverse impact on 2010 cash flow. We determine our net exposures by calculating the difference in cash inflow and outflow by currency and adding or subtracting outstanding foreign currency derivative instruments. We multiply these net amounts by 10 percent to determine the sensitivity.

Since our policy for Financial Products operations is to hedge the foreign exchange risk when the currency of our debt portfolio does not match the currency of our receivable portfolio, a 10 percent change in the value of the U.S. dollar relative to all other currencies would not have a material effect on our consolidated financial position, results of operations or cash flow. Neither our policy nor the effect of a 10 percent change in the value of the U.S. dollar has changed from that reported at the end of last year.

The effect of the hypothetical change in exchange rates ignores the effect this movement may have on other variables, including competitive risk. If it were possible to quantify this competitive impact, the results would probably be different from the sensitivity effects shown above. In addition, it is unlikely that all currencies would uniformly strengthen or weaken relative to the U.S. dollar. In reality, some currencies may weaken while others may strengthen. Our primary exposure (excluding competitive risk) is to exchange rate movements in the Australian dollar, British pound, Japanese yen and euro.

Interest Rate Sensitivity

For our Machinery and Engines operations, we have the option to use interest rate swaps to lower the cost of borrowed funds by attaching fixed-to-floating interest rate swaps to fixed-rate debt, and by entering into forward rate agreements on future debt issuances. A hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would adversely affect 2011 pretax earnings of Machinery and Engines by \$66 million. Last year, similar assumptions and calculations yielded a potential \$13 million adverse impact on 2010 pretax earnings. This effect is caused by the interest rate fluctuations on our short-term debt and forward and fixed-to-floating interest rate swaps.

For our Financial Products operations, we use interest rate derivative instruments primarily to meet our match-funding objectives and strategies. We have a match-funding policy whereby the

interest rate profile (fixed or floating rate) of our debt portfolio is matched to the interest rate profile of our earning asset portfolio (finance receivables and operating leases) within certain parameters. In connection with that policy, we use interest rate swap agreements to modify the debt structure. Match funding assists us in maintaining our interest rate spreads, regardless of the direction interest rates move.

In order to properly manage sensitivity to changes in interest rates, Financial Products measures the potential impact of different interest rate assumptions on pretax earnings. All on-balance sheet positions, including derivative financial instruments, are included in the analysis. The primary assumptions included in the analysis are that there are no new fixed rate assets or liabilities, the proportion of fixed rate debt to fixed rate assets remains unchanged and the level of floating rate assets and debt remain constant. Based on the December 31, 2010 balance sheet under these assumptions, the analysis estimates the impact of a 100 basis point immediate and sustained parallel rise in interest rates to be an \$18 million annual decrease to pretax earnings. Last year, similar assumptions and calculations yielded a potential \$8 million adverse impact on 2010 pretax earnings.

This analysis does not necessarily represent our current outlook of future market interest rate movement, nor does it consider any actions management could undertake in response to changes in interest rates. Accordingly, no assurance can be given that actual results would be consistent with the results of our estimate.

NON-GAAP FINANCIAL MEASURES

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

Profit Per Share Excluding Redundancy Costs

During the fourth quarter of 2009, redundancy costs related to employment reductions in response to the global recession were \$65 million or \$0.05 per share. 2009 redundancy costs were \$706 million or \$0.75 per share. We believe it is important to separately quantify the profit-per-share impact of redundancy costs in order for our 2009 results to be meaningful to our readers. Reconciliation of profit per share excluding redundancy costs to the most directly comparable GAAP measure, profit per share is as follows:

	Fourth Quarter 2009	2009
Profit per share	\$ 0.36	\$ 1.43
Per share redundancy costs	\$ 0.05	\$ 0.75
Profit per share excluding redundancy costs	\$ 0.41	\$ 2.18

MANAGEMENT'S DISCUSSION AND ANALYSIS *continued*

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 A-86 to A-88 are "non-GAAP financial measures" as defined by the Securities and Exchange Commission in Regulation G. 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 — primarily our finance and insurance subsidiaries, Cat Financial and Cat Insurance.

Consolidating Adjustments — eliminations of transactions between Machinery and Engines and Financial Products.

Pages A-86 to A-88 reconcile Machinery and Engines with Financial Products on the equity basis to Caterpillar Inc. consolidated financial information.

Supplemental Data for Results of Operations For The Years Ended December 31

(Millions of dollars)	Supplemental consolidating data											
	Consolidated			Machinery & Engines ¹			Financial Products			Consolidating Adjustments		
	2010	2009	2008	2010	2009	2008	2010	2009	2008	2010	2009	2008
Sales and revenues:												
Sales of Machinery and Engines	\$39,867	\$29,540	\$48,044	\$39,867	\$29,540	\$48,044	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Revenues of Financial Products	2,721	2,856	3,280	—	—	—	2,986	3,168	3,588	(265) ²	(312) ²	(308) ²
Total sales and revenues	42,588	32,396	51,324	39,867	29,540	48,044	2,986	3,168	3,588	(265)	(312)	(308)
Operating costs:												
Cost of goods sold	30,367	23,886	38,415	30,367	23,886	38,415	—	—	—	—	—	—
Selling, general and administrative expenses	4,248	3,645	4,399	3,689	3,085	3,812	603	579	616	(44) ³	(19) ³	(29) ³
Research and development expenses	1,905	1,421	1,728	1,905	1,421	1,728	—	—	—	—	—	—
Interest expense of Financial Products	914	1,045	1,153	—	—	—	916	1,048	1,162	(2) ⁴	(3) ⁴	(9) ⁴
Other operating (income) expenses	1,191	1,822	1,181	119	691	(33)	1,080	1,160	1,231	(8) ³	(29) ³	(17) ³
Total operating costs	38,625	31,819	46,876	36,080	29,083	43,922	2,599	2,787	3,009	(54)	(51)	(55)
Operating profit	3,963	577	4,448	3,787	457	4,122	387	381	579	(211)	(261)	(253)
Interest expense excluding Financial Products	343	389	274	407	475	270	—	—	—	(64) ⁴	(86) ⁴	4 ⁴
Other income (expense)	130	381	327	(77)	192	95	60	14	(25)	147 ⁵	175 ⁵	257 ⁵
Consolidated profit before taxes	3,750	569	4,501	3,303	174	3,947	447	395	554	—	—	—
Provision (benefit) for income taxes	968	(270)	953	882	(342)	822	86	72	131	—	—	—
Profit of consolidated companies	2,782	839	3,548	2,421	516	3,125	361	323	423	—	—	—
Equity in profit (loss) of unconsolidated affiliated companies	(24)	(12)	37	(24)	(12)	38	—	—	(1)	—	—	—
Equity in profit of Financial Products' subsidiaries	—	—	—	350	307	409	—	—	—	(350) ⁶	(307) ⁶	(409) ⁶
Profit of consolidated and affiliated companies	2,758	827	3,585	2,747	811	3,572	361	323	422	(350)	(307)	(409)
Less: Profit (loss) attributable to noncontrolling interests	58	(68)	28	47	(84)	15	11	16	13	—	—	—
Profit⁷	\$ 2,700	\$ 895	\$ 3,557	\$ 2,700	\$ 895	\$ 3,557	\$ 350	\$ 307	\$ 409	\$ (350)	\$ (307)	\$ (409)

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.

⁷ Profit attributable to common stockholders.

**Supplemental Data for Financial Position
At December 31**

(Millions of dollars)	Supplemental consolidating data							
	Consolidated		Machinery & Engines ¹		Financial Products		Consolidating Adjustments	
	2010	2009	2010	2009	2010	2009	2010	2009
Assets								
Current assets:								
Cash and short-term investments	\$ 3,592	\$ 4,867	\$ 1,825	\$ 2,239	\$ 1,767	\$ 2,628	\$ —	\$ —
Receivables — trade and other	8,494	5,611	5,893	3,705	482	1,464	2,119 ^{2,3}	442 ^{2,3}
Receivables — finance	8,298	8,301	—	—	11,158	9,872	(2,860) ³	(1,571) ³
Deferred and refundable income taxes	931	1,216	823	1,094	108	122	—	—
Prepaid expenses and other current assets	908	862	371	385	550	503	(13) ⁴	(26) ⁴
Inventories	9,587	6,360	9,587	6,360	—	—	—	—
Total current assets	31,810	27,217	18,499	13,783	14,065	14,589	(754)	(1,155)
Property, plant and equipment — net	12,539	12,386	9,662	9,308	2,877	3,078	—	—
Long-term receivables — trade and other	793	971	271	381	236	182	286 ^{2,3}	408 ^{2,3}
Long-term receivables — finance	11,264	12,279	—	—	11,586	12,717	(322) ³	(438) ³
Investments in unconsolidated affiliated companies	164	105	156	97	8	8	—	—
Investments in Financial Products subsidiaries	—	—	4,275	4,514	—	—	(4,275) ⁵	(4,514) ⁵
Noncurrent deferred and refundable income taxes	2,493	2,714	2,922	3,083	90	65	(519) ⁶	(434) ⁶
Intangible assets	805	465	795	464	10	1	—	—
Goodwill	2,614	2,269	2,597	2,269	17	—	—	—
Other assets	1,538	1,632	314	297	1,224	1,335	—	—
Total assets	\$ 64,020	\$ 60,038	\$ 39,491	\$ 34,196	\$ 30,113	\$ 31,975	\$ (5,584)	\$ (6,133)
Liabilities								
Current liabilities:								
Short-term borrowings	\$ 4,056	\$ 4,083	\$ 306	\$ 1,433	\$ 4,452	\$ 3,676	\$ (702) ⁷	\$ (1,026) ⁷
Accounts payable	5,856	2,993	5,717	2,862	177	229	(38) ⁸	(98) ⁸
Accrued expenses	2,880	2,641	2,422	2,055	470	613	(12) ⁹	(27) ⁹
Accrued wages, salaries and employee benefits	1,670	797	1,642	790	28	7	—	—
Customer advances	1,831	1,217	1,831	1,217	—	—	—	—
Dividends payable	281	262	281	262	—	—	—	—
Other current liabilities	1,521	1,281	1,142	808	393	494	(14) ⁶	(21) ⁶
Long-term debt due within one year	3,925	5,701	495	302	3,430	5,399	—	—
Total current liabilities	22,020	18,975	13,836	9,729	8,950	10,418	(766)	(1,172)
Long-term debt due after one year	20,437	21,847	4,543	5,687	15,932	16,195	(38) ⁷	(35) ⁷
Liability for postemployment benefits	7,584	7,420	7,584	7,420	—	—	—	—
Other liabilities	2,654	2,496	2,203	2,060	956	848	(505) ⁶	(412) ⁶
Total liabilities	52,695	50,738	28,166	24,896	25,838	27,461	(1,309)	(1,619)
Commitments and contingencies								
Redeemable noncontrolling interest	461	477	461	477	—	—	—	—
Stockholders' equity								
Common stock	3,888	3,439	3,888	3,439	902	883	(902) ⁵	(883) ⁵
Treasury stock	(10,397)	(10,646)	(10,397)	(10,646)	—	—	—	—
Profit employed in the business	21,384	19,711	21,384	19,711	3,027	3,282	(3,027) ⁵	(3,282) ⁵
Accumulated other comprehensive income (loss)	(4,051)	(3,764)	(4,051)	(3,764)	263	279	(263) ⁵	(279) ⁵
Noncontrolling interests	40	83	40	83	83	70	(83) ⁵	(70) ⁵
Total stockholders' equity	10,864	8,823	10,864	8,823	4,275	4,514	(4,275)	(4,514)
Total liabilities, redeemable noncontrolling interest and stockholders' equity	\$ 64,020	\$ 60,038	\$ 39,491	\$ 34,196	\$ 30,113	\$ 31,975	\$ (5,584)	\$ (6,133)

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 Financial Products' equity which is accounted for on Machinery and Engines on the equity basis.

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

⁷ Elimination of debt between Machinery and Engines and Financial Products.

⁸ Elimination of payables between Machinery and Engines and Financial Products.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS *continued*

Supplemental Data for Statement of Cash Flow For the Years Ended December 31

(Millions of dollars)	Supplemental consolidating data							
	Consolidated		Machinery & Engines ¹		Financial Products		Consolidating Adjustments	
	2010	2009	2010	2009	2010	2009	2010	2009
Cash flow from operating activities:								
Profit of consolidated and affiliated companies	\$ 2,758	\$ 827	\$ 2,747	\$ 811	\$ 361	\$ 323	\$ (350) ²	\$ (307) ²
Adjustments for non-cash items:								
Depreciation and amortization	2,296	2,336	1,573	1,594	723	742	—	—
Undistributed profit of Financial Products	—	—	—	(307)	—	—	—	307 ³
Other	469	137	457	4	(120)	(87)	132 ⁴	220 ⁴
Financial Products' dividend in excess of profit	—	—	250	—	—	—	(250) ⁹	—
Changes in assets and liabilities, net of acquisitions:								
Receivables — trade and other	(2,320)	4,014	(1,264)	1,929	44	67	(1,100) ^{4,5}	2,018 ^{4,5}
Inventories	(2,667)	2,501	(2,665)	2,501	—	—	(2) ⁴	—
Accounts payable	2,570	(1,878)	2,533	(1,748)	(25)	(140)	62 ⁴	10 ⁴
Accrued expenses	117	(505)	98	(447)	4	(57)	15 ⁴	(1) ⁴
Accrued wages, salaries and employee benefits	847	(534)	826	(527)	21	(7)	—	—
Customer advances	604	(646)	604	(646)	—	—	—	—
Other assets — net	358	235	316	31	(30)	218	72 ⁴	(14) ⁴
Other liabilities — net	(23)	12	163	(48)	(100)	44	(86) ⁴	16 ⁴
Net cash provided by (used for) operating activities	5,009	6,499	5,638	3,147	878	1,103	(1,507)	2,249
Cash flow from investing activities:								
Capital expenditures — excluding equipment								
leased to others	(1,575)	(1,504)	(1,579)	(1,500)	(7)	(4)	11 ⁴	—
Expenditures for equipment leased to others	(1,011)	(968)	(84)	—	(985)	(972)	58 ⁴	4 ⁴
Proceeds from disposals of leased assets								
and property, plant and equipment	1,469	1,242	145	150	1,376	1,092	(52) ⁴	—
Additions to finance receivables	(8,498)	(7,107)	—	—	(28,320)	(20,387)	19,822 ⁵	13,280 ⁵
Collections of finance receivables	8,987	9,288	—	—	27,919	23,934	(18,932) ⁵	(14,646) ⁵
Proceeds from sale of finance receivables	16	100	—	—	16	987	—	(887) ⁵
Net intercompany borrowings	—	—	(574)	416	931	(963)	(357) ⁶	547 ⁶
Investments and acquisitions (net of cash acquired)	(1,126)	(19)	(1,093)	(19)	(33)	—	—	—
Proceeds from sale of available-for-sale securities	228	291	10	6	218	285	—	—
Investments in available-for-sale securities	(217)	(349)	(12)	(5)	(205)	(344)	—	—
Other — net	132	(128)	7	116	105	(258)	20 ⁷	14 ^{7,8}
Net cash provided by (used for) investing activities	(1,595)	846	(3,180)	(836)	1,015	3,370	570	(1,688)
Cash flow from financing activities:								
Dividends paid	(1,084)	(1,029)	(1,084)	(1,029)	(600)	—	600 ¹⁰	—
Distribution to noncontrolling interests	—	(10)	—	(10)	—	—	—	—
Common stock issued, including treasury shares reissued	296	89	296	89	20	20	(20) ⁷	(20) ⁷
Excess tax benefit from stock-based compensation	153	21	153	21	—	—	—	—
Acquisitions of noncontrolling interests	(132)	(6)	(132)	(6)	—	(6)	—	6 ⁸
Net intercompany borrowings	—	—	(931)	963	574	(416)	357 ⁶	(547) ⁶
Proceeds from debt issued (original maturities								
greater than three months)	8,324	12,291	216	458	8,108	11,833	—	—
Payments on debt (original maturities								
greater than three months)	(12,461)	(12,687)	(1,298)	(918)	(11,163)	(11,769)	—	—
Short-term borrowings (original maturities								
three months or less) — net	291	(3,884)	(78)	(1,147)	369	(2,737)	—	—
Net cash provided by (used for) financing activities	(4,613)	(5,215)	(2,858)	(1,579)	(2,692)	(3,075)	937	(561)
Effect of exchange rate changes on cash	(76)	1	(14)	(10)	(62)	11	—	—
Increase (decrease) in cash and short-term investments ...	(1,275)	2,131	(414)	722	(861)	1,409	—	—
Cash and short-term investments at beginning of period	4,867	2,736	2,239	1,517	2,628	1,219	—	—
Cash and short-term investments at end of period	\$ 3,592	\$ 4,867	\$ 1,825	\$ 2,239	\$ 1,767	\$ 2,628	\$ —	\$ —

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

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

³ Elimination of 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 Elimination of net proceeds and payments to/from Machinery and Engines and Financial Products.

⁷ Elimination of change in investment and common stock related to Financial Products.

⁸ Elimination of Financial Products' acquisition of Machinery and Engines' noncontrolling interest in a Financial Products subsidiary.

⁹ Elimination of Financial Products' dividend to Machinery and Engines in excess of Financial Products' profit.

¹⁰ Elimination of dividend from Financial Products to Machinery and Engines.

SUPPLEMENTAL STOCKHOLDER INFORMATION

Caterpillar Inc.

Stockholder Services

Registered stockholders should contact:

Stock Transfer Agent

BNY Mellon Shareowner Services

P.O. Box 358015

Pittsburgh, PA 15252-8015

Phone: (866) 203-6622 (U.S. and Canada)

(201) 680-6578 (Outside U.S. and Canada)

Hearing Impaired:

(800) 231-5469 (U.S. or Canada)

(201) 680-6610 (Outside U.S. or Canada)

Internet: www.bnymellon.com/shareowner/isd

Caterpillar Assistant Secretary

Laurie J. Huxtable

Assistant Secretary

Caterpillar Inc.

100 N.E. Adams Street

Peoria, IL 61629-7310

Phone: (309) 675-4619

Fax: (309) 675-6620

E-mail: CATshareservices@CAT.com

Shares held in Street Position

Stockholders that hold shares through a street position should contact their bank or broker with questions regarding those shares.

Stock Purchase Plan

Current stockholders and other interested investors may purchase Caterpillar Inc. common stock directly through the Investor Services Program sponsored and administered by our Transfer Agent. Current stockholders can get more information on the program from our Transfer Agent using the contact information provided above. Non-stockholders can request program materials by calling: (866) 353-7849. The Investor Services Program materials are available on-line from our Transfer Agent's website or by following a link from www.caterpillar.com/dspp.

Investor Relations

Institutional analysts, portfolio managers, and representatives of financial institutions seeking additional information about the Company should contact:

Director of Investor Relations

Mike DeWalt

Caterpillar Inc.

100 N.E. Adams Street

Peoria, IL 61629-5310

Phone: (309) 675-4549

Fax: (309) 675-4457

E-mail: CATir@CAT.com

Internet: www.caterpillar.com/investors

Company Information

Current information —

- phone our Information Hotline — (800) 228-7717 (U.S. or Canada) or (858) 244-2080 (Outside U.S. or Canada) to request company publications by mail, listen to a summary of Caterpillar's latest financial results and current outlook, or to request a copy of results by fax or mail
- request, view, or download materials on-line or register for e-mail alerts by visiting www.caterpillar.com/materialsrequest

Historical information —

- view/download on-line at www.caterpillar.com/historical

Annual Meeting

On Wednesday, June 8, 2011, at 1:30 p.m., Central Time, the annual meeting of stockholders will be held in Little Rock, Arkansas. Proxy materials are being sent to stockholders on or about April 29, 2011.

Internet

Visit us on the Internet at www.caterpillar.com.

Information contained on our website is not incorporated by reference into this document.

Common Stock (NYSE: CAT)

Listing Information: Caterpillar common stock is listed on the New York stock exchange in the United States, and on stock exchanges in Belgium, France, Germany, Great Britain and Switzerland.

Price Ranges: Quarterly price ranges of Caterpillar common stock on the New York Stock Exchange, the principal market in which the stock is traded, were:

Quarter	2010		2009	
	High	Low	High	Low
First	\$ 64.42	\$ 50.50	\$ 47.12	\$ 21.71
Second	\$ 72.83	\$ 54.89	\$ 40.96	\$ 27.44
Third	\$ 80.08	\$ 58.06	\$ 54.71	\$ 30.01
Fourth	\$ 94.89	\$ 76.51	\$ 61.28	\$ 47.50

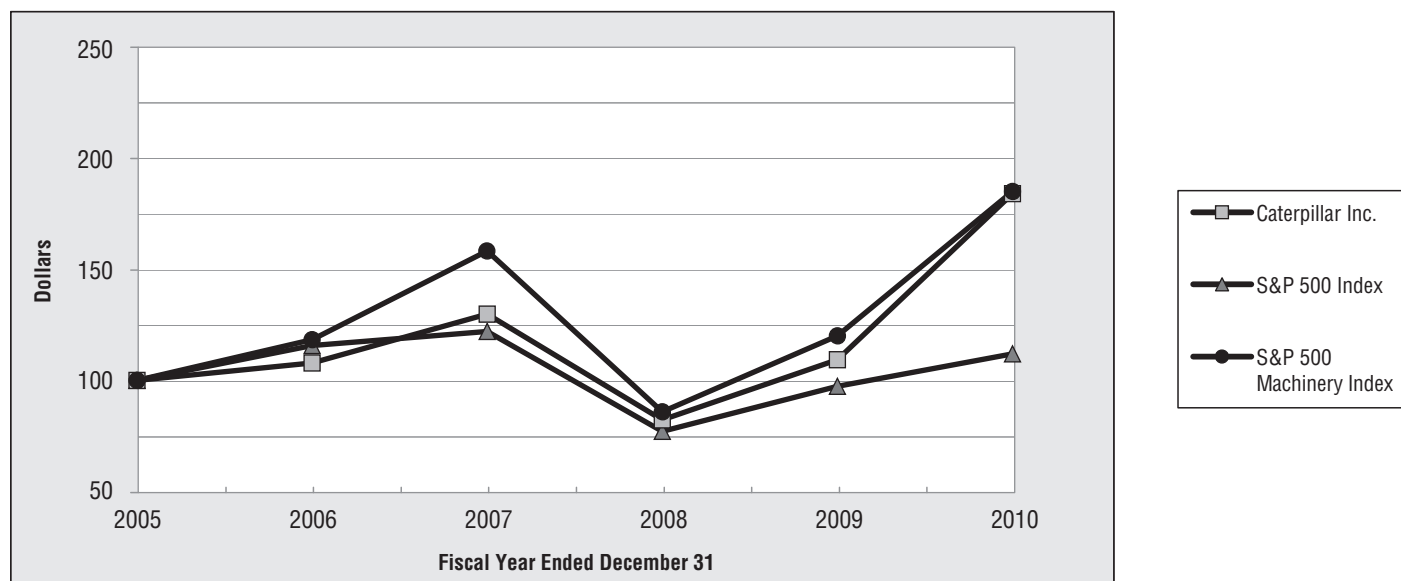
Number of Stockholders: Stockholders of record at year-end totaled 39,353, compared with 40,738 at the end of 2009. Approximately 61 percent of our issued shares are held by institutions and banks, 31 percent by individuals, and 8 percent by employees through company stock plans.

Caterpillar tax qualified defined contribution retirement plans held 38,975,310 shares at year-end, including 8,512,223 shares acquired during 2010. Non-U.S. employee stock purchase plans held an additional 4,921,529 shares at year-end, including 729,883 shares acquired during 2010.

SUPPLEMENTAL STOCKHOLDER INFORMATION *continued*

Performance Graph: Total Cumulative Stockholder Return for Five-Year Period Ending December 31, 2010

The graph below shows the cumulative stockholder return assuming an investment of \$100 on December 31, 2005, and reinvestment of dividends issued thereafter.



	2005	2006	2007	2008	2009	2010
Caterpillar Inc.	\$ 100.00	\$ 107.89	\$ 129.99	\$ 82.16	\$ 109.36	\$ 184.47
S&P 500	\$ 100.00	\$ 115.78	\$ 122.14	\$ 76.96	\$ 97.33	\$ 112.01
S&P 500 Machinery	\$ 100.00	\$ 118.43	\$ 158.55	\$ 85.81	\$ 120.16	\$ 185.47

Directors/Committee Membership (as of January 1, 2011)				
	Audit	Compensation	Governance	Public Policy
John R. Brazil		✓		
Daniel M. Dickinson	✓			
Eugene V. Fife			✓*	
Juan Gallardo				✓
David R. Goode		✓*		
Jesse J. Greene, Jr.	✓			
Peter A. Magowan			✓	
Douglas R. Oberhelman				
William A. Osborn	✓*			
Charles D. Powell				✓*
Edward B. Rust, Jr.		✓		
Susan C. Schwab				✓
Joshua I. Smith		✓		
Miles D. White			✓	
*Chairman of Committee				

Officers (as of February 15, 2011)

Douglas R. Oberhelman	Chairman and Chief Executive Officer	Stephen A. Gosselin	Vice President
Richard P. Lavin	Group President	Hans A. Haefeli	Vice President
Stuart L. Levenick	Group President	Bradley M. Halverson	Vice President
Edward J. Rapp	Group President and Chief Financial Officer	Kimberly S. Hauer	Vice President
Gerard R. Vittecoq	Group President	John S. Heller	Vice President
Steven H. Wunning	Group President	Gwenne A. Henricks	Vice President
James B. Buda	Senior Vice President and Chief Legal Officer	Stephen P. Larson	Vice President
Kent M. Adams	Vice President	William J. Rohner	Vice President
William P. Ainsworth	Vice President	Christiano V. Schena	Vice President
Ali M. Bahaj	Vice President	William F. Springer	Vice President
Mary H. Bell	Vice President	Gary A. Stampanato	Vice President
Thomas J. Bluth	Vice President	Gary A. Stroup	Vice President
David P. Bozeman	Vice President	Donald J. Umpleby III	Vice President
Richard J. Case	Vice President	Tana L. Utley	Vice President
Robert B. Charter	Vice President	Edward J. Scott	Treasurer
Frank J. Crespo	Vice President	Matthew R. Jones	Chief Audit Officer
Christopher C. Curfman	Vice President	Christopher C. Spears	Chief Ethics and Compliance Officer
Paolo Fellin	Vice President	Jananne A. Copeland	Controller and Chief Accounting Officer
William E. Finerty	Vice President	Christopher M. Reitz	Corporate Secretary
Steven L. Fisher	Vice President	Robin D. Beran	Assistant Treasurer
Gregory S. Folley	Vice President	Laurie J. Huxtable	Assistant Secretary

NOTES

