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

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________.

Commission File No. 1-768

CATERPILLAR INC.

(Exact name of Registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock ($1.00 par value)[1]	Chicago Stock Exchange New York Stock Exchange
Preferred Stock Purchase Rights	Chicago Stock Exchange New York Stock Exchange
9 3/8% Debentures due August 15, 2011	New York Stock Exchange
9 3/8% Debentures due March 15, 2021	New York Stock Exchange
8% Debentures due February 15, 2023	New York Stock Exchange
5.3% Debentures due September 15, 2035	New York Stock Exchange

(1) In addition to the exchanges in the United States, Caterpillar common stock is also listed on stock exchanges in Belgium, France, Germany, Great Britain and Switzerland.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [✓] No [ ]

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [✓]

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [✓]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer [✓] Accelerated filer [ ] Non-accelerated filer [ ] Smaller Reporting Company [ ]

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

As of June 30, 2008, there were 608,716,182 shares of common stock of the Registrant outstanding, and the aggregate market value of the voting stock held by non-affiliates of the Registrant (assuming only for purposes of this computation that directors and executive officers may be affiliates) was approximately $44.5 billion.

As of December 31, 2008, there were 601,526,641 shares of common stock of the Registrant outstanding, and the aggregate market value of the voting stock held by non-affiliates of the Registrant (assuming only for purposes of the computation that directors and executive officers may be affiliates) was approximately $26.6 billion.

Documents Incorporated by Reference

Portions of the documents listed below have been incorporated by reference into the indicated parts of this Form 10-K, as specified in the responses to the item numbers involved.

Part III	2009 Annual Meeting Proxy Statement (Proxy Statement) expected to be filed with the Securities and Exchange Commission (SEC) on April 20, 2009 but not later than June 30, 2009 (within 120 days after the end of the calendar year).
Parts I, II, IV	General and Financial Information for 2008 containing the information required by SEC Rule 14a-3 for an annual report to security holders filed as Exhibit 13 to this Form 10-K (Exhibit 13).

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PART I

Item 1. Business.

General
The company was originally organized as Caterpillar Tractor Co. in 1925 in the State of California. In 1986, the company reorganized as Caterpillar Inc. in the State of Delaware. As used herein, the term "Caterpillar," "we," "us," "our," or "the company" refers to Caterpillar Inc. and its subsidiaries unless designated or identified otherwise.

Principal Lines of Business / Nature of Operations
We operate in three principal lines of business:

1. Machinery— A principal line of business which includes the design, manufacture, marketing and sales of construction, mining and forestry machinery—track and wheel tractors, track and wheel loaders, pipelayers, motor graders, wheel tractor-scrapers, track and wheel excavators, backhoe loaders, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, skid steer loaders and related parts. Also includes logistics services for other companies and the design, manufacture, remanufacture, maintenance and services of rail-related products.
2. Engines— A principal line of business including the design, manufacture, marketing and sales of engines for Caterpillar machinery; electric power generation systems; on-highway vehicles and locomotives; marine, petroleum, construction, industrial, agricultural and other applications; and related parts. Also includes remanufacturing of Caterpillar engines and a variety of Caterpillar machine and engine components and remanufacturing services for other companies. Reciprocating engines meet power needs ranging from 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), Caterpillar Power Ventures Corporation (Cat Power Ventures) and their respective subsidiaries. Cat Financial provides a wide range of financing alternatives to customers and dealers for Caterpillar machinery and engines, Solar gas turbines as well as other equipment and marine vessels. Cat Financial also extends loans to customers and dealers. Cat Insurance provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment. Cat Power Ventures is an investor in independent power projects using Caterpillar power generation equipment and services.

Due to financial information required by Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information,* we have also divided our business into nine reportable segments for financial reporting purposes. Information about our reportable segments, including geographic information, appears in Note 24 – “Segment information” of Exhibit 13.

Other information about our operations in 2008 and our outlook for 2009, including risks associated with foreign operations, is incorporated by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Exhibit 13.

Company Strengths
Caterpillar is the leader in construction and mining equipment, and diesel and natural gas engines and industrial gas turbines in our size range. The company is also a leading services provider through Cat Financial, Caterpillar Logistics Services Inc., Caterpillar Remanufacturing Services and Progress Rail Services Corporation (Progress Rail). Annual sales and revenues were $ 51.324 billion in 2008, making Caterpillar the largest manufacturer in its industry. Caterpillar is also a leading U.S. exporter. Through direct sales of certain products and a global network of independent dealers, Caterpillar builds long-term relationships with customers around the world. For more than 80 years, the Caterpillar name has been associated with the highest level of quality products and services. More information is available at www.CAT.com.

Competitive Environment

Caterpillar products and product support services are sold worldwide into a variety of highly competitive markets. In all markets, we compete on the basis of product performance, customer service, quality and price. From time to time, the intensity of competition results in price discounting in a particular industry or region. Such price discounting puts pressure on margins and can negatively impact operating profit.

Outside of the United States, certain competitors enjoy competitive advantages inherent to operating in their home countries or regions.

Machinery

The competitive environment for Caterpillar's machinery business consists of some global competitors and many regional and specialized local competitors. Examples of global competitors include, but are not limited to, Komatsu Ltd., Volvo Construction Equipment (part of the Volvo Group AB), CNH Global N.V., Hitachi Construction Machinery Co., Terex Corporation, J.C. Bamford Ltd. and Doosan Infracore Co., Ltd. Each of these companies have varying numbers of product lines that compete with Caterpillar products and each have varying degrees of regional focus. John Deere Construction and Forestry Division (part of Deere & Co.), for example, has numerous product lines that compete with Caterpillar primarily in North America and Latin America. Others, like JCB, offer a limited range of products that compete globally against Caterpillar.

Global industry demand increased in the first three quarters of 2008 compared to the same period in 2007 due to gains in developing economies and commodity sectors. Demand in the developed economies declined during this period. The financial crisis worsened after mid September, leading to a worldwide recession and collapses in most commodity prices. During fourth quarter 2008, industry demand in all regions dropped below fourth quarter 2007 levels.

Caterpillar's logistics business provides integrated supply chain services for Caterpillar and over 55 other companies worldwide. It competes with global, regional and local competitors, including companies such as DHL International, GmbH and United Parcel Service, Inc. The unit has grown rapidly since its inception in 1987.

Since its acquisition by Caterpillar in June 2006, wholly owned subsidiary Progress Rail has continued its position in North America as a leading provider of a broad range of products. Based in Albertville, Alabama, Progress Rail is a leading provider of remanufactured locomotive, railcar and track products and services to the North American railroad industry. The company also has one of the most extensive rail service and supply networks in North America. Expansion into the railroad aftermarket business is a good fit with our strategic direction and leverages Caterpillar's global remanufacturing capabilities.

Engines

Caterpillar operates in a very competitive engine/turbine manufacturing and packaging environment. The company designs, manufactures, markets and sells diesel, heavy fuel and natural gas reciprocating engines for Caterpillar machinery, electric power generation systems, on-highway vehicles and locomotives, marine, petroleum, construction, industrial, agricultural and other applications. In addition, Caterpillar provides industrial turbines and turbine related services for oil and gas and power generation applications.

The competitive environment for reciprocating engines in marine, petroleum, construction, industrial, agriculture and electric power generation systems along with turbines consists of a few global competitors who compete in a variety of markets that Caterpillar serves, and a larger set of companies who compete in a limited size range and/or application. Principal global competitors include, but are not limited to, Cummins Inc., MTU Friedrichshafen and MTU Detroit Diesel (both are a Tognum Group Company) and Wartsila Corp. Other competitors, such as John Deere Power Systems, Siemens AG Power Generation, GE Energy, MAN Diesel SE, Mitsubishi Heavy Industries Ltd., and Volvo Penta (part of AB Volvo Group) compete in certain markets in which Caterpillar competes. An additional set of competitors, including Generac Power Systems, Inc., Kohler Co., Kawasaki Heavy Industries, Ltd., Rolls-Royce Group plc and others, are packagers who source engines and/or other components from domestic and international suppliers and market products regionally and internationally through a variety of distribution channels.

In North America, Caterpillar competes for sales of on-highway diesel engines with, among others, Cummins Inc., Detroit Diesel Corp. and Mercedes-Benz (both part of Daimler AG), Navistar International Corp. and AB Volvo Group. Outside North America, Caterpillar competes for sales of on-highway diesel engines with, among others, Mitsubishi Fuso Truck & Bus Corp. (both part of Daimler AG), DAF Trucks N.V., Dongfeng Motor Corporation, Fiat PowerTrain Technologies S.p.A., MAN AG and Scania AB. Some of these competitors are truck and/or bus manufacturers with proprietary diesel engines who also offer engines from independent manufacturers such as Caterpillar. As previously announced, Caterpillar will not provide Environmental Protection Agency (EPA) 2010 compliant engines to truck and other on-highway original equipment manufacturers (OEMs). Additionally, by mid-2009 Caterpillar will supply a very limited number of EPA 2007 compliant engines to truck and other on-highway OEMs.

Since the introduction of its four engine models with ACERT® Technology beginning in 2003, Caterpillar has continued to focus investment and resources on leveraging ACERT Technology into non-road markets, as well as into more of its engine platforms. The building blocks for ACERT Technology are flexible and scaleable and are being applied as needed based on engine platform and application. From October 2004 through year-end 2008, Caterpillar has shipped over 65,000 Caterpillar machines powered by engines with ACERT Technology. A line of ACERT industrial, electric power and marine engines has been released to further leverage the technology throughout Caterpillar's businesses and engine platforms.

We believe ACERT provides Caterpillar a valuable foundation now and in the future to meet emissions and performance requirements, and we plan to continue investing in developing and leveraging ACERT Technology systems and components.

Caterpillar's remanufacturing business provides services for a variety of products and services to Caterpillar and other external clients. The remanufacturing business competes on a regional basis with similarly sized or smaller companies. The company launched the remanufacturing business in the 1970s with engines/turbines and is now one of the world's largest remanufacturers, processing more than two million units annually and recycling more than 140 million pounds of remanufactured products each year. The business continues to grow at rates well above that of the global economy as a whole.

Previously, Caterpillar announced it would comply with Tier 4 requirements for its non-road engines and has invested significant R&D expenditures on projects to ensure compliance, which also includes the use of certain allowances and credits provided under the Tier 4 regulations.

Financial Products

Our financial products business is primarily conducted by Cat Financial. Cat Financial, incorporated in Delaware, is a wholly owned finance subsidiary of Caterpillar. Cat Financial's primary business is to provide retail and wholesale financing alternatives for Caterpillar products to customers around the world. Such retail financing is primarily comprised of financing of Caterpillar equipment, machinery and engines. In addition, Cat Financial also provides financing for vehicles, power generation facilities and marine vessels that, in most cases, incorporate Caterpillar products. In addition to retail financing, Cat Financial provides wholesale financing to Caterpillar dealers and purchases short-term dealer receivables from Caterpillar. The various financing plans offered by Cat Financial are designed to increase the opportunity for sales of Caterpillar products and generate financing income for Cat Financial. A significant portion of Cat Financial's activities is conducted in North America. However, Cat Financial has additional offices and subsidiaries in Asia, Australia, Europe and Latin America.

For over 25 years, Cat Financial has been providing financing in the various markets in which it participates, contributing to its knowledge of asset values, industry trends and customer needs.

In certain instances, Cat Financial's operations are subject to supervision and regulation by state, federal and various foreign governmental authorities, and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions which, among other things, (i) regulate credit granting activities and the administration of loans, (ii) establish maximum interest rates, finance charges and other charges, (iii) require disclosures to customers, (iv) govern secured transactions, (v) set collection, foreclosure, repossession and other trade practices and (vi) regulate the use and reporting of information related to a borrower's credit experience.

Cat Financial's retail leases and installment sale contracts (totaling 60 percent*) include:

- Tax leases that are classified as either operating or finance leases for financial accounting purposes, depending on the characteristics of the lease. For tax purposes, Cat Financial is considered the owner of the equipment (17 percent*).
- Finance (non-tax) leases where the lessee for tax purposes is considered the owner of the equipment during the term of the lease, and the agreement either requires or allows the customer to purchase the equipment for a fixed price at the end of the term (21 percent*).
- Installment sale contracts, which are equipment loans that enable customers to purchase equipment with a down payment or trade-in and structured payments over time (21 percent*).
- Governmental lease-purchase plans in the United States that offer low interest rates and flexible terms to qualified non-federal government agencies (1 percent*).

Retail notes receivables (27 percent*) include:

- Loans that allow customers and dealers to use their Caterpillar equipment as collateral to obtain financing.

Wholesale notes receivables, finance leases and installment sale contracts (totaling 13 percent*) include:

- Inventory/rental programs which provide assistance to dealers by financing new Caterpillar inventory and rental fleets (5 percent*).
- Short-term dealer receivables that Cat Financial purchases from Caterpillar and subsidiaries at a discount (8 percent*).

The retail financing business is highly competitive, with financing for users of Caterpillar equipment available through a variety of sources, principally commercial banks and finance and leasing companies. Cat Financial's competitors include Wells Fargo Equipment Finance Inc.; General Electric Capital Corporation and various local banks and finance companies. In addition, many of our manufacturing competitors, such as Volvo Financial Services, Komatsu Financial L.P. and John Deere Credit Corporation, use below-market interest rate programs (subsidized by the manufacturer) to assist machine sales. Caterpillar and Cat Financial work together to provide a broad array of financial merchandising programs around the world to meet these competitive offers.

Cat Financial's financial results are largely dependent upon the ability of Caterpillar dealers to sell equipment and customers' willingness to enter into financing or leasing agreements. It is also affected by, among other things, the availability of funds from its financing sources, general economic conditions such as inflation and market interest rates and its cost of funds relative to its competitors.

Cat Financial has a "match funding" policy that addresses interest rate risk by aligning the interest rate profile (fixed rate or floating rate) of its debt portfolio with the interest rate profile of its receivables portfolio (loans and leases with customers and dealers) within predetermined ranges on an ongoing basis. In connection with that policy, Cat Financial issues debt with a similar interest rate profile to its receivables, and also uses interest rate swap agreements to manage its interest rate risk exposure to interest rate changes and in some cases to lower its cost of borrowed funds. For more information regarding match funding, please see Note 3 – “Derivative financial instruments and risk management” of Exhibit 13. Also see the Risk to Financial Services Line of Business for general risk associated with our financial products business on page 17 of this Form 10-K.

In managing foreign currency risk for Cat Financial's operations, the objective is to minimize earnings volatility resulting from conversion and the remeasurement of net foreign currency balance sheet positions. This policy allows the use of foreign currency forward and option contracts to address the risk of currency mismatch between the receivable and debt portfolios. None of these foreign currency forward and option contracts are designated as a hedge.

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*Indicates the percentage of Cat Financial's total portfolio at December 31, 2008. We define total portfolio as total finance receivables (net of unearned income and allowance for credit losses) plus equipment on operating leases, less accumulated depreciation. For more information on the above and Cat Financial's concentration of credit risk, please refer to Note 8 – “Finance receivables” of Exhibit 13.

Cat Financial provides financing only when acceptable criteria are met. Credit decisions are based on, among other factors, the customer's credit history, financial strength and equipment application. Cat Financial typically maintains a security interest in retail-financed equipment and requires physical damage insurance coverage on financed equipment. Cat Financial finances a significant portion of Caterpillar dealers' sales and inventory of Caterpillar equipment throughout the world. Cat Financial's competitive position is improved by marketing programs offered in conjunction with Caterpillar and/or Caterpillar dealers. Under these programs, Caterpillar, or the dealer, subsidizes an amount at the outset of the transaction, which Cat Financial then recognizes as revenue over the term of the financing. Transaction processing time and supporting technologies continue to drive Cat Financial in its efforts to respond quickly to customers and improve internal processing efficiencies. We believe Cat Financial's web-based Cat Financ*Express*SM transaction processing and information tool currently available in the United States, France, Canada and Australia provides Cat Financial a competitive advantage in those areas. Cat Financ*Express*SM is an on-line tool that provides finance quotes, credit decisions and the ability to print the appropriate financial documents for end-user signature, all in a reasonably short time frame.

Caterpillar Insurance Company, a wholly owned subsidiary of Cat Insurance, is a U.S. insurance company domiciled in Missouri and primarily regulated by the Missouri Department of Insurance. Caterpillar Insurance Company is licensed to conduct property and casualty insurance business in 49 states and the District of Columbia, and as such, is regulated in those jurisdictions as well. The State of Missouri acts as the lead regulatory authority and monitors Caterpillar Insurance Company's financial status to ensure that it is in compliance with minimum solvency requirements, as well as other financial ratios prescribed by the National Association of Insurance Commissioners.

Caterpillar Life Insurance Company, a wholly owned subsidiary of Caterpillar, is a U.S. insurance company domiciled in Missouri and primarily regulated by the Missouri Department of Insurance. Caterpillar Life Insurance Company is licensed to conduct life and accident and health insurance business in 26 states and the District of Columbia, and as such, is regulated in those jurisdictions as well. The State of Missouri acts as the lead regulatory authority and it monitors the financial status to ensure that it is in compliance with minimum solvency requirements, as well as other financial ratios prescribed by the National Association of Insurance Commissioners. Caterpillar Life Insurance Company also provides stop loss insurance protection to a Missouri Voluntary Employees' Beneficiary Association (VEBA) trust used to fund medical claims of salaried retirees of Caterpillar under the VEBA.

Caterpillar Insurance Co. Ltd., a wholly owned subsidiary of Cat Insurance, is a captive insurance company domiciled in Bermuda and regulated by the Bermuda Monetary Authority. Caterpillar Insurance Co. Ltd. is a Class 2 insurer (as defined by the Bermuda Insurance Amendment Act of 1995), which primarily insures affiliates and, as such, the Bermuda Monetary Authority requires an Annual Financial Filing for purposes of monitoring compliance with solvency requirements.

Caterpillar Product Services Corporation, a wholly owned subsidiary of Caterpillar, is a warranty company domiciled in Missouri. It conducts a machine extended service contract program in Italy, France and Germany by providing machine extended warranty reimbursement protection to dealers in those countries.

Caterpillar Insurance Services Corporation, a wholly owned subsidiary of Cat Insurance, is a Tennessee insurance brokerage company licensed in all 50 states and the District of Columbia. It provides brokerage services for all property and casualty and life and health lines of business.

Caterpillar's insurance group provides protection for claims under the following programs:

- Contractual Liability Insurance to Caterpillar, Caterpillar dealers and Original Equipment Manufacturers (OEMs) for extended service contracts (parts and labor) offered by third party dealers and OEMs.
- Cargo insurance for the worldwide cargo risks of Caterpillar products.
- Contractors' Equipment Physical Damage Insurance for equipment manufactured by Caterpillar or OEMs, which is leased, rented or sold by third party dealers to customers.

- General liability, employer's liability, auto liability and property insurance for Caterpillar.
- Retiree Medical Stop Loss Insurance for medical claims under the VEBA.
- Brokerage services for property and casualty and life and health business.

Cat Power Ventures, a wholly owned subsidiary of Caterpillar, primarily invested equity and took ownership interests in power generation projects throughout the world that utilized Caterpillar power generation equipment. In some cases, these projects also utilized construction and operations and maintenance services that are provided by other Caterpillar subsidiaries. In December 2005, Cat Power Ventures decided that it would no longer invest equity in power generation projects. As a result, Cat Power Ventures has not made any new equity investments in power generation projects and has sold a majority of its project investment portfolio, including divesting its investment interests in Poland and the Dominican Republic in 2008. It continues to hold an equity interest in a project in Tunisia.

Business Developments in 2008

Economic and Market Conditions

Our business, results of operations and financial condition are materially affected by the conditions in the global economy. The global economic crisis and the volatility in the credit and capital markets, which began in 2007, had a significant impact on our 2008 profitability. Overall, the company realized record 2008 sales and revenues of $51.324 billion, with strong sales and revenues and profit per share for the first three quarters of the year. However, due to the deteriorating global economic conditions and the volatility of financial markets, our fourth quarter profit per share of $1.08 was significantly depressed, down 28 percent from the fourth quarter of 2007. While sales and revenues of about $12.923 billion increased $779 million from the fourth quarter of 2007, our fourth quarter profit of $661 million decreased by $314 million from 2007 fourth quarter profit. This was due to the significantly higher manufacturing costs driven by higher material and freight costs, along with manufacturing inefficiencies, as costs did not drop in line with a sharp decline in production volume. Also, we experienced a significant decrease in the profitability of our financial products business as a result of the turbulence in the financial markets.

As we move forward in 2009, the global economic conditions and key commodity prices have continued to decline significantly, the financial markets remain under stress and our expectations for 2009 have deteriorated. We are projecting 2009 sales and revenues to be in a range of plus or minus 10 percent from $40 billion, down 25 percent from 2008 sales. At $40 billion in sales and revenues in 2009, the company expects to achieve profit of about $2.00 per share or $2.50 per share excluding redundancy costs. We have been rapidly executing our “trough” plans and implementing actions throughout the company to deal with a very challenging global business environment and to reduce costs. Some of the “trough” plans and actions include:

- Significant reductions in total compensation for executives / senior managers.
- Voluntary and involuntary employee separations and layoffs.
- Hiring freezes and suspension of salary increases for most support and management employees.
- Reduction in indirect expenses of about 15 percent.
- Significant reduction in capital expenditures.
- Sharp declines in overtime work.
- Several facilities have shortened workweeks, and others will or have implemented full and partial plant shutdowns.
- Shifting more resources to short- and medium-term material cost reduction.
- Shifting more resources to inventory reduction projects.

While we expect the full year of 2009 to be very challenging, profit in the first half, and particularly the first quarter will be under severe pressure. In fact, a first quarter loss is possible.

As a result of the impact of the global economic downturn on our business, many of the expansion plans announced in 2008, some of which are discussed below under Growth Initiatives, are under review and will be implemented based on our spending priorities.

Financial Results and Stockholder Value

Full year 2008 results marked the sixth consecutive year of record sales for Caterpillar, including sales and revenues of $51.324 billion and profit of $3.557 billion, or $5.66 per share. In October 2008, Caterpillar marked the milestone achievement of 300 consecutive quarters of paying dividends to stockholders. We also reduced the number of shares outstanding by repurchasing 27.3 million shares in 2008 at a cost of $1.879 billion in support of our Board-authorized $7.5 billion stock repurchase program, approved in February 2007 and to be completed by 2011. As of December 31, 2008, the company had 601,526,641 shares of stock outstanding. On January 26, 2009, the company announced that it would temporarily suspend its stock repurchase program.

Sustainability

In 2008, the company continued its efforts in sustainable development and commitment to make sustainable development a "strategic area of improvement" in our enterprise strategy. The company was selected as a member of the Dow Jones Sustainability World Index (DJSI World) for the eighth consecutive year and has retained the leadership position in the Industrial Engineering sector for the third year. DJSI uses a best-in-class approach designed to identify best practices across the economic, social and environmental dimensions of corporate sustainability.

Caterpillar Production System (CPS)

We continued our internal focus on global deployment of CPS with 6 Sigma. Implementation of CPS is fundamental to reaching our 2010 goals to significantly improve product availability and improve inventory turns. We achieved our target assessment score for year-end 2008 and early-hour product quality as well as safety improved dramatically.

Growth Initiatives

In 2008, the company made progress toward its goal of continuing expansion of our business in China and other emerging markets and to move toward achieving market leadership. In support of our overall enterprise strategy and Vision 2020, Caterpillar took the following actions during 2008.

- In January 2008, Caterpillar completed the final steps in the acquisition of the remaining 60 percent equity interest in Shandong Machinery Co. Ltd. (SEM), a leading wheel loader manufacturer in China. The company also announced a multi-million dollar expansion to increase the capacity of SEM, demonstrating its commitment to support its growing customer base in the Chinese construction equipment industry. The investment will allow Caterpillar to meet growing demand and provide a broader product portfolio to wheel loader customers. We are currently planning to expand SEM's production capacity and have purchased land for this purpose. The construction is expected to begin in 2009.

- In April 2008, Caterpillar expanded its Global Mining business through the acquisition of Lovat Inc. (Lovat), a leading global manufacturer of tunnel boring machines used in the construction of metro, railway, road, sewer, water main, penstock, mine access, high voltage cable and telecommunications tunnels.

- In June 2008, as part of its strategic plan to increase its manufacturing footprint in the rapidly growing Asia-Pacific region, Caterpillar announced a four-year, $200 million investment to increase manufacturing capacity in India, by significantly increasing production for off-highway trucks made at its facility near Chennai, expanding engine production at its facility in Hosur and increasing India production capability for backhoe loaders. The additional investment demonstrates Caterpillar's commitment to customers in India and the importance of such emerging markets as we build our proven global business model across the Asia-Pacific region, an area that is critical to Caterpillar's 2010 and Vision 2020 goals.

- Caterpillar also reached an agreement to acquire all of the capital stock of MGE Equipamentos & Serviços Ferroviários Ltda. (MGE), a manufacturer and reconditioner of traction motors, main and auxiliary generators, control equipment and auxiliary components for locomotives and transit cars based in Diadema and Hortolandia in Sao Paulo State, Brazil. In addition, MGE maintains, modernizes and rebuilds transit cars and locomotives. The acquisition of MGE represents an important step in the international growth strategy of Caterpillar's Progress Rail Services Division (Progress Rail) and an important part of Caterpillar's Vision 2020 strategy.

- Caterpillar also announced the acquisition of certain assets of Gremada Industries, Inc. (Gremada), a leader in the processes of remanufacturing and reclaiming metal parts and components used in transmissions, torque converters and final drives. Gremada provides service support for off-highway equipment used in the mining and petroleum industries, and it has extensive experience providing remanufacturing expertise for equipment used for petroleum drilling applications. Gremada will become part of Caterpillar's Remanufacturing Division, enhancing product and service offerings and increasing strategic focus for remanufacturing in the mining and petroleum industries, supporting Caterpillar's continued service businesses growth strategy.

- In August 2008, Caterpillar announced plans to further expand its global business model in China by adding to its China-based research and development (R&D) operations to increase the technical support for products serving markets in China and the rest of the Asia Pacific Region. The city of Wuxi in Jiangsu province was announced as the location for a multi-functional research and development center serving Caterpillar's ventures in China and the rest of the Asia Pacific Region. This additional R&D effort is part of Caterpillar's strategy to support the expanded manufacturing footprint being implemented in China and the growing market demand in emerging markets. The center will be built in multiple phases with the first phase to be complete at the end of 2009.

- Also in August, Shin Caterpillar Mitsubishi Ltd. (SCM) completed the first phase of a share redemption plan whereby SCM redeemed one-half of Mitsubishi Heavy Industries Ltd.'s shares in SCM. This resulted in Caterpillar owning 67 percent of the renamed entity, Caterpillar Japan Ltd. (Cat Japan).

- In September 2008, Caterpillar announced it would open a new remanufacturing facility in Singapore, as part of its strategic plan to increase remanufacturing operations and better support the mining market in Asia. The new facility will serve as the regional source for remanufactured major components, including mining truck engines, transmissions, final drives and torque converters and expand Caterpillar's current remanufacturing operations in the Asia-Pacific region. The facility is anticipated to be fully operational by mid-2010.

- Also in September, Caterpillar expanded on implementation of its long-planned strategy to include core machine assembly operations in its existing component production facility in Tosno, Russia. Caterpillar has manufactured components in Tosno since 2000, exporting those components from Russia to other Caterpillar machine factories in Europe. The hydraulic excavators assembled in Tosno in 2008 are the first core machines Caterpillar has produced in Russia. The Tosno-built machines will be sold to customers in the rapidly expanding Russian market.

- In October 2008, Caterpillar and Trimble Navigation Limited, the leading innovator in developing technology for mobile and work applications, announced the creation of a new joint venture company and a new distribution agreement. The new company, VirtualSite Solutions, will integrate the deep expertise of both parent companies in the areas of product design and software development to transform the way contractors manage their businesses. The joint venture will create information rich worksites allowing customers to more efficiently and safely manage their equipment fleets, reduce operating costs and improve productivity in the area of fuel consumption, maintenance, worksite productivity and fleet logistics.

Other 2008 Developments

- In June 2008, Caterpillar announced a multi-year $1 billion capacity expansion that will position key factories in Illinois and other areas to compete for the long term. The investments will allow Caterpillar to meet continued demand and bolster its global leadership for machines used primarily in mining and large infrastructure applications. In support of this capacity expansion, the company will invest more than $1 billion from 2008 through 2010 in five existing facilities in Illinois (East Peoria, Joliet, Decatur, Aurora and Mossville).

- In October 2008, to strengthen its world-class product and service offerings, Caterpillar announced a realignment of its machine product and marketing organizations to sharpen customer focus, position the company to achieve its 2010 and Vision 2020 goals and build deep expertise in product development.

  The realigned structure created five end-to-end Machine Business Divisions: Mining, Quarry & Waste (subsequently renamed Quarry & Specialty Industries), Excavation, Earthmoving and Building Construction Products that incorporate design, manufacturing, marketing, sales and product support for the entire value chain. This new structure will increase accountability and drive global growth as well as profitability.

The alignment also introduced three new regional Distribution Services Divisions within Caterpillar, replacing the company's existing marketing arms. They will have responsibility for Caterpillar's total portfolio of business with each dealer, the dealer relationship, dealer development and ensuring the most efficient and effective distribution of Caterpillar machines, engines and parts.

The new structure also expanded and reorganized Caterpillar's Motion & Power Control Division into two new divisions. The new Advanced Systems Division will focus on designing and manufacturing critical components and integrated systems—hydraulic, transmission and lower powertrain—while working even more closely with worldwide suppliers to provide these solutions both internally and externally to original equipment manufacturers (OEMs). The new Core Components Division will bring together the engineering and supply base for hoses and tubes, filters and common components like tires, bearings, fasteners and seals. Along with undercarriage and ground engaging tools, this new division will bring better business focus to these widely used components.

Business Combinations

Information related to acquisitions and alliances appears in Note 25 – "Business Combinations" of Exhibit 13.

Raw Materials and Component Products

We source our raw materials and manufactured components from leading suppliers both domestically and internationally. These purchases include unformed materials, rough and finished parts. Unformed materials would be a variety of steel products which are then cut or formed to shape and machined in our facilities. Rough parts would be various sized steel and iron castings and forgings which are machined to final specification levels inside our facilities. Finished parts are ready to assemble components which are made to either Caterpillar specifications or to the supplier developed specifications. We machine and assemble some of the components used in our machines, engines and power generation units and to support our after-market Dealer parts sales. We also purchase various goods and services used in production, logistics, offices and product development processes. We maintain global strategic sourcing models to meet our global facilities' production needs while building long term supplier relationships and leveraging enterprise spend. We expect our suppliers to maintain, at all times, industry-leading levels of quality and delivery of raw materials and component products supplied for our machine and engine products. We use a variety of agreements with suppliers to protect our intellectual property and processes to monitor and mitigate risks of the supply base causing a business disruption. The risks monitored include supplier financial viability, business continuity, quality and delivery.

Order Backlog

Much of our backlog is in large engines, gas turbines and in mining products. The dollar amount of backlog believed to be firm was approximately $14.7 billion at December 31, 2008, and $17.8 billion at December 31, 2007. Of the total backlog, approximately $2.2 billion at December 31, 2008, and $2.5 billion at December 31, 2007, was not expected to be filled in the following year. Our backlog is generally highest in the first and second quarters because of seasonal buying trends in our industry. As we look forward to 2009, we expect our backlog to ease, particularly in the mining sector, which has begun to experience slowing investment activities due to declining commodity prices.

Dealers

Our machines are distributed principally through a worldwide organization of dealers (dealer network), 52 located in the United States and 128 located outside the United States, serving 182 countries and operating 3,537 places of business, including dealer rental outlets. Reciprocating engines are sold principally through the dealer network and to other manufacturers for use in their products. Some of the reciprocating engines manufactured by Perkins are also sold through its worldwide network of 131 distributors located in 172 countries. Most of the electric power generation systems manufactured by FG Wilson are sold through its worldwide network of 157 dealers located in 180 countries.

These dealers do not deal exclusively with our products; however, in most cases sales and servicing of our products are the dealers' principal businesses. Turbines and large medium speed reciprocating engines are sold through sales forces employed by the company. At times, these employees are assisted by independent sales representatives.

The company's relationship with each of its independent dealers is memorialized in a standard sales and service agreement. Pursuant to this agreement, the company grants the dealer the right to purchase and sell its products and to service the products in a specified geographic service territory. Prices to dealers are established by the company after receiving input from dealers on transactional pricing in the marketplace. The company also agrees to defend its intellectual property and to provide warranty and technical support to the dealer. The agreement further grants the dealer a non-exclusive license to use the company's trademarks, service marks and brand names. In some instances a separate trademark agreement exists between the company and a dealer.

In exchange for these rights, the agreement obligates the dealer to develop and promote the sale of the company's products to current and prospective customers in the dealer's service territory. Each dealer specifically agrees to employ adequate sales and support personnel to market, sell and promote the company's products, demonstrate and exhibit the products, perform the company's product improvement programs, inform the company concerning any features that might affect the safe operation of any of the company's products and maintain detailed books and records of the dealer's financial condition, sales and inventories and make these books and records available at the company's reasonable request.

These sales and service agreements are terminable at will by either party upon 90 days written notice and provide for termination automatically if the dealer files for bankruptcy protection or upon the occurrence of comparable action seeking protection from creditors.

Patents and Trademarks

Our products are sold primarily under the brands "Caterpillar," "CAT," design versions of "CAT" and "Caterpillar," "Solar Turbines," "MaK," "Perkins," "FG Wilson," "Olympian" and “Progress Rail.” We own a number of patents and trademarks, which have been obtained over a period of years and relate to the products we manufacture and the services we provide. These patents and trademarks have been of value in the growth of our business and may continue to be of value in the future. We do not regard any of our business as being dependent upon any single patent or group of patents.

Research and Development

We have always placed strong emphasis on product-oriented research and development relating to the development of new or improved machines, engines and major components. In 2008, 2007 and 2006, we spent $1,728 million, $1,404 million and $1,347 million, or 3.4 percent, 3.1 percent and 3.2 percent of our sales and revenues, respectively, on our research and development programs. We expect R&D expenditures in 2009 to decline somewhat from 2008 levels and we will emphasize product development required to meet Tier 4 emissions requirements.

Employment

As of December 31, 2008, we employed 112,887 persons of whom 59,378 were located outside the United States. However, due to deteriorating global economic conditions that are having a significant impact on our business, the company is implementing workforce reductions that will reduce the number of employees in 2009.

In the United States, most of our 53,509 employees are at-will employees and, therefore, not subject to any type of employment contract or agreement. At select business units, certain highly specialized employees have been hired under employment contracts that specify a term of employment and specify pay and other benefits.

As of December 31, 2008, there were 14,899 U.S. hourly production employees who were covered by collective bargaining agreements with various labor unions. The United Automobile, Aerospace and Agricultural Implement Workers of America represents 12,262 Caterpillar employees under a six-year central labor agreement that will expire March 1, 2011. The International Association of Machinists represents 2,028 employees under labor agreements that expire on May 23, 2010, and April 30, 2012.

Outside the United States, the company enters into employment contracts and agreements in those countries in which such relationships are mandatory or customary. The provisions of these agreements correspond in each case with the required or customary terms in the subject jurisdiction.

Sales

Sales outside the United States were 67 percent of consolidated sales for 2008, 63 percent for 2007, and 54 percent for 2006.

Environmental 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 – "Consolidated Financial Position at December 31" of Exhibit 13.

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.

Available Information

The company files electronically with the Securities and Exchange Commission (SEC) required reports on Form 8-K, Form 10-Q, Form 10-K and Form 11-K; proxy materials; ownership reports for insiders as required by Section 16 of the Securities Exchange Act of 1934; and registration statements on Forms S-3 and S-8, as necessary; and any other form or report as required. The public may read and copy any materials the company has filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330. The SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The company maintains an Internet site (www.CAT.com) and copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports filed or furnished with the SEC are available free of charge through our Internet site (www.CAT.com/secfilings) as soon as reasonably practicable after filing with the SEC. Copies of our board committee charters, our board's Guidelines on Corporate Governance Issues, Worldwide Code of Conduct and other corporate governance information are available on our Internet site (www.CAT.com/governance), or upon written request to the Corporate Secretary at 100 NE Adams Street, Peoria, Illinois 61629-7310.

Additional company information may be obtained as follows:

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 facsimile or mail
- request, view, or download materials on-line or register for email alerts at www.CAT.com/materialsrequest

Historical information -

- view/download on-line at www.CAT.com/historical

Item 1A. Risk Factors.

The statements in this section describe the most significant risks to our business and should be considered carefully in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the "Notes to Consolidated Financial Statements" of Exhibit 13 to this Form 10-K. In addition, these statements constitute our cautionary statements under the Private Securities Litigation Reform Act of 1995. The discussion and analysis contained in the Management's Discussion and Analysis of Financial Condition and Results of Operations and other items in this Form 10-K is forward-looking and involves uncertainties that could significantly impact results. From time to time, we also provide forward-looking statements in other materials we issue to the public or in the form of oral presentation to the public. Forward-looking statements give current expectations or forecasts of future events about the company. You can identify these statements by the fact they do not relate to historical or current facts and by the use of words such as "believe," "expect," "estimate," "anticipate," "will be," "should," "plan," "project," "intend," "could" and similar words or expressions that identify forward-looking statements made on behalf of Caterpillar.

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

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

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

Changes in Government Monetary and Fiscal Policies

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

The ongoing worldwide financial and credit crisis reduced the availability of liquidity to fund investments in many markets that we serve. The central banks and other policy arms of many countries have implemented various actions to restore liquidity and increase the availability of credit. The effectiveness of these and related government actions is uncertain and could have a material impact on the customers and markets we serve and our business, results of operations and financial condition. Government policies on taxes and spending affect our businesses. Throughout the world, government spending finances much infrastructure development, such as highways, airports, sewer and water systems and dams. Tax regulations determine depreciation lives and the amount of money users can retain, both of which influence investment decisions. Developments more unfavorable than anticipated, such as declines in government revenues, decisions to reduce public spending or increases in taxes, could negatively impact our results.

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

Environmental Regulations

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

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

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

Although we are executing comprehensive plans designed to meet Tier 4 emissions requirements, these plans are subject to many variables, including the timing of our Tier 4 engine development and new machine product introduction. If we are unable to meet our plans as projected, it could delay or inhibit our ability to continue placing certain products on the market, which could negatively impact our financial results and competitive position.

Credit and Equity Market Volatility, Changes in General Economic Conditions and Economic Conditions of Industries or Markets We Serve

Our results of operations are materially affected by the conditions in the global economy generally and in the global capital markets. The current global financial crisis, which began in 2007, has deteriorated further and has caused extreme volatility and disruptions in the capital and credit markets, principally in the U.S., Europe and Japan. In some cases, the markets have decreased availability of liquidity and credit capacity for certain issuers and customers.

Although we generally generate funds from our operations to pay our operating expenses, fund our capital expenditures, buy back stock, pay dividends and fund our employee retirement benefit programs, our ability to continue to meet these cash requirements over the long-term will require substantial liquidity and access to sources of funds, including capital and credit markets. Changes in global economic conditions, including material cost increases and decreases in economic activity in many of the markets that we serve, and the success of plans to manage cost increases, inventory and other important elements of our business may significantly impact our ability to generate funds from operations. Continuing market volatility, changes in counterparty credit risk, the impact of government intervention in financial markets and general economic conditions may also adversely impact the ability of the company to access capital and credit markets to fund operating needs. Inability to access capital and credit markets may have an adverse effect on our business, results of operations, financial condition and competitive position.

In addition, due to the decreased availability of, and the related high cost in accessing, liquidity and credit in this current volatile credit and capital market, we may, in a bid to conserve cash for operations, undertake acquisitions that would be financed in part through public offerings or private placements of debt or equity securities, or other arrangements. Such acquisition financing could result in a decrease of our ratio of earnings to fixed charges and adversely affect other leverage measures. We cannot guarantee any such acquisition financing would be available to us on acceptable terms if and when required. If we were to undertake an acquisition by issuing equity securities or equity-linked securities, the issued securities may have a dilutive effect on the interests of the holders of our common shares.

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

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

Residential housing starts have been declining in the U.S. since early 2006 and housing permits in Europe have declined since late 2006. The situation has worsened with the deterioration in mortgage and real estate markets and has negatively impacted our sales in North America and Europe. These downturns could continue if current levels of volatility and uncertainty in the global capital and credit markets persist or worsen. Although the U.S. Government has enacted the Emergency Economic Stabilization Act (EESA) and governments of many countries, including countries in Europe, Japan and Australia, have adopted similar initiatives to help restore viability in these markets and the economy generally, there is no assurance that the measures stipulated in the EESA and other actions of the U.S. Government or the initiatives of other governments for the purpose of stabilizing the mortgage, real estates and financial markets will achieve the intended effect.

The growth in the emerging markets (i.e. Africa, Asia/Pacific, Latin America, the Middle East and Russia) have positively impacted our sales and revenues and accounted for a significant portion of our 2008 sales and revenues. However, countries in emerging markets are beginning to experience slowing growth due to the impact of the global economic downturn. As a result, the volume of capital and infrastructure projects has declined and some governments are cutting spending on capital projects, including construction and infrastructure. If this trend continues or worsens, our sales in the emerging markets could be adversely impacted, which could have a material negative impact on our business, results of operations and financial condition.

Changes in Price and Significant Shortages of Component Products

We are a significant user of steel and many commodities required for the manufacture of our products. As a result, increases in the prices of such commodities likely would increase costs more than expected, negatively impacting our business, results of operations and financial condition.

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

In addition, the current general global economic downturn and the volatility in the credit and capital markets have caused a significant decline in sales and revenues and limited liquidity for many businesses. If these conditions continue or worsen, many of our suppliers' financial viability could be adversely impacted. As a result, their ability to continue supplying component products for the manufacture of our products could be significantly undermined, which, in turn, could negatively impact our ability to meet our customers' demand for our products and our business, results of operations and financial condition.

Currency Fluctuations

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

Dealer/Original Equipment Manufacturers Sourcing Practices

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

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

Impact of Acquisitions

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

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

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

In addition, due to the decreased availability of, and the related high cost in accessing, liquidity and credit in this current volatile credit and capital market, we may, in a bid to conserve cash for operations, undertake acquisitions that would be financed in part through public offerings or private placements of debt or equity securities, or other arrangements. Such acquisition financing could result in a decrease of our ratio of earnings to fixed charges and adversely affect other leverage measures. We cannot guarantee any such acquisition financing would be available to us on acceptable terms if and when required. If we were to undertake an acquisition by issuing equity securities or equity-linked securities, the issued securities may have a dilutive effect on the interests of the holders of our common shares.

Competition

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

The environment remains competitive from a pricing standpoint. Our sales outlook assumes certain price increases that we announce from time to time will hold in the marketplace. Changes in market acceptance of price increases, changes in market requirements for price discounts or changes in our competitors' behavior could have a material impact on the company's business, results of operations and financial condition.

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

Changes in Accounting Standards

Our financial statements are subject to the application of U.S. generally accepted accounting principles (GAAP), which are periodically revised and/or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the Financial Accounting Standards Board. Market conditions have prompted accounting standard setters to issue new guidance which further interprets or seeks to revise accounting pronouncements related to financial instruments, structures or transactions as well as to issue new standards expanding disclosures. The impact of accounting pronouncements that have been issued but not yet implemented is disclosed in our annual and quarterly reports on Form 10-K and Form 10-Q. An assessment of proposed standards is not provided as such proposals are subject to change through the exposure process and, therefore, their effects on our financial statements cannot be meaningfully assessed. It is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on our business, results of operations and financial condition.

Litigation and Contingency

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

As required by GAAP, we establish reserves based on our assessment of such contingencies. Subsequent developments in legal proceedings may affect our assessment and estimates of the loss contingency recorded as a reserve, requiring us to make additional material payments, which could result in an adverse effect on our results of operations.

Risks to Global Operations

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

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

As a normal practice, we do not assume such events in our outlooks unless they are already happening when the outlook is issued. As a result, the occurrence of one or more of these events has the potential to negatively impact our business, results of operations and financial condition.

Risk Due to Funding Obligations Under Pension Plans

We maintain certain defined benefit pension plans for our employees, which impose on us certain payment obligations towards the funding of the plans. In determining our future payment obligations under the plans, we assume certain rates of return on the plan assets and growth rates of certain costs. An adverse significant change in the credit and capital market conditions could result in actual rates of return and growth rates being materially lower than projected. This could significantly increase our payment obligations under the plans, require us to take a significant charge on our balance sheet and, as a result, adversely affect our business, results of operations and financial condition.

Risks Due to Debt Covenants

We maintain a number of credit facilities to support (i) our commercial paper program, and (ii) general corporate purposes (Facilities) and have issued debt securities to manage liquidity and fund operations (Debt Securities). The agreements relating to a number of the Facilities and the Debt Securities contain certain restrictive covenants, including limits on subsidiary debt, the incurrence of liens, minimum levels of consolidated net worth, minimum interest coverage ratios and restrictions on consolidation and merger.

Although we do not believe any of these covenants presently materially restrict our operations, a breach of one or more of the covenants could result in material adverse consequences that could negatively impact our business, results of operations and financial condition. Such adverse consequences may include the acceleration of amounts outstanding under certain of the Facilities, triggering of an obligation to redeem certain Debt Securities, termination of existing unused commitments by our lenders, refusal by our lenders to extend further credit under one or more of the Facilities or new Facilities, or the lowering or modification of our credit ratings or those of one or more of our subsidiaries.

We recently received the consent of lenders under certain credit facilities to our lower consolidated net worth of $6.087 billion as of December 31, 2008 and to Cat Financial's lower quarterly interest coverage ratio of 0.97 as of December 31, 2008. In consideration of these consents, we agreed to increase the upper range of interest rates applicable to certain amounts that may be drawn by us and Cat Financial under certain credit facilities by approximately 1.00 to 1.50 percentage points and by Cat Financial under certain of its other facilities by approximately 1.00 percentage point.

Risks to Financial Services Line of Business

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

Changes in interest rates, foreign currency exchange rates and market liquidity conditions could have a material adverse effect on our earnings and cash flows. Because a significant amount of loans made by Cat Financial are made at fixed interest rates, our business is subject to fluctuations in interest rates. Changes in market interest rates may influence our financing costs, returns on financial investments and the valuation of derivative contracts and could reduce our earnings and cash flow. In addition, since Cat Financial makes a significant amount of loans in currencies other than the U.S. dollar, fluctuations in foreign currency exchange rates could also reduce our earnings and cash flow. Cat Financial also relies on a number of diversified global debt markets and funding programs to provide liquidity for its global operations, including commercial paper, medium term notes, retail notes, variable denomination floating rate demand notes, asset-backed securitizations and bank loans. Significant changes in market liquidity conditions could impact Cat Financial's access to funding and the associated funding costs and reduce its earnings and cash flow. Although Cat Financial manages interest rate, foreign currency exchange rate and market liquidity risks through a variety of techniques, including a match funding program, the selective use of derivatives and a broadly diversified funding program, there can be no assurance that fluctuations in interest rates, currency exchange rates and market liquidity conditions will not have a material adverse effect on its and our earnings and cash flow. If any of the variety of instruments and strategies Cat Financial uses to hedge its exposure to these various types of risk is ineffective, we may incur losses. With respect to Cat Financial's insurance and investment management operations, changes in the equity and bond markets could cause an impairment of the value of its investment portfolio, thus requiring a negative adjustment to earnings.

The current difficult and volatile market conditions have adversely affected the financial industry in which Cat Financial operates. Cat Financial is significant to our operations and provides financing support to a significant share of our global sales. The inability of Cat Financial to access funds to support its financing activities to our customers could have a material adverse effect on our business, results of operations and financial condition.

Cat Financial's liquidity and ongoing profitability are, in large part, dependent upon its timely access to capital and the costs associated with raising funds in different segments of the capital markets. Cat Financial depends and will continue to depend on its ability to access diversified funding alternatives to meet future cash flow requirements and to continue to fund its operations. A large portion of Cat Financial's borrowings have been issued in the medium term note and commercial paper markets and, although Cat Financial has continued to have access to most of these markets, there can be no assurance that such markets will continue to be a reliable source of financing for Cat Financial. If current levels of market disruption and volatility continue or worsen, Cat Financial could face materially higher financing costs and become unable to access adequate funding to operate and grow our business or seek to repay medium term notes and commercial paper as it becomes due or to meet its other liquidity needs by drawing upon contractually committed lending agreements primarily provided by global banks and/or by seeking other funding sources. However, under extreme market conditions, there can be no assurance such agreements and other funding sources would be available or sufficient. The extent of any impact on our ability to meet funding or liquidity needs will depend on several factors, including our operating cash flow, the duration of any market disruption, the effects of governmental programs such as the Federal Deposit Insurance Corporation's (FDIC's) Temporary Liquidity Guarantee Program (TLGP), credit conditions generally, the volatility of equity markets, our credit ratings and credit capacity, the cost of financing and other general economic and business conditions.

Should current levels of market disruption and volatility continue or worsen, we may also face a number of other risks in connection with these events, including:

- Market developments that may affect customer confidence levels and may cause declines in credit applications and adverse changes in payment patterns, causing increases in delinquencies and default rates, which could impact our charge-offs and provision for credit losses.
- The process Cat Financial uses to estimate losses inherent in its credit exposure requires a high degree of management's judgment regarding numerous subjective qualitative factors, including forecasts of economic conditions and how economic predictors might impair the ability of its borrowers to repay their loans. Ongoing financial market disruption and volatility may impact the accuracy of these judgments.
- Cat Financial's ability to engage in routine funding transactions or borrow from other financial institutions on acceptable terms or at all could be adversely affected by further disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations.
- Since our counterparties are primarily financial institutions, their ability to perform in accordance with any of our underlying agreements could be adversely affected by market volatility and/or disruptions in the equity and credit markets.

Government Programs Designed to Support Credit Markets

A number of governmental programs designed to support the global financial system were implemented in 2008. While we generally support these programs, there have been unintended consequences of the programs that have impacted Cat Financial and other companies that do not qualify to participate in them. As an example, in the United States, some of Cat Financial's competitors in the banking and manufacturing sectors have participated in the TLGP. The TLGP was created to strengthen confidence and encourage liquidity in the banking system by providing a government guaranty of certain qualifying newly issued senior unsecured debt of banks, thrifts and certain holding companies. Despite the FDIC's intent to support the banking system through the TLGP, some of Cat Financial's competitors in the manufacturing sector have been permitted to participate in this program and issue senior unsecured debt with governmental guarantees at rates significantly below those capable of being offered by Cat Financial. Likewise, Cat Financial's ability to issue debt rates that are competitive with those offered by its banking competitors has been further disadvantaged and accentuated at times by their participation in governmental programs such as the TLGP. The TLGP, as well as other governmental initiatives, have effectively created below-market government subsidized financing for such competitors. This program and other similar governmental programs in various jurisdictions have disadvantaged Cat Financial and other non-qualifying companies. The TLGP is currently set to expire on June 30, 2009, although the FDIC has indicated that it plans to extend the program at least through October 31, 2009. Other governmental programs may not have clear expiration dates. Should the TLGP or any other governmental program that disadvantages Cat Financial be extended or expanded by its respective government, Cat Financial could continue to be negatively impacted in its ability to issue senior unsecured debt at rates that are comparable to those offered by its competitors.

Market Acceptance of Products

Our business relies on continued global demand for our brands and products. To achieve business goals, we must develop and sell products that appeal to our dealers, OEMs and customers. This is dependent on a number of factors including our ability to manage and maintain key dealer relationships and our ability to develop effective sales, advertising and marketing programs. In addition, our continued success in selling products that appeal to our customers is dependent on leading-edge innovation, with respect to both products and operations, and on the availability and effectiveness of legal protection for our innovation. Failure to continue to deliver quality and competitive products to the marketplace, or to predict market demands for, or gain market acceptance of, our products, could have material impact on our business, results of operations and financial condition.

In addition, the global demand for our products generally depends on our customers' ability to pay for our products, which, in turn, depends on their access to funds. Due to global economic conditions many of our customers may be experiencing increased difficulty in generating funds from operations. Further, due to capital and credit market volatility and uncertainty, many financial institutions have revised their lending standards, thereby decreasing access to capital. If the capital and credit market volatility continues or worsens, the liquidity of our customers may decline which, in turn, would reduce their ability to purchase our products.

Natural Disasters

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

Item 1B. Unresolved Staff Comments as of December 31, 2008.

Not applicable.

Item 1C. Executive Officers of the Registrant as of December 31, 2008.

Name	Present Caterpillar Inc. position and date of initial election	Principal positions held during the past five years if other than Caterpillar Inc. position currently held
James W. Owens (62)	Chairman and Chief Executive Officer (2004)	• Group President (1995-2003) • Vice Chairman (2003-2004)
Richard P. Lavin (56)	Group President (2007)	• Vice President (2004-2007)
Stuart L. Levenick (55)	Group President (2004)	• Chairman, Shin Caterpillar Mitsubishi Ltd. (2000-2004) • Vice President (2000-2004)
Douglas R. Oberhelman (55)	Group President (2001)	
Edward J. Rapp (51)	Group President (2007)	• Vice President (2000-2007)
Gérard R. Vittecoq (60)	Group President (2004)	• Vice President (2000-2004)
Steven H. Wunning (57)	Group President (2004)	• Vice President (1998-2004)
James B. Buda (61)	Vice President, General Counsel and Secretary (2001)	
David B. Burritt (53)	Vice President and Chief Financial Officer (2004)	• Controller (2002-2004)
Bradley M. Halverson (48)	Controller (2004)	• Corporate Business Development Manager, Corporate Services Division (2002-2004)
Jananne A. Copeland (46)	Chief Accounting Officer (2007)	• Corporate Consolidations & Tax Accounting Manager (2002-2004) • Corporate Financial Reporting Manager, Corporate Services Division (2004–2006) • Corporate Financial Reporting Manager, Global Finance & Strategic Support Division (2006 – 2007)

Item 2. Properties.

General Information

Caterpillar's operations are highly integrated. Although the majority of our plants are involved primarily in the production of either machines or engines, several plants are involved in the manufacturing of both. In addition, several plants are involved in the manufacturing of components which are used in the assembly of both machines and engines. Caterpillar's parts distribution centers are involved in the storage and distribution of parts for machines and engines. Also, the research and development activities carried on at our Technical Center involve both machines and engines.

Properties we own are believed to be generally well maintained and adequate for present use. Through planned capital expenditures, we expect these properties to remain adequate for future needs. Properties we lease are covered by leases expiring over terms of generally one to ten years. We anticipate no difficulty in retaining occupancy of any leased facilities, either by renewing leases prior to expiration or by replacing them with equivalent leased facilities.

Headquarters and Other Key Offices

Our corporate headquarters are in Peoria, Illinois. Additional marketing and operating headquarters are located both inside and outside the United States including Miami, Florida, San Diego, California, Geneva, Switzerland, Beijing, People's Republic of China, Singapore, Piracicaba, Brazil and Tokyo, Japan. The Financial Products Division is headquartered in leased offices located in Nashville, Tennessee.

Parts Distribution Centers

Distribution of our parts is conducted from parts distribution centers inside and outside the United States. Cat Logistics distributes other companies' products, utilizing certain of our distribution facilities as well as other non-Caterpillar facilities located both inside and outside the United States. We also own or lease other storage facilities that support distribution activities.

Technical Center, Training Centers, Demonstration Areas, and Proving Grounds

We own a Technical Center located in Mossville, Illinois, and various other technical and training centers, demonstration areas and proving grounds located both inside and outside the United States.

Manufacturing, Remanufacturing, and Overhaul

Manufacturing, remanufacturing and overhaul of our products are conducted primarily at the following locations. These facilities are believed to be suitable for their intended purposes with adequate capacities for current and projected needs for existing products.

Inside the U.S.

Alabama
- Albertville
- Montgomery

Arkansas
- Little Rock

California
- Gardena
- Mohave
- Rocklin
- San Diego

Colorado
- Pueblo

Florida
- Jacksonville
- Wildwood

Georgia
- Alpharetta
- Griffin
- Jefferson
- LaGrange
- Patterson
- Thomasville
- Toccoa

Illinois
- Alorton
- Aurora
- Champaign[1]
- Chicago
- Decatur
- Dixon
- East Peoria
- Granite City
- Joliet
- Mapleton
- Mossville
- Peoria
- Pontiac
- Rochelle
- Sterling
- Woodridge[1]

Indiana
- Charlestown
- East Chicago
- Franklin
- Lafayette

Kansas
- Fort Scott
- Lawrence
- Wamego

Kentucky
- Ashland
- Corbin
- Danville
- Decoursey
- Louisville
- Mayfield
- Raceland

Louisiana
- New Orleans

Michigan
- Menominee

Minnesota
- Minneapolis
- New Ulm
- Owatonna

Mississippi
- Corinth
- Oxford
- Prentiss County

Missouri
- Boonville
- Kansas City
- West Plains

Montana
- Laurel

Nebraska
- Alliance
- Gering
- Lincoln
- Northport
- Sidney
- South Morrill

Nevada
- Sparks

North Carolina
- Clayton
- Franklin
- Goldsboro
- Morganton
- Sanford
- Zebulon

North Dakota
- West Fargo

Ohio
- Dayton[1]

Pennsylvania
- Chambersburg
- Steelton

South Carolina
- Greenville
- Jackson
- Lexington
- Newberry
- Summerville
- Sumter

Tennessee
- Dyersburg
- Knoxville

Texas
- Amarillo
- Channelview
- De Soto
- Mabank
- San Antonio
- Sherman
- Waco
- Waskom

Virginia
- Petersburg
- Roanoke

Wisconsin
- Hudson
- Prentice

Wyoming
- Bill
- Laramie
- Rock Springs

Outside the U.S.

Australia
- Burnie
- Melbourne
- Wivenhoe

Belgium
- Gosselies

Brazil
- Curitiba
- Diadema
- Hortolandia
- Piracicaba

Canada
- Edmonton
- Montreal
- Surrey
- Toronto
- Winnipeg

England
- Barwell
- Desford
- Ferndown
- Peterborough
- Peterlee
- Rushden
- Shrewsbury
- Skinningrove
- Slough
- Stafford
- Stockton
- Wimborne
- Wolverhampton

France
- Arras
- Chaumont
- Echirolles
- Grenoble
- Rantigny

Germany
- Kiel
- Rostock

Hungary
- Gödöllö

India
- Hosur
- Pondicherry
- Thiruvallur

Indonesia
- Bandung[2]
- Jakarta

Italy
- Anagni
- Atessa
- Bazzano
- Fano
- Frosinone
- Jesi
- Marignano
- Milan
- Minerbio

Japan
- Akashi
- Sagamihara

Malaysia
- Kuala Lumpur[1]

Mexico
- Monterrey
- Nuevo Laredo
- Reynosa
- Saltillo
- Santa Catarina
- Tijuana
- Torreon
- Veracruz

The Netherlands
- Almere
- s'-Hertogenbosch

Nigeria
- Port Harcourt[2]

Northern Ireland
- Belfast
- Larne

People's Republic of China
- Erliban[1]
- Foshan
- Qingzhou[2]
- Shanghai
- Suzhou
- Tianjin[2]
- Wuxi
- Xuzhou[2]

Poland
- Janow Lubelski
- Radom[1]
- Sosnowiec

Russia
- Tosno

South Africa
- Boksburg

Sweden
- Soderhamn

Switzerland
- Riazzino

Tunisia
- Sfax

[1] Facility of affiliated company (50 percent or less owned)

[2] Facility of partially owned subsidiary (more than 50 percent, less than 100 percent)

Item 3. Legal Proceedings.

We have disclosed certain individual legal proceedings in this filing. Additionally, we are involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance liability (including claimed asbestos and welding fumes exposure), contracts, employment issues or intellectual property rights. Although it is not possible to predict with certainty the outcome of these unresolved legal actions we believe that these actions will not individually or in the aggregate have a material adverse effect on our consolidated financial position, liquidity or results of operations.

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

On September 29, 2004, Kruse Technology Partnership (Kruse) filed a lawsuit against Caterpillar in the United States District Court for the Central District of California alleging that certain Caterpillar engines built from October 2002 to the present infringe upon certain claims of three of Kruse's patents on engine fuel injection timing and combustion strategies. Caterpillar denied Kruse's allegations and filed a counterclaim seeking a declaration from the court that Caterpillar is not infringing upon Kruse's patents and that the patents are invalid and unenforceable. On December 20, 2008, Caterpillar and Kruse entered into a confidential settlement agreement whereby all pending claims with regard to the lawsuit were settled. The settlement, which did not have a material impact on our financial statements, included an agreement by both parties to not bring any future actions in the matter. Subsequent to the agreement, the court entered an order dismissing the case.

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

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Stock Information

Information required by Item 5 regarding our stock is incorporated by reference from the Supplemental Stockholder Information section of Exhibit 13 under “Listing Information,” “Price Ranges,” “Number of Stockholders” and “Performance Graph” and from the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of Exhibit 13 under “Dividends paid per common share.”

Sale of Unregistered Securities

Non-U.S. Employee Stock Purchase Plans

We have 30 employee stock purchase plans administered outside the United States for our foreign employees. As of December 31, 2008, those plans had approximately 12,200 active participants in the aggregate. During the fourth quarter of 2008, approximately 82,000 shares of Caterpillar common stock or foreign denominated equivalents were distributed under the plans. Participants in some foreign plans have the option of receiving non-U.S. share certificates (foreign-denominated equivalents) in lieu of U.S. shares of Caterpillar common stock upon withdrawal from the plan. These equivalent certificates are tradable only on the local stock market and are included in our determination of shares outstanding.

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

Purchases of Securities

Issuer Purchases of Equity Securities

Period	Total number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased Under the Program	Approximate Dollar Value of Shares that may yet be Purchased under the Program (dollars in billions)
October 1-31, 2008	1,000,000 (2)	$ 65.56	1,000,000 (2)	$ 3.789 (1)
November 1-30, 2008	1,000,000 (3)	35.06	1,000,000 (3)	3.755 (1)
December 1-31, 2008	—	—	—	3.739 (1) (4)
Total	2,000,000	$ 58.16	2,000,000	

(1) This comprises shares purchased under Caterpillar's share repurchase program approved in February 2007 by the Board of Directors for a total amount of $7.50 billion over the next five years, expiring on December 31, 2011. In August 2007, the Board of Directors authorized the use of derivative contracts for stock repurchases under the program in addition to open market purchases to reduce stock repurchase price volatility.

(2) Shares were purchased through derivative contracts.

(3) Shares were purchased through open market.

(4) This number includes $16 million in expired derivative contracts applied toward the value of shares under the program.

Other Purchases of Equity Securities

Period	Total number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased Under the Program	Approximate Dollar Value of Shares that may yet be Purchased under the Program
October 1-31, 2008	4,446	$ 57.07	N/A	N/A
November 1-30, 2008	6,051	38.78	N/A	N/A
December 1-31, 2008	1,321	38.53	N/A	N/A
Total	11,818	$ 45.63		

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

Item 6. Selected Financial Data.

Information required by Item 6 is incorporated by reference from the "Five-year Financial Summary" and "Management's Discussion and Analysis of Financial Condition and results of Operations" of Exhibit 13.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Information required by Item 7 is incorporated by reference from the "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Exhibit 13.

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our discussion of cautionary statements and significant risks to the company's business under Item 1A. Risk Factors of this Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Information required by Item 7A appears in Note 1 – "Operations and summary of significant accounting policies," Note 3 – "Derivative financial instruments and risk management," Note 19 – "Fair values disclosures" and Note 20 – "Concentration of credit risk" of Exhibit 13. Other information required by Item 7A is incorporated by reference from "Management's Discussion and Analysis of Financial Condition and results of Operations" of Exhibit 13.

Item 8. Financial Statements and Supplementary Data.

Information required by Item 8 is incorporated by reference from the "Report of Independent Registered Public Accounting Firm" and from the "Financial Statements and Notes to Consolidated Financial Statements" of Exhibit 13. Other information required by Item 8 is included in "Computation of Ratios of Earnings to Fixed Charges" filed as Exhibit 12 to this Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not Applicable.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of our disclosure controls and procedures; as such term is defined under Exchange Act Rule 13a-15(e). Based on this evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Management's Report on Internal Control Over Financial Reporting

The management of Caterpillar is responsible for establishing and maintaining adequate internal control over financial reporting. 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, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework*. Based on this assessment management concluded that, as of December 31, 2008, the company's internal control over financial reporting was effective based on those criteria.

Management has excluded Caterpillar Japan Ltd. from our assessment of internal control over financial reporting as of December 31, 2008 because Caterpillar Japan Ltd. was consolidated by the company on August 1, 2008. Caterpillar Japan Ltd. is a 67 percent owned subsidiary of the company with total assets and total revenues represent five percent and less than one percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2008. Prior to consolidation, the company accounted for its investment in this entity under the equity method.

The effectiveness of the company's internal control over financial reporting as of December 31, 2008 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. The report appears under the "Report of Independent Registered Public Accounting Firm" of Exhibit 13.

Changes in Internal Control over Financial Reporting
During the last fiscal quarter, there has been no significant change in the company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

Item 9B. Other Information.

Not Applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Identification of Directors and Business Experience
Information required by this Item is incorporated by reference from the 2009 Proxy Statement.

Identification of Executive Officers and Business Experience
Information required by this Item appears in Item 1C of this Form 10-K.

Family Relationships
There are no family relationships between the officers and directors of the company. All officers serve at the pleasure of the board of directors and are elected annually at a meeting of the board.

Legal Proceedings Involving Officers and Directors
Information required by this Item is incorporated by reference from the 2009 Proxy Statement.

Audit Committee Financial Expert
Information required by this Item is incorporated by reference from the 2009 Proxy Statement.

Identification of Audit Committee
Information required by this Item is incorporated by reference from the 2009 Proxy Statement.

Stockholder Recommendation of Board Nominees
Information required by this Item is incorporated by reference from the 2009 Proxy Statement.

Compliance with Section 16(a) of the Exchange Act
Information required by this Item relating to compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference from the 2009 Proxy Statement.

Code of Ethics

Our Worldwide Code of Conduct (Code), first published in 1974 and most recently amended in 2005, sets a high standard for honesty and ethical behavior by every employee, including the principal executive officer, principal financial officer, controller and principal accounting officer. The Code is posted on our website at www.CAT.com/governance and is incorporated by reference as Exhibit 14 to this Form 10-K. To obtain a copy of the Code at no charge, submit a written request to the Corporate Secretary at 100 NE Adams Street, Peoria, Illinois 61629-7310. We will post on our website any required amendments to or waivers granted under our Code pursuant to SEC or New York Stock Exchange disclosure rules.

Item 11. Executive Compensation.

Information required by this Item is incorporated by reference from the 2009 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information required by this Item relating to security ownership of certain beneficial owners and management is incorporated by reference from the 2009 Proxy Statement.

Information required by this item relating to securities authorized for issuance under equity compensation plans is included in the following table:

Equity Compensation Plan Information
(as of December 31, 2008)

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights[1]	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	63,591,637	$45.6767	25,213,927
Equity compensation plans not approved by security holders	n/a	n/a	n/a
Total	63,591,637	$45.6767	25,213,927

[1] Excludes any cash payments in-lieu-of stock.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required by this Item is incorporated by reference from the 2009 Proxy Statement.

Item 14. Principal Accountant Fees and Services.

Information required by this Item is incorporated by reference from the 2009 Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are incorporated by reference from Exhibit 13:

1. Financial Statements:
   - Report of Independent Registered Public Accounting Firm
   - Statement 1 - Consolidated Results of Operations
   - Statement 2 - Consolidated Financial Position
   - Statement 3 - Changes in Consolidated Stockholders' Equity
   - Statement 4 - Consolidated Statement of Cash Flow
   - Notes to Consolidated Financial Statements

2. Financial Statement Schedules:
   - All schedules are omitted because the required information is shown in the financial statements or the notes thereto incorporated by reference from Exhibit 13 or considered to be immaterial.

(b) Exhibits:

1.1	Underwriting Agreement dated December 3, 2008 between Caterpillar Inc. and Banc of America Securities LLC and J.P. Morgan Securities Inc., as representatives of the several underwriters named therein (incorporated by reference from Exhibit 1.1 to Form 8-K filed December 5, 2008).
3.1	Restated Certificate of Incorporation (incorporated by reference from Exhibit 3(i) to the Form 10-Q filed for the quarter ended March 31, 1998).
3.2	Bylaws amended and restated as of February 11, 2004 (incorporated by reference from Exhibit 3.3 to the Form 10-Q filed for the quarter ended March 31, 2004).
4.1	Indenture dated as of May 1, 1987, between the Registrant and The First National Bank of Chicago, as Trustee (incorporated by reference from Exhibit 4.1 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).
4.2	First Supplemental Indenture, dated as of June 1, 1989, between Caterpillar Inc. and The First National Bank of Chicago, as Trustee (incorporated by reference from Exhibit 4.2 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).
4.3	Appointment of Citibank, N.A. as Successor Trustee, dated October 1, 1991, under the Indenture, as supplemented, dated as of May 1, 1987 (incorporated by reference from Exhibit 4.3 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).
4.4	Second Supplemental Indenture, dated as of May 15, 1992, between Caterpillar Inc. and Citibank, N.A., as Successor Trustee (incorporated by reference from Exhibit 4.4 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).
4.5	Third Supplemental Indenture, dated as of December 16, 1996, between Caterpillar Inc. and Citibank, N.A., as Successor Trustee (incorporated by reference from Exhibit 4.5 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).
4.6	Tri-Party Agreement, dated as of November 2, 2006, between Caterpillar Inc., Citibank, N.A. and U.S. Bank National Association appointing U.S. Bank as Successor Trustee under the Indenture dated as of May 1, 1987, as amended and supplemented (incorporated by reference from Exhibit 4.6 to the 2006 Form 10-K).
4.7	Form of Global Note used in connection with Caterpillar's issuance and sale of 7.000 percent Notes due 2013 and 7.900 percent Notes due 2018 in December, 2008 (incorporated by reference from Exhibit 4.1 to Form 8-K filed December 5, 2008).
4.8	Form of Global Debenture used in connection with Caterpillar's issuance and sale of 8.250 percent Debentures due 2038 in December, 2008 (incorporated by reference from Exhibit 4.2 to Form 8-K filed December 5, 2008).
10.1	Caterpillar Inc. 1996 Stock Option and Long-Term Incentive Plan amended and restated through fourth amendment.

10.2	Caterpillar Inc. 2006 Long-Term Incentive Plan as amended and restated through fifth amendment.
10.3	Supplemental Pension Benefit Plan, as amended and restated January 2003 (incorporated by reference from Exhibit 10.3 to the 2004 Form 10-K).
10.4	Supplemental Employees' Investment Plan, as amended and restated through December 1, 2002 (incorporated by reference from Exhibit 10.4 to the 2002 Form 10-K).
10.5	Caterpillar Inc. Executive Incentive Compensation Plan, effective as of January 1, 2002 (incorporated by reference from Exhibit 10.5 to the 2002 Form 10-K).
10.6	Directors' Deferred Compensation Plan, as amended and restated through January 1, 2005 (incorporated by reference from Exhibit 10.6 to the 2006 Form 10-K).
10.7	Directors' Charitable Award Program, as amended and restated through April 1, 2008.
10.8	Deferred Employees' Investment Plan, as amended and restated through February 16, 2005 (incorporated by reference as Exhibit 10.8 to the 2005 Form 10-K).
10.9	Five-Year Credit Agreement dated September 21, 2006 (2006 Five-Year Credit Agreement) among Caterpillar Inc., Caterpillar Financial Services Corporation, Caterpillar International Finance p.l.c. and Caterpillar Finance Corporation, the Banks named therein, Citibank, N.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Citibank International plc, ABN AMRO Bank N.V., Bank of America, N.A., Barclays Bank PLC, J.P. Morgan Securities, Inc., Société Générale and Citigroup Global Markets Inc. (incorporated by reference from Exhibit 99.1 to Form 8-K filed September 26, 2006).
10.10	Japan Local Currency Addendum to the 2006 Five-Year Credit Agreement among Caterpillar Financial Services Corporation, Caterpillar Finance Corporation, the Japan Local Currency Banks named therein, Citibank, N.A. and The Bank of Tokyo-Mitsubishi UFJ, Ltd. (incorporated by reference from Exhibit 99.2 to Form 8-K filed September 26, 2006).
10.11	Local Currency Addendum to the 2006 Five-Year Credit Agreement among Caterpillar Financial Services Corporation, Caterpillar International Finance p.l.c., the Local Currency Banks named therein, Citibank, N.A., and Citibank International plc (incorporated by reference from Exhibit 99.3 to Form 8-K filed September 26, 2006).
10.12	Amendment No. 1 to the 2006 Five-Year Credit Agreement among Caterpillar Inc., Caterpillar Financial Services Corporation, Caterpillar Finance Corporation and Caterpillar International Finance p.l.c., the Banks, Japan Local Currency Banks and Local Currency Banks named therein, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Citibank International plc and Citibank, N.A. (incorporated by reference from Exhibit 10.12 to Form 10-Q filed October 31, 2008).
10.13	Omnibus Amendment and Waiver Agreement (Amendment No. 2) to the 2006 Five-Year Credit Agreement among Caterpillar Inc., Caterpillar Financial Services Corporation, Caterpillar Finance Corporation, Caterpillar International Finance p.l.c., the Banks and Local Currency Banks named therein, Citibank International plc and Citibank, N.A. (incorporated by reference from Exhibit 10.13 to Form 10-Q filed October 31, 2008).
10.14	Amendment No. 3 to the 2006 Five-Year Credit Agreement among Caterpillar Inc., Caterpillar Financial Services Corporation, Caterpillar Finance Corporation and Caterpillar International Finance Limited (f/k/a Caterpillar International Finance p.l.c.), the Banks, Japan Local Currency Banks and Local Currency Banks named therein, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Citibank International plc and Citibank, N.A. (incorporated by reference from Exhibit 99.4 to Form 8-K filed September 23, 2008).
10.15	Five-Year Credit Agreement dated September 20, 2007 (2007 Five-Year Credit Agreement) among Caterpillar Inc., Caterpillar Financial Services Corporation and Caterpillar Finance Corporation, certain financial institutions named therein, Citibank, N.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., ABN AMRO Bank N.V., Bank of America, N.A., Barclays Bank PLC, J.P. Morgan Securities, Inc., Société Générale and Citigroup Global Markets Inc. (incorporated by reference from Exhibit 99.1 to Form 8-K filed September 25, 2007).
10.16	Japan Local Currency Addendum to the 2007 Five-Year Credit Agreement among Caterpillar Financial Services Corporation, Caterpillar Finance Corporation, the Japan Local Currency Banks named therein, Citibank, N.A. and The Bank of Tokyo-Mitsubishi UFJ, Ltd. (incorporated by reference from Exhibit 99.2 to Form 8-K filed September 25, 2007).
10.17	Amendment No. 1 to the 2007 Five-Year Credit Agreement among Caterpillar Inc., Caterpillar Financial Services Corporation and Caterpillar Finance Corporation, the Banks and Japan Local Currency Banks named therein, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Citibank, N.A. (incorporated by reference from Exhibit 99.3 to Form 8-K filed September 23, 2008).

10.18	364-Day Credit Agreement dated September 18, 2008 (2008 364-Day Credit Agreement) among Caterpillar Inc., Caterpillar Financial Services Corporation, Caterpillar Finance Corporation, the Banks named therein, Citibank, N.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., ABN AMRO Bank N.V., Bank of America, N.A., Barclays Bank PLC, J.P. Morgan Securities, Inc., Société Générale and Citigroup Global Markets Inc. (incorporated by reference from Exhibit 99.1 to Form 8-K filed September 23, 2008).
10.19	Japan Local Currency Addendum to the 2008 364-Day Credit Agreement among Caterpillar Financial Services Corporation, Caterpillar Finance Corporation, the Japan Local Currency Banks named therein, Citibank, N.A. and The Bank of Tokyo-Mitsubishi UFJ, Ltd. (incorporated by reference from Exhibit 99.2 to Form 8-K filed September 23, 2008).
10.20	Amendment No. 1 to the 2008 364-Day Credit Agreement among Caterpillar Inc., Caterpillar Financial Services Corporation, Caterpillar Finance Corporation, the Banks and Japan Local Currency Banks named therein, The Bank of Tokyo - Mitsubishi UFJ, Ltd. and Citibank, N.A. (incorporated by reference from Exhibit 99.1 to Form 8-K filed January 26, 2009).
10.21	Amendment No. 2 to the 2007 Five-Year Credit Agreement among Caterpillar Inc., Caterpillar Financial Services Corporation, Caterpillar Finance Corporation, the Banks and Japan Local Currency Banks named therein, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Citibank, N.A. (incorporated by reference from Exhibit 99.2 to Form 8-K filed January 26, 2009).
10.22	Amendment No. 4 to the 2006 Five-Year Credit Agreement among Caterpillar Inc., Caterpillar Financial Services Corporation, Caterpillar Finance Corporation, Caterpillar International Finance Limited (f/k/a Caterpillar International Finance p.l.c.), the Banks, Japan Local Currency Banks and Local Currency Banks named therein, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Citibank International plc and Citibank, N.A. (incorporated by reference from Exhibit 99.3 to Form 8-K filed January 26, 2009).
10.23	Amendment No. 1 to 2007 Japan Local Currency Addendum among Caterpillar Financial Services Corporation, Caterpillar International Finance Limited (f/k/a Caterpillar international Finance p.l.c.), the Local Currency Banks named therein, Citibank International plc and Citibank, N.A. (incorporated by reference from Exhibit 99.4 to Form 8-K filed January 26, 2009).
10.24	Amendment No. 1 to 2006 Japan Local Currency Addendum among Caterpillar Financial Services Corporation, Caterpillar Finance Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Citibank, N.A. (incorporated by reference from Exhibit 99.5 to Form 8-K filed January 26, 2009).
10.25	Amendment No. 1 to 2006 Local Currency Addendum among Caterpillar Financial Services Corporation, Caterpillar Finance Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Citibank, N.A. (incorporated by reference from Exhibit 99.6 to Form 8-K filed January 26, 2009).
11	Computations of Earnings per Share.
12	Computation of Ratios of Earnings to Fixed Charges.
13	General and Financial Information for 2008 containing the information required by SEC Rule 14a-3 for an annual report to security holders.
14	Caterpillar Worldwide Code of Conduct (incorporated by reference from Exhibit 14 to the 2005 Form 10-K).
21	Subsidiaries and Affiliates of the Registrant.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of James W. Owens, Chairman and Chief Executive Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of David B. Burritt, Vice President and Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of James W. Owens, Chairman and Chief Executive Officer of Caterpillar Inc. and David B. Burritt, Vice President and Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Annual CEO certification to the New York Stock Exchange for fiscal year 2008.

Form 10-K

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CATERPILLAR INC.

(Registrant)

February 20, 2009 By: */s/James B. Buda*

James B. Buda, *Secretary*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

February 20, 2009	*/s/James W. Owens* (James W. Owens)	Chairman of the Board, Director and Chief Executive Officer
February 20, 2009	*/s/Richard P. Lavin* (Richard P. Lavin)	Group President
February 20, 2009	*/s/Stuart L. Levenick* (Stuart L. Levenick)	Group President
February 20, 2009	*/s/Douglas R. Oberhelman* (Douglas R. Oberhelman)	Group President
February 20, 2009	*/s/Edward J. Rapp* (Edward J. Rapp)	Group President
February 20, 2009	*/s/Gerard R. Vittecoq* (Gerard R. Vittecoq)	Group President
February 20, 2009	*/s/Steven H. Wunning* (Steven H. Wunning)	Group President
February 20, 2009	*/s/David B. Burritt* (David B. Burritt)	Vice President and Chief Financial Officer
February 20, 2009	*/s/Bradley M. Halverson* (Bradley M. Halverson)	Controller
February 20, 2009	*/s/Jananne A. Copeland* (Jananne A. Copeland)	Chief Accounting Officer

February 20, 2009	*/s/W. Frank Blount* (W. Frank Blount)	Director
February 20, 2009	*/s/John R. Brazil* (John R. Brazil)	Director
February 20, 2009	*/s/Daniel M. Dickinson* (Daniel M. Dickinson)	Director
February 20, 2009	*/s/John T. Dillon* (John T. Dillon)	Director
February 20, 2009	*/s/Eugene V. Fife* (Eugene V. Fife)	Director
February 20, 2009	*/s/Gail D. Fosler* (Gail D. Fosler)	Director
February 20, 2009	*/s/Juan Gallardo* (Juan Gallardo)	Director
February 20, 2009	*/s/David R. Goode* (David R. Goode)	Director
February 20, 2009	*/s/Peter A. Magowan* (Peter A. Magowan)	Director
February 20, 2009	*/s/William A. Osborn* (William A. Osborn)	Director
February 20, 2009	*/s/Charles D. Powell* (Charles D. Powell)	Director
February 20, 2009	*/s/Edward B. Rust, Jr.* (Edward B. Rust, Jr.)	Director
February 20, 2009	*/s/Joshua I. Smith* (Joshua I. Smith)	Director

Caterpillar Inc.

1996 Stock Option and Long-Term Incentive Plan

(Amended and Restated through Fourth Amendment)

Section 1. Purpose

The Caterpillar Inc. 1996 Stock Option and Long-Term Incentive Plan ("Plan") is designed to attract and retain outstanding individuals as non-employee directors, officers and key employees of Caterpillar Inc. and its subsidiaries (collectively, the "Company"), and to furnish incentives to such individuals through awards based upon the performance of the Company and its stock. To this end, the Plan provides for grants of stock options, stock appreciation rights ("SARs"), restricted stock, restricted stock units, and performance awards, or combinations thereof, to non-employee directors, officers and other key employees of the Company, on the terms and subject to the conditions set forth in the Plan.

Section 2. Shares Subject to the Plan

2.1 *Shares Reserved for Issuance*

Sixty-Four Million shares of Company common stock ("Shares") shall be available for issuance under the Plan either from authorized but unissued Shares or from Shares acquired by the Company, including Shares purchased in the open market. An additional four million Shares authorized but unissued under prior Company stock option plans shall be available for issuance under this Plan.

2.2 *Reacquired Shares*

If Shares subject to an award under the Plan are not acquired by participants, or Shares issued under the Plan are reacquired by the Company, because of lapse, expiration, or termination of an award, such Shares shall again become available for issuance under the Plan. Shares tendered upon exercise of an option by a Plan participant may be added back and made available solely for future awards under the Plan.

2.3 *Adjustments in Authorized Shares*

In the event of any corporate event or transaction (including, but not limited to, a change in the shares of the Company or the capitalization of the Company) such as a merger, consolidation, reorganization, recapitalization, separation, stock dividend, stock split, reverse stock split, split up, spin-off, or other distribution of stock or property of the Company, combination of Shares, exchange of Shares, dividend in kind, or other like change in capital structure or distribution (other than normal cash dividends) to stockholders of the Company, or any similar corporate event or transaction, the Committee, in its sole discretion, in order to prevent dilution or enlargement of Participants' rights under the Plan, shall substitute or adjust, as applicable, the number and kind of Shares that may be issued under the Plan or under particular forms of awards, the number and kind of Shares subject to outstanding awards, the option exercise price or base price applicable to outstanding awards, the annual award limits, the limits on awards set forth in Sections 5.1(a), 6.1(b) and 8.2, and other value determinations applicable to outstanding awards.

The Committee, in its sole discretion, may also make appropriate adjustments in the terms of any awards under the Plan related to such changes or distributions and to modify any other terms of outstanding awards, including modifications of performance goals and changes in the length of Performance Periods. The determination of the Committee as to the foregoing adjustments, if any, shall be conclusive and binding on Participants under the Plan.

Section 3. Administration

Unless otherwise provided in the Plan, the Committee shall have the authority to grant awards under the Plan to non-employee directors, officers, and other key employees 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, except to the extent that such authority or discretion would cause an award to fail to qualify as performance based compensation for purposes of Section 162(m) of the Code.

The Committee shall be composed solely of members of the Board that satisfy applicable tax, securities and stock exchange rules, and other requirements determined to be necessary or advisable by the Board. The Committee may delegate to one or more of its members or to one or more officers of the Company, and/or its Subsidiaries and Affiliates or to one or more agents or advisors such administrative duties or powers as it may deem advisable, and the Committee or any person to whom it has delegated duties or powers as aforesaid may employ one or more persons to render advice with respect to any responsibility the Committee or such person may have under the Plan.

Section 4. Eligibility and Participation

4.1 *Eligibility*

Individuals eligible to participate in this Plan include non-employee directors, officers, and other key employees.

4.2 *Actual Participation*

Subject to the provisions of the Plan, the Committee may, from time to time, select from all eligible officers and key Employees those to whom awards shall be granted. The Committee shall determine, in its sole discretion, the nature of any and all terms (as permissible by law) and the amount of each award. Directors who are not employees shall only receive awards in accordance with the terms set forth in this Plan.

Section 5. Stock Options

5.1 *Company Employees*

(a) Eligibility

The Committee shall determine Company officers and key employees to whom options shall be granted, the timing of such grants, and the number of shares subject to the option; provided that the maximum number of Shares upon which options may be granted to any employee in any calendar year shall be 400,000. All Options granted under the Plan will be evidenced by an Award Agreement.

(b) Option Exercise Price

The exercise price of each option shall not be less than 100% of the fair market value of Shares underlying the option at the time the option is granted. The fair market value for purposes of determining the exercise price shall be the mean between the high and the low prices at which Shares are traded on the New York Stock Exchange on the day the option is granted. In the event this method for determining fair market value is not practicable, fair market value shall be determined by such other reasonable method as the Committee shall select.

(c) Option Exercise

Options shall be exercisable in such installments and during such periods as may be fixed by the Committee at the time of grant. Each Option granted to a Participant shall expire at such time as the Committee shall determine at the time of grant; provided, however, no Option shall be exercisable later than the tenth (10th) anniversary date of its grant.

Payment of the exercise price shall be made upon exercise of all or a portion of any option. Such payment shall be in cash or by tendering Shares that have been owned by the participant for at least six months having a fair market value equal to 100% of the exercise price. The fair market value of Shares for this purpose shall be the mean between the high and low prices at which Shares are traded on the New York Stock Exchange on the date of exercise. Upon exercise of an option, any applicable taxes the Company is required to withhold shall be paid to the Company. Shares to be received upon exercise may be surrendered to satisfy withholding obligations.

(d) Termination of Employment

The Committee may require a period of continued employment before an option can be exercised. That period shall not be less than one year, except that the Committee may permit a shorter period in the event of termination of employment by retirement or death. An exception to the one-year period other than retirement or death is applicable only for the 2004 year grant, of which the options may be exercised as of January 3, 2005.

Termination of employment with the Company shall terminate remaining rights under options then held; provided, however, that an option grant may provide that if employment terminates after completion of a specific period, the option may be exercised during a period of time after termination. That period may not exceed sixty months where termination of employment is caused by retirement or death or sixty days where termination results from any other cause provided that such period shall not extend beyond the original maximum term of the option. If death occurs after termination of employment but during the period of time specified, such period may be extended to not more than sixty-six months after retirement, or thirty-eight months after termination of employment for any other cause provided that such period shall not extend beyond the original maximum term of the option. In the event of termination within two years after a Change of Control as defined in Section 10.2 of the Plan, options shall be exercisable for a period of sixty months following the date of termination or for the maximum term of the option, whichever is shorter. Notwithstanding the foregoing, the Committee may change the post-termination period of exercisability of an option provided that change does not extend the original maximum term of the option.

Notwithstanding the foregoing or anything herein or in an award document to the contrary, the Committee, in its sole discretion, shall have the authority to accelerate the vesting of non-tandem SARs at any time following the time of grant.

(e) Transferability of Options

(i) Except as otherwise permitted in Section 4.1(e)(ii), options shall not be transferable other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or the Employee Retirement Income Security Act. Options are exercisable during the holder's lifetime only by the holder, unless the holder becomes incapacitated or disabled, in which case the option may be exercised by the holder's authorized representative. A holder may file with the Company a written designation of beneficiaries with the authority to exercise options in the event of the holder's death.

(ii) Notwithstanding the provisions of Section 4.1(e)(i), and in addition to the permissible transfers under that provision, options granted to persons at the level of Vice President and above, as well as directors of the Company and persons retired from those positions, may be transferred to any one or more "Permitted Transferees," as long as those options are not incentive stock options as defined below and are fully vested. Options granted to employees below the level of Vice President may be transferred upon prior approval of the Company's Director of Compensation and Benefits pursuant to the terms of this section.

(iii) For purposes of Section 4.1(e)(ii), the term "Permitted Transferees" shall mean the members of the group that consists exclusively of the individual to whom the option is granted, the spouse of the individual to whom the option is granted, the lineal descendants of the individual to whom the option is granted, the spouses of the lineal descendents to whom the option is granted, the lineal descendants of any spouse or former spouse of the individual to whom the option is granted, the spouses of the lineal descendants of any spouse or former spouse of the individual to whom the option is granted, the estate (and any trust that serves a distributive function of an estate) of the Permitted Transferee, all trusts that an individual who is a Permitted Transferee can revoke and all trusts, corporations, partnerships, limited liability companies and other entities in which, directly or indirectly, but for the exercise of a power of appointment or the death of the survivor of the individual who are Permitted Transferees. Each owner of an equitable interest is an individual who is a Permitted Transferee.

(f) Incentive Stock Options

Incentive stock options (“ISOs”), as defined in Section 422 of the Code, may be granted to key employees under the Plan. The decision to grant ISOs to particular persons is within the Committee’s discretion. An Option Award Agreement shall specify whether the Option is intended to be an ISO or a Non-Qualified Stock Option (“NQSO”). A NQSO is an option that does not meet the definition of an ISO. ISOs shall not be exercisable after expiration of ten years from the date of grant. The amount of ISOs vesting in a particular calendar year for an option recipient under this Plan and all incentive stock option plans of the Company or any parent or subsidiary corporation cannot exceed $100,000, based on the fair market value of the Shares subject to the options on the date of grant; provided that any portion of an option that cannot be exercised as an ISO because of this limitation may be converted by the Committee to another form of option. If any employee or former employee shall make any disposition of Shares issued pursuant to the exercise of an ISO under the circumstances described in Section 421(b) of the Code (relating to certain disqualifying dispositions), such employee or former employee shall notify the Company of such disposition within ten (10) days thereof. The Board may amend the Plan to comply with Section 422 of the Code or other applicable laws and to permit options previously granted to be converted to ISOs.

5.2 *Non-Employee Directors*

(a) Terms

Subject to the share ownership requirements, options with a term of ten years are granted to each non-employee director for 4,000 Shares, effective as of the close of each annual meeting of stockholders at which an individual is elected a director or following which such individual continues as a director. Options granted to non-employee directors shall become exercisable by one-third at the end of each of the three successive one-year periods since the date of grant. The exercise price of each option shall be 100% of the fair market value of Shares underlying the option on the date of grant.

(b) Termination of Directorship

An option awarded to a non-employee director may be exercised any time within sixty months of the date the director terminates such status. In the event of a director’s death, the director’s authorized representative may exercise the option within sixty months of the date of death, provided that if the director dies after cessation of director status, the option is exercisable within sixty-six months of such cessation. In no event shall an option awarded to a non-employee director be exercisable beyond the expiration date of that option.

Section 6. Stock Appreciation Rights

6.1 *Company Employees*

(a) Types of SARs

The Committee may grant “tandem” and “non-tandem” SARs under the Plan. A tandem SAR shall be granted at the same time as an option and may be exercised by the recipient as an alternative to the option. The term of a tandem SAR, its exercisability and any conditions or restrictions applicable to it shall be the same as its related option, and its base price shall be equal to the exercise price of the related option. In addition, upon the exercise of the option, the tandem SAR (or the portion related to the exercise) shall expire and upon exercise of the tandem SAR, the related option (or such portion) shall expire. The terms of a non-tandem SAR shall be established by the Committee. A SAR that is not otherwise designated but is granted at the same time as an option shall be a tandem SAR.

(b) Eligibility

The Committee shall determine Company officers and employees to whom SARs shall be granted, the timing of such grants, and the number of shares subject to the SAR; provided that the maximum number of Shares upon which non-tandem SARs may be granted to any employee in any calendar year shall be 400,000.

(c) SAR Base Price

The base price of each non-tandem SAR shall not be less than one hundred percent of the fair market value of Shares underlying the SAR at the time the SAR is granted. The fair market value for purposes of determining the base price shall be the mean between the high and the low prices at which Shares are traded on the New York Stock Exchange on the day the SAR is granted. In the event this method for determining fair market value is not practicable, fair market value shall be determined by such other reasonable method as the Committee shall select.

(d) SAR Exercise

Non-tandem SARs shall be exercisable in such installments and during such periods as may be fixed by the Committee at the time of grant. Non-tandem SARs shall not be exercisable after the expiration of ten years from the date of grant.

Upon exercise of an SAR, the recipient shall be entitled to receive from the Company that number of Shares having an aggregate fair market value as of the date of exercise equal to the product of (i) the number of Shares as to which the recipient is exercising the SAR, and (ii) the excess of the fair market value (at the date of exercise) of a Share over the base price of the SAR, provided that the Committee may elect to settle all or a portion of the Company's obligation arising out of the exercise of an SAR by the payment of cash in an amount equal to the fair market value as of the date of exercise of the Shares it would otherwise be obligated to deliver. The fair market value of Shares for this purpose shall be the mean between the high and low prices at which Shares are traded on the New York Stock Exchange on the date of exercise. Upon exercise of an SAR, any applicable taxes the Company is required to withhold shall be paid to the Company. Shares to be received upon exercise may be surrendered to satisfy withholding obligations.

Notwithstanding the foregoing or anything herein or in an award document to the contrary, the Committee, in its sole discretion, shall have the authority to accelerate the vesting of non-tandem SARs at any time following the time of grant.

(e) Termination of Employment

The Committee may require a period of continued employment before a non-tandem SAR can be exercised. That period shall not be less than one year, except that the Committee may permit a shorter period in the event of termination of employment by retirement or death.

Termination of employment with the Company shall terminate remaining rights under non-tandem SARs then held; provided, however, that a non-tandem SAR grant may provide that if employment terminates after completion of a specific period, the SAR may be exercised during a period of time after termination. That period may not exceed sixty months where termination of employment is caused by retirement or death or sixty days where termination results from any other cause provided that such period shall not extend beyond the original maximum term of the SAR. If death occurs after termination of employment but during the period of time specified, such period may be extended to not more than sixty-six months after retirement, or thirty-eight months after termination of employment for any other cause provided that such period shall not extend beyond the original maximum term of the SAR. In the event of termination within two years after a Change of Control as defined in Section 10.2 of the Plan, non-tandem SARs shall be exercisable for a period of sixty months following the date of termination or for the maximum term of the SAR, whichever is shorter. Notwithstanding the foregoing, the Committee may change the post-termination period of exercisability of a non-tandem SAR provided that change does not extend the original maximum term of the SAR.

(f) Transferability of SARs

(i) Except as otherwise permitted in Section 6(f)(ii), non-tandem SARs shall not be transferable other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or the Employee Retirement Income Security Act. Non-tandem SARs are exercisable during the holder's lifetime only by the holder, unless the holder becomes incapacitated or disabled, in which case the SAR may be exercised by the holder's authorized representative. A holder may file with the Company a written designation of beneficiaries with the authority to exercise non-tandem SARs in the event of the holder's death.

(ii) Notwithstanding the provisions of Section 6(f)(i), and in addition to the permissible transfers under that provision, non-tandem SARs granted to persons at the level of Vice President and above, as well as directors of this corporation and persons retired from those positions, may be transferred to any one or more "Permitted Transferees," as long as those SARs are fully vested. Non-tandem SARs granted to employees below the level of Vice President may be transferred upon prior approval of the Company's Director of Compensation and Benefits pursuant to the terms of this section.

(iii) For purposes of Section 6(f)(ii), the term "Permitted Transferees" shall mean the members of the group that consists exclusively of the individual to whom the non-tandem SAR is granted, the spouse of the individual to whom the non-tandem SAR is granted, the lineal descendants of the individual to whom the non-tandem SAR is granted, the spouses of the lineal descendents to whom the non-tandem SAR is granted, the lineal descendants of any spouse or former spouse of the individual to whom the non-tandem SAR is granted, the spouses of the lineal descendants of any spouse or former spouse of the individual to whom the non-tandem SAR is granted, the estate (and any trust that serves a distributive function of an estate) of the Permitted Transferee, all trusts that an individual who is a Permitted Transferee can revoke and all trusts, corporations, partnerships, limited liability companies and other entities in which, directly or indirectly, but for the exercise of a power of appointment or the death of the survivor of the individual who are Permitted Transferees. Each owner of an equitable interest is an individual who is a Permitted Transferee.

6.2 *Non-Employee Directors*

(a) Terms

The Committee may grant SARs to non-employee directors. With respect to the grant of SARs to non-employee directors and subject to any share ownership requirements, each year the Committee shall determine (i) the type of such SAR grant (i.e., tandem or non-tandem), (ii) the timing of such SAR grant and (iii) the number of shares subject to the SAR. All SARs granted under this provision of the Plan will be evidenced by an Award Agreement.

SARs granted to non-employee directors shall have a term of ten years and become exercisable by one-third at the end of each of the three successive one-year periods since the date of grant. The base price of each SAR shall be 100% of the fair market value of Shares underlying the SAR on the date the SAR is granted.

(b) Termination of Directorship

A SAR granted to a non-employee director may be exercised any time within sixty months of the date the director terminates such status. In the event of a director's death, the director's authorized representative may exercise the SAR within sixty months of the date of death, provided that if the director dies after cessation of director status, the authorized representative may exercise the SAR within sixty-six months of such cessation. In no event shall a SAR granted to a non-employee director be exercisable beyond the original expiration date of that SAR.

Section 7. Restricted Stock

7.1 *Company Employees*

(a) Eligibility

The Committee may determine whether restricted stock or restricted stock units shall be awarded to Company officers and employees, the timing of award, and the conditions and restrictions imposed on the award. Restricted stock units are similar to restricted stock except that no Shares are actually awarded to the employee on the date of grant. Shares are awarded only on the date of exercise.

(b) Terms

With respect to restricted stock grants, during the restriction period the recipient shall have a beneficial interest in the restricted stock and all associated rights and privileges of a stockholder, including the right to vote and receive dividends, subject to any restrictions imposed by the Committee at the time of grant. The recipient shall have no voting or dividend rights with respect to any restricted stock units granted hereunder. The Committee may grant dividend equivalents on restricted stock units with such terms and conditions as the Committee shall specify.

The following restrictions will be imposed on Shares of restricted stock (and restricted stock units where specified) until expiration of the restriction period:

(i) The recipient shall not be entitled to delivery of the certificates for the Shares;

(ii) None of the restricted stock units or Shares issued as restricted stock may be transferred other than by will or by the laws of descent and distribution; and

(iii) Restricted stock units or Shares issued as restricted stock shall be forfeited if the recipient terminates employment with the Company, except for termination due to retirement after a specified age, disability, death or other special circumstances approved by the Committee.

Shares awarded as restricted stock will be issued subject to a restriction period set by the Committee of no less than two nor more than ten years. The Committee, except for restrictions specified in the preceding paragraphs, shall have the discretion to remove any or all of the restrictions on a restricted stock award whenever it determines such action appropriate. Except with respect to a maximum of five percent of the Shares authorized in Section 2, any awards of restricted stock or restricted stock units which vest on the basis of the recipient's continued employment with or provision of service to the Company shall not provide for vesting which is any more rapid than annual pro rata vesting over a three year period and any awards of restricted stock or restricted stock units which vest upon the attainment of performance goals shall provide for a performance period of at least twelve months. Upon expiration of the restriction period, the Shares will be made available to the recipient, subject to satisfaction of applicable tax withholding requirements.

7.2 *Non-Employee Directors*

(a) On January 1 of each year, 400 Shares of restricted stock shall be granted to each director who is not currently an employee of the Company. The stock will be subject to a restriction period of three years from the date of grant. During the restriction period, the recipient shall have a beneficial interest in the restricted stock and all associated rights and privileges of a stockholder, including the right to vote and receive dividends.

The following restrictions will be imposed on restricted stock until expiration of the restricted period:

(i) The recipient shall not be entitled to delivery of the Shares;

(ii) None of the Shares issued as restricted stock may be transferred other than by will or by the laws of descent and distribution; and

(iii) Shares issued as restricted stock shall be forfeited if the recipient ceases to serve as a director of the Company, except for termination due to death, disability, or retirement under the Company's Directors' Retirement Plan.

Upon expiration of the restriction period, the Shares will be made available to the recipient, subject to satisfaction of applicable tax withholding requirements.

(b) Each January 1st, 350 shares of restricted stock, in addition to shares described in Section 7.2(a), shall be awarded to each director who is not currently and has not been an employee of the Company. Shares awarded under this Section 7.2(b) will be held in escrow until the director terminates service with the Company. During the restriction period, the recipient shall have a beneficial interest in the restricted stock and all associated rights and privileges of a stockholder except as discussed below.

The following restrictions will be imposed on restricted stock awarded under this Section 7.2(b) until it is made available to the recipient:

(i) The recipient shall not receive dividends on the shares, but an amount equal to such dividends will be credited to the director's stock equivalent account in the Company's Directors' Deferred Compensation Plan;

(ii) The recipient shall not be entitled to delivery of the shares;

(iii) None of the shares awarded may be transferred other than by will or by the laws of descent and distribution; and

(iv) The right to receive shares shall be subordinate to the claims of general creditors of the Company.

Upon termination of service, restricted shares will be made available to the recipient subject to satisfaction of applicable tax withholding requirements; provided, however, that if the recipient has not served on the Board for at least five years at the time of such termination, all restricted shares awarded under this Section 7.2(b) shall be forfeited.

Pursuant to termination of the Company's Directors' Retirement Plan effective December 31, 1996, each director continuing in office was awarded an amount of restricted stock equal to the accumulated value of past pension accruals as determined by the Company's actuary. Those shares will be subject to the same restrictions as shares awarded annually pursuant to this Section 7.2(b).

(c) Effective January 1, 2002, shares of restricted stock shall no longer be granted under Section 7.2(a) of the Plan or awarded under Section 7.2(b) of the Plan. Shares of restricted stock that were granted or awarded prior to January 1, 2002, shall be subject to the same restrictions and provisions as determined in 7.2(a) and 7.2(b).

(d) With respect to the award of restricted stock units, the Committee in its sole discretion may determine (i) whether restricted stock units shall be awarded to non-employee directors, (ii) the timing of award, and (iii) the conditions and restrictions imposed on the award.

Section 8 Performance Awards

8.1 *Eligibility and Terms*

The Committee may grant awards to officers and other key employees ("Performance Awards") based upon Company performance over a period of years ("Performance Period"). The Committee shall have sole discretion to determine persons eligible to participate, the Performance Period, Company performance factors applicable to the award ("Performance Measures"), and the method of Performance Award calculation.

At the time the Committee establishes a Performance Period for a particular award, it shall also establish Performance Measures and targets to be attained relative to those measures ("Performance Targets"). Performance Measures may be based on any of the following factors, alone or in combination, as the Committee deems appropriate: (i) return on assets; (ii) return on equity; (iii) return on sales; (iv) total stockholder return; (v) cash flow; (vi) economic value added; (vii) net earnings; and (viii) earnings per share relative to a peer group. The Committee may establish the peer group referenced above and amend the peer group as the Committee determines desirable. 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 eliminate or decrease the amount of a Performance Award otherwise payable to a participant. Upon completion of a Performance Period, the Committee shall determine the Company's performance in relation to the Performance Targets for that period and certify in writing the extent to which Performance Targets were satisfied.

8.2 *Payment of Awards*

Performance Awards may be paid in cash, stock, restricted stock (pursuant to terms applicable to restricted stock awarded to Company employees as described in the Plan), or a combination thereof as determined by the Committee. Performance Awards shall be made not later than ninety days following the end of the relevant Performance Period. The fair market value of a Performance Award payment to any individual employee in any calendar year shall not exceed Two Million Five Hundred Thousand and NO/100 Dollars ($2,500,000.00). The fair market value of Shares to be awarded shall be determined by the average of the high and low price of Shares on the New York Stock Exchange on the last business day of the Performance Period. Federal, state and local taxes will be withheld as appropriate.

8.3 *Termination*

To receive a Performance Award, the participant must be employed by the Company on the last day of the Performance Period. If a participant terminates employment during the Performance Period by reason of death, disability or retirement, a payout based on the time of employment during the Performance Period shall be distributed. 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 participants. If the participant is deceased at the time of Performance Award payment, the payment shall be made to the recipient's designated representative.

Section 9. Election to Receive Non-Employee Director Fees in Shares

Effective April 8, 1998, non-employee directors shall have the option of receiving all or a portion of their annual retainer fees, as well as fees for attendance at meetings of the Board and committees of the Board (including any Committee Chairman stipend), in the form of Shares.

The number of Shares that may be issued pursuant to such election shall be based on the amount of cash compensation subject to the election divided by the fair market value of one Share on the date such cash compensation is payable. The fair market value shall be the mean between the high and low prices at which Shares are traded on the New York Stock Exchange on payable date.

Shares provided pursuant to the election shall be held in book-entry form by the Company on behalf of the non-employee director. Upon request, the Company shall deliver Shares so held to the non-employee director. While held in book-entry form, the Shares shall have all associated rights and privileges, including voting rights and the right to receive dividends.

Section 10. Change of Control

10.1 *Effect on Grants and Awards*

Unless the Committee shall otherwise expressly provide in the agreement relating to a grant or award under the Plan, upon the occurrence of a Change of Control as defined below: (i) all options and SARs then outstanding under the Plan shall become fully exercisable as of the date of the Change of Control; (ii) all terms and conditions of restricted stock and restricted stock unit awards, and other stock-based awards for which no performance goals have been established then outstanding shall be deemed satisfied as of the date of the Change of Control; and (iii) all Performance Awards or other stock-based awards for which performance goal(s) have been established for a Performance Period not completed at the time of the Change of Control shall be payable in an amount equal to the product of the maximum award opportunity for the Performance Award or other stock-based 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 (A) the date of the Change of Control or (B) the date the participant terminates employment, and the denominator of which is the total number of months in the Performance Period; provided, however, that if this Plan shall remain in force after a Change of Control, a Performance Period is completed during that time, and the participant's employment has not terminated, this provision (iii) shall not apply.

10.2 *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 Exchange Act), directly or indirectly, of securities of the Company representing fifteen 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 years, 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 11. Amendment and Termination

11.1 *Amendment, Modification, Suspension, and Termination*

Subject to Section 11.3, the Committee may, at any time and from time to time, alter, amend, modify, suspend, or terminate the Plan and any Award Agreement in whole or in part; provided, however, that, no amendment of the Plan shall be made without stockholder approval if stockholder approval is required by law, regulation, or stock exchange rule.

11.2 *Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events*

The Committee may make adjustments in the terms and conditions of, and the criteria included in, awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 2.3 hereof) affecting the Company or the financial statements of the Company or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent unintended dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan. The determination of the Committee as to the foregoing adjustments, if any, shall be conclusive and binding on Participants under the Plan.

11.3 *Awards Previously Granted*

Notwithstanding any other provision of the Plan to the contrary, no termination, amendment, suspension, or modification of the Plan or an Award Agreement shall adversely affect in any material way any award previously granted under the Plan, without the written consent of the Participant holding such award.

Section 12. Regulatory Compliance

Notwithstanding any other provision of the Plan, the issuance or delivery of any Shares may be postponed for such period as may be required to comply with any applicable requirements of any national securities exchange or any requirements under any other law or regulation applicable to the issuance or delivery of such Shares. The Company shall not be obligated to issue or deliver any Shares if such issuance or delivery shall constitute a violation of any provision of any law or regulation of any governmental authority or national securities exchange.

Section 13. Dividend Equivalents

Any participant selected by the Committee may be granted dividend equivalents based on the dividends declared of Shares that are subject to any award, to be credited as of dividend payment dates, during the period between the date the award is granted and the date the award is exercised, vests, or expires, as determined by the Committee in its sole discretion. Such dividend equivalents shall be converted to cash or additional Shares by such formula and at such time and subject to such limitations as may be determined by the Committee in its sole discretion.

Section 14. Beneficiary Designation

Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Committee, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

Section 15. Rights of Participants

15.1 *Employment*

Nothing in the Plan or an Award Agreement shall interfere with or limit in any way the right of the Company, its Affiliates, and/or its Subsidiaries, to terminate any Participant's employment or service on the Board at any time or for any reason not prohibited by law, nor confer upon any Participant any right to continue his or her employment or service as a Director for any specified period of time.

Neither an award nor any benefits arising under this Plan shall constitute an employment contract with the Company, its Affiliates, and/or its Subsidiaries and, accordingly, subject to Sections 3 and 11, this Plan and the benefits hereunder may be terminated at any time in the sole and exclusive discretion of the Committee without giving rise to any liability on the part of the Company, its Affiliates, and/or its Subsidiaries.

15.2 *Participation*

No individual shall have the right to be selected to receive an award under this Plan, or, having been so selected, to be selected to receive a future award.

15.3 *Rights as a Stockholder*

Except as otherwise provided herein, a Participant shall have none of the rights of a stockholder with respect to Shares covered by any award until the Participant becomes the record holder of such Shares.

15.4 *Clawback Provision*

Notwithstanding any other provision of the Plan to the contrary, including Section 11.3 which prohibits material and adverse modifications to any award previously granted under the Plan, any participant who is an officer of the Company whose negligent, intentional or gross misconduct contributes to the Company's having to restate all or a portion of its financial statements, will be required to forfeit awards granted under this Plan and repay the Company the total amount of award gain realized by the participant upon the exercise of an option or settlement of an award, 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. Any award granted under this Plan prior to February 14, 2007 is subject to the provisions of this Section 15.4 only with the written consent of the participant.

Section 16. Successors

All obligations of the Company under the Plan with respect to awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

Section 17. Nonexclusivity of the Plan

The adoption of this Plan shall not be construed as creating any limitations on the power of the Board or Committee to adopt such other compensation arrangements as it may deem desirable for any Participant.

Section 18. No Constraint on Corporate Action

Nothing in this Plan shall be construed to: (i) limit, impair, or otherwise affect the Company's or a Subsidiary's or an Affiliate's right or power to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets; or, (ii) limit the right or power of the Company or a Subsidiary or an Affiliate to take any action which such entity deems to be necessary or appropriate.

Section 19. Governing Law

The Plan and each Award Agreement shall be governed by the laws of the State of Illinois, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. Unless otherwise provided in the Award Agreement, recipients of an award under the Plan are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of Illinois, to resolve any and all issues that may arise out of or relate to the Plan or any related Award Agreement.

Section 20. Duration of the Plan

Unless sooner terminated as provided herein, the Plan shall terminate ten years from the date it was initially adopted. After the Plan is terminated, no awards may be granted but awards previously granted shall remain outstanding in accordance with their applicable terms and conditions and the Plan's terms and conditions.

Section 21. Effective Date

This Plan Restatement shall be effective December 19, 2008.

CATERPILLAR INC.

2006 LONG-TERM INCENTIVE PLAN

(Amended and Restated through Fifth Amendment)

Section 1.
Establishment, Objectives and Duration

1.1. ***Establishment.*** Subject to the approval of the stockholders of Caterpillar Inc., a Delaware corporation (the "Company"), the Company has established the Caterpillar Inc. 2006 Long-Term Incentive Plan (the "Plan"), as set forth herein. The Plan supersedes and replaces all prior equity and non-equity long-term incentive compensation plans or programs maintained by the Company; provided that, any prior plans of the Company shall remain in effect until all awards granted under such prior plans have been exercised, forfeited, canceled, expired or otherwise terminated in accordance with the terms of such grants.

1.2. ***Purpose.*** The Plan is intended to provide certain present and future employees and Directors cash-based incentives, stock-based incentives and other equity interests in the Company thereby giving them a stake in the growth and prosperity of the Company and encouraging the continuance of their services with the Company or its Subsidiaries.

1.3. ***Effective Date***. The Plan is effective as of the later of (a) the date the Plan is adopted by the Board or (b) the date the Company's stockholders approve the Plan (the "Effective Date"). The Plan will be deemed to be approved by the stockholders if it receives the affirmative vote of the holders of a majority of the shares of stock of the Company present or represented and entitled to vote at a meeting duly held in accordance with the applicable provisions of the Certificate of Incorporation or Bylaws of the Company.

1.4. ***Duration.*** The Plan shall remain in effect, subject to the right of the Company's Board of Directors to amend or terminate the Plan at any time pursuant to Section 16, until all Shares subject to the Plan shall have been purchased or granted according to the Plan's provisions. However, in no event may an Award be granted under the Plan on or after the tenth anniversary of the Effective Date. Upon termination of the Plan, no Awards may be granted but Awards previously granted shall remain outstanding in accordance with the terms of the Plan and the applicable Award Document.

Section 2.
Definitions and Construction

When a word or phrase appears in the Plan with the initial letter capitalized, and the word or phrase does not commence a sentence, the word or phrase shall generally be given the meaning ascribed to it in this Section unless a clearly different meaning is required by the context. The following words and phrases shall have the following meanings:

2.1. ***"Award"*** means, individually or collectively, a grant under the Plan of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Shares or Performance Units.

2.2. ***"Award Document"*** means any agreement, contract, or other written instrument that evidences an Award granted to the Participant under the Plan and sets forth the terms and provisions applicable to such Award.

2.3. ***"Award Gain"*** means (a) with respect to a given Option exercise, the product of (X) the excess of the Fair Market Value of a Share on the date of exercise over the Option Price times (Y) the number of shares as to which the Option was exercised at that date, and (b) with respect to any other settlement of an Award granted to the Participant, the Fair Market Value of the cash or Shares paid or payable to the Participant (regardless of any elective deferral pursuant to Section 13) less any cash or the Fair Market Value of any Shares or property (other than an Award that would have itself then been forfeitable hereunder and excluding any payment of tax withholding) paid by the Participant to the Company as a condition of or in connection such settlement.

2.4. ***"Board"*** means the Board of Directors of the Company.

2.5. ***"Cause"*** means, except as otherwise provided in an Award Document, a willful engaging in gross misconduct materially and demonstrably injurious to the Company. For this purpose, "willful" means an act or omission in bad faith and without reasonable belief that such act or omission was in or not opposed to the best interests of the Company.

2.6. ***"Change of Control"*** means the occurrence of any of the following events: (a) any person becomes the "beneficial owner" (as defined in Rule 13d-3 under the 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 years, 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 representing (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.

2.7. ***"Code"*** means the Internal Revenue Code of 1986, as amended from time to time, or any successor legislation thereto.

2.8. ***"Committee"*** means the Compensation Committee of the Board, appointed to administer the Plan, as provided in Section 3.

2.9. ***"Company"*** means Caterpillar Inc., a Delaware corporation, and any successor to such entity as provided in Section 18.

2.10. ***"Director"*** means any individual who is a member of the Board.

2.11. ***"Disability"*** means, unless otherwise provided for in an employment, change of control or similar agreement in effect between the Participant and the Company or a Subsidiary or in an Award Document, (a) in the case of an Employee, the Employee qualifying for long-term disability benefits under any long-term disability program sponsored by the Company or Subsidiary in which the Employee participates, and (b) in the case of a Director, the inability of the Director to engage in any substantial gainful business activity by reason of any medically determinable physical or mental impairment that can be expected to result in death, or which has lasted or can be expected to last for a continuous period of not less than 12 months, as determined by the Committee, based upon medical evidence.

2.12. ***"Effective Date"*** means the date specified in Section 1.3.

2.13. ***"Employee"*** means any employee of the Company or any Subsidiary.

2.14. ***"Exchange Act"*** means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

2.15. ***"Fair Market Value"*** means, as of any given date, the fair market value of a Share on a particular date determined by such methods or procedures as may be established from time to time by the Committee. Unless otherwise determined by the Committee, the Fair Market Value of a Share as of any date shall be the mean between the high and low prices at which the Share is traded on the New York Stock Exchange for that date or, if no prices are reported for that date, the prices on the next preceding date for which prices were reported. Notwithstanding the foregoing, unless otherwise determined by the Committee, for purposes of Section 6.5(d) of the Plan, Fair Market Value means the actual price at which the Shares used to acquire Shares are sold.

2.16. ***"Family Member"*** means any (a) child; (b) stepchild; (c) grandchild; (d) parent; (e) stepparent; (f) grandparent; (g) spouse; (h) former spouse; (i) sibling; (j) niece; (k) nephew; (l) mother-in-law; (m) father-in-law; (n) son-in-law; (o) daughter-in-law; (p) brother-in-law; or (q) sister-in-law of the Participant (including adoptive relationships). Family Member also shall mean any person sharing in the Participant's household (other than a tenant or an employee).

2.17. ***"Good Reason"*** means, except as otherwise provided in an Award Document, the occurrence of any of the following circumstances (unless such circumstances are fully corrected by the Company before a Participant's termination of employment):

(a) the Company's assignment of any duties materially inconsistent with the Participant's position within the Company, or which have a significant adverse alteration in the nature or status of the responsibilities of the Participant's employment; or

(b) a material reduction by the Company in the Participant's annual base salary, unless such reduction is part of a compensation reduction program affecting all similarly situated management employees.

2.18. ***"Incentive Stock Option"*** or ***"ISO"*** means the right to purchase Shares pursuant terms and conditions that provide that such right will be treated as an incentive stock option within the meaning of Code Section 422, as described in Section 6.

2.19. ***"Long Service Separation"*** means, except as otherwise provided in an Award Document, a termination of employment with the Company or a Subsidiary after the attainment of age 55 and the completion of ten or more years of service with the Company and/or its Subsidiaries. Notwithstanding the foregoing and notwithstanding anything in an Award Document to the contrary, for purposes of determining whether a Participant has incurred a Long Service Separation, the last period of continuous service with Progress Rail Services, Inc. and/or its subsidiaries and affiliates ("Progress Rail") prior to May 16, 2006 shall be considered service with the Company and/or its Subsidiaries, subject to such administrative rules that the Committee (or its delegate) determines are appropriate and provided such participant was employed by Progress Rail on May 16, 2006.

2.20. ***"Named Executive Officer"*** means a Participant who is one of the group of covered employees as defined in the regulations promulgated under Code Section 162(m), or any successor provision or statute.

2.21. ***"Nonqualified Stock Option"*** or ***"NQSO"*** means the right to purchase Shares pursuant to terms and conditions that provide that such right will not be treated as an Incentive Stock Option, as described in Section 6.

2.22. ***"Option"*** means an Incentive Stock Option or a Nonqualified Stock Option, as described in Section 6.

2.23. ***"Option Price"*** means the per share price of a Share available for purchase pursuant to an Option.

2.24. ***"Participant"*** means an Employee, prospective Employee, Director, beneficiary or any other person who has outstanding an Award granted under the Plan, and includes those former Employees and Directors who have certain post-termination rights under the terms of an Award granted under the Plan.

2.25. ***"Performance-Based Exception"*** means the exception for performance-based compensation from the tax deductibility limitations of Code Section 162(m).

2.26. ***"Performance Period"*** means the time period during which performance goals must be achieved with respect to an Award, as determined by the Committee.

2.27. ***"Performance Share"*** means an Award granted to a Participant, as described in Section 9.

2.28. ***"Performance Unit"*** means an Award granted to a Participant, as described in Section 9.

2.29. ***"Period of Restriction"*** means the period during which the transfer of Shares of Restricted Stock is limited in some way, and the Shares are subject to a substantial risk of forfeiture, as provided in Section 8.

2.30. *"Permitted Transferee"* means any one or more of the following: (a) Family Members; (b) a trust in which the Participant and/or Family Members have more than fifty percent of the beneficial interest; (c) a foundation in which the Participant and/or Family Members control the management of the assets; or (d) any other entity in which the Participant and/or Family Members own more than fifty percent of the voting interests.

2.31. *"Plan"* means the Caterpillar Inc. 2006 Long-Term Incentive Plan, as set forth herein.

2.32. *"Restricted Stock"* means an Award granted to a Participant pursuant to Section 8.

2.33. *"Section 16 Officer"* means any Employee who is considered an officer of the Company for purposes of Section 16 of the Exchange Act.

2.34. *"Share"* or *"Shares"* means shares of common stock of the Company.

2.35. *"Stock Appreciation Right"* or *"SAR"* means an Award, granted alone or in connection with a related Option, designated as an SAR, pursuant to the terms of Section 7.

2.36. *"Subsidiary"* means any corporation, partnership, joint venture, affiliate, or other entity in which the Company is at least a majority-owner of all issued and outstanding equity interests or has a controlling interest.

2.37. *"Tandem SAR"* means a SAR that is granted in connection with a related Option pursuant to Section 7, the exercise of which shall require forfeiture of the right to purchase a Share under the related Option (and when a Share is purchased under the Option, the Tandem SAR shall similarly be forfeited).

2.38. *"Non-Tandem SAR"* means a SAR that is granted independently of any Options, as described in Section 7.

Section 3.
Administration

3.1. ***Plan Administration*.** The Committee, or any other committee appointed by the Board, shall administer the Plan. The Committee or other committee appointed to administer the Plan shall consist of not less than two non-Employee Directors of the Company, within the meaning of Rule 16b-3 of the Exchange Act and not less than two outside directors, within the meaning of Code Section 162(m). The Board may, from time to time, remove members from, or add members to, the Committee. Members of the Board shall fill any vacancies on the Committee. Acts of a majority of the Committee at a meeting at which a quorum is present, or acts reduced to or approved in writing by unanimous consent of the members of the Committee, shall be valid acts of the Committee.

3.2. *Authority of the Committee.* Except as limited by law or by the Certificate of Incorporation or Bylaws of the Company, and subject to the provisions herein, the Committee shall have full power to select Employees, prospective Employees and Directors who shall participate in the Plan; determine the sizes and types of Awards; determine the terms and conditions of Awards in a manner consistent with the Plan; construe and interpret the Plan and any agreement or instrument entered into under the Plan; establish, amend, or waive rules and regulations for the Plan's administration; and amend the terms and conditions of any outstanding Award to the extent such terms and conditions are within the sole discretion of the Committee as provided in the Plan and subject to Section 16. Further, the Committee shall make all other determinations, which may be necessary or advisable for the administration of the Plan. As permitted by law, the Committee may delegate the authority granted to it herein.

3.3. *Electronic Administration*. The Committee may, in its discretion, utilize a system for complete or partial electronic administration of the Plan and may replace any written documents described in the Plan with electronic counterparts, as appropriate.

3.4. ***Decisions Binding***. All determinations and decisions made by the Committee pursuant to the provisions of the Plan and all related orders and resolutions of the Board shall be final, conclusive and binding on all persons, including the Company, its stockholders, Employees, Participants, and their estates and beneficiaries.

Section 4.
Shares Subject to the Plan and Maximum Awards

4.1. *Shares Available for Awards*.

(a) The Shares available for Awards may be either authorized and unissued Shares or Shares held in or acquired for the treasury of the Company. The aggregate number of Shares that may be issued or used for reference purposes under the Plan or with respect to which Awards may be granted shall not exceed twenty million (20,000,000) Shares, subject to adjustment as provided in Section 4.3. In addition, seventeen million six hundred thousand (17,600,000) Shares authorized but unissued pursuant to the Caterpillar Inc. 1996 Stock Option and Long-Term Incentive Plan shall be reserved and available for grant under the Plan. Notwithstanding the foregoing, the aggregate number of Shares with respect to which ISOs may be granted shall not exceed the number specified above, and provided further, that up to an aggregate of twenty percent (20%) of the authorized Shares under the Plan may be issued with respect to Awards of Restricted Stock and up to an aggregate of twenty percent (20%) of the authorized Shares under the Plan may be issued with respect to Awards of Performance Shares.

(b) Upon:

(i) a payout of a Non-Tandem SAR or Tandem SAR in the form of cash;

(ii) a cancellation, termination, expiration, forfeiture, or lapse for any reason (with the exception of the termination of a Tandem SAR upon exercise of the related Options, or the termination of a related Option upon exercise of the corresponding Tandem SAR) of any Award; or

(iii) payment of an Option Price or payout of any Award with previously acquired Shares or by withholding Shares which otherwise would be acquired on exercise or issued upon such payout,

the number of Shares underlying any such Award that were not issued as a result of any of the foregoing actions shall again be available for the purposes of Awards under the Plan. In addition, in the case of any Award granted in substitution for an award of a company or business acquired by the Company or a Subsidiary, Shares issued or issuable in connection with such substitute Award shall not be counted against the number of Shares reserved under the Plan, but shall be available under the Plan by virtue of the Company's assumption of the plan or arrangement of the acquired company or business.

4.2. ***Individual Participant Limitations***. Unless and until the Committee determines that an Award to a Named Executive Officer shall not be designed to comply with the Performance-Based Exception, the following rules shall apply to grants of such Awards under the Plan:

(a) Subject to adjustment as provided in Section 4.3, the maximum aggregate number of Shares (including Options, SARs, Restricted Stock and Performance Shares to be paid out in Shares) that may be granted in any one fiscal year to a Participant shall be 800,000 Shares.

(b) Except as otherwise provided in Section 7.5(b) regarding SAR exercise, the maximum aggregate cash payout (including Performance Units and Performance Shares paid out in cash) with respect to Awards granted in any one fiscal year that may be made to any Participant shall be $5 million.

4.3. ***Adjustments in Authorized Shares****.* In the event of any change in corporate capitalization, such as a stock split, or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Company, any reorganization (whether or not such reorganization comes within the definition of such term in Code Section 368) or any partial or complete liquidation of the Company, an adjustment shall be made in the number and class of Shares available for Awards, the number and class of and/or price of Shares subject to outstanding Awards granted under the Plan and the number of Shares set forth in Sections 4.1 and 4.2, to prevent dilution or enlargement of rights. Such adjustment shall be made in a manner determined by the Committee, in its sole discretion, to be appropriate and equitable; provided, however, that (a) no such adjustment shall cause an increase in the fair value of an Award for purposes of Statement of Financial Accounting Standards No. 123 (revised 2004) or any successor thereto; and (b) the number of Shares subject to any Award shall always be a whole number by rounding any fractional Share (up or down) to the nearest whole Share.

Section 5.
Eligibility and Participation

5.1. ***Eligibility***. Persons eligible to participate in the Plan include all current and future Employees (including officers), persons who have been offered employment by the Company or a Subsidiary (provided that such prospective Employee may not receive any payment or exercise any right relating to an Award until such person begins employment with the Company or Subsidiary), and Directors, as determined by the Committee.

5.2. ***Participation***. Subject to the provisions of the Plan, the Committee shall determine and designate, from time to time, the Employees, prospective Employees, and Directors to whom Awards shall be granted, the terms of such Awards, and the number of Shares subject to such Award.

5.3. ***Foreign Participants***. In order to assure the viability of Awards granted to Participants employed in foreign countries, the Committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy, or custom. Moreover, the Committee may approve such supplements to, or amendments, restatements, or alternative versions of the Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of the Plan as in effect for any other purpose; provided, however, that no such supplements, amendments, restatements, or alternative versions shall increase the share limitations contained in Section 4 of the Plan.

Section 6.
Stock Options

6.1. ***Grant of Options****.*

(a) ***Option Grant****.* Subject to the terms and provisions of the Plan, Options may be granted to one or more Participants in such number, upon such terms and provisions, and at any time and from time to time, as determined by the Committee, in its sole discretion. The Committee may grant either Nonqualified Stock Options or (in the case of Options granted to Employees) Incentive Stock Options, and shall have complete discretion in determining the number of Options of each granted to each Participant, subject to the limitations of Section 4. Each Option grant shall be evidenced by a resolution of the Committee approving the Option grant.

(b) ***Award Document****.* All Options shall be evidenced by an Award Document. The Award Document shall specify the Option Price, the term of the Option, the number of Shares subject to the Option, and such other provisions as the Committee shall determine, and which are not inconsistent with the terms and provisions of the Plan. The Award Document shall also specify whether the Option is to be treated as an ISO within the meaning of Code Section 422. If such Option is not designated as an ISO, such Option shall be a NQSO.

6.2. ***Option Price***. The Committee shall designate the Option Price for each Share subject to an Option under the Plan, provided that such Option Price shall not be less than 100% of the Fair Market Value of Shares subject to an Option on the date the Option is granted, and which Option Price may not be subsequently changed by the Committee except pursuant to Section 4.3. With respect to a Participant who owns, directly or indirectly, more than 10% of the total combined voting power of all classes of the stock of the Company or any Subsidiary, the Option Price of Shares subject to an ISO shall be at least 110% of the Fair Market Value of such Shares on the ISO's grant date.

6.3. ***Term of Options***. Each Option granted to a Participant shall expire at such time as the Committee shall determine at the time of grant, but in no event shall be exercisable later than the 10th anniversary of the grant date. Notwithstanding the foregoing, with respect to ISOs, in the case of a Participant who owns, directly or indirectly, more than 10% of the total combined voting power of all classes of the stock of the Company or any Subsidiary, no such ISO shall be exercisable *later than the fifth anniversary of the grant date.*

6.4. ***Exercise of Options***. Options granted under this Section 6 shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for each grant or for each Participant, and shall be set forth in the applicable Award Document. Notwithstanding the preceding sentence, the Fair Market Value of Shares to which ISOs are exercisable for the first time by any Participant during any calendar year (under all plans of the Company and its Subsidiaries) may not exceed $100,000. Any ISOs that become exercisable in excess of such amount shall be deemed NQSOs to the extent of such excess. If the Award Document does not specify the time or times at which the Option shall first become exercisable, such an Option shall become fully vested and exercisable by the Participant on the third anniversary of the grant date.

6.5. ***Payment***. Options granted under this Section 6 shall be exercised by the delivery of a notice of exercise to the Company (or its designated agent(s)), setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares. The Option Price upon exercise of any Option shall be payable to the Company in full either:

(a) in cash or its equivalent, or

(b) by tendering previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the total Option Price, or

(c) by cashless exercise through delivery of irrevocable instructions to a broker to promptly deliver to the Company the amount of proceeds from a sale of shares having a Fair Market Value equal to the purchase price.

6.6. ***Termination of Employment or Service as a Director***. The Committee, in its sole discretion, shall set forth in the applicable Award Document the extent to which a Participant shall have the right to exercise the Option or Options following termination of his or her employment with the Company or any Subsidiary or following termination of his or her service as a Director. Such provisions need not be uniform among all Options issued pursuant to the Plan, and may reflect distinctions based on the reasons for such termination, including, but not limited to, termination for Cause or for Good Reason, or reasons relating to the breach or threatened breach of restrictive covenants. Subject to Section 15, in the event that a Participant's Award Document does not set forth such provisions, the following provisions shall apply:

(a) Long Service Separation, Death or Disability. If a Participant's employment with the Company and/or any Subsidiary or service as a Director terminates by reason of Long Service Separation, death or Disability, to the extent that the Option is not exercisable, all Shares covered by his or her Options shall immediately become fully vested and shall remain exercisable until the earlier of (i) the remainder of the term of the Option, or (ii) 60 months from the date of such termination. In the case of the Participant's death, the Participant's beneficiary or estate may exercise the Option.

(b) Termination for Cause. If a Participant's employment with the Company and/or any Subsidiary or service as a Director terminates for Cause, all Options granted to such Participant shall expire immediately and all rights to purchase Shares (vested or nonvested) under the Options shall cease upon such termination.

(c) Other Termination. If a Participant's employment with the Company and/or any Subsidiary or service as a Director terminates for any reason other than Long Service Separation, death, Disability, or for Cause, all Options shall remain exercisable until the earlier of (i) the remainder of the term of the Option, or (ii) 60 days from the date of such termination. In such circumstance, the Option shall only be exercisable to the extent that it was exercisable as of such termination date and shall not be exercisable with respect to any additional Shares. Notwithstanding the foregoing or anything herein or in an Award Document to the contrary, the Committee, in its sole discretion, shall have the authority to extend the period during which an Option is exercisable pursuant to this Section 6.6(c) to a period that is no longer than the earlier of (A) the remainder of the term of the Option, or (B) 60 months from the date of the Participant's termination of employment.

6.7. *Restrictions on Shares*. The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option granted under this Section 6 as it may deem advisable, including, without limitation, restrictions under applicable Federal securities laws, under the requirements of any stock exchange or market upon which such Shares are then listed and/or traded, and under any blue sky or state or foreign securities laws applicable to such Shares.

6.8. *Transferability of Options*.

(a) Incentive Stock Options. No ISO granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all ISOs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant.

(b) Nonqualified Stock Options. NQSOs may only be transferred in accordance with this Section 6.8(b).

(i) Except as otherwise provided in paragraph (ii) below or in an Award Document, no NQSO shall be assignable or transferable by a Participant other than by will, by the laws of descent and distribution or pursuant to a Domestic Relations Order (as such term is defined in Section 414(p)(1)(B) of the Code).

(ii) NQSOs (whether vested or unvested) held by (A) Participants who are Section 16 Officers; (B) Participants who are Directors; or (C) any Participants who previously held the positions in clauses (A) and (B) may be transferred by gift or by domestic relations order to one or more Permitted Transferees. NQSOs (whether vested or unvested) held by all other Participants and by Permitted Transferees may be transferred by gift or by domestic relations order only to Permitted Transferees upon the prior written approval of the Company's Director of Compensation + Benefits.

6.9 *Accleration of Vesting*. Notwithstanding anything in this Section 6 to the contrary, the Committee, in its sole discretion, shall have the authority to accelerate the vesting of Options at any time.

Section 7.
Stock Appreciation Rights

7.1. *Grant of SARs*.

(a) SAR Grant. Subject to the terms and provisions of the Plan, SARs may be granted to Participants in such number, upon such terms and provisions, and at any time and from time to time, as determined by the Committee in its sole discretion. The Committee may grant Non-Tandem SARs, Tandem SARs, or any combination of these forms of SARs. The Committee shall have complete discretion in determining the number of SARs granted to each Participant (subject to Section 4) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such SARs. The Committee shall designate, at the time of grant, the grant price of a Non-Tandem SAR, which grant price shall not be less than 100% of the Fair Market Value of a Share on the grant date of the SAR. The grant price of Tandem SARs shall equal the Option Price of the related Option. Grant prices of SARs shall not subsequently be changed by the Committee, except pursuant to Section 4.3.

(b) Award Document. All SARs shall be evidenced by an Award Document. The Award Document shall specify the grant price, the term of the SAR, and such other provisions as the Committee shall determine, and which are not inconsistent with the terms and provisions of the Plan.

7.2. *__Term of SARs__*. The term of a SAR granted under the Plan shall be determined by the Committee, in its sole discretion; provided, however, that unless otherwise designated by the Committee, such term shall not exceed ten years from the grant date.

7.3. *__Exercise of Tandem SARs__*. Tandem SARs may be exercised for all or part of the Shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the Shares for which its related Option is then exercisable. Notwithstanding any other provision of the Plan to the contrary, with respect to a Tandem SAR granted in connection with an ISO: (i) the Tandem SAR will expire no later than the expiration of the underlying ISO; (ii) the value of the payout with respect to the Tandem SAR may be for no more than 100% of the difference between the Option Price of the underlying ISO and the Fair Market Value of the Shares subject to the underlying ISO at the time the Tandem SAR is exercised; and (iii) the Tandem SAR may be exercised only when the Fair Market Value of the Shares subject to the ISO exceeds the Option Price of the ISO.

7.4. *__Exercise of Non-Tandem SARs__*. Non-Tandem SARs may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes upon them.

7.5. *__Payment of SAR Amount__*.

(a) Upon exercise of a SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

(i) The excess of the Fair Market Value of a Share on the date of exercise over the grant price; by

(ii) The number of Shares with respect to which the SAR is exercised.

(b) Unless otherwise provided in the Award Document, the payment upon SAR exercise may be in cash, in Shares of equivalent value, or in some combination thereof. If, and to the extent that the payment upon SAR exercise is made in cash, such cash payment shall not be subject to the limitation of Section 4.2(b).

7.6. *__Termination of Employment or Service as a Director__*. The Committee, in its sole discretion, shall set forth in the applicable Award Document the extent to which a Participant shall have the right to exercise the SAR or SARs following termination of his or her employment with the Company or any Subsidiary or following termination of his or her service as a Director. Such provisions need not be uniform among all SARs issued pursuant to the Plan, and may reflect distinctions based on the reasons for such termination, including, but not limited to, termination for Cause or for Good Reason, or reasons relating to the breach or threatened breach of restrictive covenants. Subject to Section 15, in the event that a Participant's Award Document does not set forth such provisions, the following provisions shall apply:

(a) __Long Service Separation, Death or Disability__. If a Participant's employment with the Company and/or any Subsidiary or service as a Director terminates by reason of Long Service Separation, death or Disability, to the extent that the SARs are not exercisable, all of his or her SARs shall immediately become fully vested and shall remain exercisable until the earlier of (i) the remainder of the term of the SAR, or (ii) 60 months from the date of such termination. In the case of the Participant's death, the Participant's beneficiary or estate may exercise the SAR.

(b) __Termination for Cause__. If a Participant's employment with the Company and/or any Subsidiary or service as a Director terminates for Cause, all SARs shall expire immediately and all rights thereunder shall cease upon such termination.

(c) Other Termination. If a Participant's employment with the Company and/or any Subsidiary or service as a Director terminates for any reason other than Long Service Separation, death, Disability, or for Cause, all SARs shall remain exerciseable until the earlier of (i) the remainder of the term of the SAR, or (ii) 60 days from the date of such termination. In such circumstance, the SAR shall only be exercisable to the extent it was exercisable as of such termination date and shall not be exercisable with respect to any additional SARs. Notwithstanding the foregoing or anything herein or in an Award Document to the contrary, the Committee, in its sole discretion, shall have the authority to extend the period during which a SAR is excercisable pursuant to this Section 6.6(c) to a period that is no longer than the earlier of (A) the remainder of the term of the SAR, or (B) 60 months from the date of the Participant's termination of employment.

7.7. *Transferability of SARs.* SARs may only be transferred in accordance with this Section 7.7.

(a) Except as otherwise provided in paragraph (b) below or in an Award Document, no SAR shall be assignable or transferable by a Participant other than by will, by the laws of descent and distribution or pursuant to a Domestic Relations Order (as such term is defined in Section 414(p)(1)(B) of the Code).

(b) SARs held by (i) Participants who are Section 16 Officers; (ii) Participants who are Directors; or (iii) any Participants who previously held the positions in clauses (i) and (ii) may be transferred by gift or by domestic relations order to one or more Permitted Transferees. SARs held by all other Participants and by Permitted Transferees may be transferred by gift or by domestic relations order to Permitted Transferees only upon the prior written approval of the Company's Director of Compensation and Benefits.

(c) Notwithstanding the foregoing, with respect to a Tandem SAR granted in connection with an ISO, no such Tandem SAR may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution.

7.8 *Acceleration of Vesting.* Notwithstanding anything in this Section 7 to the contrary, the Committee, in its sole discretion, shall have the authority to accelerate the vesting of SARs at any time.

Section 8.
Restricted Stock

8.1. *Grant of Restricted Stock*.

(a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock to Participants in such amounts as the Committee shall determine.

(b) Award Document. All shares of Restricted Stock shall be evidenced by an Award Document. The Award Document shall specify the Period or Periods of Restriction (consistent with the next sentence), the number of Shares of Restricted Stock granted, and such other provisions as the Committee shall determine pursuant to Section 8.3 or otherwise, and which shall not be inconsistent with the terms and provisions of the Plan. Shares of Restricted Stock not in excess of five percent of the number of shares that may be issued with respect to Awards of Restricted Stock, as provided in Section 4.1, may have a Period or Periods of Restriction as determined by the Committee in its sole discretion, and any other shares of Restricted Stock shall have a Period of Restriction, as determined by the Committee, that shall not lapse in any respect until on or after the third anniversary of the grant date. If no Period of Restriction is set forth in the Award Document, the transfer and any other restrictions shall lapse (i) to the extent of one-third of the Shares (rounded to the nearest whole) covered by the Restricted Stock Award on the third anniversary of the grant date, (ii) to the extent of two-thirds of the Shares (rounded to the nearest whole) covered by the Restricted Stock Award on the fourth anniversary of the grant date, and (iii) to the extent of 100% of the Shares covered by the Restricted Stock Award on the fifth anniversary of the grant date.

8.2. ***Other Restrictions***. Subject to Section 10 herein, the Committee may impose such other conditions and/or restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including without limitation, a requirement that Shares will not be issued until the end of the applicable Period of Restriction, a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock, restrictions based upon the achievement of specific performance goals (Company-wide, Subsidiary-wide, divisional, and/or individual), time-based restrictions on vesting, which may or may not be following the attainment of the performance goals, sales restrictions under applicable shareholder agreements or similar agreements, and/or restrictions under applicable Federal or state securities laws. The Company shall retain the certificates representing Shares of Restricted Stock in the Company's possession until such time as all conditions and/or restrictions applicable to such Shares have been satisfied. Except as otherwise provided in this Section 8 or in any Award Document, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan shall become freely transferable by the Participant after the last day of the applicable Period of Restriction.

8.3. ***Voting Rights***. Unless otherwise designated by the Committee at the time of grant, Participants to whom Shares of Restricted Stock have been granted hereunder may exercise full voting rights with respect to those Shares during the Period of Restriction.

8.4. ***Dividends and Other Distributions***. Unless otherwise designated by the Committee at the time of grant, Participants holding Shares of Restricted Stock granted hereunder shall be credited with regular cash dividends paid with respect to the underlying Shares while they are so held during the Period of Restriction. The Committee may apply any restrictions to the dividends that the Committee deems appropriate. Without limiting the generality of the preceding sentence, if the grant or vesting of Shares of Restricted Stock granted to a Named Executive Officer is designed to comply with the requirements of the Performance-Based Exception, the Committee may apply any restrictions it deems appropriate to the payment of dividends declared with respect to such Shares of Restricted Stock, such that the dividends and/or the Shares of Restricted Stock maintain eligibility for the Performance-Based Exception. In the event that any dividend constitutes a derivative security or an equity security pursuant to the rules under Section 16 of the Exchange Act, such dividend shall be subject to a vesting period equal to the remaining vesting period of the Shares of Restricted Stock with respect to which the dividend is paid.

8.5. ***Termination of Employment or Service as a Director***. The Committee, in its sole discretion, shall set forth in the applicable Award Document the extent to which the Participant shall have the right to receive unvested Shares of Restricted Stock following termination of the Participant's employment with the Company and/or its Subsidiaries or termination of service as a Director. Such provisions need not be uniform among all Shares of Restricted Stock issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination of employment including; but not limited to, termination of employment for Cause or for Good Reason, or reasons relating to the breach or threatened breach of restrictive covenants; provided, however that, except in the cases of terminations connected with a Change of Control and terminations by reason of death or Disability, the vesting of Shares of Restricted Stock that qualify for the Performance-Based Exception and that are held by Named Executive Officers shall not occur before the time they otherwise would have, but for the employment termination. Subject to Section 15, in the event that a Participant's Award Document does not set forth such termination provisions, the following termination provisions shall apply:

(a) Death and Disability. Unless the Award qualifies for the Performance-Based Exception, if a Participant's employment with the Company and/or any Subsidiary or service as a Director is terminated due to death or Disability, all Shares of Restricted Stock of such Participant shall immediately become fully vested on the date of such termination and any restrictions shall lapse.

(b) Other Termination. If a Participant's employment with the Company and/or any Subsidiary or service as a Director is terminated for any reason other than death or Disability all Shares of Restricted Stock that are unvested at the date of termination shall be forfeited to the Company.

8.6. ***Acceleration of Vesting***. Notwithstanding anything in this Section 8 to the contrary, the Committee, in its sole discretion, shall have the authority to accelerate the vesting of Shares of Restricted Stock at any time.

8.7. ***Transferability***. Except as provided in this Section 8, the Shares of Restricted Stock granted herein may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, voluntarily or involuntarily, until the end of the applicable Period of Restriction established by the Committee and specified in the Award Document, or upon earlier satisfaction of any other conditions, as specified by the Committee in its sole discretion and set forth in the Award Document. All rights with respect to the Restricted Stock granted to a Participant under the Plan shall be available during his or her lifetime only to such Participant.

Section 9.
Performance Units and Performance Shares

9.1. *Grant of Performance Units/Shares*.

(a) Grant of Performance Unit/Shares. Subject to the terms of the Plan, Performance Units and/or Performance Shares may be granted to Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee, which shall not be inconsistent with the terms and provisions of the Plan and shall be set forth in an Award Document.

(b) Award Document. All Performance Units and Performance Shares shall be evidenced by an Award Document. The Award Document shall specify the initial value of the Award, the performance goals and the Performance Period, as the Committee shall determine, and which are not inconsistent with the terms and provisions of the Plan.

9.2. *Value of Performance Units/Shares*. Each Performance Unit shall have an initial value (which may be $0) that is established by the Committee at the time of grant. Each Performance Share shall have an initial value equal to the Fair Market Value of a Share on the grant date. The Committee shall set performance goals in its sole discretion which, depending on the extent to which they are met will determine the number and/or value of Performance Units and/or Performance Shares that will be paid out to the Participant. For purposes of this Section 9, the time period during which the performance goals must be met shall be called a Performance Period. Performance Shares not in excess of five percent of the number of shares that may be issued with respect to Awards of Performance Shares, as provided in Section 4.1, may have a Performance Period as determined by the Committee in its sole discretion, and any other Performance Shares shall have a Performance Period, as determined by the Committee, of not less than one year.

9.3. *Earning of Performance Units/Shares*. Subject to the terms of the Plan, after the applicable Performance Period has ended, the holder of Performance Units and/or Performance Shares shall be entitled to receive payout on the number and value of Performance Units and/or Performance Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance goals have been achieved, as established by the Committee.

9.4. *Form and Timing of Payment of Performance Units/Shares*. Except as provided below, payment of earned Performance Units and/or Performance Shares shall be made in a single lump sum as soon as reasonably practicable following the close of the applicable Performance Period. Subject to the terms of the Plan, the Committee, in its sole discretion, may pay earned Performance Units and/or Performance Shares in the form of cash or in Shares (or in a combination thereof) which have an aggregate Fair Market Value equal to the value of the earned Performance Units and/or Performance Shares at the close of the applicable Performance Period. Such Shares may be granted subject to any restrictions deemed appropriate by the Committee. At the sole discretion of the Committee, Participants may be entitled to receive any dividends declared with respect to Shares which have been earned in connection with grants of Performance Units and/or Performance Shares which have been earned, but not yet distributed to Participants.

9.5. ***Termination of Employment or Service as a Director***. The Committee, in its sole discretion, shall set forth in the applicable Award Document the extent to which the Participant shall have the right to receive payment for Performance Units and/or Performance Shares following termination of the Participant's employment with the Company and/or its Subsidiaries or termination of service as a Director. Such provisions need not be uniform among all Performance Units and/or Performance Shares granted pursuant to the Plan, and may reflect distinctions based on the reasons for such termination including; but not limited to, termination for Cause or for Good Reason, or reasons relating to the breach or threatened breach of restrictive covenants. Subject to Section 15, in the event that a Participant's Award Document does not set forth such termination provisions, the following termination provisions shall apply:

(a) *Long Service Separation, Death or Disability*. Subject to Section 15, if a Participant's employment with the Company and/or any Subsidiary or service as a Director is terminated during a Performance Period due to Long Service Termination, death or Disability, the Participant shall receive a prorated payout of the Performance Units and/or Performance Shares, unless the Committee determines otherwise. The prorated payout shall be determined by the Committee, shall be based upon the length of time that the Participant held the Performance Units and/or Performance Shares during the Performance Period, and shall further be adjusted based on the achievement of the preestablished performance goals. Unless the Committee determines otherwise in the event of a termination due to death, Disability or Long Service Separation, payment of earned Performance Units and/or Performance Shares shall be made at the same time as payments are made to Participants who did not terminate employment during the applicable Performance Period.

(b) Other Termination. If a Participant's employment with the Company and/or any Subsidiary or service as a Director is terminated during a Performance Period for any reason other than Long Service Termination, death or Disability all Performance Units and/or Performance Shares shall be forfeited by the Participant to the Company.

9.6. *Nontransferability*. Except as otherwise provided in a Participant's Award Document, Performance Units and/or Performance Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant's Award Document, a Participant's rights under the Plan shall be exercisable during the Participant's lifetime only by the Participant or the Participant's legal representative.

9.7. *Acceleration of Vesting.* Notwithstanding anything in this Section 9 to the contrary, the Committee, in its sole discretion, shall have the authority to accelerate the vesting of Performance Units and/or Performance Shares at any time.

Section 10.
Performance Measures

10.1. *Performance Measures*. Unless and until the Committee proposes for stockholder vote and stockholders approve a change in the general performance measures set forth in this Section 10, the attainment of which may determine the degree of payout and/or vesting with respect to Awards to Named Executive Officers that are designed to qualify for the Performance-Based Exception, the performance goals to be used for purposes of such grants shall be established by the Committee in writing and stated in terms of the attainment of specified levels of or percentage changes in any one or more of the following measurements: (a) revenue; (b) primary or fully-diluted earnings per Share; (c) earnings before interest, taxes, depreciation, and/or amortization; (d) pretax income; (d) cash flow from operations; (e) total cash flow; (f) return on equity; (g) return on invested capital; (h) return on assets; (i) net operating profits after taxes; (j) economic value added; (k) total stockholder return; (l) return on sales; or (m) any individual performance objective which is measured solely in terms of quantifiable targets related to the Company or the Company's business; or any combination thereof. In addition, such performance goals may be based in whole or in part upon the performance of the Company, a Subsidiary, division and/or other operational unit under one or more of such measures.

10.2. ***Performance Procedures***. The degree of payout and/or vesting of such Awards designed to qualify for the Performance-Based Exception shall be determined based upon the written certification of the Committee as to the extent to which the performance goals and any other material terms and conditions precedent to such payment and/or vesting have been satisfied. The Committee shall have the sole discretion to adjust the determinations of the degree of attainment of the preestablished performance goals; provided, however, that the performance goals applicable to Awards which are designed to qualify for the Performance-Based Exception, and which are held by Named Executive Officers, may not be adjusted so as to increase the payment under the Award (the Committee shall retain the sole discretion to adjust such performance goals upward, or to otherwise reduce the amount of the payment and/or vesting of the Award relative to the pre-established performance goals). In the event that applicable tax and/or securities laws change to permit Committee sole discretion to alter the governing performance measures without obtaining stockholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining stockholder approval. In addition, in the event that the Committee determines that it is advisable to grant Awards which shall not qualify for the Performance-Based Exception, the Committee may make such grants without satisfying the requirements of Code Section 162(m) and, thus, which use performance measures other than those specified above.

Section 11.
Award Forfeitures

11.1. ***Forfeiture of Options and Other Awards***. Each Award granted hereunder shall be subject to the following additional forfeiture conditions, to which the Participant, by accepting an Award hereunder, agrees. If any of the events specified in Section 11.2 occurs (a “Forfeiture Event”), all of the following forfeitures will result:

(a) The unexercised portion of any Option, whether or not vested, and any other Award not then settled (except for an Award that has not been settled solely due to an elective deferral pursuant to Section 13 by the Participant and otherwise is not forfeitable in the event of any termination of service of the Participant) will be immediately forfeited and canceled upon the occurrence of the Forfeiture Event; and

(b) The Participant will be obligated to repay to the Company, in cash, within five business days after demand is made therefor by the Company, the total amount of Award Gain (as defined herein) realized by the Participant upon each exercise of an Option or settlement of an Award (regardless of any elective deferral pursuant to Section 13) that occurred on or after (i) the date that is six months before the occurrence of the Forfeiture Event, if the Forfeiture Event occurred while the Participant was employed by the Company or a Subsidiary, or (ii) the date that is six months before the date the Participant’s employment by, or service as a Director with the Company or a Subsidiary terminated, if the Forfeiture Event occurred after the Participant ceased to be so employed.

11.2. ***Events Triggering Forfeiture***. The forfeitures specified in Section 11.1 will be triggered upon the occurrence of any one of the following Forfeiture Events at any time during the Participant’s employment by or service as a Director with the Company or a Subsidiary or during the one-year period following termination of such employment or service:

(a) Non-Solicitation. The Participant, for his or her own benefit or for the benefit of any other person, company or entity, directly or indirectly, (i) induces or attempts to induce or hires or otherwise counsels, induces or attempts to induce or hire or otherwise counsel, advise, encourage or solicit any person to leave the employment of or the service for the Company or any Subsidiary, (ii) hires or in any manner employs or retains the services of any individual employed by or providing services to the Company or any Subsidiary as of the date of his or her termination of employment, or employed by or providing services to the Company or any Subsidiary subsequent to such termination, (iii) solicits, pursues, calls upon or takes away, any of the customers of the Company or any Subsidiary, (iv) solicits, pursues, calls upon or takes away, any potential customer of the Company or any Subsidiary that has been the subject of a bid, offer or proposal by the Company or any Subsidiary, or of substantial preparation with a view to making such a bid, proposal or offer, within six months before such Participant’s termination of employment with the Company or any Subsidiary, or (v) otherwise interferes with the business or accounts of the Company or any Subsidiary.

(b) Confidential Information. The Participant discloses to any person or entity or makes use of any "confidential or proprietary information" (as defined below in this subparagraph (b)) for his or her own purpose or for the benefit of any person or entity, except as may be necessary in the ordinary course of employment with or other service to the Company or any Subsidiary. Such "confidential or proprietary information" of the Company or any Subsidiary, includes, but is not limited to, the design, development, operation, building or manufacturing of products manufactured and supplied by the Company and its Subsidiaries, the identity of the Company's or any Subsidiary's customers, the identity of representatives of customers with whom the Company or any Subsidiary has dealt, the kinds of services provided by the Company or any Subsidiary to customers and offered to be performed for potential customers, the manner in which such services are performed or offered to be performed, the service needs of actual or prospective customers, pricing information, information concerning the creation, acquisition or disposition of products and services, customer maintenance listings, computer software and hardware applications and other programs, personnel information, information identifying, relating to or concerning investors in the Company or any Subsidiary, joint venture partners of the Company or any Subsidiary, business partners of the Company or any Subsidiary or other entities providing financing to the Company or any Subsidiary, real estate and leasing opportunities, communications and telecommunications operations and processes, zoning and licensing matters, relationships with, or matters involving, landlords and/or property owners, and other trade secrets.

11.3. *Agreement Does Not Prohibit Competition or Other Participant Activities*. Although the conditions set forth in this Section 11 shall be deemed to be incorporated into an Award, the Plan does not thereby prohibit the Participant from engaging in any activity, including but not limited to competition with the Company and its Subsidiaries. Rather, the non-occurrence of the Forfeiture Events set forth in Section 11.2 is a condition to the Participant's right to realize and retain value from his or her compensatory Awards, and the consequence under the Plan if the Participant engages in an activity giving rise to any such Forfeiture Event are the forfeitures specified herein. This provision shall not preclude the Company and the Participant from entering into other written agreements concerning the subject matter of Sections 11.1 and 11.2 and, to the extent any terms of this Section 11 are inconsistent with any express terms of such agreement, this Section 11 shall not be deemed to modify or amend such terms.

11.4. *Committee Discretion*. The Committee may, in its sole discretion, waive in whole or in part the Company's right to forfeiture under this Section 11, but no such waiver shall be effective unless evidenced by a writing signed by a duly authorized officer of the Company. In addition, the Committee may impose additional conditions on Awards, by inclusion of appropriate provisions in the Award Document. Nothing contained herein shall require the Committee to enforce the forfeiture provisions of this Section 11. Failure to enforce these forfeiture provisions against any individual shall not be construed as a waiver of the Company's right to forfeiture under this Section 11.

11.5. *Clawback Provision.* Notwithstanding any other provision of the Plan to the contrary, including Section 16.1 which prohibits material- and adverse changes to any outstanding Award, any Participant who is an officer of the Company whose negligent, intentional or gross misconduct contributes to the Company's having to restate all or a portion of its financial statements, will be required to forfeit Awards granted under this Plan and repay the Company the total amount of Award Gain realized by the Participant upon the exercise of an Option or settlement of an Award, 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. Any Awards granted under this Plan prior to February 14, 2007 are subject to the provisions of this Section 11.5 only with the written consent of the Participant.

Section 12.
Beneficiary Designation

12.1. *Beneficiary Designations*. Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

Section 13.
Deferrals

13.1. ***<u>Deferrals</u>***. The Committee may permit a Participant to defer such Participant's receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant upon the exercise of any Option or by virtue of the lapse or waiver of restrictions with respect to Restricted Stock, or the satisfaction of any requirements or goals with respect to Performance Units/Shares. If any such deferral election is required or permitted, the Committee shall, in its sole discretion, establish rules and procedures for such payment deferrals. All such deferrals (and rules and procedures) shall be consistent with Code Section 409A and any other applicable law.

Section 14.
Rights and Obligations of Parties

14.1. ***<u>No Guarantee of Employment or Service Rights</u>***. Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment at any time, nor confer upon any Participant any right to continue in the employ of the Company or any Subsidiary.

14.2. ***<u>Temporary Absence</u>***. For purposes of the Plan, temporary absence from employment because of illness, vacation, approved leaves of absence, and transfers of employment among the Company and its Subsidiaries, shall not be considered to terminate employment or to interrupt continuous employment.

14.3. ***<u>Participation</u>***. No Employee or Director shall have the right to be selected to receive an Award under the Plan, or, having been so selected, to be selected to receive a future Award.

14.4. ***<u>Right of Setoff</u>***. The Company or any Subsidiary may, to the extent permitted by applicable law, deduct from and set off against any amounts the Company or Subsidiary may owe to the Participant from time to time, including amounts payable in connection with any Award, owed as wages, fringe benefits, or other compensation owed to the Participant, such amounts as may be owed by the Participant to the Company, although the Participant shall remain liable for any part of the Participant's payment obligation not satisfied through such deduction and setoff. By accepting any Award granted hereunder, the Participant agrees to any deduction or setoff under this Section 14.

14.5. ***<u>Section 83(b) Election</u>***. No election under Section 83(b) of the Code (to include in gross income in the year of transfer the amounts specified in Code Section 83(b)) or under a similar provision of the laws of a jurisdiction outside the United States may be made, unless expressly permitted by the terms of the Award Document or by action of the Committee in writing before the making of such election. In any case in which a Participant is permitted to make such an election in connection with an Award, the Participant shall notify the Company of such election within ten days of filing notice of the election with the Internal Revenue Service or other governmental authority, in addition to any filing and notification required pursuant to regulations issued under Code Section 83(b) or other applicable provision.

14.6. ***<u>Disqualifying Disposition Notification</u>***. If any Participant shall make any disposition of Shares delivered pursuant to the exercise of an Incentive Stock Option under the circumstances described in Code Section 421(b) (relating to certain disqualifying dispositions), such Participant shall notify the Company of such disposition within ten days thereof.

Section 15.
Change of Control

15.1. ***<u>Change of Control</u>***. If a Participant's employment or service with the Company and/or any Subsidiary terminates either without Cause or for Good Reason within the 12 month period following a Change of Control, unless otherwise specifically prohibited under applicable laws, or by the rules and regulations of any governing governmental agencies or national securities exchanges:

(a) Any and all Options and SARs granted hereunder shall become immediately exercisable, and shall remain exercisable throughout their entire term;

(b) Any Period of Restriction and other restrictions imposed on Restricted Stock shall lapse; and

(c) Unless otherwise specified in an Award Document, the maximum payout opportunities attainable under all outstanding Awards of Performance Units and Performance Shares shall be deemed to have been fully earned for the entire Performance Period(s) as of the effective date of the Change of Control. The vesting of all such Awards shall be accelerated as of the effective date of the Change of Control, and in full settlement of such Awards, there shall be paid out in cash to Participants within 30 days following the effective date of the Change of Control the maximum of payout opportunities associated with such outstanding Awards.

Section 16.
Amendment, Modification, and Termination

16.1. ***Amendment, Modification, and Termination***. The Board may amend, suspend or terminate the Plan or the Committee's authority to grant Awards under the Plan without the consent of stockholders or Participants; provided, however, that any amendment to the Plan shall be submitted to the Company's stockholders for approval not later than the earliest annual meeting for which the record date is after the date of such Board action if such stockholder approval is required by any federal or state law or regulation or the rules of any stock exchange or automated quotation system on which the Shares may then be listed or quoted and the Board may otherwise, in its sole discretion, determine to submit other amendments to the Plan to stockholders for approval; and provided further, that, without the written consent of an affected Participant, no such Board action may materially and adversely affect the rights of such Participant under any outstanding Award. The Committee shall have no authority to waive or modify any other Award term after the Award has been granted to the extent that the waived or modified term was mandatory under the Plan.

Section 17.
Withholding

17.1. ***Tax Withholding***. The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of the Plan.

17.2. ***Share Withholding***. With respect to withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock, or upon any other taxable event arising as a result of Awards granted hereunder, the withholding requirement shall be satisfied by the Company withholding Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax which would be imposed on the transaction.

Section 18.
Miscellaneous

18.1. ***Unfunded Plan***. The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant or obligation to deliver Shares pursuant to an Award, nothing contained in the Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Company; provided that the Committee may authorize the creation of trusts and deposit therein cash, Shares, other Awards or other property, or make other arrangements to meet the Company's obligations under the Plan. Such trusts or other arrangements shall be consistent with the "unfunded" status of the Plan unless the Committee otherwise determines with the consent of each affected Participant. No such funding shall be established that would cause an amount to be taxable under Code Section 409A before it is received by a Participant or cause an amount to be subject to additional tax under such Section.

18.2. ***Forfeitures; Fractional Shares***. Unless otherwise determined by the Committee, in the event of a forfeiture of an Award with respect to which a Participant paid cash consideration, the Participant shall be repaid the amount of such cash consideration. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards or other property shall be issued or paid in lieu of such fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

18.3. *Compliance with Code Section 162(m)*. The Company intends that Options and SARs granted to Named Executive Officers and other Awards designated as Awards to Named Executive Officers shall constitute qualified "performance-based compensation" within the meaning of Code Section 162(m) and regulations thereunder, unless otherwise determined by the Committee at the time of allocation of an Award. Accordingly, the terms of Sections 4.2, 6, 7, 8.5, 8.6, 9 and 10, including the definitions of Named Executive Officer and other terms used therein, shall be interpreted in a manner consistent with Code Section 162(m) and regulations thereunder. The foregoing notwithstanding, because the Committee cannot determine with certainty whether a given Participant will be a Named Executive Officer with respect to a fiscal year that has not yet been completed, the Committee may, in its discretion, extend the terms of such Sections to any Participant that the Committee deems appropriate. If any provision of the Plan or any Award Document relating to a Performance Award that is designated as intended to comply with Code Section 162(m) does not comply or is inconsistent with the requirements of Code Section 162(m) or regulations thereunder, such provision shall be construed or deemed amended to the extent necessary to conform to such requirements, and no provision shall be deemed to confer upon the Committee or any other person sole discretion to increase the amount of compensation otherwise payable in connection with any such Award upon attainment of the applicable performance objectives.

18.4. *Gender and Number; Headings*. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural. Headings are included for the convenience of reference only and shall not be used in the interpretation or construction of any such provision contained in the Plan.

18.5. *Severability*. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

18.6. *Successors*. All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect merger, consolidation, purchase of all or substantially all of the business and/or assets of the Company or otherwise.

18.7. *Requirements of Law*. The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

18.8. *Securities Law Compliance*. With respect to "insiders," transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee. An "insider" includes any individual who is, on the relevant date, an officer, Director or more than 10% beneficial owner of any class of the Company's equity securities that is registered pursuant to Section 12 of the Exchange Act, all as defined under Section 16 of the Exchange Act.

18.9. *Governing Law*. To the extent not preempted by Federal law, the Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Illinois without regard to the conflict of law provisions thereof.

This Plan Restatement shall be effective December 19, 2008.

CATERPILLAR INC.

DIRECTORS’ CHARITABLE AWARD PROGRAM

(Amended and Restated effective as of April 1, 2008)

1. PURPOSE OF THE PROGRAM

Under the Caterpillar Inc. Directors' Charitable Award Program (the "Program"), Caterpillar Inc. (the "Company") will make a donation of up to $1,000,000 in memory of each eligible Director. The donation will be made by the Company, in the Director's name, in ten equal annual installments, with the first installment to be made as soon as is practicable after the Director's death. Of the total donation amount, 50% will be donated to one or more eligible tax-exempt organizations (the "Donee(s)") recommended by the Director, and the remaining portion of the donation will be made to the Caterpillar Foundation (the "Foundation"). The purpose of the Program is to acknowledge the service of the Company's Directors, recognize the interest of the Company and its Directors in supporting worthy educational institutions and charitable organizations, provide an additional means of support to the Foundation, and enhance the Company's Director benefit program so that the Company is able to continue to attract and retain Directors of the highest caliber.

2. ELIGIBILITY

All persons serving as Directors of the Company as of April 1, 1993 shall be eligible to participate in the Program. All Directors who join the Company's Board of Directors after that date but before April 1, 2008 shall be immediately eligible to participate in the Program upon election to the Board. A Director who joins the Board on or after April 1, 2008 shall not be eligible to participate in the Program.

3. DONATION AMOUNT

While serving as a Director, the donation amount for a Director will be determined based on the Director's months of Board service, in accordance with the following schedule:

MONTHS OF SERVICE	RECOMMENDED CHARITY DONATION	FOUNDATION DONATION
0-11 months	$0	$0
12-23	100,000	100,000
24-35	200,000	200,000
36-47	300,000	300,000
48-59	400,000	400,000
60 or more	500,000	500,000

A Director will continue to be eligible to participate in the program after he or she terminates Board service. The total donation amount in effect on the date a Director's Board service terminates shall be continued based upon his or her months of service on that date. However, notwithstanding this schedule, a Director will be treated as having served for 60 or more months if he or she terminates Board service as a result of disability or mandatory retirement.

In determining a Director's total donation amount, Board service prior to the effective date of the Program (even if it is not continuous service) will be counted.

4. RECOMMENDATION OF DONATION

When a Director becomes eligible to participate in the Program, he or she shall make a written recommendation to the Company, on a form approved by the Company for this purpose, designating the Donee(s) which he or she intends to be the recipient(s) of the Company donation to be made on his or her behalf. A Director may revise or revoke any such recommendation prior to his or her death by signing a new recommendation form and submitting it to the Company. Each eligible Director may choose one Donee to receive a Company donation of $500,000, or up to five Donees to receive donations aggregating $500,000. Each recommended Donee must be recommended to receive a donation of at least $100,000.

5. TIMING AND PAYMENT OF DONATION

The donation made on a Director's behalf will be made by the Company in ten equal annual installments, with the first installment to be made as soon as is practicable after the Director's death. The first five installments (the Donee installments) will be donated to the Donee(s) recommended by the Director, and the last five installments (the Foundation installments) will be donated to the Foundation. If a Director recommends more than one Donee to receive a donation, each will receive a prorated portion of each Donee installment, unless otherwise requested by the Director and approved by the Company. If a Donee is not in existence or is not an eligible tax-exempt organization at the time of payment, then the portion otherwise payable to that Donee will instead be paid to the other qualified Donees recommended by the Director in proportion to their respective shares or, if none, to the Foundation.

6. DONEES

In order to be eligible to receive a donation, a recommended organization must be an educational institution or charitable organization described in Sections 170(b) and 2055(a) of the Internal Revenue Code, or any successor provision, and must initially, and at the time a donation is to be made, qualify to receive tax-deductible donations under the Internal Revenue Code. Also, the organization must be reviewed and approved by the Vice President and Manager of the Foundation. An organization will be approved unless it is determined, in the exercise of good faith judgment, that a donation to the organization would be detrimental to the best interests of the Company. Private foundations (except for the Foundation) are not eligible to receive donations under the Program.

7. FUNDING AND PROGRAM ASSETS

The Company may fund the Program or it may choose not to fund the Program. If the Company elects to fund the Program in any manner, neither the Directors nor their recommended Donee(s) shall have any rights or interests in any assets of the Company identified for such purpose. Nothing contained in the Program shall create, or be deemed to create, a trust, actual or constructive, for the benefit of a Director or any Donee recommended by a Director to receive a donation, or shall give, or be deemed to give, any Director or recommended Donee any personal financial interest in or tax benefit from any assets of the Program or the Company. If the Company elects to fund the Program through life insurance policies, a participating Director must cooperate and fulfill the enrollment requirements necessary to obtain insurance on his or her life.

8. AMENDMENT OR TERMINATION

The Board of Directors of the Company may, at any time, without the consent of the Directors participating in the Program, amend, suspend, or terminate the Program.

9. ADMINISTRATION

The Program shall be administered by the Company. The Company shall have plenary authority in its discretion, but subject to the provisions of the Program, to prescribe, amend, and rescind rules, regulations and procedures relating to the Program. The Company shall have sole discretion to construe and interpret the terms of the Program and to resolve all questions arising under the Program. The determinations of the Company on the foregoing matters shall be conclusive and binding on all interested parties.

It is intended that the benefits under this Program do not result in taxable compensation to any Director or provide for a deferral of compensation that is subject to Section 409A of the Internal Revenue Code, or any successor provision.

10. GOVERNING LAW

The Program shall be construed and enforced according to the laws of the State of Illinois, and all provisions thereof shall be administered according to the laws of said State.

11. EFFECTIVE DATE

The Program was originally effective as of April 1, 1993. The effective date of the amended and restated Program is April 1, 2008. The recommendation of an individual Director will be effective when he or she completes all enrollment requirements.

EXHIBIT 11

CATERPILLAR INC.
AND ITS SUBSIDIARIES

COMPUTATIONS OF EARNINGS PER SHARE

FOR THE YEARS ENDED DECEMBER 31,

(Dollars in millions except per share data)

	2008	2007	2006
Profit for the period (A):	$ 3,557	$ 3,541	$ 3,537
Determination of shares (in millions):			
Weighted average number of common shares outstanding (B)	610.5	638.2	658.7
Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price	17.4	21.3	25.1
Average common shares outstanding for fully diluted computation (C)	627.9	659.5	683.8
Profit per share of common stock:			
Assuming no dilution (A/B)	$ 5.83	$ 5.55	$ 5.37
Assuming full dilution (A/C)	$ 5.66	$ 5.37	$ 5.17
Shares outstanding as of December 31 (in millions)	601.5	624.0	645.8

EXHIBIT 12

CATERPILLAR INC.
AND CONSOLIDATED SUBSIDIARIES

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
(Millions of dollars)

YEARS ENDED DECEMBER 31,

	2008	2007	2006	2005	2004
Earnings [1]	$ 4,501	$ 4,990	$ 4,890	$ 3,910	$ 2,714
Plus: Interest expense	1,427	1,420	1,297	1,028	754
One-third of rental expense [2]	133	119	105	85	74
Adjusted Earnings	6,061	6,529	6,292	5,023	3,542
Fixed charges:					
Interest expense [3]	1,427	1,420	1,297	1,028	754
Capitalized interest	27	15	10	11	8
One-third of rental expense [2]	133	119	105	85	74
Total fixed charges	$ 1,587	$ 1,554	$ 1,412	$ 1,124	$ 836
Ratio of earnings to fixed charges	3.8	4.2	4.5	4.5	4.2

[1] Pretax income from continuing operations before adjustment for minority interests and equity investments' profit

[2] Considered to be representative of interest factor in rental expense

[3] Does not include interest on FIN 48 liabilities and other non-third-party indebtedness

EXHIBIT 13

CATERPILLAR INC.
GENERAL AND FINANCIAL INFORMATION
2008

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Caterpillar Inc. (company) is responsible for establishing and maintaining adequate internal control over financial reporting. 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, 2008. 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, 2008, the company's internal control over financial reporting was effective based on those criteria.

Management has excluded Caterpillar Japan Ltd. from our assessment of internal control over financial reporting as of December 31, 2008 because Caterpillar Japan Ltd. was consolidated by the company on August 1, 2008. Caterpillar Japan Ltd. is a 67 percent owned subsidiary of the company with total assets and total revenues representing 5% and less than 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2008. Prior to consolidation, the company accounted for its investment in this entity under the equity method.

The effectiveness of the company's internal control over financial reporting as of December 31, 2008 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Their report appears on page A-4.

/s/ James W. Owens
James W. Owens
Chairman of the Board
and Chief Executive Officer

/s/ David B. Burritt
David B. Burritt
Vice President and
Chief Financial Officer

February 19, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PRICEWATERHOUSECOOPERS

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

In our opinion, the accompanying consolidated statement of financial position and the related statements of consolidated results of operations, changes in stockholders' equity, and cash flow, including pages A-5 through A-60, present fairly, in all material respects, the financial position of Caterpillar Inc. and its subsidiaries at December 31, 2008, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 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, 2008, 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.

As discussed in Note 1K to the consolidated financial statements, the Company changed the manner in which it measures certain assets and liabilities at fair value in 2008, the manner in which it accounts for uncertainty in income taxes in 2007, and the manner in which it accounts for defined benefit pension and other postretirement plans, effective December 31, 2006.

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 Caterpillar Japan Ltd. from its assessment of internal control over financial reporting as of December 31, 2008 because Caterpillar Japan Ltd. was consolidated by the Company on August 1, 2008. We have also excluded Caterpillar Japan Ltd. from our audit of internal control over financial reporting. Caterpillar Japan Ltd. is a 67 percent owned subsidiary of the Company with total assets and total revenues representing 5% and less than 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2008. Prior to consolidation, the Company accounted for its investment in this entity under the equity method.

/s/ PricewaterhouseCoopers LLP

Peoria, Illinois
February 19, 2009

STATEMENT 1 Caterpillar Inc.

Consolidated Results of Operations for the Years Ended December 31
(Dollars in millions except per share data)

	2008	2007	2006
Sales and revenues:			
Sales of Machinery and Engines	$ 48,044	$ 41,962	$ 38,869
Revenues of Financial Products	3,280	2,996	2,648
Total sales and revenues	51,324	44,958	41,517
Operating costs:			
Cost of goods sold	38,415	32,626	29,549
Selling, general and administrative expenses	4,399	3,821	3,706
Research and development expenses	1,728	1,404	1,347
Interest expense of Financial Products	1,153	1,132	1,023
Other operating (income) expenses	1,181	1,054	971
Total operating costs	46,876	40,037	36,596
Operating profit	4,448	4,921	4,921
Interest expense excluding Financial Products	274	288	274
Other income (expense)	299	320	214
Consolidated profit before taxes	4,473	4,953	4,861
Provision for income taxes	953	1,485	1,405
Profit of consolidated companies	3,520	3,468	3,456
Equity in profit (loss) of unconsolidated affiliated companies	37	73	81
Profit	$ 3,557	$ 3,541	$ 3,537
Profit per common share	$ 5.83	$ 5.55	$ 5.37
Profit per common share – diluted [1]	$ 5.66	$ 5.37	$ 5.17
Weighted-average common shares outstanding (millions)			
- Basic	610.5	638.2	658.7
- Diluted [1]	627.9	659.5	683.8
Cash dividends declared per common share	$ 1.62	$ 1.38	$ 1.15

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

See accompanying notes to Consolidated Financial Statements.

STATEMENT 2 Caterpillar Inc.

Consolidated Financial Position at December 31

(Dollars in millions)

	2008	2007	2006
Assets			
Current assets:			
Cash and short-term investments	$ 2,736	$ 1,122	$ 530
Receivables – trade and other	9,397	8,249	8,607
Receivables – finance	8,731	7,503	6,804
Deferred and refundable income taxes	1,223	816	733
Prepaid expenses and other current assets	765	583	638
Inventories	8,781	7,204	6,351
Total current assets	31,633	25,477	23,663
Property, plant and equipment – net	12,524	9,997	8,851
Long-term receivables – trade and other	1,479	685	860
Long-term receivables – finance	14,264	13,462	11,531
Investments in unconsolidated affiliated companies	94	598	562
Noncurrent deferred and refundable income taxes	3,311	1,553	1,949
Intangible assets	511	475	387
Goodwill	2,261	1,963	1,904
Other assets	1,705	1,922	1,742
Total assets	$ 67,782	$ 56,132	$ 51,449
Liabilities			
Current liabilities:			
Short-term borrowings:			
Machinery and Engines	$ 1,632	$ 187	$ 165
Financial Products	5,577	5,281	4,990
Accounts payable	4,827	4,723	4,085
Accrued expenses	4,121	3,178	2,923
Accrued wages, salaries and employee benefits	1,242	1,126	938
Customer advances	1,898	1,442	921
Dividends payable	253	225	194
Other current liabilities	1,027	951	1,145
Long-term debt due within one year:			
Machinery and Engines	456	180	418
Financial Products	5,036	4,952	4,043
Total current liabilities	26,069	22,245	19,822
Long-term debt due after one year:			
Machinery and Engines	5,736	3,639	3,694
Financial Products	17,098	14,190	13,986
Liability for postemployment benefits	9,975	5,059	5,879
Other liabilities	2,293	2,116	1,209
Total liabilities	61,171	47,249	44,590
Commitments and contingencies (Notes 22 and 23)			
Redeemable noncontrolling interest (Note 25)	524	—	—
Stockholders' equity			
Common stock of $1.00 par:			
Authorized shares: 900,000,000			
Issued shares: (2008, 2007 and 2006 – 814,894,624) at paid-in amount	3,057	2,744	2,465
Treasury stock (2008 – 213,367,983 shares; 2007 – 190,908,490 shares and 2006 – 169,086,448 shares) at cost	(11,217)	(9,451)	(7,352)
Profit employed in the business	19,826	17,398	14,593
Accumulated other comprehensive income	(5,579)	(1,808)	(2,847)
Total stockholders' equity	6,087	8,883	6,859
Total liabilities, redeemable noncontrolling interest and stockholders' equity	$ 67,782	$ 56,132	$ 51,449

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)

				Accumulated other comprehensive income (loss)				
	Common stock	Treasury stock	Profit employed in the business	Foreign currency translation	Pension & other post-retirement benefits[1]	Derivative financial instruments and other	Available-for-sale securities	Total
Balance at December 31, 2005	$ 1,859	$ (4,637)	$ 11,808	$ 302	$ (934)	$ 18	$ 16	$ 8,432
Profit	—	—	3,537	—	—	—	—	3,537
Foreign currency translation	—	—	—	169	—	—	—	169
Minimum pension liability adjustment, net of tax of $97	—	—	—	—	229	—	—	229
Derivative financial instruments and other								
Gains (losses) deferred, net of tax of $40	—	—	—	—	—	73	—	73
(Gains) losses reclassified to earnings, net of tax of $26	—	—	—	—	—	(43)	—	(43)
Available-for-sale securities								
Gains (losses) deferred, net of tax of $8	—	—	—	—	—	—	17	17
(Gains) losses reclassified to earnings, net of tax of $12	—	—	—	—	—	—	(23)	(23)
Comprehensive income								3,959
Incremental adjustment to adopt SFAS 158, net of tax of $1,494	—	—	—	—	(2,671)	—	—	(2,671)
Dividends declared	—	—	(752)	—	—	—	—	(752)
Common shares issued from treasury stock for stock-based compensation: 15,207,055	73	341	—	—	—	—	—	414
Stock-based compensation expense	137	—	—	—	—	—	—	137
Tax benefits from stock-based compensation	170	—	—	—	—	—	—	170
Shares repurchased: 45,608,000	—	(3,208)	—	—	—	—	—	(3,208)
Shares issued for Progress Rail Services, Inc. acquisition: 5,341,902	226	152	—	—	—	—	—	378
Balance at December 31, 2006	$ 2,465	$ (7,352)	$ 14,593	$ 471	$ (3,376)	$ 48	$ 10	$ 6,859
Adjustment to adopt FIN 48	—	—	141	—	—	—	—	141
Balance at January 1, 2007	2,465	(7,352)	14,734	471	(3,376)	48	10	7,000
Profit	—	—	3,541	—	—	—	—	3,541
Foreign currency translation	—	—	—	278	—	—	—	278
Pension and other postretirement benefits								
Current year actuarial gain/(loss), net of tax of $271	—	—	—	—	537	—	—	537
Amortization of actuarial (gain)/loss, net of tax of $123	—	—	—	—	228	—	—	228
Current year prior service cost, net of tax of $1	—	—	—	—	(2)	—	—	(2)
Amortization of prior service cost, net of tax of $10	—	—	—	—	17	—	—	17
Amortization of transition asset/obligation, net of tax of $1	—	—	—	—	2	—	—	2
Derivative financial instruments and other								
Gains (losses) deferred, net of tax of $27	—	—	—	—	—	51	—	51
(Gains) losses reclassified to earnings, net of tax of $45	—	—	—	—	—	(80)	—	(80)
Available-for-sale securities								
Gains (losses) deferred, net of tax of $8	—	—	—	—	—	—	14	14
(Gains) losses reclassified to earnings, net of tax of $3	—	—	—	—	—	—	(6)	(6)
Comprehensive income								4,580
Dividends declared	—	—	(877)	—	—	—	—	(877)
Common shares issued from treasury stock for stock-based compensation: 11,710,958	22	306	—	—	—	—	—	328
Stock-based compensation expense	146	—	—	—	—	—	—	146
Tax benefits from stock-based compensation	167	—	—	—	—	—	—	167
Shares repurchased: 33,533,000	—	(2,405)	—	—	—	—	—	(2,405)
Stock repurchase derivative contracts	(56)	—	—	—	—	—	—	(56)
Balance at December 31, 2007	$ 2,744	$ (9,451)	$ 17,398	$ 749	$ (2,594)	$ 19	$ 18	$ 8,883

(Continued)

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

(Dollars in millions)

				Accumulated other comprehensive income (loss)				
	Common stock	Treasury stock	Profit employed in the business	Foreign currency translation	Pension & other post-retirement benefits[1]	Derivative financial instruments and other	Available-for-sale securities	Total
Balance at December 31, 2007	$ 2,744	$ (9,451)	$ 17,398	$ 749	$ (2,594)	$ 19	$ 18	$ 8,883
Adjustment to adopt measurement date provisions of FAS 158, net of tax [2]	—	—	(33)	—	17	—	—	(16)
Balance at January 1, 2008	2,744	(9,451)	17,365	749	(2,577)	19	18	8,867
Profit	—	—	3,557	—	—	—	—	3,557
Foreign currency translation, net of tax of $133	—	—	—	(488)	—	—	—	(488)
Pension and other postretirement benefits								
Current year actuarial gain/(loss), net of tax of $1,854	—	—	—	—	(3,415)	—	—	(3,415)
Amortization of actuarial (gain)/loss, net of tax of $84	—	—	—	—	150	—	—	150
Current year prior service cost, net of tax of $5	—	—	—	—	(9)	—	—	(9)
Amortization of transition asset/obligation, net of tax of $1	—	—	—	—	2	—	—	2
Derivative financial instruments and other								
Gains (losses) deferred, net of tax of $54	—	—	—	—	—	78	—	78
(Gains) losses reclassified to earnings, net of tax of $6	—	—	—	—	—	(9)	—	(9)
Available-for-sale securities								
Gains (losses) deferred, net of tax of $67	—	—	—	—	—	—	(125)	(125)
(Gains) losses reclassified to earnings, net of tax of $15	—	—	—	—	—	—	28	28
Comprehensive income								(231)
Dividends declared	—	—	(981)	—	—	—	—	(981)
Common shares issued from treasury stock for stock-based compensation: 4,807,533	7	128	—	—	—	—	—	135
Stock-based compensation expense	194	—	—	—	—	—	—	194
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)					(115)
Balance at December 31, 2008	$ 3,057	$ (11,217)	$ 19,826	$ 261	$ (5,849)	$ 88	$ (79)	$ 6,087

[1] Pension and other postretirement benefits include net adjustments for Cat Japan Ltd, while they were an unconsolidated affiliate, of $(9) million and $(6) million in 2007 and 2006, respectively. The ending balances are $(52) million and $(43) million as of December 31, 2007 and 2006, respectively. See Note 25 regarding the Cat Japan share redemption.

[2] Adjustments to profit employed in the business and pension and other postemployment benefits were net of tax of $(17) million and $9 million, respectively.

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

[4] See Note 25 regarding the Cat Japan share redemption.

See accompanying notes to Consolidated Financial Statements.

STATEMENT 4 Caterpillar Inc.

Consolidated Statement of Cash Flow for the Years Ended December 31

(Millions of dollars)

	2008	2007	2006
Cash flow from operating activities:			
Profit	$ 3,557	$ 3,541	$ 3,537
Adjustments for non-cash items:			
Depreciation and amortization	1,980	1,797	1,602
Other	383	199	197
Changes in assets and liabilities:			
Receivables – trade and other	(545)	899	(148)
Inventories	(833)	(745)	(827)
Accounts payable and accrued expenses	656	618	670
Customer advances	286	576	511
Other assets – net	(470)	66	(262)
Other liabilities – net	(227)	984	519
Net cash provided by (used for) operating activities	4,787	7,935	5,799
Cash flow from investing activities:			
Capital expenditures – excluding equipment leased to others	(2,445)	(1,700)	(1,593)
Expenditures for equipment leased to others	(1,566)	(1,340)	(1,082)
Proceeds from disposals of property, plant and equipment	982	408	572
Additions to finance receivables	(14,031)	(13,946)	(10,522)
Collections of finance receivables	9,717	10,985	8,094
Proceeds from sale of finance receivables	949	866	1,067
Investments and acquisitions (net of cash acquired)	(117)	(229)	(513)
Proceeds from release of security deposit	—	290	—
Proceeds from sale of available-for-sale securities	357	282	539
Investments in available-for-sale securities	(339)	(485)	(681)
Other – net	197	461	323
Net cash provided by (used for) investing activities	(6,296)	(4,408)	(3,796)
Cash flow from financing activities:			
Dividends paid	(953)	(845)	(726)
Common stock issued, including treasury shares reissued	135	328	414
Payment for stock repurchase derivative contracts	(38)	(56)	—
Treasury shares purchased	(1,800)	(2,405)	(3,208)
Excess tax benefit from stock-based compensation	56	155	169
Proceeds from debt issued (original maturities greater than three months):			
— Machinery and Engines	1,673	224	1,445
— Financial Products	16,257	10,815	9,824
Payments on debt (original maturities greater than three months):			
— Machinery and Engines	(296)	(598)	(839)
— Financial Products	(14,143)	(10,290)	(9,536)
Short-term borrowings (original maturities three months or less) – net	2,074	(297)	(136)
Net cash provided by (used for) financing activities	2,965	(2,969)	(2,593)
Effect of exchange rate changes on cash	158	34	12
Increase (decrease) in cash and short-term investments	1,614	592	(578)
Cash and short-term investments at beginning of period	1,122	530	1,108
Cash and short-term investments at end of period	$ 2,736	$ 1,122	$ 530

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:

On June 19, 2006, Caterpillar acquired 100 percent of the equity in Progress Rail Services, Inc. A portion of the acquisition was financed with 5.3 million shares of Caterpillar stock with a fair value of $379 million as of the acquisition date. See Note 25 for further discussion.

See accompanying 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-scrapers, track and wheel excavators, backhoe loaders, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, skid steer loaders and related parts. Also includes logistics services for other companies and the design, manufacture, remanufacture, maintenance and services of rail-related products.

(2) Engines— A principal line of business including the design, manufacture, marketing and sales of engines for Caterpillar machinery; electric power generation systems; on-highway vehicles and locomotives; marine, petroleum, construction, industrial, agricultural and other applications; and related parts. Also includes remanufacturing of Caterpillar engines and a variety of Caterpillar machine and engine components and remanufacturing services for other companies. Reciprocating engines meet power needs ranging from 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), Caterpillar Power Ventures Corporation (Cat Power Ventures) and their respective subsidiaries. Cat Financial provides a wide range of financing alternatives to customers and dealers for Caterpillar machinery and engines, Solar gas turbines as well as other equipment and marine vessels. Cat Financial also extends loans to customers and dealers. Cat Insurance provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment. Cat Power Ventures is an investor in independent power projects using Caterpillar power generation equipment and services.

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

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

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), 52 located in the United States and 128 located outside the United States. Worldwide, these dealers serve 182 countries and operate 3,537 places of business, including 1,467 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 131 distributors located in 172 countries. The FG Wilson branded electric power generation systems are sold through a worldwide network of 157 dealers located in 180 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 and large medium speed reciprocating engines 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 99 plants in the United States; 13 in the United Kingdom; nine in Italy; eight in China and Mexico; five each in Canada and France; Four in Brazil; three each in Australia, India, and Poland; two each in Germany, Indonesia, Japan, the Netherlands and Northern Ireland; and one each in Belgium, Hungary, Malaysia, Nigeria, Russia, South Africa, Sweden, Switzerland and Tunisia. Thirteen parts distribution centers are located in the United States and 16 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 Asia, Australia, Canada, Europe and Latin America.

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 11).

We consolidate all variable interest entities where Caterpillar Inc. is the primary beneficiary. For variable interest entities, we assess whether we are the primary beneficiary as prescribed by FASB Interpretation 46R, “Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51” (FIN 46R). The primary beneficiary of a variable interest entity is the party that absorbs a majority of the entity’s expected losses, receives a majority of its expected residual returns, or both.

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 expense primarily includes 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 and employee separation charges.

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, while at December 31, 2006, this line included a security deposit of $249 million related to a deposit obligation due in 2007. See Note 16 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.

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 and original equipment manufacturers (OEM) through merchandising programs that are administered by our marketing divisions. We have numerous programs that are designed to promote the sale of our products. The most common dealer programs provide a discount when the dealer sells a product to a targeted end user. OEM programs provide discounts designed to encourage the use of our engines. The cost of 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 2008 terms were extended to not more than one year for $544 million of receivables, which represent approximately 1% of consolidated sales. In 2007 and 2006, terms were extended to not more than one year for $219 million and $49 million of receivables, respectively, which represent less than 1% of consolidated sales.

Sales with payment terms of two months or more were as follows:

	(Dollars in millions)					
	2008		2007		2006	
Payment Terms (months)	Sales	Percent of Sales	Sales	Percent of Sales	Sales	Percent of Sales
2	$ 4,130	8.6%	$ 2,830	6.8%	$ 2,557	6.6%
3	2,786	5.8%	2,067	4.9%	711	1.8%
4	866	1.8%	526	1.3%	336	0.9%
5	1,062	2.2%	965	2.3%	1,222	3.1%
6	561	1.2%	4,549	10.8%	8,583	22.1%
7-12	4,469	9.3%	293	0.7%	274	0.7%
	$ 13,874	28.9%	$ 11,230	26.8%	$ 13,683	35.2%

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 Notes 7 and 8 for more information.

Sales and revenue recognition items 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, 2008, and about 75% of total inventories at December 31, 2007 and 2006.

If the FIFO (first-in, first-out) method had been in use, inventories would have been $3,183 million, $2,617 million and $2,403 million higher than reported at December 31, 2008, 2007 and 2006, respectively.

E. Securitized receivables

We periodically sell finance receivables in securitization transactions. When finance receivables are securitized, we retain interests in the receivables in the form of subordinated certificates, an interest in future cash flows (excess), reserve accounts and servicing rights. The retained interests are recorded in "Other assets" at fair value. We estimate fair value based on the present value of future expected cash flows using key assumptions for credit losses, prepayment rates and discount rates. See Note 8 and Note 19 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 2008, 2007 and 2006, Cat Financial depreciation on equipment leased to others was $724 million, $671 million and $631 million, respectively, and was included in "Other operating expenses" in Statement 1. In 2008, 2007 and 2006 consolidated depreciation expense was $1,907 million, $1,725 million and $1,554 million, respectively. Amortization of purchased 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 equity basis companies 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" 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. 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.

Payments for stock repurchase derivatives are accounted for as a reduction in stockholders' equity. All other derivatives are recognized on the Consolidated Financial Position 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 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 other comprehensive income until earnings are affected by the forecasted transaction or the variability of cash flow and are then reported in current earnings. Changes in the fair value of undesignated derivative instruments and the ineffective portion of designated derivative instruments are reported in current earnings. Cash flows from designated derivative financial instruments are classified within the same category as the item being hedged on Statement 4. Cash flows 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 on the Consolidated Financial Position and linking cash flow hedges to specific forecasted transactions or variability of cash flow.

We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flow of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, we discontinue hedge accounting prospectively, in accordance with Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities." See Note 3 for more information.

I. Income taxes

The provision for income taxes is determined using the asset and liability approach for accounting for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes." 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, postemployment benefits, post-sale discounts, credit losses and income taxes.

K. New accounting standards

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

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

FIN 48 – In June 2006, the FASB issued FIN 48 "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies that a tax position must be more likely than not of being sustained before being recognized in the financial statements. As required, we adopted the provisions of FIN 48 as of January 1, 2007. The following table summarizes the effect of the initial adoption of FIN 48. See Note 5 for additional information.

Initial adoption of FIN 48

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

SFAS 157 – In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), "Fair Value Measurements." SFAS 157 provides a common definition of fair value and a framework for measuring assets and liabilities at fair values when a particular standard prescribes it. In addition, the Statement expands disclosures about fair value measurements. In February 2008, the FASB issued final Staff Positions that (1) deferred the effective date of this Statement for one year for certain nonfinancial assets and nonfinancial liabilities (see below) and (2) removed certain leasing transactions from the scope of the Statement. We applied this new accounting standard to all other fair value measurements effective January 1, 2008. The adoption of SFAS 157 did not have a material impact on our financial statements. See Note 19 for additional information.

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

FSP 157-3 – In October 2008, the FASB issued FASB Staff Position on Statement 157 "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" (FSP 157-3). FSP 157-3 clarifies how SFAS 157 should be applied when valuing securities in markets that are not active by illustrating key considerations in determining fair value. It also reaffirms the notion of fair value as the exit price as of the measurement date. FSP 157-3 was effective upon issuance, which included periods for which financial statements have not yet been issued. This new accounting standard has been adopted for our financial statements starting July 1, 2008. The adoption of FSP 157-3 did not have a material impact on our financial statements.

SFAS 158 – In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 (SFAS 158), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132R." SFAS 158 requires recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, gains and losses, prior service costs and credits and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost are recognized in Accumulated other comprehensive income (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.

As required by SFAS 158, we adopted the balance sheet recognition provisions at December 31, 2006. SFAS 87 required the recognition of an additional minimum liability (AML) if the market value of plan assets was less than the accumulated benefit obligation at the end of the measurement date. The AML was eliminated upon the adoption of SFAS 158. The following summarizes the effect of the required changes in the AML, as well as the impact of the initial adoption of SFAS 158, as of December 31, 2006. See Note 14 for additional information regarding postemployment benefits.

Initial adoption of SFAS 158

(Millions of dollars)	December 31, 2006 Prior to AML and SFAS 158 Adjustments	AML Adjustment per SFAS 87	SFAS 158 Adjustment	December 31, 2006 Post AML and SFAS 158 Adjustments
Prepaid expenses and other current assets	$ 2,467	$ —	$ (1,829)	$ 638
Investments in unconsolidated affiliated companies	568	—	(6)	562
Deferred income taxes	552	(97)	1,494	1,949
Intangible assets	639	(60)	(192)	387
Accrued wages, salaries and employee benefits	1,440	—	(502)	938
Liability for postemployment benefits	3,625	(386)	2,640	5,879
Accumulated other comprehensive income	(405)	229	(2,671)	(2,847)

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 14 for additional information.

Adoption of SFAS 158 year-end measurement date

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

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

SFAS 141R and SFAS 160 – In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007) (SFAS 141R), "Business Combinations," and No. 160 (SFAS 160), "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." SFAS 141R requires the acquiring entity in a business combination to recognize the assets acquired and liabilities assumed. Further, SFAS 141R also changes the accounting for acquired in-process research and development assets, contingent consideration, partial acquisitions and transaction costs. Under SFAS 160, all entities are required to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. In addition, transactions between an entity and noncontrolling interests will be treated as equity transactions. SFAS 141R and SFAS 160 will become effective for fiscal years beginning after December 15, 2008. We will adopt these new accounting standards on January 1, 2009. We do not expect the adoption to have a material impact on our financial statements.

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

SFAS 162 – In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162 (SFAS 162), "The Hierarchy of Generally Accepted Accounting Principles." SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. SFAS 162 was effective November 16, 2008. This Statement did not result in a change in our current practice.

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

FSP FAS 140-4 and FIN 46R-8 – In December 2008, the FASB issued FASB Staff Position on Statement 140 and FIN 46R "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities" (FSP FAS 140-4 and FIN 46R-8). This FSP expands the disclosure requirements in SFAS 140 and FIN 46R by requiring additional information about companies' involvement with variable interest entities (VIEs) and their continuing involvement with transferred financial assets. This new accounting standard has been adopted for our financial statements ended December 31, 2008. The adoption of FSP FAS 140-4 and FIN 46R-8 did not have a material impact on our financial statements.

FSP FAS 132R-1 – In December 2008, the FASB issued FASB Staff Position on Statement 132R, "Employers' Disclosures about Postretirement Benefit Plan Assets" (FSP FAS 132R-1). This FSP expands the disclosure set forth in SFAS 132R 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, the FSP requires an employer to disclose information about the valuation of plan assets similar to that required under SFAS 157. This new accounting standard will become effective for fiscal years ending after December 15, 2009. We will adopt this new accounting standard on January 1, 2009. We do not expect the adoption to have a material impact on our financial statements.

FSP EITF 99-20-1 – In January 2009, the FASB issued FASB Staff Position on EITF Issue No. 99-20, "Amendments to the Impairment Guidance of EITF Issue No. 99-20" (FSP EITF 99-20-1). FSP EITF 99-20-1 aligns the impairment guidance in EITF Issue No. 99-20 with that in Statement of Financial Accounting Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities." It changes how companies determine whether an other-than-temporary impairment exists for certain beneficial interests by allowing management to exercise more judgment. This new accounting standard has been adopted for our financial statements ended December 31, 2008. The adoption of FSP EITF 99-20-1 did not have a material impact on our financial statements.

L. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. We account for goodwill in accordance with Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets," which requires that we 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.

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 compute using a discounted cash flow analysis, 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.

M. Stock-based compensation

On January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004) (SFAS 123R), "Share-Based Payment" using the modified prospective transition method. SFAS 123R requires all stock–based payments to be recognized in the financial statements based on the grant date fair value of the award. Under the modified prospective transition method, we were required to record stock-based compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards outstanding as of the date of adoption. See Note 2 for additional information regarding stock-based compensation.

2. Stock-based compensation

Stock Incentive Plans

In 1996, stockholders approved the Stock Option and Long-Term Incentive Plan (the 1996 Plan), which expired in April of 2006. The 1996 Plan reserved 144 million shares of common stock for issuance (128 million under this plan and 16 million under prior plans). On June 14, 2006, stockholders approved the 2006 Caterpillar Long-Term Incentive Plan (the 2006 Plan). The 2006 non-employee Directors' grant was issued from this plan. The 2006 Plan reserves 37.6 million shares for issuance (20 million under the 2006 Plan and 17.6 million transferred from the 1996 Plan). The 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. Prior to 2007, the terms of the 1996 Stock Option and Long-Term Incentive Plan (which expired in April of 2006) provided for the exercise price methodology to be the average of the high and low price of our stock on the date of grant. In 2007, under the terms of the Caterpillar Inc. 2006 Long-Term Incentive Plan (approved by stockholders in June of 2006), the Compensation Committee approved the exercise price methodology to be the closing price of the Company stock on the date of the grant.

Common stock issued from Treasury stock under the plans totaled 4,807,533 for 2008, 11,710,958 for 2007 and 15,207,055 for 2006.

In 2007, in order to align our stock award program with the overall market, we adjusted our 2007 grant by reducing the overall number of employee awards and utilizing RSUs in addition to the SARs and option awards. The 2008, 2007 and 2006 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. With the adoption of SFAS 123R, 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.

SFAS 123R requires companies to estimate the fair value of options/SARs on the date of grant using an option-pricing model. In 2008, 2007 and 2006, 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, 2008, 2007 and 2006, respectively.

	Grant Year		
	2008	2007	2006
Weighted-average dividend yield	1.89%	1.68%	1.79%
Weighted-average volatility	27.14%	26.04%	26.79%
Range of volatilities	27.13-28.99%	26.03-26.62%	26.56-26.79%
Range of risk-free interest rates	1.60-3.64%	4.40-5.16%	4.34-4.64%
Weighted-average expected lives	8 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, 2008, 2007 and 2006 did not have a significant impact on our financial statements.

At December 31, 2008, there was $136 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 1.8 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

	2008		2007		2006	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Stock options/SARs activity:						
Outstanding at beginning of year	60,855,854	$ 42.18	68,880,667	$ 38.60	74,860,582	$ 32.23
Granted to officers and key employees[1]	4,886,601	$ 73.20	4,350,974	$ 63.04	9,720,340	$ 72.05
Granted to outside directors[1]	—	$ —	75,829	$ 63.04	91,000	$ 66.77
Exercised	(5,006,435)	$ 30.04	(12,062,847)	$ 29.41	(15,491,627)	$ 28.66
Forfeited / expired	(337,946)	$ 46.45	(388,769)	$ 41.64	(299,628)	$ 54.13
Outstanding at end of year	60,398,074	$ 45.68	60,855,854	$ 42.18	68,880,667	$ 38.60
Exercisable at year-end	43,083,319	$ 35.81	47,533,561	$ 34.65	59,374,295	$ 33.27
RSUs activity:						
Outstanding at beginning of year	1,253,326		N/A[2]		N/A	
Granted to officers and key employees	1,490,645		1,282,020		N/A	
Granted to outside directors	20,878		—		N/A	
Vested	(61,158)		(9,715)		N/A	
Forfeited	(30,217)		(18,979)		N/A	
Outstanding at end of year	2,673,474		1,253,326		N/A	

Stock options/SARs outstanding and exercisable:

	Outstanding				Exercisable			
Exercise Prices	# Outstanding at 12/31/08	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value[3]	# Outstanding at 12/31/08	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value[3]
$ 19.20 - 22.76	1,712,753	1.47	$ 19.36	$ 43	1,712,753	1.47	$ 19.36	$ 43
$ 25.36 - 26.77	7,540,290	3.08	$ 25.90	139	7,540,290	3.08	$ 25.90	139
$ 27.14 - 29.43	8,561,614	4.42	$ 27.16	148	8,561,614	4.42	$ 27.16	148
$ 31.17 - 45.64	23,950,025	5.50	$ 41.31	74	23,950,025	5.50	$ 41.31	74
$ 63.04 - 73.20	18,633,392	7.91	$ 70.22	—	1,318,637	7.41	$ 70.19	—
	60,398,074		$ 45.68	$ 404	43,083,319		$ 35.81	$ 404

[1] Of the 4,886,601 awards granted during the year ended December 31, 2008, 4,476,095 were SARs. Of the 4,426,803 awards granted during the year ended December 31, 2007, 4,195,188 were SARs. Of the 9,811,340 awards granted during the year ended December 31, 2006, 9,479,534 were SARs.

[2] 2007 was the first year stock-based compensation awards included RSUs.

[3] The difference between a stock award's exercise price and the underlying stock's market price at December 31, 2008, 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, 2008, there were 2,673,474 outstanding RSUs with a weighted average remaining contractual life of 1.7 years.

TABLE II— Additional Stock-based Award Information

(Dollars in millions except per share data)	2008	2007	2006
Stock Options/SARs activity:			
Weighted-average fair value per share of stock awards granted	$ 22.32	$ 20.73	$ 23.44
Intrinsic value of stock awards exercised	$ 232	$ 547	$ 637
Fair value of stock awards vested	$ 30	$ 14	$ 40
Cash received from stock awards exercised	$ 130	$ 322	$ 411
RSUs activity:			
Weighted-average fair value per share of stock awards granted	$ 69.17	$ 59.94	N/A
Fair value of stock awards vested	$ 4	$ 1	N/A

The following table summarizes the effect of the adoption of SFAS 123R:

(Dollars in millions except per share data)	2006
Stock-based compensation expense, before tax	$ 137
Stock-based compensation expense, after tax	$ 92
Income tax benefit recognized in net income	$ 45
Decrease in profit per share of common stock, basic	$ .14
Decrease in profit per share of common stock, diluted	$ .09

Before tax stock-based compensation expense for 2008 and 2007 was $194 million and $146 million, with a corresponding income tax benefit of $62 million and $48 million, respectively.

In accordance with Staff Accounting Bulletin No. 107 “Share-based payment,” 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 do not allocate stock-based compensation to reportable segments.

We currently use shares that have been repurchased through our stock repurchase program to satisfy share award exercises.

In November 2005, the FASB issued FASB Staff Position No. FAS 123R-3 “Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards.” In the third quarter of 2006, we elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of stock-based compensation. The alternative transition method includes simplified methods to determine the beginning balance of the additional paid-in capital (APIC) pool related to the tax effects of stock-based compensation, and to determine the subsequent impact on the APIC pool and the Statement of Cash Flow of the tax effects of stock-based awards that were fully vested and outstanding upon the adoption of SFAS 123R.

The tax benefits realized from stock awards exercised for December 31, 2008, 2007 and 2006 were $60 million, $167 million and $170 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 $24 million will be recorded in APIC when these deductions reduce our future income taxes payable.

3. Derivative financial instruments and risk management

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 currency, thereby creating exposure to movements in exchange rates.

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

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

As of December 31, 2008, $43 million (net of tax) of deferred net gains 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. 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.

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

(Millions of dollars)	2008	2007	2006
Machinery and Engines	$ 26	$ 24	$ 23
Financial Products	33	(89)	(19)
	$ 59	$ (65)	$ 4

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

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

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

During 2001, our Machinery and Engines operations liquidated all existing fixed-to-floating interest rate swaps. The gain ($2 million at December 31, 2008) is being amortized to earnings ratably over the remaining life of the hedged debt. During 2006 and 2007, we entered into $400 million (notional amount) of interest rate swaps designated as fair value hedges of our fixed rate long-term debt. During the first quarter 2008, our Machinery and Engines operations liquidated all of these fixed-to-floating interest rate swaps. The gain ($18 million remaining at December 31, 2008) is being amortized to earnings ratably over the remaining life of the hedged debt. During the fourth quarter 2008, we entered into $750 million (notional amount) of forward starting swaps designated as cash flow hedges of our anticipated long-term debt offering which occurred in December 2008. At the issuance of the debt, Caterpillar settled the forward starting swaps. The loss ($29 million at December 31, 2008) is being amortized to earnings ratably over the remaining term of the debt (10 years).

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. To support hedge accounting, we designate fixed-to-floating interest rate swaps as fair value hedges of the fair value of our fixed-rate debt at the inception of the swap contract. Financial Products' practice is to designate most floating-to-fixed interest rate swaps as cash flow hedges of the variability of future cash flows at the inception of the swap contract.

Financial Products liquidated fixed-to-floating interest rate swaps during 2006, 2005 and 2004, which resulted in deferred net gains. These gains ($4 million remaining at December 31, 2008) are being amortized to earnings ratably over the remaining term of the hedged debt.

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

(Millions of dollars)	2008	2007	2006
Fixed-to-floating interest rate swaps			
Machinery and Engines:			
Gain (loss) on designated interest rate derivatives	$ 18	$ 26	$ 2
Gain (loss) on hedged debt	(9)	(10)	(1)
Gain (loss) amortization on liquidated swaps	5	3	3
Financial Products:			
Gain (loss) on designated interest rate derivatives	471	103	(44)
Gain (loss) on hedged debt	(474)	(103)	44
Gain (loss) amortization on liquidated swaps—included in interest expense	1	2	6
	$ 12	$ 21	$ 10

As of December 31, 2008, $51 million (net of tax) of deferred net losses 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 12 months.

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

Our objective is to minimize volatility in the price of these commodities. Our policy allows us to enter into commodity forward and option contracts to lock in the purchase price of a portion of these commodities within a four-year horizon. All such commodity forward and option contracts are undesignated. There were no net gains or losses on undesignated contracts in 2007, and no contracts were outstanding during 2008. Gains on undesignated contracts of $1 million were recorded in current earnings ("Other income (expense)" in Statement 1) in 2006.

D. Stock repurchase risk

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

In connection with our stock repurchase program, we entered into capped call transactions ("call") with a major bank for an aggregate of 6.0 million shares. 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. During 2007, we paid the bank premiums of $56 million for the establishment of calls for 3.5 million shares, which was accounted for as a reduction to stockholders' equity. During 2008, we paid the bank premiums of $38 million for the establishment of calls for 2.5 million shares. 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).

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. As of December 31, 2008, there were no outstanding calls.

4. Other income (expense)

	Years ended December 31,		
(Millions of dollars)	2008	2007	2006
Investment and interest income	$ 101	$ 99	$ 83
Foreign exchange gains	100	21	9
License fee income	73	66	61
Gains (losses) on sale of securities and affiliated companies	55	70	35
Impairment of available-for-sale securities	(37)	—	—
Miscellaneous income (loss)	7	64	26
	$ 299	$ 320	$ 214

5. Income taxes

The components of profit before taxes were:

	Years ended December 31,		
(Millions of dollars)	2008	2007	2006
U.S.	$ 2,144	$ 2,153	$ 2,642
Non-U.S.	2,329	2,800	2,219
	$ 4,473	$ 4,953	$ 4,861

Profit 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 for income taxes were:

	Years ended December 31,		
(Millions of dollars)	2008	2007	2006
Current tax provision (credit):			
U.S.	$ 673	$ 515	$ 1,342
Non-U.S.	446	464	373
State (U.S.)	41	92	49
	1,160	1,071	1,764
Deferred tax provision (credit):			
U.S.	(335)	403	(381)
Non-U.S.	99	21	23
State (U.S.)	29	(10)	(1)
	(207)	414	(359)
Total provision for income taxes	$ 953	$ 1,485	$ 1,405

We paid income taxes of $1,318 million, $821 million and $1,465 million in 2008, 2007 and 2006, respectively.

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

	Years ended December 31,		
	2008	2007	2006
U.S. statutory rate	35.0 %	35.0 %	35.0 %
(Decreases) increases in taxes resulting from:			
Benefit of extraterritorial income exclusion	—	—	(2.1)%
Non-U.S. subsidiaries taxed at other than 35%	(2.6)%	(4.7)%	(3.5)%
Other—net	(0.9)%	(0.3)%	(0.4)%
	31.5 %	30.0 %	29.0 %
Discrete items	(10.2)%	—	(0.1)%
Provision for income taxes	21.3 %	30.0 %	28.9 %

The provision for income taxes for 2008 includes tax benefits of $456 million recorded discretely in the quarter of occurrence. 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 in 2008 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.

The 2006 provision for income taxes includes a benefit of $5 million for net changes in tax reserves. Favorable settlement of a non-U.S. tax issue resulted in a $25 million decrease in reserves. This was partially offset by a $20 million increase in U.S. tax reserves related to transfer pricing adjustments for tax years 1992 to 1994, which we continue to dispute.

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 $8 billion which are considered indefinitely reinvested. Determination of the amount of unrecognized deferred tax liability related to indefinitely reinvested profits is not feasible. 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.

Deferred income tax assets and liabilities:

	December 31,		
(Millions of dollars)	2008	2007	2006
Deferred income tax assets:			
Pension	$ 1,888	$ 270	$ 577
Postemployment benefits other than pensions	1,530	1,490	1,593
Tax carryforwards	712	366	646
Warranty reserves	312	266	234
Unrealized profit excluded from inventories	275	210	192
Post sale discounts	140	116	103
Allowance for credit losses	134	102	83
Deferred compensation	78	104	83
Other—net	442	420	270
	5,511	3,344	3,781
Deferred income tax liabilities:			
Capital and intangible assets	(1,233)	(938)	(906)
Undistributed profits of non-U.S. subs	—	(113)	(65)
	(1,233)	(1,051)	(971)
Valuation allowance for deferred tax assets	(334)	(257)	(192)
Deferred income taxes—net	$ 3,944	$ 2,036	$ 2,618

SFAS 109 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, 2008	2007	2006
Assets:			
Deferred and refundable income taxes	$ 785	$ 612	$ 733
Noncurrent deferred and refundable income taxes	3,298	1,539	1,949
	4,083	2,151	2,682
Liabilities:			
Other current liabilities	9	8	9
Other liabilities	130	107	55
Deferred income taxes—net	$ 3,944	$ 2,036	$ 2,618

At December 31, 2008, we had U.S. foreign tax credits of approximately $250 million to carry forward for up to ten years.

At December 31, 2008, amounts and expiration dates of net operating loss carryforwards in various non-U.S. taxing jurisdictions were:

(Millions of dollars)						
2009	2010	2011	2012	2013-2023	Unlimited	Total
$ 2	$ 3	$ 4	$ 6	$ 219	$ 654	$ 888

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

At December 31, 2008, approximately $288 million of state tax net operating losses (NOLs) and $128 million of state tax credit carryforwards were available. Of the NOLs, over three-fourths expire after 2018. The state tax credit carryforwards expire over the next ten years. We established a valuation allowance for those NOLs and credit carryforwards likely to expire prior to utilization.

We adopted FIN 48, "Accounting for Uncertainty in Income Taxes" as of January 1, 2007. 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, 2008	2007
Balance at January 1,	$ 703	$ 742
Additions for tax positions related to current year	126	62
Additions for tax positions related to prior years	38	24
Reductions for tax positions related to prior years	(48)	(109)
Reductions for settlements	(4)	(7)
Reductions for expiration of statute of limitations	(12)	(9)
Balance at December 31,	$ 803	$ 703

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

At adoption, the amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was $486 million. The corresponding amounts for the years ended December 31, 2008 and 2007 were $646 million and $537 million, respectively.

We classify interest and penalties on tax uncertainties as a component of the provision for income taxes. We recognized interest and penalties of $18 million and $36 million during the years ended December 31, 2008 and 2007, respectively. The total amount of interest and penalties accrued was $116 million and $98 million for the years ended December 31, 2008 and 2007, respectively.

It is expected that the amount of unrecognized tax benefits will change in the next 12 months. However, we do not expect the change to have a significant impact on our results of operations or financial position.

The Internal Revenue Service (IRS) is currently examining U.S. tax returns for 2005 and 2006 and has completed its field examination of our tax returns for 1992 to 2004. For tax years 1992 to 1994, we expect to litigate the unagreed adjustments related to transfer pricing. We anticipate the appeals process for tax years 1995 to 1999, primarily related to foreign sales corporation commissions, foreign tax credit calculations and research and development credits, will be settled within the next 12 months. For tax years 2000 to 2004, 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. 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.

Cat Financial has sold interests in a certain pool of trade receivables through a revolving structure to third-party commercial paper conduits, asset-backed commercial paper issuers that are special purpose entities (SPEs) of the sponsor bank and are not consolidated by Cat Financial. In accordance with SFAS 140, the transfers to the conduits are accounted for as sales. Cat Financial services the sold trade receivables and receives an annual servicing fee of approximately 0.5% of the average outstanding principal balance. Consolidated expenses of $10 million, $15 million and $15 million related to the sale of trade receivables were recognized during 2008, 2007 and 2006, respectively, and are included in "Other income (expense)" in Statement 1. As of December 31, 2008, 2007 and 2006, 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, 2007 and 2006 of $1,432 million, $1,233 million and $2,718 million, respectively, is included in "Receivables—trade and other" in Statement 2. The carrying amount approximated fair value due to the short-term nature of these receivables.

The cash collections from these receivables held by Cat Financial, including those attributable to the third-party conduits, are first applied to satisfy any obligations of Cat Financial to the third-party conduits. The third-party 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:

	Years ended December 31,		
(Millions of dollars)	2008	2007	2006
Cash proceeds from sales of receivables to the conduit	$ 1,510	$ 1,512	$ 1,043
Servicing fees received	1	1	1
Cash flows received on the interests that continue to be held	11,270	13,680	15,168

7. 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 $1,555 million, $1,496 million, and $1,215 million at December 31, 2008, 2007 and 2006, respectively. Please refer to Note 19 and Table IV for fair value information.

Contractual maturities of outstanding wholesale inventory receivables:

(Millions of dollars)	December 31, 2008			
Amounts Due In	Wholesale Installment Contracts	Wholesale Finance Leases	Wholesale Notes	Total
2009	$ 210	$ 114	$ 615	$ 939
2010	10	50	204	264
2011	15	32	143	190
2012	13	6	12	31
2013	24	2	1	27
Thereafter	—	1	1	2
	272	205	976	1,453
Guaranteed residual value	—	133	—	133
Less: Unearned income	(7)	(15)	(9)	(31)
Total	$ 265	$ 323	$ 967	$ 1,555

8. 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.

During 2008, 2007 and 2006, Cat Financial sold certain finance receivables related to retail installment sale contracts and finance leases to special purpose entities (SPEs) as part of their asset-backed securitization program. 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, typically trusts, are considered to be qualifying special purpose entities (QSPEs) and thus, in accordance with SFAS 140, are not consolidated. The QSPEs issue debt to pay for the finance receivables they acquire from Cat Financial. The primary source for repayment of the debt is the cash flows generated from the finance receivables owned by the QSPEs. The assets of the QSPEs are legally isolated and are not available to pay the creditors of Cat Financial or any other affiliate of Cat Financial. For bankruptcy analysis purposes, Cat Financial has sold the finance receivables to the QSPEs in a true sale and the QSPEs are separate legal entities.

Cat Financial retained interests in the finance receivables that were sold through their asset-backed securitization program. Retained interests include subordinated certificates, an interest in future cash flows (excess) and reserve accounts. Retained interests in securitized assets are classified as available-for-sale securities and are included in “Other assets” in Statement 2 at fair value in accordance with SFAS 115. Cat Financial estimates fair value based on the present value of the future expected cash flows using key assumptions for credit losses, prepayment rates and discount rates. These assumptions are based on historical experience, market trends and anticipated performance relative to the particular assets securitized. Cat Financial periodically reviews the key assumptions and estimates used in determining the fair value of their retained interests with unrealized gains and losses recorded in Statement 2 as part of “Accumulated other comprehensive income”. If based on current information and events, it is probable that there has been an adverse change in estimated cash flows, an “other-than-temporary” impairment is recorded and included in profit to write down the retained interest to estimated fair value. Cat Financial retains credit risk in the retail finance receivables that are sold through Cat Financial’s asset-backed securitizations because Cat Financial’s retained interests are subordinate to the investors’ interests. Any credit losses in the pool of securitized assets would be limited to Cat Financial’s retained interests. For 2008, subordinated interests included subordinated certificates with an initial fair value of $27 million, an interest in certain future cash flow (excess) with an initial fair value of $8 million and a reserve account with an initial fair value of $9 million. For 2007, subordinated interests included subordinated certificates with an initial fair value of zero, an interest in certain future cash flow (excess) with an initial fair value of $2 million and a reserve account with an initial fair value of $9 million. For 2006, subordinated interests included subordinated certificates with an initial fair value of $4 million, an interest in certain future cash flow (excess) with an initial fair value of $3 million and a reserve account with an initial fair value of $10 million. Net gains of $12 million, $4 million and $7 million were recognized on these transactions in 2008, 2007 and 2006, respectively.

Significant assumptions used to estimate the fair value of the retained interests and subordinated certificates at the time of the transaction were:

	2008	2007	2006
Discount rate	7.2%	8.4%	11.2%
Weighted-average prepayment rate	14.5%	14.0%	14.0%
Expected credit losses	1.6%	1.5%	1.5%

The company receives annual servicing fees of approximately 1% of the unpaid note value.

As of December 31, 2008, 2007 and 2006, the subordinated retained interests in the public securitizations totaled $52 million, $49 million and $68 million, respectively. Key assumptions used to determine the fair value of the retained interests were:

	2008	2007	2006
Cash flow weighted average discount rates on retained interests	16.7 to 23.3%	8.3 to 11.5%	5.9 to 9.1%
Weighted-average maturity	28 months	30 months	31 months
Expected prepayment rate	19.0%	14.0%	14.0%
Expected credit losses	1.7 to 3.1%	.6 to 1.3%	.5 to 1.3%

The investors and the securitization trusts have no recourse to Cat Financial's other assets for failure of debtors to pay when due.

We estimated the impact of individual 10% and 20% changes to the key economic assumptions used to determine the fair value of residual cash flow in retained interests on our income. An independent, adverse change to each key assumption used to calculate the fair value of all our retained interests as of December 31, 2008, 2007 and 2006 would be $8 million or less, $2 million or less, and $3 million or less, respectively.

During 2008, the assumptions used to determine the fair value of Cat Financial's retained interests in the securitization transactions were reviewed. The most significant change was an increase in the credit loss assumption due to the continued softening of industries related to the U.S. housing market. This resulted in a $27 million impairment charge to the retained interests for the year ended December 31, 2008. The impairment charge was recorded in "Revenues of Financial Products" on Statement 1.

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. During the third quarter of 2008, Cat Financial deposited $19 million into a supplemental reserve account for the 2007 securitization transaction to maintain the credit ratings assigned to the transaction, as loss experiences were higher than anticipated primarily due to the softening of industries related to the U.S. housing market. This resulted in an increase in Cat Financial's retained interests.

We consider an account past due if any portion of an installment is due and unpaid for more than 30 days. Recognition of income is suspended 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 receivable 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. Investment in loans/finance leases on nonaccrual status were $422 million, $232 million and $190 million and past due over 90 days and still accruing were $119 million, $47 million and $18 million as of December 31, 2008, 2007 and 2006, respectively.

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.

Please refer to Table III for additional finance receivables information and Note 19 and Table IV for fair value information.

TABLE III—Finance Receivables Information (Millions of dollars)

Contractual maturities of outstanding finance receivables:

	December 31, 2008			
Amounts Due In	Retail Installment Contracts	Retail Finance Leases	Retail Notes	Total
2009	$ 2,950	$ 3,374	$ 2,937	$ 9,261
2010	1,989	2,397	1,481	5,867
2011	1,249	1,450	1,095	3,794
2012	642	652	729	2,023
2013	241	239	743	1,223
Thereafter	129	213	1,224	1,566
	7,200	8,325	8,209	23,734
Residual value	—	1,387	—	1,387
Less: Unearned income	(674)	(953)	(108)	(1,735)
Total	$ 6,526	$ 8,759	$ 8,101	$ 23,386

Impaired loans and leases:	2008	2007	2006
Average recorded investment	$ 306	$ 200	$ 168
At December 31:			
Recorded investment	$ 479	$ 219	$ 193
Impaired loans/finance leases for which there is a related allowance for credit losses	258[1]	166	133
Related allowance for credit losses on impaired loans/finance leases	59[1]	35	26
Impaired loans/finance leases for which there is no related allowance for credit losses	221	53	60

Allowance for credit loss activity:	2008	2007	2006
Balance at beginning of year	$ 351	$ 315	$ 302
Provision for credit losses	192	97	68
Receivables written off	(144)	(91)	(63)
Recoveries on receivables previously written off	23	23	16
Other—net	(31)	7	(8)
Balance at end of year	$ 391	$ 351	$ 315

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

Cat Financial's net retail finance leases:	December 31,		
	2008	2007	2006
Total minimum lease payments receivable	$ 8,325	$ 7,756	$ 6,577
Estimated residual value of leased assets:			
Guaranteed	658	638	483
Unguaranteed	729	746	674
	9,712	9,140	7,734
Less: Unearned income	(953)	(938)	(806)
Net retail finance leases	$ 8,759	$ 8,202	$ 6,928

Cash flow from securitizations:	2008	2007	2006
Proceeds from initial sales of receivables	$ 600	$ 650	$ 947
Purchases of contracts through clean-up calls	81	64	63
Servicing fees received	12	11	12
Cash flows received on retained interests	25	35	41

Characteristics of securitized receivables:			
At December 31:			
Total securitized principal balance	$ 909	$ 1,159	$ 1,227
Loans more than 30 days past due	98	65	34
Weighted-average maturity (in months)	28	30	31
For the year ended December 31:			
Average securitized principal balance	$ 1,147	$ 1,064	$ 1,162
Net credit losses	23	9	5

[1] Includes impaired loans of $108 million primarily reflecting the fair value of the loan's associated collateral. See Note 19 for more information.

9. Inventories

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

(Millions of dollars)	December 31, 2008	2007	2006
Raw materials	$ 3,356	$ 2,990	$ 2,698
Work-in-process	1,107	863	591
Finished goods	4,022	3,066	2,785
Supplies	296	285	277
Total inventories	$ 8,781	$ 7,204	$ 6,351

We had long-term material purchase obligations of approximately $363 million at December 31, 2008.

10. Property, plant and equipment

(Millions of dollars)	Useful Lives (Years)	December 31, 2008	2007	2006
Land	—	$ 575	$ 189	$ 184
Buildings and land improvements	20-45	4,647	3,625	3,407
Machinery, equipment and other	3-10	12,173	9,756	8,694
Equipment leased to others	1-10	4,561	4,556	3,957
Construction-in-process	—	1,531	1,082	1,036
Total property, plant and equipment, at cost		23,487	19,208	17,278
Less: Accumulated depreciation		(10,963)	(9,211)	(8,427)
Property, plant and equipment—net		$ 12,524	$ 9,997	$ 8,851

We had commitments for the purchase or construction of capital assets of approximately $579 million at December 31, 2008.

Assets recorded under capital leases [1]:

(Millions of dollars)	December 31, 2008	2007	2006
Gross capital leases [2]	$ 565[3]	$ 96	$ 96
Less: Accumulated depreciation	(221)[3]	(75)	(65)
Net capital leases	$ 344	$ 21	$ 31

1 Included in Property, plant and equipment table above.

2 Consists primarily of machinery and equipment.

3 Increase in 2008 due to consolidation of Cat Japan. See Note 25 for additional details.

Equipment leased to others (primarily by Cat Financial):

(Millions of dollars)	December 31, 2008	2007	2006
Equipment leased to others—at original cost	$ 4,561	$ 4,556	$ 3,957
Less: Accumulated depreciation	(1,416)	(1,487)	(1,299)
Equipment leased to others—net	$ 3,145	$ 3,069	$ 2,658

At December 31, 2008, scheduled minimum rental payments to be received for equipment leased to others were:

(Millions of dollars)					
2009	2010	2011	2012	2013	After 2013
$ 715	$ 523	$ 321	$ 170	$ 70	$ 27

11. 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). Because Cat Japan is accounted for on a lag, Cat Japan's August 1, 2008 financial position was consolidated on September 30, 2008. Cat Japan's results of operations were consolidated in the fourth quarter. See Note 25 for details on this share redemption. In February 2008, we sold our 23 percent equity investment in A.S.V. Inc. (ASV) resulting in a $60 million pretax gain. Accordingly, the December 31, 2008 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, 2008	2007	2006
Results of Operations:			
Sales	$ 3,727	$ 4,007	$ 4,420
Cost of sales	3,082	3,210	3,526
Gross profit	$ 645	$ 797	$ 894
Profit (loss)	$ 55	$ 157	$ 187
Caterpillar's profit (loss)	$ 37	$ 73	$ 81

Sales from SCM, while an unconsolidated affiliate, to Caterpillar of approximately $1.67 billion, $1.67 billion and $1.81 billion in 2008, 2007 and 2006, respectively, are included in the affiliated company sales. In addition, SCM purchases of Caterpillar product, while an unconsolidated affiliate, were $353 million, $268 million and $273 million in 2008, 2007 and 2006, respectively.

Financial Position of unconsolidated affiliated companies:

(Millions of dollars)	December 31, 2008	2007	2006
Financial Position:			
Assets:			
Current assets	$ 209	$ 2,062	$ 1,807
Property, plant and equipment—net	227	1,286	1,119
Other assets	26	173	176
	462	3,521	3,102
Liabilities:			
Current liabilities	173	1,546	1,394
Long-term debt due after one year	110	269	309
Other liabilities	35	393	145
	318	2,208	1,848
Ownership	$ 144	$ 1,313	$ 1,254

Caterpillar's investments in unconsolidated affiliated companies:			
	December 31,		
(Millions of dollars)	2008	2007	2006
Investments in equity method companies	$ 66	$ 582	$ 542
Plus: Investments in cost method companies	28	16	20
Total investments in unconsolidated affiliated companies	$ 94	$ 598	$ 562

At December 31, 2008, consolidated "Profit employed in the business" in Statement 2 included $10 million representing undistributed profit of the unconsolidated affiliated companies.

12. Intangible assets and goodwill

A. Intangible assets

Intangible assets are comprised of the following:

(Millions of dollars)	Weighted Amortizable Life (Years)	December 31, 2008	2007	2006
Customer relationships	18	$ 397	$ 366	$ 242
Intellectual property	10	211	195	211
Other	11	112	81	73
Total finite-lived intangible assets—gross	15	720	642	526
Less: Accumulated amortization		(209)	(167)	(139)
Intangible assets—net		$ 511	$ 475	$ 387

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 25 for details on these business combinations. Also in 2008, we acquired finite-lived intangible assets of $32 million from other acquisitions.

During 2007, we acquired finite-lived intangible assets of $89 million as part of the purchase of Franklin Power Products. In 2007, we also acquired finite-lived intangible assets of $24 million due to the purchase of the Forestry Division of Blount International, Inc. During 2006 we acquired finite-lived intangible assets of $223 million due to the purchase of Progress Rail Services, Inc. (Progress Rail). See Note 25 for details on the acquisition of these assets.

Amortization expense related to intangible assets was $61 million, $52 million and $34 million for 2008, 2007 and 2006, respectively.

Amortization expense related to intangible assets is expected to be:

(Millions of dollars)					
2009	2010	2011	2012	2013	Thereafter
$ 59	$ 56	$ 49	$ 41	$ 30	$ 276

B. Goodwill

During 2008, the Cat Japan share redemption resulted in $206 million of goodwill. In 2008, we acquired net assets with related goodwill of $41 million as part of the purchase of Gremada Industries, Inc. In 2008, we also acquired net assets with related goodwill of $22 million as part of the purchase of Lovat Inc. See Note 25 for details on these business combinations. Also during 2008, we acquired net assets with related goodwill of $8 million from other acquisitions.

During 2007, we acquired assets with related goodwill of $37 million as part of the purchase of Franklin Power Products. In 2007, we also acquired assets with related goodwill of $22 million as part of the purchase of the Forestry Division of Blount International, Inc. During 2006, we acquired assets with related goodwill of $431 million as part of the purchase of Progress Rail. During 2006, we also acquired assets with related goodwill of $39 million as part of the purchase of the large components business of Royal Oak Industries, Inc. See Note 25 for details on the acquisition of these assets.

During 2006, we determined that the business outlook for the parts and accessories distribution business of MG Rover, acquired in 2004, required a specific impairment evaluation. The declining outlook of this business resulted from MG Rover's cessation of vehicle production and warranties resulting from their bankruptcy in 2005. Although the MG Rover parts business continues to provide parts to the existing population of vehicles, the unit's sales will continue to decline as production of new vehicles has ceased. In determining if there was impairment, we first compared the fair value of the reporting unit (calculated by discounting projected cash flows) to the carrying value. Because the carrying value exceeded the fair value, we then allocated the fair value to the assets and liabilities of the unit and determined the fair value of the implied goodwill was zero. Accordingly, a goodwill impairment charge of $18 million, representing the entire goodwill associated with the MG Rover parts and accessories business at that date, was included in "Other operating expenses" in Statement 1 and reported in the "All Other" category in Note 24.

No goodwill was impaired or disposed of during the years ended December 31, 2008 or 2007.

The changes in carrying amount of goodwill by reportable segment for the years ended December 31, 2008, 2007 and 2006 were as follows:

(Millions of dollars)	Building Construction Products	EAME Operations	Electric Power	Heavy Construction & Mining	Industrial Power Systems	Infrastructure Development	Large Power Systems[2]	Marine & Petroleum Power[2]	All Other[1]	Consolidated Total
Balance at January 1, 2006	$ 4	$ 51	$ 203	$ 14	$ 478	$ 33	$ 530	$ 60	$ 78	$ 1,451
Business combinations	—	—	—	—	—	—	39	—	432	471
Impairments	—	—	—	—	—	—	—	—	(18)	(18)
Balance at December 31, 2006	4	51	203	14	478	33	569	60	492	1,904
Business combinations	—	—	—	—	—	—	—	—	59	59
Balance at December 31, 2007	4	51	203	14	478	33	569	60	551	1,963
Business combinations	—	—	—	—	—	—	—	—	277	277
Other adjustments	—	—	—	—	—	—	—	—	21	21
Balance at December 31, 2008	$ 4	$ 51	$ 203	$ 14	$ 478	$ 33	$ 569	$ 60	$ 849	$ 2,261

[1] All Other includes operating segments included in "All Other" category (See Note 24).
[2] As discussed in Note 24, our reportable segments were changed in the first quarter of 2008. As a result, goodwill of $60 million was reallocated from the Large Power Systems reportable segment to the newly formed Marine & Petroleum Power reportable segment.

13. Available-for-sale securities

Financial Products, primarily Cat Insurance, has investments in certain debt and equity securities at December 31, 2008, 2007 and 2006, that have been classified as available-for-sale in accordance with SFAS 115 and recorded at fair value based upon quoted market prices. These fair values are 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" in Statement 2). Realized gains and losses on sales of investments are generally determined using the FIFO 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.

	December 31, 2008		
(Millions of dollars)	Cost Basis	Unrealized Pre-Tax Net Gains (Losses)	Fair Value
Government debt	$ 333	$ 6	$ 339
Corporate bonds	778	(116)	662
Equity securities	146	(15)	131
	$ 1,257	$ (125)	$ 1,132

	December 31, 2007		
(Millions of dollars)	Cost Basis	Unrealized Pre-Tax Net Gains (Losses)	Fair Value
Government debt	$ 319	$ 1	$ 320
Corporate bonds	775	(4)	771
Equity securities	168	28	196
	$ 1,262	$ 25	$ 1,287

(Millions of dollars)	December 31, 2006 Cost Basis	Unrealized Pre-Tax Net Gains (Losses)	Fair Value
Government debt	$ 355	$ (5)	$ 350
Corporate bonds	541	(6)	535
Equity securities	154	26	180
	$ 1,050	$ 15	$ 1,065

During 2008, we recognized a pretax charge in accordance with the application of SFAS 115 for “other-than-temporary” declines in the fair values of equity securities in the Cat Insurance investment portfolios of $37 million. This charge was accounted for as a realized loss and was included in the “Other income (expense)” in Statement 1. The cost basis of the impacted securities was adjusted to reflect this charge. During 2007 and 2006, there were no charges for "other-than-temporary" declines in the market value of securities.

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

	December 31, 2008					
	Less than 12 months[1]		12 months or more [1]		Total	
(Millions of dollars)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government debt	$ 7	$ —	$ 19	$ 1	$ 26	$ 1
Corporate bonds	380	55	157	63	537	118
Equity securities	67	15	5	2	72	17
Total	$ 454	$ 70	$ 181	$ 66	$ 635	$ 136

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

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

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

Government Debt. The unrealized losses on our investments in U.S. Treasury obligations, direct obligations of U.S. governmental agencies and federal agency mortgage-backed securities, are the result of an increase in the volatility in the financial markets. We intend to, and have the ability to hold our investments to fair value or maturity. We do not consider these investments to be other-than-temporarily impaired as of December 31, 2008.

Corporate Bonds. The unrealized losses on our investments in corporate bonds and asset-backed securities relate primarily to an increase in credit-related yield spreads, risk aversion, and heightened volatility in the financial markets. We intend to, and have the ability to hold these investments that are less than book value until recovery to fair value or maturity. We do not consider these investments to be other-than-temporarily impaired as of December 31, 2008.

Equity Securities. Cat Insurance maintains a well-diversified equity portfolio consisting of three specific mandates: large cap value stocks, small and mid cap growth stocks and international growth and income stocks. The individual securities in these portfolios support cash flow, asset allocation, surplus growth and other investment objectives. Some of these losses are attributable to the continued overall weak equity market conditions, especially those in the financial sector. We currently believe it is probable that we will be able to recover all amounts due and do not consider these investments to be other-than-temporarily impaired as of December 31, 2008.

The fair value of available-for-sale debt securities at December 31, 2008, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay and creditors may have the right to call obligations.

(Millions of dollars)	Fair Value
Due in one year or less	$ 51
Due after one year through five years	$ 230
Due after five years through ten years	$ 195
Due after ten years	$ 525

Proceeds from sales of investments in debt and equity securities during 2008, 2007 and 2006 were $357 million, $282 million and $539 million, respectively. Gross gains of $17 million, $16 million and $43 million and gross losses of $23 million, $7 million and $8 million have been included in current earnings as a result of these sales for 2008, 2007 and 2006, respectively.

14. 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 SFAS 158 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.

A. Benefit Obligations

(Millions of dollars)	U.S. Pension Benefits 2008	2007	2006	Non-U.S. Pension Benefits 2008	2007	2006	Other Postretirement Benefits 2008	2007	2006
Change in benefit obligation:									
Benefit obligation, beginning of year	$ 11,132	$ 11,174	$ 10,679	$ 3,012	$ 2,719	$ 2,361	$ 5,455	$ 5,661	$ 5,818
Effect of eliminating early measurement date [1]	11	N/A	N/A	26	N/A	N/A	—	N/A	N/A
Service cost	199	187	160	92	80	67	87	101	95
Interest cost	629	595	575	156	139	111	307	295	302
Plan amendments	13	—	4	—	1	(18)	—	2	—
Actuarial losses (gains)	222	(146)	447	(18)	(118)	110	(522)	(294)	(224)
Foreign currency exchange rates	—	—	—	(534)	246	121	(19)	4	1
Participant contributions	—	—	—	14	14	11	41	35	29
Benefits paid - gross	(713)	(722)	(699)	(155)	(126)	(103)	(351)	(369)	(369)
Less federal subsidy on benefits paid	—	—	—	—	—	—	19	15	9
Acquisitions / other [2]	—	—	8	626	57	59	—	5	—
Adjustment for subsidiary pension plan [3]	—	44	—	—	—	—	—	—	—
Benefit obligation, end of year	$ 11,493	$ 11,132	$11,174	$ 3,219	$ 3,012	$ 2,719	$ 5,017	$ 5,455	$ 5,661
Accumulated benefit obligation, end of year	$ 10,681	$ 10,460	$10,587	$ 2,938	$ 2,629	$ 2,333			
Weighted-average assumptions used to determine benefit obligation:									
Discount rate [4]	6.1%	5.8%	5.5%	4.1%	5.3%	4.7%	6.0%	5.8%	5.5%
Rate of compensation increase [4]	4.5%	4.5%	4.0%	4.1%	4.1%	4.0%	4.4%	4.4%	4.0%

[1] Change in benefit obligation during the period from the early measurement date to December 31, 2007.
[2] See Note 25 regarding the 2008 Cat Japan share redemption.
[3] 2007 charge to recognize previously unrecorded liabilities related to a subsidiary pension plan.
[4] End of year rates are used to determine net periodic cost for the subsequent year. See Note 14E.

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 2008 service and interest cost components of other postretirement benefit cost	$ 32	$ (28)
Effect on accumulated postretirement benefit obligation	$ 350	$ (309)

B. Plan Assets

(Millions of dollars)	U.S. Pension Benefits 2008	2007	2006	Non-U.S. Pension Benefits 2008	2007	2006	Other Postretirement Benefits 2008	2007	2006
Change in plan assets:									
Fair value of plan assets, beginning of year	$ 10,441	$ 10,087	$ 9,441	$ 2,773	$ 2,304	$ 2,024	$ 1,584	$ 1,509	$ 1,311
Effect of eliminating early measurement date [1]	17	N/A	N/A	23	N/A	N/A	15	N/A	N/A
Actual return on plan assets	(3,288)	1,064	1,329	(751)	290	238	(587)	158	207
Foreign currency exchange rates	—	—	—	(407)	208	100	—	—	—
Company contributions	288	12	9	134	46	34	340	251	331
Participant contributions	—	—	—	14	14	11	41	35	29
Benefits paid	(713)	(722)	(699)	(155)	(126)	(103)	(351)	(369)	(369)
Acquisitions / other [2]	—	—	7	544	37	—	—	—	—
Fair value of plan assets, end of year	$ 6,745	$ 10,441	$ 10,087	$ 2,175	$ 2,773	$ 2,304	$ 1,042	$ 1,584	$ 1,509

[1] Change in plan assets during the period from the early measurement date to December 31, 2007.
[2] See Note 25 regarding the 2008 Cat Japan share redemption.

The asset allocation for our pension and other postretirement benefit plans at the end of 2008, 2007 and 2006, and the target allocation for 2009, by asset category, are as follows:

	Target Allocation 2009	Percentage of Plan Assets at Year-end 2008	2007	2006
U.S. pension:				
Equity securities	70%	70%	70%	74%
Debt securities	25%	30%	27%	26%
Real estate	5%	—	—	—
Cash	—	—	3%	—
Total	100%	100%	100%	100%
Non-U.S. pension:				
Equity securities	54%	50%	60%	59%
Debt securities	37%	41%	30%	30%
Real estate	6%	6%	7%	8%
Other	3%	3%	3%	3%
Total	100%	100%	100%	100%
Other postretirement benefits:				
Equity securities	80%	78%	81%	84%
Debt securities	20%	22%	19%	15%
Cash	—	—	—	1%
Total	100%	100%	100%	100%

Our 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 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 currently 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 as compared to approximately 10% in 2007 and 2006. The actual asset allocation percentages above represent this rebalancing effort. The plans do not engage in futures contracts for speculative purposes. Equity securities within plan assets include Caterpillar Inc. common stock in the amounts of:

(Millions of dollars)	U.S. Pension Benefits[1] 2008	2007	2006	Non-U.S. Pension Benefits 2008	2007	2006	Other Postretirement Benefits 2008	2007	2006
Caterpillar Inc. common stock	$ 11	$ 24	$ 197	$ 1	$ 2	$ 2	$ 2	$ 3	$ 2

[1] Amounts represent less than 1% of total plan assets for 2008 and 2007, and 2% for 2006.

C. Funded status

The funded status of the plans, reconciled to the amount reported on the Consolidated Financial Position, is as follows:

(Millions of dollars)	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
End of Year									
Fair value of plan assets	$ 6,745	$ 10,441	$ 10,087	$ 2,175	$ 2,773	$ 2,304	$ 1,042	$ 1,584	$ 1,509
Benefit obligations	11,493	11,132	11,174	3,219	3,012	2,719	5,017	5,455	5,661
Over (under) funded status	(4,748)	(691)	(1,087)	(1,044)	(239)	(415)	(3,975)	(3,871)	(4,152)
Amounts not yet recognized:									
Contributions made after measurement date	N/A	1	2	N/A	3	2	N/A	37	20
Net amount recognized in financial position	$ (4,748)	$ (690)	$ (1,085)	$ (1,044)	$ (236)	$ (413)	$ (3,975)	$ (3,834)	$ (4,132)
Components of net amount recognized in financial position:									
Accrued wages, salaries and employee benefits (current liability)	$ (14)	$ (2)	$ (9)	$ (2)	$ —	$ (2)	$ (29)	$ (14)	$ (13)
Liability for postemployment benefits (non-current liability)	(4,734)	(688)	(1,076)	(1,042)	(236)	(411)	(3,946)	(3,820)	(4,119)
Net liability recognized	$ (4,748)	$ (690)	$ (1,085)	$ (1,044)	$ (236)	$ (413)	$ (3,975)	$ (3,834)	$ (4,132)
Amounts recognized in accumulated other comprehensive income (pre-tax) consist of:									
Net actuarial loss (gain)	$ 6,419	$ 2,172	$ 2,754	$ 1,319	$ 544	$ 742	$ 881	$ 759	$ 1,159
Prior service cost (credit)	170	191	249	13	22	16	320	282	244
Transition obligation (asset)	—	—	—	—	1	1	10	12	13
Total	$ 6,589	$ 2,363	$ 3,003	$ 1,332	$ 567	$ 759	$ 1,211	$ 1,053	$ 1,416

N/A (Not Applicable): The adoption of the year-end measurement date provisions of SFAS 158 (see Note 1K) eliminated contributions between the measurement date and the end of the fiscal year.

The estimated amounts that will be amortized from "Accumulated other comprehensive income" at December 31, 2008 into net periodic benefit cost (pre-tax) in 2009 are as follows:

(Millions of dollars)	U.S. Pension	Non-U.S. Pension	Other Postretirement Benefits
Actuarial (gain) loss	$ 245	$ 51	$ 25
Prior service (credit) cost	30	1	2
Transition (asset) obligation	—	—	2
Total	$ 275	$ 52	$ 29

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		
	2008	2007	2006	2008	2007	2006
Projected benefit obligation	$ (11,493)	$ (10,862)	$ (11,174)	$ (3,194)	$ (2,792)	$ (2,719)
Accumulated benefit obligation	$ (10,681)	$ (10,197)	$ (10,587)	$ (2,917)	$ (2,442)	$ (2,333)
Fair value of plan assets	$ 6,745	$ 10,159	$ 10,087	$ 2,151	$ 2,548	$ 2,304

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 2008	2007	2006	Non-U.S. Pension Benefits at Year-end 2008	2007	2006
Projected benefit obligation	$ (11,493)	$ (3,982)	$ (4,491)	$ (3,040)	$ (146)	$ (121)
Accumulated benefit obligation	$ (10,681)	$ (3,967)	$ (4,460)	$ (2,796)	$ (128)	$ (106)
Fair value of plan assets	$ 6,745	$ 3,580	$ 3,805	$ 2,022	$ 28	$ 19

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:			
2009 (expected)	$ 800	$ 200	$ 370
Expected benefit payments:			
2009	$ 740	$ 160	$ 380
2010	760	160	400
2011	780	170	410
2012	800	160	430
2013	820	160	440
2014-2018	4,300	810	2,350
Total	$ 8,200	$ 1,620	$ 4,410

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)	2009	2010	2011	2012	2013	2014-2018	Total
Other postretirement benefits	$ 30	$ 30	$ 30	$ 30	$ 40	$ 210	$ 370

E. Net periodic cost

(Millions of dollars)	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Components of net periodic benefit cost:									
Service cost	$ 199	$ 187	$ 160	$ 92	$ 80	$ 67	$ 87	$ 101	$ 95
Interest cost	629	595	575	156	139	111	307	295	302
Expected return on plan assets	(882)	(841)	(798)	(201)	(178)	(142)	(138)	(130)	(116)
Termination benefits	—	—	—	1	1	1	—	—	—
Amortization of:									
Net asset existing at adoption of SFAS 87/106	—	—	—	1	1	1	2	2	2
Prior service cost/(credit) [1]	32	58	58	3	5	5	(35)	(36)	(33)
Net actuarial loss	134	214	232	36	56	56	64	79	113
Adjustment for subsidiary pension plan [2]	—	44	—	—	—	—	—	—	—
Total cost included in operating profit	$ 112	$ 257	$ 227	$ 88	$ 104	$ 99	$ 287	$ 311	$ 363
Other changes in plan assets and benefit obligations recognized in other comprehensive income (pre-tax)									
Effect of eliminating early measurement date [3]	$ (14)	N/A	N/A	$ (9)	N/A	N/A	$ (3)	N/A	N/A
Current year actuarial (gain)/loss	4,401	(368)	N/A	696	(131)	N/A	172	(320)	N/A
Amortization of actuarial gain/(loss)	(134)	(214)	N/A	(36)	(56)	N/A	(64)	(79)	N/A
Current year prior service cost	16	—	N/A	1	1	N/A	(3)	2	N/A
Amortization of prior service (cost)/credit	(32)	(58)	N/A	(3)	(5)	N/A	35	36	N/A
Amortization of transition asset/(obligation)	—	—	N/A	(1)	(1)	N/A	(2)	(2)	N/A
Total recognized in other comprehensive income	4,237	(640)	N/A	648	(192)	N/A	135	(363)	N/A
Total recognized in net periodic cost and other comprehensive income	$ 4,349	$ (383)	N/A	$ 736	$ (88)	N/A	$ 422	$ (52)	N/A
Weighted-average assumptions used to determine net cost:									
Discount rate	5.8%	5.5%	5.6%	5.3%	4.7%	4.6%	5.8%	5.5%	5.6%
Expected return on plan assets [4]	9.0%	9.0%	9.0%	7.6%	7.7%	7.5%	9.0%	9.0%	9.0%
Rate of compensation increase	4.5%	4.0%	4.0%	4.0%	4.0%	3.5%	4.4%	4.0%	4.0%

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

[2] 2007 charge to recognize previously unrecorded liabilities related to a subsidiary pension plan.

[3] Amortization during the period from the early measurement date to December 31, 2007.

[4] The weighted-average rates for 2009 are 8.5% and 6.6% 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. For 2008, the U.S. discount rate was 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. Previously, we used the Moody's Aa bond yield as of our measurement date, November 30, and validated the discount rate using the benefit cash flow-matching approach. A similar change was made in determining 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 2008, 2007 and 2006. 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 2008 benefit expense, we assumed an increase of 7.9% for 2008. We expect an increase of 7.4% during 2009. The 2008 and 2009 rates are assumed to decrease gradually to the ultimate health care trend rate of 5.0% in 2016. This rate represents 3.0% general inflation plus 2.0% additional health care inflation.

We determined that most of our U.S. retiree health care plans are at least actuarially equivalent to Medicare Part D and will qualify for the federal subsidy.

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.

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

(Millions of dollars)	2008	2007	2006
U.S. plans	$ 107	$ 172	$ 157
Non-U.S. plans	34	30	23
	$ 141	$ 202	$ 180

H. Summary of long-term liability:

	December 31,		
(Millions of dollars)	2008	2007	2006
Pensions:			
U.S. pensions	$ 4,734	$ 688	$ 1,076
Non-U.S. pensions	1,042	236	411
Total pensions	5,776	924	1,487
Postretirement benefits other than pensions	3,946	3,820	4,119
Other postemployment benefits	73	72	73
Defined contribution	180	243	200
	$ 9,975	$ 5,059	$ 5,879

15. Short-term borrowings

	December 31,		
(Millions of dollars)	2008	2007	2006
Machinery and Engines:			
Notes payable to banks	$ 668[1]	$ 187	$ 77
Commercial paper	964	—	88
	1,632	187	165
Financial Products:			
Notes payable to banks	817	550	251
Commercial paper	4,217	4,032	4,149
Demand notes	543	699	590
	5,577	5,281	4,990
Total short-term borrowings	$ 7,209	$ 5,468	$ 5,155

1 Increase in 2008 due to the consolidation of Cat Japan. See Note 25 for additional details.

The weighted-average interest rates on short-term borrowings outstanding were:

	December 31, 2008	2007	2006
Notes payable to banks	5.5%	7.0%	6.2%
Commercial paper	2.0%	4.3%	4.5%
Demand notes	3.6%	5.1%	5.4%

Please refer to Note 19 and Table IV for fair value information on short-term borrowings.

16. Long-term debt

(Millions of dollars)	December 31, 2008	2007	2006
Machinery and Engines:			
Notes—6.550% due 2011	$ 250	$ 250	$ 250
Notes—5.700% due 2016	517	510	500
Debentures—7.250% due 2009	—	305	307
Debentures—9.375% due 2011	123	123	123
Debentures—7.000% due 2013	350	—	—
Debentures—7.900% due 2018	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	348	348
Debentures—5.300% due 2035	203	202	201
Debentures—6.050% due 2036	748	748	747
Debentures—8.250% due 2038	248	—	—
Debentures—6.950% due 2042	249	249	249
Debentures—7.375% due 2097	297	297	297
Capital lease obligations	293	68	72
Other	710[1]	38	99
Total Machinery and Engines	5,736	3,639	3,694
Financial Products:			
Commercial paper	1,500	903	408
Medium-term notes	15,073	12,678	12,857
Deposit obligations	—	232	232
Other	525	377	489
Total Financial Products	17,098	14,190	13,986
Total long-term debt due after one year	$ 22,834	$ 17,829	$ 17,680

[1] Increase in 2008 due to the consolidation of Cat Japan. See Note 25 for additional details.

All outstanding notes and debentures are unsecured. The deposit obligations have a corresponding security deposit that relates to a finance arrangement, which provides us a return. This finance arrangement requires that we commit to certain long-term obligations and provide a security deposit, which will fulfill these obligations when they become due. In 2006 and 2007, the security deposit associated with the outstanding deposit obligations for Financial Products was included in "Other assets" in Statement 2. In 2008, this security deposit was included in “Prepaid expenses and other current assets” and the deposit obligations were included in short-term borrowings.

On December 3, 2008, Caterpillar Inc. 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.

On August 8, 2006, Caterpillar Inc. issued $500 million of 5.70% notes due in 2016 and $750 million of 6.05% debentures due in 2036.

On September 13, 2005, $116 million of 9.375% debentures due in 2021 and $117 million of 8.00% debentures due in 2023 were exchanged for $307 million of 5.30% debentures due in 2035 and $23 million of cash. At December 31, 2008, the book value of the 5.30% debentures due in 2035 was $203 million with an effective yield to maturity of 8.55%.

We may redeem the 6.55% and 5.70% notes and the 7.25%, 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, $1,500 million, $903 million and $408 million of Financial Products' commercial paper outstanding at December 31, 2008, 2007 and 2006, 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 4.2% with remaining maturities up to 20 years at December 31, 2008.

The aggregate amounts of maturities of long-term debt during each of the years 2009 through 2013, including amounts due within one year and classified as current, are:

	December 31,				
(Millions of dollars)	2009	2010	2011	2012	2013
Machinery and Engines	$ 456	$ 276	$ 626	$ 202	$ 528
Financial Products	5,036	4,734	2,326	1,562	1,800
	$ 5,492	$ 5,010	$ 2,952	$ 1,764	$ 2,328

The above table includes $2,182 million of medium-term notes that can be called at par.

Interest paid on short-term and long-term borrowings for 2008, 2007 and 2006 was $1,451 million, $1,418 million and $1,256 million, respectively.

Please refer to Note 19 and Table IV for fair value information on long-term debt.

17. Credit commitments

	December 31, 2008		
(Millions of dollars)	Consolidated	Machinery and Engines	Financial Products
Credit lines available:			
Global credit facilities	$ 6,853	$ 1,000	$ 5,853
Other external	4,475	1,453	3,022
Total credit lines available	11,328	2,453	8,875
Less: Global credit facilities supporting commercial paper	(6,681)	(964)	(5,717)
Less: Utilized credit	(1,977)	(406)	(1,571)
Available credit	$ 2,670	$ 1,083	$ 1,587

We have three global credit facilities with a syndicate of banks totaling $6.85 billion (Credit Facility) available in the aggregate to both Machinery and Engines and Financial Products to support commercial paper programs in the event the programs become unavailable to us. During 2008, based on management's allocation decision, which can be revised at any time, the portion of the credit facility allocated to Cat Financial was increased from $5.55 billion to $5.85 billion. The five-year facility of $1.62 billion expires in September 2012. The five-year facility of $2.98 billion expires in September 2011. The 364-day facility was increased from $1.95 billion to $2.25 billion and will expire in September 2009. As part of the 2008 global credit facilities renewal, Cat Financial's year-end and six-month moving average leverage covenants were increased from 8.5:1 to 10:1. In 2008, Cat Financial entered into a new 364-day facility of $300 million with a syndicate of banks, which expires in July 2009. The overall increase in the credit facilities was to support Cat Financial's portfolio growth. At December 31, 2008, there were no borrowings under these lines.

Consolidated credit lines with banks as of December 31, 2008 total $4.48 billion. These credit lines, which are eligible for renewal at various future dates or have no specified expiration date, are used primarily by our subsidiaries for local funding requirements. Caterpillar Inc. or Cat Financial generally guarantees subsidiary borrowings under these lines.

At December 31, 2008, Caterpillar's annual consolidated net worth dropped below the level stipulated in the Credit Facility. This covenant requires Caterpillar to maintain a consolidated net worth of not less than 75% of the consolidated net worth as of the end of its immediately preceding fiscal year. The decrease was largely driven by a significant decline in pension asset returns, resulting in a $3.4 billion year-end charge to other comprehensive income.

In addition, at December 31, 2008, Cat Financial's quarterly interest coverage ratio for the fourth quarter dropped below the level stipulated in the Credit Facility. This covenant requires Cat Financial to maintain a ratio of (1) earnings before interest expense and income taxes to (2) interest expense of not less than 1.15 to 1 for each fiscal quarter. The ratio was negatively impacted in the fourth quarter of 2008 by, among other things, deteriorating economic conditions. This, in addition to Caterpillar's drop in consolidated net worth, also resulted in Cat Financial falling below or failing to meet similar covenant requirements in other loan agreements.

The associated bank group under the Credit Facility has consented to Caterpillar's lower annual consolidated net worth of $6.087 billion as of December 31, 2008, and to Cat Financial's lower quarterly interest coverage ratio of 0.97 as of December 31, 2008. The bank group also agreed that any failure to comply with consolidated net worth and interest coverage ratio requirements would not constitute an actual or potential event of default under the Credit Facility. In consideration of these agreements, the upper range of interest rate applicable to certain amounts that may be drawn by us under the Credit Facility was increased by approximately 1.00 to 1.50 percentage points.

The lenders under Cat Financial's other loan agreements also have agreed that Caterpillar and Cat Financial will not be required to comply with the covenant ratios for the fourth quarter 2008. In consideration of those agreements, the upper range of interest rate applicable to certain amounts that may be drawn by us under those loan agreements were increased by approximately 1.00 percentage point.

As noted above, the actions by the bank group and other lenders only apply to the fourth quarter of 2008. 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 non-compliant party or the commitments could be, depending on the circumstances, reallocated among Caterpillar and/or Cat Financial. Additionally, in such event, certain of Cat Financial's other lenders under other loan agreements where such financial covenants are applicable may, at their election, choose to pursue remedies under such loan agreements, including accelerating outstanding borrowings. At December 31, 2008, there were no borrowings under the Credit Facility.

18. Profit per share

Computations of profit per share:

(Dollars in millions except per share data)	2008	2007	2006
Profit for the period (A)	$ 3,557	$ 3,541	$ 3,537
Determination of shares (in millions):			
Weighted average number of common shares outstanding (B)	610.5	638.2	658.7
Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price	17.4	21.3	25.1
Average common shares outstanding for fully diluted computation (C)	627.9	659.5	683.8
Profit per share of common stock:			
Assuming no dilution (A/B)	$ 5.83	$ 5.55	$ 5.37
Assuming full dilution (A/C)	$ 5.66	$ 5.37	$ 5.17
Shares outstanding as of December 31 (in millions)	601.5	624.0	645.8

SARs and stock options to purchase 5,468,512, 543,971 and 9,626,940 common shares were outstanding in 2008, 2007 and 2006, respectively, but were not included in the computation of diluted earnings per share because the effect would have been antidilutive.

19. Fair value disclosures

A. Fair value measurements

As discussed in Note 1K, we adopted SFAS 157 as of January 1, 2008. SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. SFAS 157 also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally-developed market assumptions. In accordance with SFAS 157, fair value measurements are classified under the following hierarchy:

- **Level 1** – Quoted prices for identical instruments in active markets.
- **Level 2** – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.
- **Level 3** – Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

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

SFAS 157 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 13 for additional information). Fair values for our government debt and equity securities are based upon valuations for identical instruments in active markets. Fair values for corporate bonds are based upon 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 the discounted cash flows. The fair value of foreign currency 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 arm's-length transaction with an unrelated party. If quoted or observable market prices are not available, fair value is based upon internally developed models that utilize current market-based assumptions.

Assets and liabilities measured at fair value, primarily related to Financial Products, included in our Consolidated Statement of Financial Position as of December 31, 2008 are summarized below:

(Millions of dollars)	December 31, 2008			
	Level 1	Level 2	Level 3	Total Assets / Liabilities, at Fair Value
Assets				
Available-for-sale securities (long-term investments)	$ 140	$ 992	$ —	$ 1,132
Derivative financial instruments	—	625	—	625
Securitized retained interests	—	—	52	52
Total assets	$ 140	$ 1,617	$ 52	$ 1,809
Liabilities				
Guarantees	$ —	$ —	$ 14	$ 14
Total liabilities	$ —	$ —	$ 14	$ 14

Below is a roll-forward of assets and liabilities measured at fair value using Level 3 inputs for the year ended December 31, 2008. These instruments, primarily related to Cat Financial, were valued using pricing models that, in management's judgment, reflect the assumptions a marketplace participant would use.

(Millions of dollars)	Securitized Retained Interests	Guarantees
Balance at December 31, 2007	$ 49	$ 12
Total gains or losses (realized / unrealized)		
Included in earnings	(21)	7
Included in other comprehensive income (loss)	(13)	—
Purchases, issuances and settlements	37	(5)
Balance at December 31, 2008	$ 52	$ 14

The amount of unrealized losses on securitized retained interests recognized in earnings for the year ended December 31, 2008 related to assets still held at December 31, 2008 were $23 million. These losses were reported in Revenues of Financial Products in Statement 1. 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 have impaired loans of $108 million as of December 31, 2008. A loan is considered impaired when management determines that collection of future income 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. See Table III for further details.

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 as required by SFAS 107, "Disclosures about Fair Values of Financial Instruments."

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

Long-term investments (other than investments in unconsolidated affiliated companies)
Fair value for available-for-sale securities was estimated based on quoted market prices. Fair value for security deposits (included in long-term investments in 2007 and 2006) approximated carrying value. In 2008 the security deposit is classified in "Prepaid expenses and other current assets" in Statement 2.

Finance receivables
Fair value was estimated by discounting the future cash flow 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 were considered a reasonable estimate of fair value. For deposit obligations, carrying value approximated fair value.

Please refer to Table IV for the fair values of our financial instruments.

TABLE IV—Fair Values of Financial Instruments

(Millions of dollars)	2008 Carrying Amount	2008 Fair Value	2007 Carrying Amount	2007 Fair Value	2006 Carrying Amount	2006 Fair Value	Reference
Asset (liability) at December 31							
Cash and short-term investments	$ 2,736	$ 2,736	$ 1,122	$ 1,122	$ 530	$ 530	Statement 2
Long-term investments	1,132	1,132	1,519	1,519	1,296	1,296	Notes 13 and 20
Foreign currency contracts	254	254	35	35	56	56	Notes 3 and 20
Finance receivables—net (excluding finance leases[1])	14,367	13,483	12,883	12,814	11,497	11,506	Note 8
Wholesale inventory receivables—net (excluding finance leases[1])	1,232	1,154	1,066	1,036	958	931	Note 7
Short-term borrowings	(7,209)	(7,209)	(5,468)	(5,468)	(5,155)	(5,155)	Note 15
Long-term debt (including amounts due within one year)							
Machinery and Engines	(6,192)	(6,290)	(3,819)	(4,118)	(4,112)	(4,397)	Note 16
Financial Products	(22,134)	(21,259)	(19,142)	(19,287)	(18,029)	(17,911)	Note 16
Interest rate swaps							
Machinery and Engines—							
in a net receivable position	—	—	28	28	2	2	Note 3
in a net payable position	(3)	(3)	—	—	—	—	Note 3
Financial Products—							
in a net receivable position	501	501	75	75	52	52	Note 3
in a net payable position	(127)	(127)	(46)	(46)	(99)	(99)	Note 3
Securitized retained interests	52	52	49	49	68	68	Notes 8 and 19
Guarantees	(14)	(14)	(12)	(12)	(10)	(10)	Notes 19 and 22

[1] Total excluded items have a net carrying value at December 31, 2008, 2007 and 2006 of $8,951 million, $8,511 million and $7,091 million, respectively.

20. 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, included in "Other assets" in Statement 2, are comprised primarily of investments of Cat Insurance supporting insurance reserve requirements.

For derivative contracts, collateral is generally not required of the counterparties or of our company. We do not anticipate nonperformance by any of the counterparties. Our exposure to credit loss in the event of nonperformance by the counterparties is limited to only those gains that we have recorded, but have not yet received cash payment. At December 31, 2008, 2007 and 2006, the exposure to credit loss was $1,051 million, $204 million, and $149 million, respectively. The significant 2008 increase is a result of favorable rate movement on interest rate swaps at Cat Financial and favorable exchange rate movement on foreign exchange contracts in Machinery and Engines.

Please refer to Note 19 and Table IV above for fair value information.

21. Operating leases

We lease certain computer and communications equipment, transportation equipment and other property through operating leases. Total rental expense for operating leases was $402 million, $362 million and $319 million for 2008, 2007 and 2006, 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)						
2009	2010	2011	2012	2013	After 2013	Total
$ 223	$ 183	$ 149	$ 119	$ 99	$ 487	$ 1,260

22. 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 Caterpillar dealers.

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 for $25 million resulting from the assignment of certain leases to that bank. The indemnity is for the possibility that the insurers of these leases would become insolvent. The indemnity expires December 15, 2012 and is unsecured.

No loss has been experienced or is anticipated under any of these guarantees. At December 31, 2008, 2007 and 2006, the related liability was $14 million, $12 million and $10 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)	2008	2007	2006
Guarantees with Caterpillar dealers	$ 100	$ 363	$ 527
Guarantees with customers	136	53	48
Limited indemnity	25	30	35
Guarantees—other	43	39	21
Total guarantees	$ 304	$ 485	$ 631

We provide guarantees to repurchase certain loans of Caterpillar dealers from a financial trust ("Trust") that qualifies as a variable interest entity under FIN 46R. The purpose of the Trust is to provide short-term working capital loans to Caterpillar dealers. This Trust issues commercial paper and uses the proceeds to fund its loan program. We have a loan purchase agreement with the Trust 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 Trust. Prior to December 2008, the loan purchase agreement was treated as a guarantee and disclosed in the table above as Guarantees with Caterpillar dealers. At December 31, 2008, we determined that we were the primary beneficiary of the Trust as our guarantee would require us to absorb a majority of the entity's expected losses, and therefore consolidated the financial position of the Trust in Statement 2. The Trust's assets of $477 million are primarily comprised of loans to dealers and the liabilities of $477 million 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 Trust, except to the extent we may be obligated to perform under the guarantee, and assets of the Trust 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.

We do 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, 2008, 2007 and 2006 was $8,918 million, $8,249 million and $6,519 million, respectively. The amount of the unused commitments and lines of credit for customers as of December 31, 2008, 2007 and 2006 was $3,085 million, $3,001 million and $2,279 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)	2008	2007	2006
Warranty liability, January 1	$ 1,045	$ 953	$ 879
Reduction in liability (payments)	(1,074)	(906)	(745)
Increase in liability (new warranties)	1,230	998	819
Warranty liability, December 31	$ 1,201	$ 1,045	$ 953

23. 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 "Accrued expenses" in the Consolidated Statement of Financial Position.

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

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

We have disclosed certain individual legal proceedings in this filing. Additionally, we are involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance liability (including claimed asbestos and welding fumes exposure), contracts, employment issues or intellectual property rights. Although it is not possible to predict with certainty the outcome of these unresolved legal actions, we believe that these actions will not individually or in the aggregate have a material adverse effect on our consolidated financial position, liquidity or results of operations.

On September 29, 2004, Kruse Technology Partnership (Kruse) filed a lawsuit against Caterpillar in the United States District Court for the Central District of California alleging that certain Caterpillar engines built from October 2002 to the present infringe upon certain claims of three of Kruse's patents on engine fuel injection timing and combustion strategies. Caterpillar denied Kruse's allegations and filed a counterclaim seeking a declaration from the court that Caterpillar is not infringing upon Kruse's patents and that the patents are invalid and unenforceable. On December 20, 2008, Caterpillar and Kruse entered into a confidential settlement agreement whereby all pending claims with regard to the lawsuit were settled. The settlement, which did not have a material impact on our financial statements, included an agreement by both parties to not bring any future actions in the matter. Subsequent to the agreement, the court entered an order dismissing the case.

24. Segment information

A. Basis for segment information

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

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

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

Caterpillar is a highly integrated company. Some product and component divisions also have marketing and/or manufacturing responsibilities. In addition, some geographically based manufacturing divisions also have product management, development, external sales and ongoing support responsibilities. One of our profit centers provides various financial services to our customers and dealers.

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

The segment information for 2007 and 2006 has been retrospectively adjusted to conform to the 2008 presentation.

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

Due to Caterpillar's high level of integration and our concern that segment disclosures based on SFAS 131 requirements have limited value to external readers, we are continuing to disclose financial results for our three principal lines of business (Machinery, Engines and Financial Products) in our Management's Discussion and Analysis beginning on page A-62.

B. Description of segments

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

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

EAME Operations: Primarily responsible for the manufacture of medium and large excavators, medium wheel loaders, articulated trucks, medium track-type tractors, wheel and small excavators and certain machine components in Europe, Africa and the Commonwealth of Independent States (CIS). Also responsible for product management, development, manufacture, external sales and ongoing support of paving products and select work tools.

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

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

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

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

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

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

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

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

C. Segment measurement and reconciliations

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

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

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

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

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

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

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

- Accountable profit is determined on a pretax basis.

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

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

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

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

The information for 2007 and 2006 has been retrospectively adjusted to conform to the 2008 presentation.

Reconciling items are created based on accounting differences between segment reporting and our consolidated, external reporting. Please refer to pages A-52 to A-56 for financial information regarding significant reconciling items. Most of our reconciling items are self-explanatory given the above explanations of accounting differences. However, for the reconciliation of profit, we have grouped the reconciling items as follows:

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

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

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

- Employee separation charges: See Note 26.

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

TABLE V—Segment Information
(Millions of dollars)

Business Segments

2008	Building Construction Products	EAME Operations	Electric Power	Heavy Construction & Mining	Industrial Power Systems	Infrastructure Development	Large Power Systems	Marine & Petroleum Power	All Other	Total Machinery & Engines	Financing & Insurance Services	Total
	Machinery and Engines											
External sales and revenues	$ 3,415	$ 961	$ 3,632	$ 9,751	$ 2,016	$ 9,583	$ 3,125	$ 4,061	$ 11,313	$ 47,857	$ 3,812	$ 51,669
Inter-segment sales & revenues	47	2,718	26	226	876	67	5,340	81	11,798	21,179	7	21,186
Total sales and revenues	$ 3,462	$ 3,679	$ 3,658	$ 9,977	$ 2,892	$ 9,650	$ 8,465	$ 4,142	$ 23,111	$ 69,036	$ 3,819	$ 72,855
Depreciation and amortization	$ 24	$ 101	$ 24	$ 10	$ 58	$ 4	$ 190	$ 15	$ 645	$ 1,071	$ 755	$ 1,826
Imputed interest expense	$ 19	$ 51	$ 25	$ 15	$ 24	$ 20	$ 56	$ 14	$ 375	$ 599	$ 1,170	$ 1,769
Accountable profit (loss)	$ 260	$ 176	$ 388	$ 1,707	$ 183	$ 867	$ 854	$ 573	$ 2,323	$ 7,331	$ 545	$ 7,876
Accountable assets at December 31	$ 519	$ 1,729	$ 861	$ 407	$ 829	$ 639	$ 1,858	$ 591	$ 15,861	$ 23,294	$ 33,095	$ 56,389
Capital expenditures	$ 35	$ 189	$ 75	$ 3	$ 129	$ —	$ 351	$ 79	$ 1,284	$ 2,145	$ 1,608	$ 3,753
2007												
External sales and revenues	$ 3,219	$ 942	$ 3,125	$ 8,853	$ 1,818	$ 8,466	$ 2,909	$ 2,934	$ 9,417	$ 41,683	$ 3,670	$ 45,353
Inter-segment sales & revenues	39	2,519	23	56	721	45	4,417	70	9,513	17,403	4	17,407
Total sales and revenues	$ 3,258	$ 3,461	$ 3,148	$ 8,909	$ 2,539	$ 8,511	$ 7,326	$ 3,004	$ 18,930	$ 59,086	$ 3,674	$ 62,760
Depreciation and amortization	$ 31	$ 93	$ 23	$ 3	$ 68	$ 3	$ 176	$ 13	$ 520	$ 930	$ 673	$ 1,603
Imputed interest expense	$ 18	$ 44	$ 23	$ 11	$ 20	$ 14	$ 54	$ 14	$ 315	$ 513	$ 1,147	$ 1,660
Accountable profit (loss)	$ 187	$ 362	$ 377	$ 1,766	$ 158	$ 1,053	$ 732	$ 259	$ 2,318	$ 7,212	$ 776	$ 7,988
Accountable assets at December 31	$ 648	$ 1,553	$ 826	$ 494	$ 715	$ 476	$ 1,740	$ 397	$ 11,141	$ 17,990	$ 30,571	$ 48,561
Capital expenditures	$ 34	$ 180	$ 34	$ —	$ 75	$ —	$ 221	$ 35	$ 862	$ 1,441	$ 1,367	$ 2,808
2006												
External sales and revenues	$ 3,201	$ 928	$ 2,562	$ 7,989	$ 1,605	$ 8,151	$ 4,498	$ 2,159	$ 7,530	$ 38,623	$ 3,359	$ 41,982
Inter-segment sales & revenues	590	2,071	125	167	557	1,517	3,568	545	9,161	18,301	1	18,302
Total sales and revenues	$ 3,791	$ 2,999	$ 2,687	$ 8,156	$ 2,162	$ 9,668	$ 8,066	$ 2,704	$ 16,691	$ 56,924	$ 3,360	$ 60,284
Depreciation and amortization	$ 23	$ 79	$ 22	$ —	$ 67	$ 1	$ 147	$ 16	$ 421	$ 776	$ 642	$ 1,418
Imputed interest expense	$ 17	$ 44	$ 19	$ 1	$ 18	$ 4	$ 42	$ 12	$ 274	$ 431	$ 1,044	$ 1,475
Accountable profit (loss)	$ 318	$ 415	$ 220	$ 1,825	$ 115	$ 1,194	$ 1,144	$ 149	$ 2,226	$ 7,606	$ 716	$ 8,322
Accountable assets at December 31	$ 557	$ 1,409	$ 720	$ 257	$ 620	$ 280	$ 1,733	$ 381	$ 10,535	$ 16,492	$ 28,406	$ 44,898
Capital expenditures	$ 38	$ 141	$ 52	$ 1	$ 66	$ —	$ 261	$ 23	$ 694	$ 1,276	$ 1,153	$ 2,429

Reconciliations:

Sales & Revenues	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
2008				
Total external sales and revenues from business segments	$ 47,857	$ 3,812	$ —	$ 51,669
Other	187	(224)	(308)[1]	(345)
Total sales and revenues	$ 48,044	$ 3,588	$ (308)	$ 51,324
2007				
Total external sales and revenues from business segments	$ 41,683	$ 3,670	$ —	$ 45,353
Other	279	(274)	(400)[1]	(395)
Total sales and revenues	$ 41,962	$ 3,396	$ (400)	$ 44,958
2006				
Total external sales and revenues from business segments	$ 38,623	$ 3,359	$ —	$ 41,982
Other	246	(245)	(466)[1]	(465)
Total sales and revenues	$ 38,869	$ 3,114	$ (466)	$ 41,517

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

Reconciliations:

Profit before taxes	Machinery and Engines	Financing & Insurance Services	Consolidated Total
2008			
Total accountable profit from business segments	$ 7,331	$ 545	$ 7,876
Cost centers	(1,895)	—	(1,895)
Corporate costs	(1,068)	—	(1,068)
Timing	(327)	—	(327)
Employee separation charges	(30)	—	(30)
Methodology differences:			
Inventory/cost of sales	(115)	—	(115)
Postretirement benefit expense	(103)	—	(103)
Financing costs	181	—	181
Equity in profit of unconsolidated affiliated companies	(38)	1	(37)
Currency	3	—	3
Other methodology differences	(7)	(5)	(12)
Total profit before taxes	$ 3,932	$ 541	$ 4,473
2007			
Total accountable profit from business segments	$ 7,212	$ 776	$ 7,988
Cost centers	(1,724)	—	(1,724)
Corporate costs	(1,007)	—	(1,007)
Timing	37	—	37
Methodology differences:			
Inventory/cost of sales	(44)	—	(44)
Postretirement benefit expense	(225)	—	(225)
Financing costs	(31)	—	(31)
Equity in profit of unconsolidated affiliated companies	(69)	(4)	(73)
Currency	50	—	50
Other methodology differences	(13)	(5)	(18)
Total profit before taxes	$ 4,186	$ 767	$ 4,953
2006			
Total accountable profit from business segments	$ 7,606	$ 716	$ 8,322
Cost centers	(1,632)	—	(1,632)
Corporate costs	(924)	—	(924)
Timing	(122)	—	(122)
Methodology differences:			
Inventory/cost of sales	(41)	—	(41)
Postretirement benefit expense	(331)	—	(331)
Financing costs	(131)	—	(131)
Equity in profit of unconsolidated affiliated companies	(79)	(2)	(81)
Currency	15	—	15
Other methodology differences	(245)	31	(214)
Total profit before taxes	$ 4,116	$ 745	$ 4,861

Reconciliations:

Assets	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
2008				
Total accountable assets from business segments	$ 23,294	$ 33,095	$ —	$ 56,389
Items not included in segment assets:				
Cash and short-term investments	1,517	1,219	—	2,736
Intercompany receivables	540	76	(616)	—
Trade and other receivables	403	—	—	403
Investments in unconsolidated affiliated companies	—	—	(43)	(43)
Investment in Financial Products	3,727	—	(3,727)	—
Deferred income taxes and prepaids	4,977	244	(474)	4,747
Intangible assets and other assets	1,196	58	—	1,254
Cost center assets	2,062	—	—	2,062
Liabilities included in segment assets	2,964	8	—	2,972
Inventory methodology differences	(2,752)	—	—	(2,752)
Other	333	(319)	—	14
Total assets	$ 38,261	$ 34,381	$ (4,860)	$ 67,782
2007				
Total accountable assets from business segments	$ 17,990	$ 30,571	$ —	$ 48,561
Items not included in segment assets:				
Cash and short-term investments	862	260	—	1,122
Intercompany receivables	366	113	(479)	—
Trade and other receivables	272	—	—	272
Investments in unconsolidated affiliated companies	461	—	(24)	437
Investment in Financial Products	3,948	—	(3,948)	—
Deferred income taxes and prepaids	2,701	138	(339)	2,500
Intangible assets and other assets	1,210	63	—	1,273
Cost center assets	1,765	—	—	1,765
Liabilities included in segment assets	2,664	20	—	2,684
Inventory methodology differences	(2,482)	—	—	(2,482)
Other	295	(295)	—	—
Total assets	$ 30,052	$ 30,870	$ (4,790)	$ 56,132
2006				
Total accountable assets from business segments	$ 16,492	$ 28,406	$ —	$ 44,898
Items not included in segment assets:				
Cash and short-term investments	319	211	—	530
Intercompany receivables	205	85	(290)	—
Trade and other receivables	281	—	—	281
Investments in unconsolidated affiliated companies	439	—	(9)	430
Investment in Financial Products	3,513	—	(3,513)	—
Deferred income taxes and prepaids	3,167	116	(327)	2,956
Intangible assets and other assets	1,283	(1)	—	1,282
Cost center assets	1,592	—	—	1,592
Liabilities included in segment assets	1,744	21	—	1,765
Inventory methodology differences	(2,290)	—	—	(2,290)
Other	250	(245)	—	5
Total assets	$ 26,995	$ 28,593	$ (4,139)	$ 51,449

Reconciliations:

Depreciation and Amortization	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
2008				
Total accountable depreciation and amortization from business segments	$ 1,071	$ 755	$ —	$ 1,826
Items not included in segment depreciation and amortization:				
Cost centers	178	—	—	178
Other	(24)	—	—	(24)
Total depreciation and amortization	$ 1,225	$ 755	$ —	$ 1,980
2007				
Total accountable depreciation and amortization from business segments	$ 930	$ 673	$ —	$ 1,603
Items not included in segment depreciation and amortization:				
Cost centers	178	—	—	178
Other	(15)	31	—	16
Total depreciation and amortization	$ 1,093	$ 704	$ —	$ 1,797
2006				
Total accountable depreciation and amortization from business segments	$ 776	$ 642	$ —	$ 1,418
Items not included in segment depreciation and amortization:				
Cost centers	179	—	—	179
Other	(12)	17	—	5
Total depreciation and amortization	$ 943	$ 659	$ —	$ 1,602

Reconciliations:

Capital Expenditures	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
2008				
Total accountable capital expenditures from business segments	$ 2,145	$ 1,608	$ —	$ 3,753
Items not included in segment capital expenditures:				
Cost centers	300	—	—	300
Other	(24)	4	(22)	(42)
Total capital expenditures	$ 2,421	$ 1,612	$ (22)	$ 4,011
2007				
Total accountable capital expenditures from business segments	$ 1,441	$ 1,367	$ —	$ 2,808
Items not included in segment capital expenditures:				
Cost centers	235	—	—	235
Other	7	(1)	(9)	(3)
Total capital expenditures	$ 1,683	$ 1,366	$ (9)	$ 3,040
2006				
Total accountable capital expenditures from business segments	$ 1,276	$ 1,153	$ —	$ 2,429
Items not included in segment capital expenditures:				
Cost centers	254	—	—	254
Other	50	(1)	(57)	(8)
Total capital expenditures	$ 1,580	$ 1,152	$ (57)	$ 2,675

Enterprise-wide Disclosures:

External sales and revenues from products and services:

	2008	2007	2006
Machinery	$ 31,804	$ 28,359	$ 26,062
Engines	16,240	13,603	12,807
Financial Products	3,280	2,996	2,648
Total consolidated	$ 51,324	$ 44,958	$ 41,517

Information about Geographic Areas:

	External Sales & Revenues [1]			Net property, plant and equipment December 31,		
	2008	2007	2006	2008	2007	2006
Inside United States	$ 17,291	$ 17,091	$ 19,636	$ 6,426	$ 5,754	$ 5,424
Outside United States	34,033	27,867	21,881	6,098 [2]	4,243 [2]	3,427 [2]
Total	$ 51,324	$ 44,958	$ 41,517	$ 12,524	$ 9,997	$ 8,851

[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 $791 million, $786 million and $725 million of net property, plant and equipment located in the United Kingdom as of December 31, 2008, 2007 and 2006, respectively.

25. Business combinations

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. These values represent a preliminary allocation of the purchase price subject to finalization of fair value appraisals and other post-closing procedures. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and reported in the "All Other" category in Note 24. 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 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 are reported in the "All Other" category in Note 24. 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 after five years, 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.

Additionally, the remaining 33 percent of Cat Japan owned by MHI has been reported as redeemable noncontrolling interest and classified as mezzanine equity (temporary equity) in the Consolidated Statement of Financial Position. 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.

In subsequent reporting periods, the redeemable noncontrolling interest will continue to be reported at its estimated redemption value. Any adjustment to the redemption value will impact Profit employed in the business, but will 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. As of December 31, 2008, there has been no change to the estimated future redemption value, and the fair value of the redeemable noncontrolling interest has remained greater than the redemption value.

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 2008, we adjusted the carrying value by $2 million resulting in 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, 2008, the redeemable noncontrolling interest was $524 million.

Cat Japan was included in the "All Other" category in Note 24. 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.

Forestry Division of Blount International, Inc.

In November 2007, we acquired substantially all of the assets and assumed certain liabilities of Blount International's Forestry Division. The cost of the acquisition was $82 million, consisting of $79 million in cash and a net employee benefit liability incurred of $3 million. Blount's Forestry Division manufactures, markets and supports timber harvesting and processing equipment, loaders and attachments. The acquisition supports our corporate objective to be the forestry market leader and enables us to offer the broadest product line in the industry with a full range of products and services for logging, millyard, road-building and land management.

This transaction was financed with available cash and commercial paper borrowings. Net tangible assets acquired and liabilities assumed of $36 million were recorded at their fair values. Finite-lived intangible assets acquired of $24 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 9 years. Goodwill of $22 million, 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 24. 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.

Franklin Power Products

In February 2007, we acquired certain assets and assumed certain liabilities of Franklin Power Products, Inc. (FPP) and International Fuel Systems, Inc. (IFS), subsidiaries of Remy International. In June 2007, pursuant to the acquisition agreement, additional assets were purchased from Remy International for $7 million which increased the total purchase price to approximately $165 million, consisting of $160 million paid at the closings and an additional $5 million post closing adjustment paid in July 2007. FPP is a remanufacturer of on-highway light and medium duty truck diesel engines and engine components. IFS provides remanufactured diesel components such as high-pressure fuel pumps, fuel injectors and turbochargers. This acquisition represents a strategic expansion of our engine and engine component remanufacturing operations.

This transaction was financed with available cash and commercial paper borrowings. Net tangible assets acquired and liabilities assumed of $39 million were recorded at their fair values. Finite-lived intangible assets acquired of $89 million related to customer relationships are primarily being amortized on a straight-line basis over 20 years. Goodwill of $37 million, 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 24. 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.

Large Components Business of Royal Oak Industries, Inc.

In August 2006, we acquired the large components business of Royal Oak Industries, Inc. (Royal Oak), a supplier to our engines business, for $97 million, consisting of $92 million at closing and $5 million plus accrued interest paid in December 2008. The business acquired provides machining of engine cylinder blocks, heads, manifolds and bearing caps. This acquisition expands our machining operations in our engine manufacturing business.

The transaction was financed with available cash and commercial paper borrowings. Net tangible assets acquired of $58 million, consisting of property, plant and equipment, accounts receivable and inventory, were recorded at their fair values. No intangible assets were acquired. Goodwill of $39 million, deductible for income tax purposes, represents the excess of cost over the fair value of the acquired net tangible assets. 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 “Large Power Systems” segment in Note 24. 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.

Progress Rail Services, Inc.

In June 2006, Caterpillar acquired 100 percent of the equity in privately held Progress Rail Services, Inc. (Progress Rail) for approximately $1 billion, including the assumption of $200 million in debt. Based in Albertville, Alabama, Progress Rail is a leading provider of remanufactured locomotive, railcar and track products and services to the North American railroad industry. The company also has one of the most extensive rail service and supply networks in North America. When acquired, Progress Rail operated more than 90 facilities in 29 states in the United States, Canada and Mexico, with about 3,700 employees. Expansion into the railroad aftermarket business is a strong fit with our strategic direction and will leverage Caterpillar's remanufacturing capabilities.

The transaction was financed with available cash and commercial paper borrowings of $427 million and Caterpillar stock of $379 million (5.3 million shares). Net tangible assets acquired, recorded at their fair values, primarily were inventories of $257 million, receivables of $169 million and property, plant and equipment of $260 million. Liabilities acquired, recorded at their fair values, primarily consisted of assumed debt of $200 million, accounts payable of $148 million and net deferred tax liabilities of $115 million. Finite-lived intangible assets acquired of $223 million related primarily to customer relationships are being amortized on a straight-line basis over 20 years. Goodwill of $431 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 24. 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.

26. Employee separation charges

During 2008, we recognized employee separation charges of $30 million in Other operating expenses in Statement 1 related to various voluntary and involuntary separation programs. These programs, impacting approximately 3,000 production and support and management employees world-wide, are in response to a sharp decline in sales volume due to the current global recession. 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 separation charges, which will be made up primarily of cash severance payments, were not assigned to operating segments and are included in the reconciliation of total accountable profit from business segments to total profit before taxes. See Note 24 for further details. The following table summarizes the separation charges by geographic region:

(Millions of dollars)	North America	EAME	Latin America	Total
2008 Separation charges	$ 4	$ 17	$ 9	$ 30
2008 Separation payments	—	(12)	(7)	(19)
Liability balance at December 31, 2008	$ 4	$ 5	$ 2	$ 11

As of December 31, 2008, approximately 1,600 employees had separated, with the remaining separations expected by the end of first quarter 2009. The majority of the remaining costs will be paid by the end of the first quarter 2009.

27. Selected quarterly financial results (unaudited)

(Dollars in millions except per share data)	2008 Quarter 1st	2nd	3rd	4th
Sales and revenues	$ 11,796	$ 13,624	$ 12,981	$ 12,923
Less: Revenues	(817)	(827)	(833)	(803)
Sales	10,979	12,797	12,148	12,120
Cost of goods sold	8,609	10,036	9,704	10,066
Gross margin	2,370	2,761	2,444	2,054
Profit	$ 922	$ 1,106	$ 868	$ 661
Profit per common share	$ 1.49	$ 1.80	$ 1.43	$ 1.10
Profit per common share—diluted	$ 1.45	$ 1.74	$ 1.39	$ 1.08
	2007 Quarter 1st	**2nd**	**3rd**	**4th**
Sales and revenues	$ 10,016	$ 11,356	$ 11,442	$ 12,144
Less: Revenues	(695)	(743)	(774)	(784)
Sales	9,321	10,613	10,668	11,360
Cost of goods sold	7,136	8,300	8,270	8,920
Gross margin	2,185	2,313	2,398	2,440
Profit	$ 816	$ 823	$ 927	$ 975
Profit per common share	$ 1.27	$ 1.28	$ 1.45	$ 1.55
Profit per common share—diluted	$ 1.23	$ 1.24	$ 1.40	$ 1.50

28. Subsequent events

Employee Separation Programs

In response to the expected sharp decline in 2009 sales volume, Caterpillar implemented the following employee separation programs during 2009:

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 plan, and generally until January 31, 2009 to make a final decision. Participating employees will receive severance pay based on current salary level and years of service. As of January 31, 2009, approximately 2,200 employees had accepted the program and are generally expected to separate from Caterpillar by March 31, 2009. We are currently estimating the costs associated with this program.

Other U.S. Separation Programs - During 2009, we initiated plans to reduce U.S. based production and support and management positions through a variety of programs. For support and management employees, these include involuntary separation programs. For production employees, these include both involuntary and voluntary separation programs. We are currently estimating the costs associated with these programs.

Non-U.S. Separation Programs - We have initiated several other separation programs during 2009. These programs, designed specific to the laws and regulations of the individual countries, represent voluntary and involuntary plans for production and support and management employees. We are currently estimating the costs associated with these programs.

We will continue to monitor the economic environment and, depending on business conditions, more voluntary and involuntary workforce reductions may be required as 2009 unfolds.

Cat Financial Debt Issuance

On February 12, 2009, Cat Financial issued $350 million of 5.75% notes due in 2012, $1.65 billion of 6.125% notes due in 2014 and $1.0 billion of 7.15% notes due in 2019. The net proceeds from the issuance will be used to reduce short-term debt and for general corporate purposes.

Five-year Financial Summary
(Dollars in millions except per share data)

	2008	2007	2006	2005[4]	2004[4]
Years ended December 31,					
Sales and revenues	$ 51,324	$ 44,958	$ 41,517	$ 36,339	$ 30,306
Sales	$ 48,044	$ 41,962	$ 38,869	$ 34,006	$ 28,336
Percent inside the United States	33%	37%	46%	47%	46%
Percent outside the United States	67%	63%	54%	53%	54%
Revenues	$ 3,280	$ 2,996	$ 2,648	$ 2,333	$ 1,970
Profit[6, 7]	$ 3,557	$ 3,541	$ 3,537	$ 2,854	$ 2,035
Profit per common share[1, 6, 7]	$ 5.83	$ 5.55	$ 5.37	$ 4.21	$ 2.97
Profit per common share—diluted[2, 6, 7]	$ 5.66	$ 5.37	$ 5.17	$ 4.04	$ 2.88
Dividends declared per share of common stock	$ 1.620	$ 1.380	$ 1.150	$ 0.955	$ 0.800
Return on average common stockholders' equity[3, 5, 7]	47.5%	45.0%	46.3%	35.9%	30.0%
Capital expenditures:					
Property, plant and equipment	$ 2,445	$ 1,700	$ 1,593	$ 1,201	$ 926
Equipment leased to others	$ 1,566	$ 1,340	$ 1,082	$ 1,214	$ 1,188
Depreciation and amortization	$ 1,980	$ 1,797	$ 1,602	$ 1,477	$ 1,397
Research and development expenses	$ 1,728	$ 1,404	$ 1,347	$ 1,084	$ 928
As a percent of sales and revenues	3.4%	3.1%	3.2%	3.0%	3.1%
Wages, salaries and employee benefits	$ 9,076	$ 8,331	$ 7,512	$ 6,928	$ 6,025
Average number of employees	106,518	97,444	90,160	81,673	73,033
December 31,					
Total assets[5, 7]	$ 67,782	$ 56,132	$ 51,449	$ 47,553	$ 43,501
Long-term debt due after one year:					
Consolidated	$ 22,834	$ 17,829	$ 17,680	$ 15,677	$ 15,837
Machinery and Engines	$ 5,736	$ 3,639	$ 3,694	$ 2,717	$ 3,663
Financial Products	$ 17,098	$ 14,190	$ 13,986	$ 12,960	$ 12,174
Total debt:					
Consolidated	$ 35,535	$ 28,429	$ 27,296	$ 25,745	$ 23,525
Machinery and Engines	$ 7,824	$ 4,006	$ 4,277	$ 3,928	$ 3,762
Financial Products	$ 27,711	$ 24,423	$ 23,019	$ 21,817	$ 19,763

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 The per share data reflects the 2005 2-for-1 stock split.
5 As discussed in Note 1K, effective December 31, 2006 we changed the manner in which we accounted for postemployment benefits upon the adoption of SFAS 158.
6 As discussed in Note 1M, in 2006 we changed the manner in which we accounted for stock-based compensation upon the adoption of SFAS 123R.
7 As discussed in Note 1K, in 2007 we changed the manner in which we accounted for uncertain tax positions upon the adoption of FIN 48.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

2008 sales and revenues were $51.324 billion, up 14 percent from 2007. Profit per share was $5.66, up 5 percent and profit after tax of $3.557 billion was about flat with 2007. Fourth-quarter sales and revenues were $12.923 billion, 6 percent higher than the fourth quarter of 2007. Profit per share for the quarter was $1.08, down 28 percent from the fourth quarter of 2007.

While 2008 was our sixth consecutive year of record sales and revenues, it was an extraordinarily challenging year. Through the first three quarters we experienced booming demand from key global industries, notably mining and energy, and most emerging market countries. Delivery times for many products were extended, and we were focused on increasing production and expediting shipments to meet customer needs. Then we were whipsawed in the fourth quarter as key industries were hit by a rapidly deteriorating global economy and plunging commodity prices. In anticipation of lower demand we encouraged dealers to align inventory with declining volume, and they responded with significant order cancellations, particularly in December.

For the year, sales and revenues increased $6.366 billion— $3.816 billion from higher ***sales volume***, $1.352 billion from improved ***price realization***, $653 million from the effects of ***currency***, $284 million from higher Financial Products revenues and $261 million from the consolidation of Caterpillar Japan Ltd. (Cat Japan). Profit for 2008 was about flat with 2007, with the positive impact of higher price realization, improved sales volume and lower income tax expense about offset by higher operating costs, especially material and freight costs.

Fourth-quarter sales and revenues of $12.923 billion increased $779 million from the fourth quarter of last year. Higher sales volume of $494 million, improved price realization of $308 million, $261 million related to the consolidation of Cat Japan and $19 million from higher Financial Products revenues were partially offset by $303 million of lower sales from the effects of currency. Fourth-quarter profit of $661 million decreased $314 million as significantly higher ***Machinery*** and ***Engines*** operating costs and a sharp decline in profit related to ***Financial Products***, more than offset a $409 million favorable tax item and favorable price realization.

Fourth-quarter profit was disappointing, particularly in light of record fourth-quarter sales and revenues and a significant favorable tax adjustment. Fourth-quarter costs included transitional expenses as we moved to lower volumes and initiated production cuts. In addition, Financial Products results were impaired by financial market turbulence. It is now clear that we need to sharply lower our production and costs, and aggressive actions were triggered in December.

Global economic conditions and key commodity prices have continued to decline significantly. Financial markets remain under stress, and our expectations for 2009 have deteriorated. Uncertainty around the depth and duration of this recession makes it very difficult to forecast sales and revenues. As a result, we are rapidly executing strategic "trough" plans and implementing actions throughout the company to deal with a very challenging global business environment. We have initiated actions which will remove about 20,000 workers from our business and every indirect spend dollar will be heavily scrutinized. These actions support lowering our production costs in line with a 25-percent decline in sales volume and reducing Selling, General and Administrative (SG&A) and Research and Development (R&D) costs supporting our ***Machinery and Engines*** business by about 15 percent. We are encouraged by government stimulus programs and actions taken by central banks around the world to spur growth. However, economic conditions remain uncertain, and we are planning for 2009 sales and revenues to be in a range of plus or minus 10 percent from $40 billion. At $40 billion in 2009 sales and revenues, the company expects to achieve profit of about $2.00 per share, or $2.50 per share excluding redundancy costs.

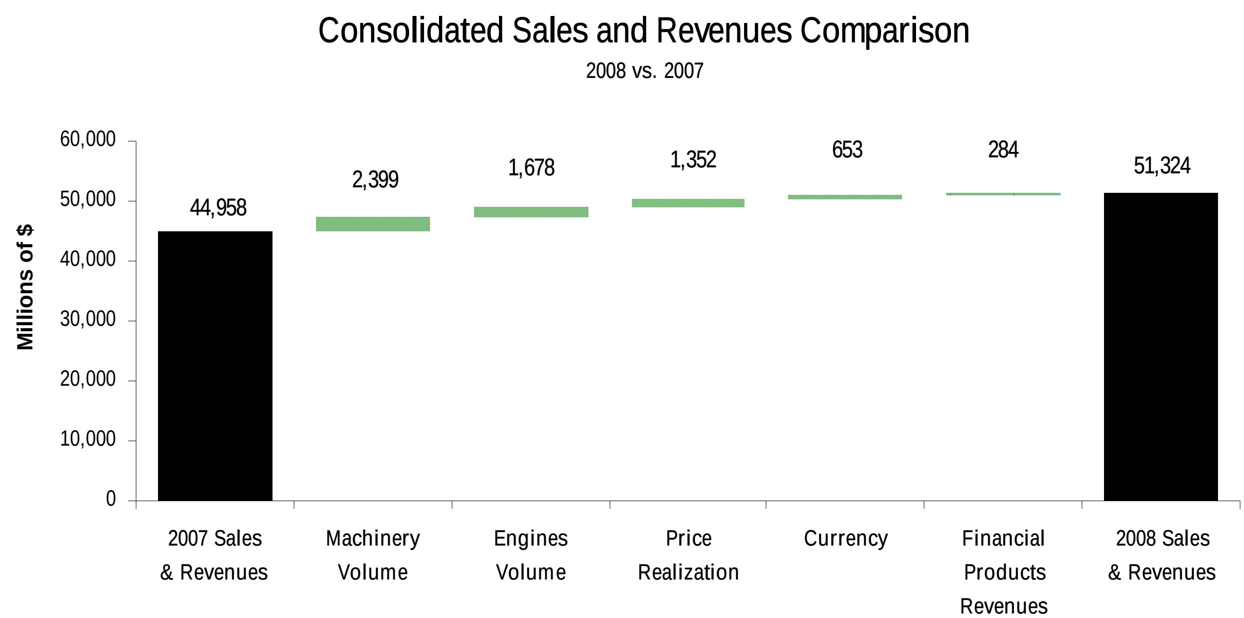
These are very uncertain times, and it's imperative that we focus Team Caterpillar on dramatically reducing production schedules and costs in light of poor economic conditions throughout the world. While it's painful for our employees and suppliers, it's absolutely necessary given economic circumstances. We expect to have most of the actions needed to lower employment and cost levels in place by the end of the first quarter.

Without a doubt, 2009 will be a very tough year, but it is important to remember that economic cycles are not new, and we will emerge from this even stronger than we are today. Throughout our 83-year history Caterpillar has successfully managed through the Great Depression, several recessions, a world war and numerous other adversities. We're a strong company with a management team that's been through tough times before. We are the global leader, with an unparalleled dealer network. We've strengthened our market position in past recessions, and we have done so over the past few months. In addition, we will continue to invest in product technology and operational efficiency through these tough times. When the economy does recover, the need for better housing, roads and capacity for energy and mining will still be there, and we will be prepared to respond.

*Glossary of terms included on pages A-82 to A-83; first occurrence of terms shown in bold italics.

2008 COMPARED WITH 2007

SALES AND REVENUES



The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between 2007 (at left) and 2008 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting sales and revenues appear as downward stair steps with dollar amounts reflected in parentheses above each bar. The bar entitled Machinery Volume includes the impact of consolidation of 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 2008 were $51.324 billion, up $6.366 billion, 14 percent, from 2007. Machinery sales volume was up $2.399 billion, driven by strength in developing economies. Engines sales volume increased $1.678 billion due to growth in all major industries, with particular strength in petroleum.

In addition, price realization contributed $1.352 billion, currency had a positive impact on sales of $653 million driven primarily by the stronger euro and Financial Products revenues increased 9 percent.

Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	EAME	% Change	Asia/ Pacific	% Change	Latin America	% Change
2008										
Machinery	$ 31,804	12%	$ 12,769	1%	$ 9,220	7%	$ 5,709	42%	$ 4,106	30%
Engines[1]	16,240	19%	5,445	7%	6,311	20%	2,910	36%	1,574	39%
Financial Products[2]	3,280	9%	2,001	—	590	23%	361	50%	328	21%
	$ 51,324	14%	$ 20,215	3%	$ 16,121	13%	$ 8,980	40%	$ 6,008	32%
2007										
Machinery	$ 28,359		$ 12,596		$ 8,588		$ 4,026		$ 3,149	
Engines[1]	13,603		5,092		5,245		2,136		1,130	
Financial Products[2]	2,996		2,007		479		240		270	
	$ 44,958		$ 19,695		$ 14,312		$ 6,402		$ 4,549	

[1] Does not include internal engine transfers of $2.822 billion and $2.549 billion in 2008 and 2007, 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 $308 million and $400 million in 2008 and 2007, respectively.

Machinery Sales

Sales of $31.804 billion increased $3.445 billion, or 12 percent, from 2007

- Excluding the consolidation of Cat Japan, sales volume increased $2.138 billion, with the gain occurring in the developing economies of Africa/Middle East, Commonwealth of Independent States (CIS), Asia/Pacific and *Latin America*.
- Price realization increased $541 million.
- Currency benefited sales by $505 million.
- Geographic mix between regions (included in price realization) was $2 million favorable.
- The consolidation of Cat Japan added $261 million to 2008 sales.
- Dealers in all regions reported higher inventories than year-end 2007 in both dollars and months of supply.
- The U.S. economy was in recession throughout 2008, which contributed to weaknesses in both construction and quarrying. Coal mining and oil sands development were about the only positives for North America.
- The euro-zone entered recession in the second quarter and the United Kingdom in the third quarter. As a result of these recessions, housing construction declined sharply, nonresidential construction weakened and sales volume declined.
- Sales improved in the developing regions of Africa/Middle East, CIS, Asia/Pacific and Latin America through the first three quarters of 2008. However, growth slowed sharply in the fourth quarter in response to weakening economies.

North America – Sales increased $173 million, or 1 percent.

- Sales volume decreased $143 million.
- Price realization increased $316 million.
- Dealers added slightly to reported inventories this year, a contrast to more than a billion-dollar reduction in 2007. Dealers reported higher inventories than a year earlier in both dollars and months of supply.
- Dealers reported significantly lower deliveries to end users, a result of the recession in the United States that persisted throughout the year. That recession led to lower sales in most key industries other than coal mining and the Canadian oil sands.
- U.S. housing starts declined to 904 thousand units, the lowest since 1945. Negatives for housing included a severe tightening in mortgage lending standards, sharp declines in home prices and more than an 11-month supply of unsold new homes. Canadian housing starts declined 6 percent.
- Spending for U.S. nonresidential construction increased in response to the surge in new orders over the past few years. However, new orders for commercial construction declined 18 percent in 2008. Problems for building construction included increased vacancy rates, declines in property prices and tighter credit conditions for businesses.
- New orders for highway construction declined almost 7 percent. Unfavorable factors included limited growth in Federal highway funding, state and local government budget difficulties and a sharp increase in material input prices.
- Nonmetals mining and quarry production dropped almost 14 percent in response to lower construction activity.
- The Central Appalachian coal price rose 90 percent, driven by a 43-percent increase in U.S. coal exports. U.S. coal production increased 2.2 percent, and Canadian production rose 1.2 percent. As a result, sales of the large tractors used in coal mining surged.
- Investment in Canadian oil sands increased 23 percent, benefiting from a 38-percent increase in crude oil prices.

EAME – Sales increased $632 million, or 7 percent.

- Sales volume increased $196 million.
- Price realization increased $66 million.
- Currency benefited sales by $370 million.
- Dealers reported year-end 2008 inventories that were significantly higher than a year earlier in both dollars and months of supply.
- Sales volume dropped in both the euro-zone and the United Kingdom, due to recessions and a slowing in construction.

- Housing permits in the euro-zone dropped 22 percent, and U.K. housing orders fell 35 percent. High interest rates and home price declines in several European countries contributed to weakness in housing.
- Mining and energy development, as well as increased construction, caused sales volume to increase in Africa/Middle East. Oil prices increased 37 percent, and production rose more than 4 percent from a year earlier, which led to an increase in drilling.
- Sales volume increased significantly in the CIS region, despite economic problems that developed in the fourth quarter. Positive factors included low interest rates, increased government spending, increased energy prices and higher production of most energy commodities.

Asia/Pacific – Sales increased $1,683 million, or 42 percent.

- Sales volume excluding the consolidation of Cat Japan increased $1,254 million.
- Price realization increased $91 million.
- Currency benefited sales by $77 million.
- The consolidation of Cat Japan added $261 million to 2008 sales.
- Dealers reported year-end 2008 inventories that were significantly higher than a year earlier in both dollars and months of supply.
- The largest gain in sales volume occurred in China, the result of higher sales of locally produced wheel loaders and increased construction activity.
- Another large gain in sales volume occurred in Indonesia, largely due to much higher coal prices. Indonesia is the world's largest exporter of thermal coal, and coal supplies in Asia were very tight for most of the year.
- Sales volume increased in Australia, primarily due to high metals and energy prices. Capital expenditures for mineral development increased 37 percent, and expenditures for coal increased 46 percent. Rapid growth in the mining industry stretched infrastructure capacity so investment in infrastructure increased 13 percent.
- In India, 11-percent growth in construction and 4 percent higher mining output contributed to an increase in sales volume.

Latin America – Sales increased $957 million, or 30 percent.

- Sales volume increased $833 million.
- Price realization increased $66 million.
- Currency benefited sales by $58 million.
- Dealers reported year-end 2008 inventories that were significantly higher than a year earlier in both dollars and months of supply.
- Brazil had the largest increase in sales volume. Economic growth continued to benefit from interest rate reductions taken in 2007, resulting in a 10-percent increase in construction. Iron ore exports increased 62 percent, due to increased production and much higher prices.
- Sales volume increased sharply in Mexico. Positives included much higher oil prices, increased natural gas production and 3-percent growth in construction.
- Sales volume growth in Colombia occurred in response to much higher coal prices. In Chile, high copper prices led to an increase in sales volume.

<u>Engines Sales</u>

Sales of $16.240 billion increased $2.637 billion, or 19 percent, from 2007.

- Sales volume increased $1.678 billion.
- Price realization increased $811 million.
- Currency benefited sales $148 million.
- Geographic mix between regions (included in price realization) was $36 million favorable.
- Dealer-reported inventories were up, and months of supply were up slightly, supporting strong delivery rates.

North America – Sales increased $353 million, or 7 percent.

- Sales volume increased $62 million.
- Price realization increased $291 million.
- Sales for on-highway truck applications increased 10 percent compared to a very weak 2007. Demand remained below historic norms due to the slowing U.S. economy that resulted in a reduction in freight tonnage. Also, the impact of the decision to exit the on-highway truck business was starting to be felt as Original Equipment Manufacturer (OEM) customers reduced their reliance on Caterpillar products.
- Sales for petroleum engine applications increased 5 percent, driven by a slight increase in natural gas and drilling applications.
- Sales for marine applications increased 37 percent, with strong demand early in the year for supply vessels that support offshore drilling. This more than offset a decline in engine sales for pleasure craft.
- Sales for industrial applications increased 11 percent.
- Sales for electric power applications decreased 2 percent due to economic uncertainty and tightening credit conditions.

EAME – Sales increased $1,066 million, or 20 percent.

- Sales volume increased $639 million.
- Price realization increased $293 million.
- Currency benefited sales by $134 million.
- Sales for petroleum applications increased 46 percent based on strong demand for engines used in drilling and production. Turbines and turbine-related services increased in support of gas transmission and oil and gas production applications in Africa, Europe and the Middle East.
- Sales for electric power applications increased 18 percent, with strong demand for large- and mid-sized generator sets into Africa and the Middle East. Mid-sized generator sets also benefited from successful rental development.
- Sales for marine applications increased 30 percent in workboats and commercial vessels.
- Sales for industrial applications increased 6 percent, with strong demand for small engines used in the telecom sector. In addition, demand for agricultural applications also improved as a result of high agricultural commodity prices.

Asia/Pacific – Sales increased $774 million, or 36 percent.

- Sales volume increased $603 million.
- Price realization increased $157 million.
- Currency benefited sales by $14 million.
- Sales for petroleum applications increased 54 percent to support record Chinese drill rig activity and increased demand for Asian shipyards in support of offshore drilling.
- Sales for marine applications increased 30 percent, with strong demand for workboats and offshore shipbuilding. Large diesel demand grew in the offshore and general cargo industries.
- Sales of electric power engines increased 18 percent, with increased demand from Bangladesh industrial customers, and continued success with Chinese coal mine methane customers, for large gas generator sets. Diesel demand resulted from data and telecommunication center demand in China, and utility, mining and paper mill demand from Indonesia.
- Sales for industrial applications increased 62 percent driven by sales in Australia into mining and irrigation sectors and by sales in New Zealand.

Latin America – Sales increased $444 million, or 39 percent.

- Sales volume increased $410 million.
- Price realization increased $34 million.
- Sales for petroleum applications increased 61 percent driven by the heightened demand for power to support drilling and production in Argentina, Venezuela, Mexico and Peru. Turbines and turbine-related services increased for oil and gas production and gas transmission applications in South America.

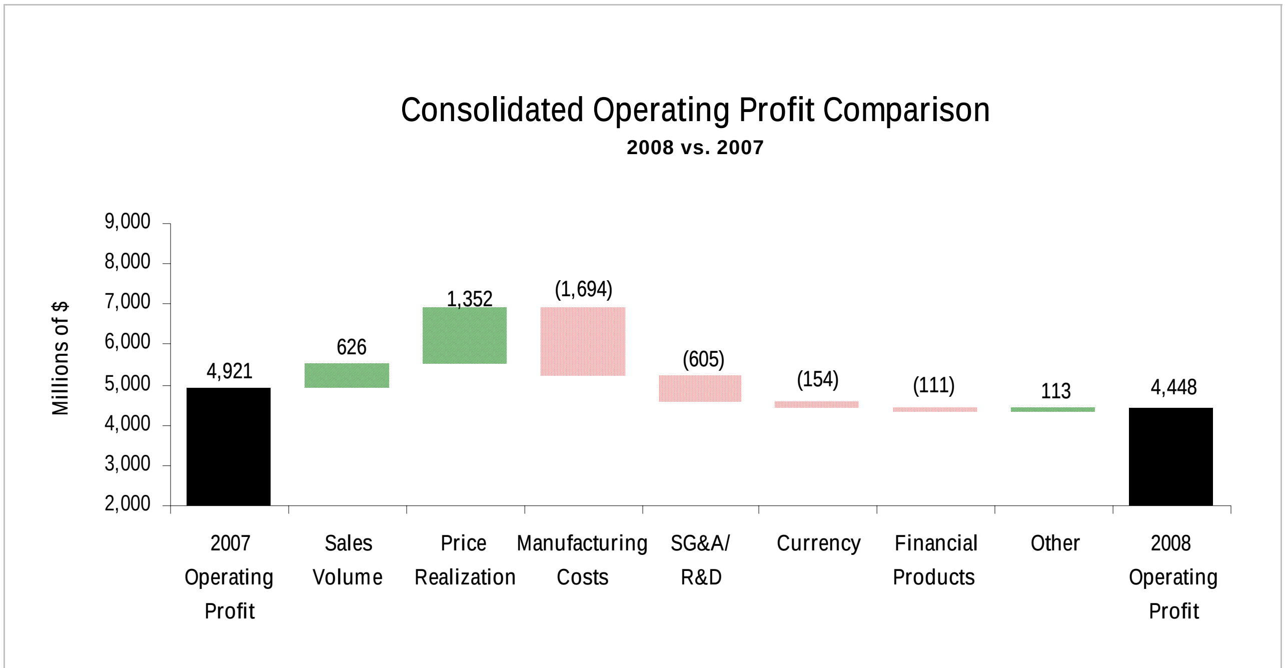
- Sales of electric power engines increased 37 percent driven by high commodity prices and infrastructure investment.
- Sales for industrial applications increased 29 percent. This demand was driven by good economic conditions and higher agricultural commodity prices.
- Sales for on-highway truck applications decreased 7 percent as a result of a loss of OEM business in this region.

Financial Products Revenues

Revenues of $3.280 billion increased $284 million, or 9 percent, from 2007.

- Growth in average ***earning assets*** increased revenues $368 million, which was partially offset by a decrease of $175 million due to lower interest rates on new and existing finance receivables.
- Revenues from earned premiums at Cat Insurance increased $84 million.

OPERATING PROFIT



The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between 2007 (at left) and 2008 (at right). Items favorably impacting operating profit appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting operating profit appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees. The bar entitled Other includes the operating profit impact of ***consolidating adjustments***, consolidation of Cat Japan and ***Machinery and Engines other operating expenses***.

2008 operating profit of $4.448 billion was down $473 million from 2007 as improved price realization and higher sales volume were more than offset by higher costs and the unfavorable impact of currency.

Manufacturing costs increased $1.694 billion compared with 2007. The majority of the manufacturing cost increase was driven by higher material and freight costs. Material costs increased due to higher steel and commodity prices, and freight costs increased primarily due to higher fuel prices, and expediting costs related to higher production volume. In addition, manufacturing labor and overhead costs increased to support capacity expansion and velocity initiatives.

SG&A and R&D costs were up $605 million to support significant new product programs and growth.

Currency had a $154 million unfavorable impact on operating profit as the benefit to sales was more than offset by the negative impact on costs.

Operating Profit by Principal Line of Business

(Millions of dollars)	2008	2007	$ Change	% Change
Machinery[1]	$ 1,803	$ 2,758	$ (955)	(35)%
Engines[1]	2,319	1,826	493	27%
Financial Products	579	690	(111)	(16)%
Consolidating Adjustments	(253)	(353)	100	
Consolidated Operating Profit	$ 4,448	$ 4,921	$ (473)	(10)%

[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 profit of $1.803 billion was down $955 million, or 35 percent, from 2007. Improved price realization and higher sales volume were more than offset by higher costs and the unfavorable impact of currency.

- Engines operating profit of $2.319 billion was up $493 million, or 27 percent, from 2007. The favorable impacts of improved price realization and higher sales volume were partially offset by higher costs.

- Financial Products operating profit of $579 million was down $111 million, or 16 percent, from 2007. The decrease was attributable to a $136 million increase in SG&A expenses due primarily to a $95 million increase in the provision for credit losses at Cat Financial, a $105 million impact from decreased net yield of average earning assets, partially offset by a $130 million favorable impact from higher average earning assets.

OTHER PROFIT/LOSS ITEMS

- Other income/expense was income of $299 million compared with income of $320 million in 2007. The favorable currency impacts of $79 million were more than offset by a $50 million unfavorable change in mark-to-market adjustments on interest rate derivative contracts at Cat Financial and a $37 million impairment of investments in Cat Insurance's portfolio as a result of poor market performance. In addition, a 2008 gain of $60 million on the sale of our equity investment in ASV was partially offset by the absence of a $46 million gain on the sale of a cost-basis investment in 2007.

- The provision for income taxes for 2008 reflects an annual tax rate of 31.5 percent, excluding the discrete items discussed below, compared to a 30-percent rate in 2007. The increase in the tax rate excluding discrete items over 2007 is attributable to changes in our geographic mix of profits from a tax perspective.

  The provision for income taxes for 2008 also includes discrete benefits of $456 million. 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 in 2008 due to a change in tax status of a non-U.S. subsidiary allowing indefinite reinvestment of undistributed profits and reversal of U.S. tax previously recorded.

- Equity in profit/(loss) of unconsolidated affiliated companies was income of $37 million compared with income of $73 million in 2007. The decrease is primarily related to lower profit at *Shin Caterpillar Mitsubishi Ltd. (SCM)* through the first nine months and the absence of profit after the consolidation of Cat Japan.

  On August 1, 2008, SCM redeemed one-half of Mitsubishi Heavy Industries Ltd.'s (MHI's) shares in SCM for $464 million. Caterpillar now owns 67 percent of the renamed entity, Caterpillar Japan Ltd. We consolidated Cat Japan's balance sheet on September 30, 2008. We began consolidating Cat Japan's results of operations in the fourth quarter.

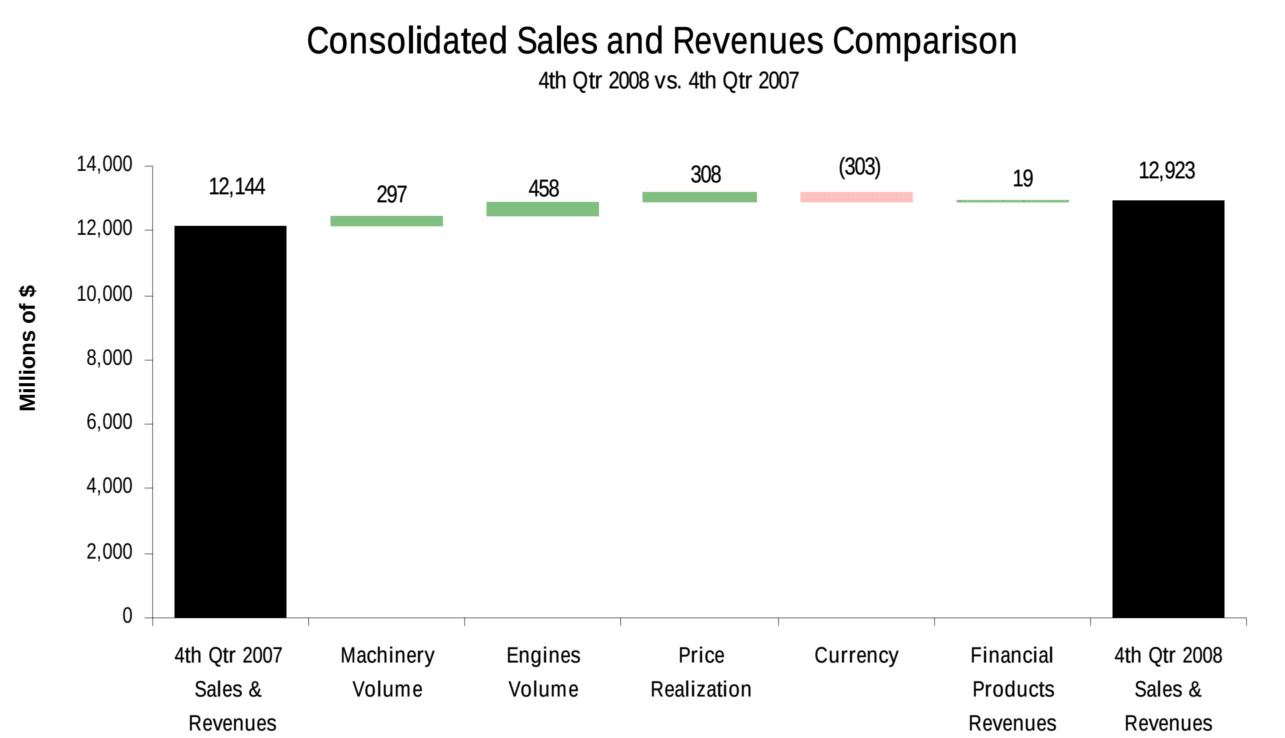
Supplemental Information

(Millions of dollars)	2008	2007	2006
Identifiable Assets:			
Machinery	$ 24,595	$ 18,275	$ 16,734
Engines	13,666	11,777	10,261
Financial Products	34,381	30,870	28,593
Consolidating Adjustments	(4,860)	(4,790)	(4,139)
Total	$ 67,782	$ 56,132	$ 51,449
Capital Expenditures:			
Machinery	$ 1,617	$ 1,090	$ 906
Engines	782	584	617
Financial Products	1,612	1,366	1,152
Total	$ 4,011	$ 3,040	$ 2,675
Depreciation and Amortization:			
Machinery	$ 839	$ 655	$ 550
Engines	386	438	393
Financial Products	755	704	659
Total	$ 1,980	$ 1,797	$ 1,602

Caterpillar operations are highly integrated; therefore, the company uses a number of allocations to determine lines of business financial data.

FOURTH QUARTER 2008 COMPARED WITH FOURTH QUARTER 2007

SALES AND REVENUES



The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between fourth quarter 2007 (at left) and fourth quarter 2008 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting sales and revenues appear as downward stair steps with dollar amounts reflected in parentheses above each bar. The bar entitled Machinery Volume includes the impact of consolidation of 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 fourth quarter 2008 were $12.923 billion, up $779 million, or 6 percent, from fourth quarter 2007. Machinery volume was up $297 million. Excluding Cat Japan, machinery volume was up $36 million. Engines volume was up $458 million, as growth in developing economies more than offset significant weakness in developed economies. Price realization improved $308 million. Financial Products revenues increased $19 million. Currency had a negative impact on sales of $303 million due to the strengthening of the U.S. dollar against most major currencies.

Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	EAME	% Change	Asia/ Pacific	% Change	Latin America	% Change
Fourth Quarter 2008										
Machinery	$ 7,675	3%	$ 2,833	(9)%	$ 2,013	(13)%	$ 1,652	38%	$ 1,177	41%
Engines[1]	4,445	14%	1,379	8%	1,670	3%	849	30%	547	55%
Financial Products[2]	803	2%	490	(1)%	144	(4)%	89	44%	80	3%
	$ 12,923	6%	$ 4,702	(4)%	$ 3,827	(6)%	$ 2,590	36%	$ 1,804	43%
Fourth Quarter 2007										
Machinery	$ 7,460		$ 3,112		$ 2,322		$ 1,194		$ 832	
Engines[1]	3,900		1,275		1,617		654		354	
Financial Products[2]	784		494		150		62		78	
	$ 12,144		$ 4,881		$ 4,089		$ 1,910		$ 1,264	

[1] Does not include internal engine transfers of $646 million and $652 million in fourth quarter 2008 and 2007, 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 $66 million and $104 million in fourth quarter 2008 and 2007, respectively.

Machinery Sales

Sales $7.675 billion increased $215 million, or 3 percent, from fourth quarter 2007.

- Sales volume increased $36 million, with the gain occurring in the developing economies of Africa/Middle East, CIS, Asia/Pacific and Latin America.
- Price realization increased $85 million.
- Currency decreased sales by $167 million.
- Geographic mix between regions (included in price realization) was $14 million favorable.
- The consolidation of Cat Japan sales added $261 million to 2008 sales.
- Dealers in all regions reported higher inventories than year-end 2007 in both dollars and months of supply.
- The financial crisis intensified after the collapse of Lehman Brothers in mid September. Recessions in the developed countries worsened, and growth in the developing economies slowed abruptly. As a result, dealers reported lower deliveries to end users than a year earlier.
- The U.S. economy probably declined at the fastest rate in more than 25 years. Construction, nonmetals mining and quarrying weakened further. Coal mining and oil sands development were about the only positives for North America.
- The European economy declined, putting additional downward pressure on construction.
- Sales volume increased in the developing regions of Africa/Middle East, CIS, Asia/Pacific and Latin America, although at a slower rate than earlier in the year. Higher interest rates, the credit crisis, lower commodity prices and reduced exports to developed countries were the major factors causing this slowing.

North America – Sales decreased $279 million, or 9 percent.

- Sales volume decreased $354 million.
- Price realization increased $75 million.

- Sales volume declined in line with lower reported dealer deliveries to end users. Dealers added slightly to inventories, leaving them higher than a year earlier in both dollars and months of supply.
- The U.S. economy was in recession and the bankruptcy of Lehman Brothers caused a severe tightening in financial markets. As a result, economic output dropped sharply, and key industries reduced machine purchases.
- U.S. housing starts fell below a 700 thousand unit annual rate, the lowest this cycle, and permits for new construction were even lower. Housing starts were depressed by relatively high mortgage interest rates, a further tightening in credit, a 10-percent decline in new home prices and more than an 11-month supply of unsold new homes.
- Orders for U.S. nonresidential construction fell 28 percent below a year earlier. Negatives included limited growth in Federal highway funding, higher material input costs, and declines in commercial property prices. Banks further tightened credit standards on commercial real estate loans in response to rising delinquencies and financial stresses.
- Sharp declines in construction caused a 13-percent drop in nonmetals mining and quarry production.
- Metals mining production increased sharply, but much lower metals prices prompted mines to reduce machine purchases.
- Coal production increased almost 3 percent, benefiting from increased exports and much higher coal prices. Sales of machines used in coal mining increased.
- Crude oil prices declined, but to levels that were still attractive for investment.

EAME – Sales decreased $309 million, or 13 percent.

- Sales volume decreased $199 million.
- Price realization decreased $19 million.
- Currency impact decreased sales by $91 million.
- Dealers in all regions reported higher inventories than year-end 2007 in both dollars and months of supply.
- Preliminary data suggest recessions in both the euro-zone and the United Kingdom worsened in fourth quarter 2008, and dealers reported sizable declines in deliveries.
- Interest rates remained relatively high, contributing to weakness in construction. Housing permits in the euro-zone were probably down more than 20 percent, and U.K. housing orders plunged more than 50 percent. Heavy construction in the euro-zone declined 6 percent.
- Sales volume increased slightly in Africa/Middle East, ending more than 5 years of strong year-on-year growth.
- In the CIS, sales volume increased, although at a slower rate than earlier in the year. Russia's economy slowed due to higher interest rates, a credit crisis and lower oil revenues.
- In both Africa/Middle East and CIS, sales volume in December was lower than a year earlier.

Asia/Pacific – Sales increased $458 million, or 38 percent.

- Sales volume increased $235 million.
- Price realization increased $17 million.
- Currency impact decreased sales by $55 million.
- The consolidation of Cat Japan sales added $261 million to 2008 sales.
- Dealers in all regions reported higher inventories than year-end 2007 in both dollars and months of supply.
- Recessions in developed economies caused export growth to slow or decline for most countries. In addition, several countries had raised interest rates, which helped slow economic growth.
- China's economy slowed, which sharply curtailed growth in sales volume.
- Higher coal prices contributed to sizable sales volume growth in Indonesia.
- Mine output expanded in Australia as mining employment increased 30 percent. Higher production, along with commodity prices that were still attractive for investment, led to increased sales volume.
- India had tightened economic policies to cope with inflation and the economy slowed in the fourth quarter. Sales volume increased slightly, ending several years of rapid growth.

Latin America – Sales increased $345 million, or 41 percent.

- Sales volume increased $368 million.
- Price realization decreased $2 million.
- Currency impact decreased sales by $21 million.
- Dealers reported higher inventories than year-end 2007 in both dollars and months of supply.
- The largest gain in sales volume occurred in Chile. Positives were efforts to expand mine production and increased construction.
- Higher coal prices boosted sales volume in Colombia.
- Although the Mexican economy was sluggish, construction and the energy industries expanded. Sales volume increased sharply.
- Interest rate increases in Brazil caused the economy to slow sharply in the fourth quarter, with industrial production declining. The world steel industry reduced production in the last half of 2008, causing Brazil's iron ore production to drop 5 percent. As a result, growth in sales volume slowed significantly from rates experienced during the first three quarters.

Engines Sales

Sales of $4.445 billion increased $545 million, or 14 percent, from fourth quarter 2007.

- Sales volume increased $458 million.
- Price realization increased $223 million.
- Currency impact decreased sales $136 million.
- Geographic mix between regions (included in price realization) was $2 million favorable.
- Dealer-reported inventories were up, and months of supply were up slightly, supporting strong delivery rates.

North America – Sales increased $104 million, or 8 percent.

- Sales volume increased $22 million.
- Price realization increased $82 million.
- Sales for petroleum engine applications increased 14 percent due to strong demand for gas compression, drilling and well service applications. Turbine sales for gas transmission projects were down due to timing of customer project schedules. This was partially offset by an increase in turbine-related services.
- Sales for electric power applications increased 8 percent, driven by increases in turbine sales to support power plant projects.
- Sales for on-highway truck applications increased 3 percent, when compared with a very weak fourth quarter 2007 in the North American on-highway heavy-duty truck market. Demand remained below historic norms due to the slow U.S. economy that resulted in a reduction in freight tonnage. Also, the impact of the decision to exit the on-highway truck business was starting to be felt as OEM customers reduced their reliance on Caterpillar products.
- Sales for industrial applications decreased 3 percent due to substantially lower demand in construction, material handling and auxiliary power units.

EAME – Sales increased $53 million, or 3 percent.

- Sales volume increased $85 million.
- Price realization increased $72 million.
- Currency impact decreased sales by $104 million.

- Sales for industrial applications decreased 16 percent, as demand in the construction segments slowed with reduced spending on infrastructure development. This was partially offset by increases in agricultural applications.
- Sales for marine applications increased 27 percent in workboats and commercial vessels to support projects that were driven by high commodity prices.
- Sales for petroleum applications increased 16 percent based on strong demand for engines used in drilling and production. Turbine sales increased for gas transmission and oil and gas production applications.
- Sales for electric power applications increased 6 percent, with strong demand in Africa/Middle East offsetting weaker demand in Europe and the CIS and a decrease in turbine sales, which were the result of timing of large power plant projects.

Asia/Pacific – Sales increased $195 million, or 30 percent.

- Sales volume increased $170 million.
- Price realization increased $57 million.
- Currency impact decreased sales by $32 million.
- Sales for petroleum applications increased 79 percent to support Chinese drill rig activity and increased demand for Asian shipyards in support of offshore drilling. Turbine sales increased for gas transmission and oil and gas production applications.
- Sales for marine applications increased 34 percent, with continued strong demand for workboat, offshore and general cargo vessels.
- Sales for industrial applications increased 39 percent, as a result of higher sales into mining and irrigation sectors in Australia and increased sales in New Zealand.
- Sales of electric power engines decreased 2 percent.

Latin America – Sales increased $193 million, or 55 percent.

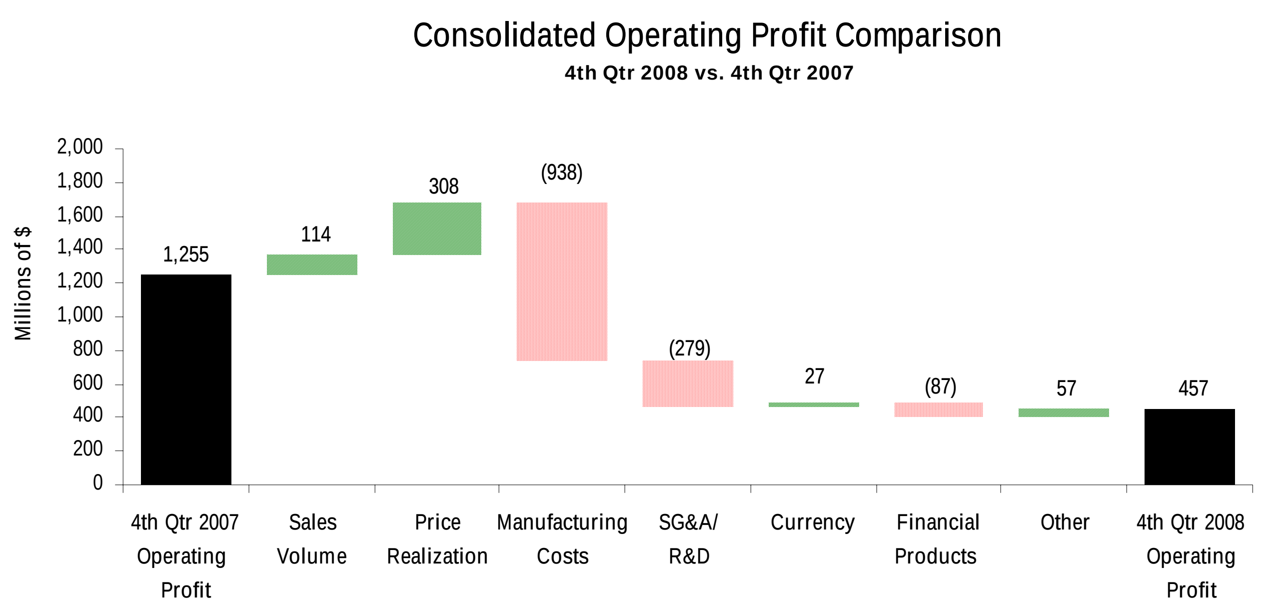
- Sales volume increased $183 million.
- Price realization increased $10 million.
- Sales for petroleum applications increased 60 percent as turbines and turbine-related services increased for gas transmission and oil and gas production applications.
- Sales of electric power engines increased 82 percent to support infrastructure investment.
- Sales for on-highway truck applications decreased 42 percent as a result of OEM customers working down inventory and a loss of OEM business.

Financial Products Revenues

Revenues of $803 million increased $19 million, or 2 percent, from the fourth quarter 2007.

- Growth in average earning assets increased revenues $56 million, which was partially offset by a decrease of $46 million due to lower interest rates on new and existing finance receivables.
- Revenues from earned premiums at Cat Insurance increased $24 million.

OPERATING PROFIT



The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between fourth quarter 2007 (at left) and fourth quarter 2008 (at right). Items favorably impacting operating profit appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting operating profit appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees. The bar entitled Other includes the operating profit impact of consolidating adjustments, consolidation of Cat Japan and Machinery and Engines other operating expenses.

Operating profit in fourth quarter 2008 of $457 million was $798 million lower than fourth quarter 2007 as improved price realization and higher sales volume were more than offset by higher costs.

Manufacturing costs increased $938 million compared with fourth quarter 2007. The increase was driven by higher material and freight costs, along with manufacturing inefficiencies as costs did not drop in line with a sharp decline in production volume.

SG&A and R&D costs were up $279 million to support significant new product programs and growth initiatives.

Financial Products operating profit decreased $87 million.

Operating Profit by Principal Line of Business

(Millions of dollars)	Fourth Quarter 2008	Fourth Quarter 2007	$ Change	% Change
Machinery[1]	$ (6)	$ 619	$ (625)	(101)%
Engines[1]	438	571	(133)	(23)%
Financial Products	74	161	(87)	(54)%
Consolidating Adjustments	(49)	(96)	47	
Consolidated Operating Profit	$ 457	$ 1,255	$ (798)	(64)%

[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 $6 million compared to an operating profit of $619 million in the fourth quarter of 2007. Substantially all of the change was the result of higher manufacturing costs.
- **Engines** operating profit of $438 million was down $133 million, or 23 percent, from fourth quarter 2007. Higher costs were partially offset by improved price realization and higher sales volume.

- **Financial Products** operating profit of $74 million was down $87 million, or 54 percent, from fourth quarter 2007. The decrease was primarily attributable to a $57 million impact from decreased net yield on average earning assets and a $42 million increase in the provision for credit losses at Cat Financial, partially offset by a $22 million favorable impact from higher average earning assets.

OTHER PROFIT/LOSS ITEMS

- **Other income/expense** was expense of $26 million compared with income of $88 million in fourth quarter 2007. The decrease was primarily due to a $47 million unfavorable change in mark-to-market adjustments on interest rate derivative contracts at Cat Financial and a $37 million impairment of investments in Cat Insurance's portfolio as a result of poor market performance

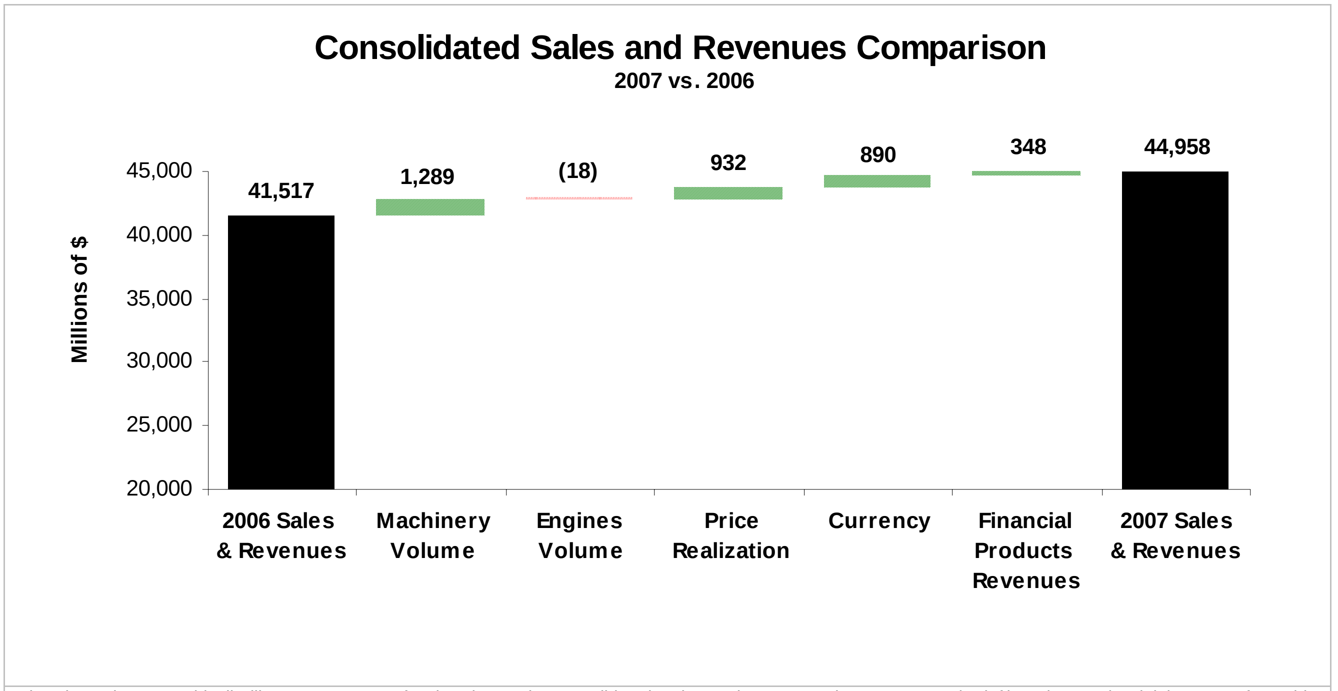
- **The provision for income taxes** in the fourth quarter of 2008 reflects an annual tax rate of 31.5 percent, excluding the discrete item discussed below, compared to a 30-percent rate in 2007. The increase in the tax rate excluding discrete items over 2007 is primarily attributable to a less favorable geographic mix of profits from a tax perspective. Although we expected to lower our annual tax rate by approximately one percentage point in the fourth quarter due to the renewal of the U.S. research and development tax credit in October 2008, this benefit was offset by less favorable fourth quarter geographic mix of profits from a tax perspective resulting in no change in the estimated tax rate from third quarter 2008.

  The provision for income taxes in the fourth quarter of 2008 also includes a discrete benefit of $409 million related to repatriation of non-U.S. earnings with available foreign tax credits in excess of the U.S. tax liability on the dividend. This compares to a favorable adjustment of $55 million in the fourth quarter 2007 related to a decrease in the estimated tax rate.

- **Equity in profit/(loss) of unconsolidated affiliated companies** was income of $5 million compared with income of $22 million in fourth quarter 2007. The decline reflects the absence of profit at Shin Caterpillar Mitsubishi Ltd. (SCM) due to the redemption, on August 1, 2008, of one-half of Mitsubishi Heavy Industries Ltd.'s (MHI's) shares in SCM.

2007 COMPARED WITH 2006

SALES AND REVENUES



The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between 2006 (at left) and 2007 (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 change in Progress Rail sales. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Sales and revenues for 2007 were $44.958 billion, up $3.441 billion, or 8 percent, from 2006. 2007 machinery sales were up 9 percent as strong growth outside North America and a full year of Progress Rail more than offset a weak U.S. construction market. Machinery volume was up $1.289 billion. Excluding Progress Rail, machinery volume was up $514 million. Although sales volume increased moderately, the geographic shift in sales was significant. North American machinery sales were down 11 percent; machinery sales outside of North America were up 33 percent.

Engines sales increased 6 percent despite the 59 percent decline in North American on-highway truck engines. Sales volume was down slightly as growth in engines sales to industries like oil and gas, electric power, industrial and marine nearly offset the volume decline in on-highway truck engines.

In addition, price realization was more than 2 percent despite an unfavorable geographic mix. Currency had a positive impact on sales of $890 million driven primarily by the stronger euro. Financial Products revenues were up 13 percent.

Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	EAME	% Change	Latin America	% Change	Asia/ Pacific	% Change
2007										
Machinery	$ 28,359	9%	$ 12,596	(11)%	$ 8,588	38%	$ 3,149	24%	$ 4,026	31%
Engines[1]	13,603	6%	5,092	(14)%	5,245	29%	1,130	3%	2,136	26%
Financial Products[2]	2,996	13%	2,007	8%	479	27%	270	38%	240	7%
	$ 44,958	8%	$ 19,695	(11)%	$ 14,312	34%	$ 4,549	18%	$ 6,402	28%
2006										
Machinery	$ 26,062		$ 14,215		$ 6,223		$ 2,544		$ 3,080	
Engines[1]	12,807		5,940		4,064		1,102		1,701	
Financial Products[2]	2,648		1,852		377		195		224	
	$ 41,517		$ 22,007		$ 10,664		$ 3,841		$ 5,005	

[1] Does not include internal engine transfers of $2.549 billion and $2.310 billion in 2007 and 2006, 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 $400 million and $466 million in 2007 and 2006, respectively.

Machinery sales of $28.359 billion were an increase of $2.297 billion, or 9 percent, from 2006. Excluding Progress Rail, machinery volume increased $514 million. Sales volume decreased in North America but increased in all other regions. Price realization increased $410 million. Currency benefited sales by $598 million. Geographic mix between regions (included in price realization) was $182 million unfavorable. The acquisition of Progress Rail added $775 million. North American dealers reduced reported inventories substantially in 2007, taking them well below a year earlier in months of supply. Inventories in months of supply declined in most other regions as well. Economic factors, primarily in the United States, contributed to lower sales volume in North America. These factors included the collapse in housing construction, weakness in nonresidential construction contracts in the last half of 2007 and a decline in quarry and aggregate production. Sales volume increased in the rest of the world, offsetting weakness in North America. Positives included relatively low interest rates, good economic growth and continued growth in construction. Metals mining was positive in many countries throughout the world. Metals prices increased, and mining companies increased exploration spending by more than 40 percent. Oil prices increased about 10 percent, and natural gas prices increased 4 percent. Production and drilling increased in many regions, and pipeline construction increased. Transportation problems, particularly in Australia, contributed to a significant increase in international coal prices. The impact on sales volume varied—negative for Australia and the United States but positive elsewhere.

- North America sales decreased $1,619 million, or 11 percent. Sales volume excluding Progress Rail decreased $2,540 million. Price realization increased $146 million. Progress Rail increased sales $775 million. Dealers reduced their reported inventories by about $1.1 billion in 2007 compared to a $300 million increase in 2006. Dealer inventories at the end of the year were well below a year earlier in both dollars and months of supply. An unfavorable economic environment caused output to decline in many key industries in the United States, prompting users to curtail fleet expansions. In addition, dealers added fewer units to their rental fleets and let existing fleets age. Output prices for some industries, such as housing and coal mining, softened. Reduced profitability and tighter credit likely caused some users to delay replacement purchases. The housing industry weakened throughout the year, with starts down 26 percent in 2007. Tighter lending standards, a large number of unsold homes and a sharp drop in home sales caused builders to reduce construction. Nonresidential construction spending increased 18 percent, however, contracts awarded for new construction declined about 2 percent. Employment in nonresidential construction also weakened in the last half of the year. Factors that contributed to this weakening included tighter standards for commercial and industrial loans, higher corporate bond spreads and a decline in business cash flows. Spot coal prices declined leading to a 3 percent decline in coal production. Electric utilities reduced coal usage, and stockpiles increased. More positively, coal exports rebounded more than 15 percent as a result of U.S. prices falling well below international prices. Metals mining, oil sands and pipeline construction remained positive. Average metals prices increased more than 40 percent, and mines in both Canada and the United States increased production. Canada increased crude oil production 7 percent. Shipments of line pipe in the United States increased 14 percent.
- EAME sales increased $2,365 million, or 38 percent. Sales volume increased $1,729 million. Price realization increased $202 million. Currency benefited sales by $434 million. Dealers reported significant increases in demand and increased inventories to support that stronger demand—a positive for sales volume. Dealer inventories in months of supply ended the year slightly higher than a year earlier. Sales volume increased in Europe in response to positive economic growth and large gains in both nonresidential building and infrastructure construction. These sectors benefited from increased business profits, a 13 percent increase in business borrowing and higher government capital expenditures. However, housing permits declined 8 percent due to higher lending rates for home purchases and some moderation in home prices. Africa/Middle East turned in another year of very positive volume growth. Interest rates changed little over the past year, and most stock markets boomed. Exports increased significantly, allowing the region to increase its foreign exchange holdings 22 percent. Higher oil prices encouraged increased drilling in both Africa and the Middle East, and both Turkey and South Africa experienced more than 10 percent growth in construction. Sales volume in the Commonwealth of Independent States (CIS) increased rapidly for the seventh consecutive year, with large gains occurring in Russia, Ukraine and Kazakhstan. All three governments increased spending more than 20 percent, and monetary policies were extremely expansive. Regional oil production increased more than 4 percent, and Russia increased construction 23 percent.

- Latin America sales increased $605 million, or 24 percent. Sales volume increased $466 million. Price realization increased $87 million. Currency benefited sales by $52 million. Dealers reported much higher demand and built inventory to support that demand. Reported inventories increased in dollars but declined in months of supply. Sales volume increased significantly in Brazil, the result of a 200 basis point reduction in interest rates and an improvement in economic growth. Better economic growth contributed to an increase of about 4 percent in construction spending, and higher metals prices led to a 4 percent increase in mine production. Most other countries raised interest rates slightly, and economic growth was near 5 percent. As a result, construction increased 9 percent in Chile, 12 percent in both Colombia and Venezuela and 16 percent in Peru. Mines increased exploration spending 38 percent in response to higher metals prices and increased production. Higher oil prices and declining production caused increased drilling, a positive for sales volume.

- Asia/Pacific sales increased $946 million, or 31 percent. Sales volume increased $677 million. Price realization increased $157 million. Currency benefited sales by $112 million. Dealers reported higher demand for machines and inventories declined. As a result, inventories in months of supply were well below those at the end of 2006. Central banks kept interest rates low, and many governments increased spending. These developments produced more than 8 percent economic growth, and stock markets boomed. Construction increased more than 20 percent in China, 11 percent in India and 9 percent in Australia. Australian thermal coal spot prices increased 30 percent due to continued strong demand and supply problems. Increased coal production and prices contributed to a substantial sales gain in Indonesia. China increased coal production 12 percent. Higher metals prices and a 56 percent increase in mine exploration spending benefited sales volume growth. Mine production increased almost 11 percent in Indonesia, 6 percent in India and 5 percent in Australia.

Engines Sales of $13.603 billion were an increase of $796 million, or 6 percent, from 2006. Sales volume decreased $18 million. Price realization increased $522 million. Currency benefited sales $292 million. Geographic mix between regions (included in price realization) was $29 million favorable. Dealer reported inventories in dollars were up; months of supply were down as the inventories were supported by strong delivery rates.

- **North America** sales decreased $848 million, or 14 percent. Sales volume decreased $1.037 billion. Price realization increased $189 million. Sales for on-highway truck applications declined 59 percent with less than anticipated demand for the 2007 model-year engines. This was due to the reduction in tonnage hauled and freight rates realized by on-highway carriers. This has also been impacted by the transition of several Original Equipment Manufacturers (OEMs) to the 2007 emissions technology engines. Sales for petroleum applications increased 39 percent due to strong demand in gas compression and exploration, along with success from gas pipeline and storage construction projects. The increase in turbines and turbine-related services reflects additional customer spending for natural gas pipelines and compression equipment. Sales for electric power applications increased 22 percent as demand for large generator sets increased to support data center installations, which offset a slight decline in smaller units.

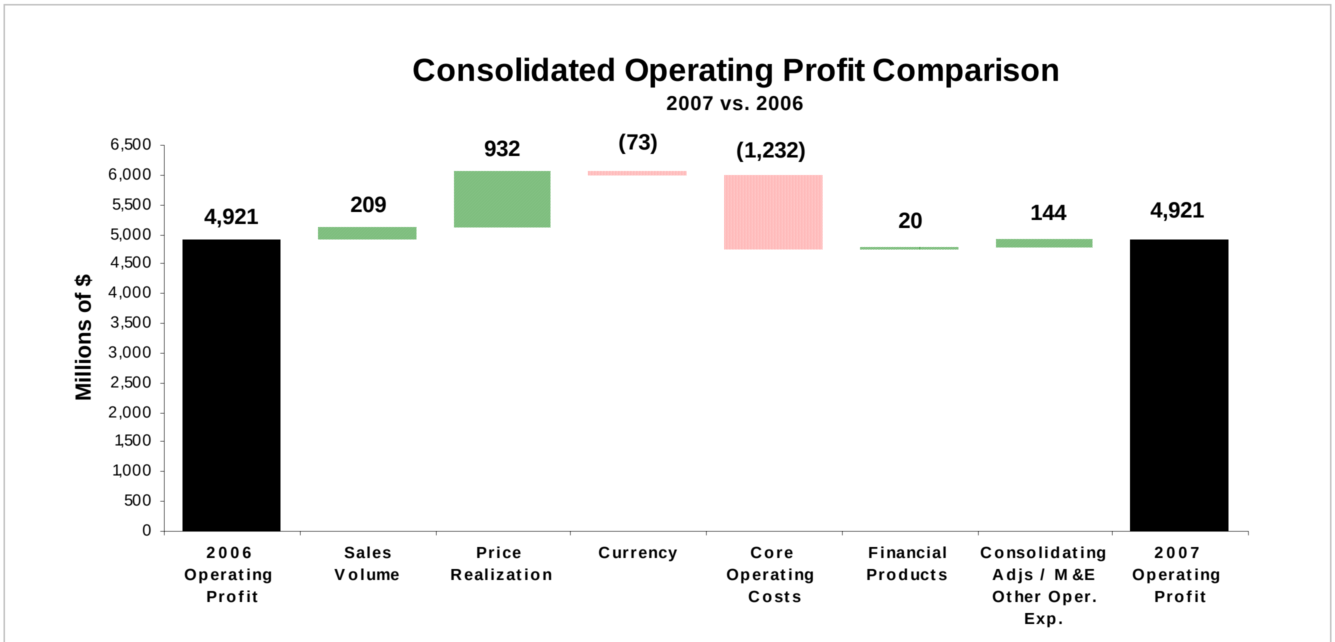
- **EAME** sales increased $1.181 billion, or 29 percent. Sales volume increased $756 million. Price realization increased $186 million. Currency benefited sales by $239 million. Sales for electric power applications increased 29 percent, with strong demand for gas units in Russia, expanded scope of project business and growth in power modules. Turbines and turbine-related services increased to support power generation. Sales for petroleum applications increased 42 percent based on widespread demand for engines used in drilling and production applications. Turbines and turbine-related services increased to support rising oil production and gas transmission demand. Sales for industrial applications increased 20 percent, with widespread demand for agriculture and other types of OEM equipment driven by good economic conditions. Sales for marine applications increased 30 percent, with increased demand for workboats, commercial oceangoing vessels and cruise ships.

- **Latin America** sales increased $28 million, or 3 percent. Sales volume decreased $5 million. Price realization increased $32 million. Currency benefited sales by $1 million. Sales for electric power engines increased 35 percent from strong growth across Latin America, driven by high oil and gas prices and investment in infrastructure as energy shortages continued in several key markets. Sales into truck applications declined 44 percent with reduced demand. Latin American truck facilities decreased exports of trucks destined for the United States.

- **Asia/Pacific** sales increased $435 million, or 26 percent. Sales volume increased $297 million. Price realization increased $86 million. Currency benefited sales by $52 million. Sales for petroleum applications increased 34 percent as Chinese drill rig builders continue to manufacture at record levels for domestic and export use. Turbines and turbine-related services increased to support oil production and gas pipeline compression demand. Sales for marine applications increased 47 percent, with continued strong demand for workboat and offshore shipbuilding. Large diesel demand grew in the offshore and general cargo applications. Sales of electric power engines increased 6 percent due to shipments of larger generator sets into Asia.

Financial Products Revenues of $2.996 billion were an increase of $348 million, or 13 percent, from 2006. Growth in average earning assets increased revenues $234 million. Revenues from earned premiums at Cat Insurance increased $64 million. The impact of higher interest rates on new and existing finance receivables added $58 million.

OPERATING PROFIT



The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between 2006 (at left) and 2007 (at right). Items favorably impacting operating profit appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting operating profit appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees. The bar entitled Consolidating Adjustments/M&E Other Operating Expense includes the operating profit impact of Progress Rail.

Operating profit in 2007 of $4.921 billion was equal to 2006 as higher price realization and sales volume were offset by higher *core operating costs*.

Core operating costs rose $1.232 billion from 2006. Of this increase, $1.225 billion was attributable to higher manufacturing costs. The increase in manufacturing costs was primarily due to operating inefficiencies and higher material costs. Operating inefficiencies were the result of supply chain challenges, capacity increases, factory repair and maintenance and a significant decline in on-highway truck engine production. Also, we incurred additional costs for new product introductions and costs to enhance customer-delivered quality. Wage and benefit increases as well as increased warranty and depreciation also contributed to higher manufacturing costs. In 2007, Selling, General and Administrative (SG&A) and R&D expenses were essentially flat with 2006. The impact of higher wage and benefit costs was offset by the absence of approximately $70 million of 2006 expense related to a settlement of various legal disputes with Navistar.

Currency had a $73 million unfavorable impact on operating profit as the benefit to sales was more than offset by the negative impact on costs.

Operating Profit by Principal Line of Business

(Millions of dollars)	2007	2006	$ Change	% Change
Machinery[1]	$ 2,758	$ 3,027	$ (269)	(9)%
Engines[1]	1,826	1,630	196	12%
Financial Products	690	670	20	3%
Consolidating Adjustments	(353)	(406)	53	
Consolidated Operating Profit	$ 4,921	$ 4,921	$ —	—

[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 profit of $2.758 billion was down $269 million, or 9 percent, from 2006. Higher core operating costs were partially offset by improved price realization, higher sales volume and the addition of Progress Rail. The geographic mix of sales had an unfavorable impact on price realization.

Engines operating profit of $1.826 billion was up $196 million, or 12 percent, from 2006. The favorable impacts of improved price realization and positive mix of product were partially offset by higher core operating costs and the unfavorable impacts of currency. Growth in demand for electric power, petroleum, marine and industrial applications more than offset the profit decline related to the drop in demand for on-highway truck engines.

Financial Products operating profit of $690 million was up $20 million, or 3 percent, from 2006. The increase was primarily attributable to a $42 million impact from improved net yield on average earning assets and a $34 million impact from higher average earning assets, partially offset by a $29 million increase in the provision for credit losses at Cat Financial and a $24 million decrease in operating profit at Cat Insurance due to higher claims experience.

OTHER PROFIT/LOSS ITEMS

Other income/expense was income of $320 million compared with income of $214 million in 2006. The change was primarily driven by a $46 million gain on the sale of a cost-basis investment, the favorable impacts of currency and other items that were individually insignificant.

The provision for income taxes for 2007 reflects an annual tax rate of 30 percent compared to a 29 percent rate in 2006. The increase over 2006 is primarily due to the repeal of Extraterritorial Income Exclusion benefits in 2007 partially offset by a more favorable geographic mix of profits from a tax perspective.

Employee Separation Charges

During 2008, we recognized employee separation charges of $30 million in Other operating expenses related to various voluntary and involuntary separation programs. These programs, impacting approximately 3,000 production and support and management employees world-wide, are in response to a sharp decline in sales volume due to the current global recession. 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 separation charges, which will be made up primarily of cash severance payments, were not assigned to operating segments and are included in the reconciliation of total accountable profit from business segments to total profit before taxes. The following table summarizes the separation charges by geographic region:

(Millions of dollars)	North America	EAME	Latin America	Total
2008 Separation charges	$ 4	$ 17	$ 9	$ 30
2008 Separation payments	—	(12)	(7)	(19)
Liability balance at December 31, 2008	$ 4	$ 5	$ 2	$ 11

As of December 31, 2008, approximately 1,600 employees had separated, with the remaining separations expected by the end of first quarter 2009. The majority of the remaining costs will be paid by the end of the first quarter 2009.

Subsequent Events

Employee Separation Programs

In response to the expected sharp decline in 2009 sales volume, Caterpillar implemented the following employee separation programs during 2009:

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 plan, and generally until January 31, 2009 to make a final decision. Participating employees will receive severance pay based on current salary level and years of service. As of January 31, 2009, approximately 2,200 employees had accepted the program and are generally expected to separate from Caterpillar by March 31, 2009. We are currently estimating the costs associated with this program.

Other U.S. Separation Programs - During 2009, we initiated plans to reduce U.S. based production and support and management positions through a variety of programs. For support and management employees, these include involuntary separation programs. For production employees, these include both involuntary and voluntary separation programs. We are currently estimating the costs associated with these programs.

Non-U.S. Separation Programs - We have initiated several other separation programs during 2009. These programs, designed specific to the laws and regulations of the individual countries, represent voluntary and involuntary plans for production and support and management employees. We are currently estimating the costs associated with these programs.

We will continue to monitor the economic environment and, depending on business conditions, more voluntary and involuntary workforce reductions may be required as 2009 unfolds.

Cat Financial Debt Issuance

On February 12, 2009, Cat Financial issued $350 million of 5.75% notes due in 2012, $1.65 billion of 6.125% notes due in 2014 and $1.0 billion of 7.15% notes due in 2019. The net proceeds from the issuance will be used to reduce short-term debt and for general corporate purposes.

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 after five years, 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.

Additionally, the remaining 33 percent of Cat Japan owned by MHI has been reported as redeemable noncontrolling interest and classified as mezzanine equity (temporary equity) in the Consolidated Statement of Financial Position. 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.

In subsequent reporting periods, the redeemable noncontrolling interest will continue to be reported at its estimated redemption value. Any adjustment to the redemption value will impact Profit employed in the business, but will 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. As of December 31, 2008, there has been no change to the estimated future redemption value, and the fair value of the redeemable noncontrolling interest has remained greater than the redemption value.

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 2008, we adjusted the carrying value by $2 million resulting in 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, 2008, the redeemable noncontrolling interest was $524 million.

Cat Japan was included in the "All Other" category in Note 24. 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.

Progress Rail Services, Inc.

In June 2006, Caterpillar acquired 100 percent of the equity in privately held Progress Rail Services, Inc. (Progress Rail) for approximately $1 billion, including the assumption of $200 million in debt. Based in Albertville, Alabama, Progress Rail is a leading provider of remanufactured locomotive, railcar and track products and services to the North American railroad industry. The company also has one of the most extensive rail service and supply networks in North America. When acquired, Progress Rail operated more than 90 facilities in 29 states in the United States, Canada and Mexico, with about 3,700 employees. Expansion into the railroad aftermarket business is a strong fit with our strategic direction and will leverage Caterpillar's remanufacturing capabilities.

The transaction was financed with available cash and commercial paper borrowings of $427 million and Caterpillar stock of $379 million (5.3 million shares). Net tangible assets acquired, recorded at their fair values, primarily were inventories of $257 million, receivables of $169 million and property, plant and equipment of $260 million. Liabilities acquired, recorded at their fair values, primarily consisted of assumed debt of $200 million, accounts payable of $148 million and net deferred tax liabilities of $115 million. Finite-lived intangible assets acquired of $223 million related primarily to customer relationships are being amortized on a straight-line basis over 20 years. Goodwill of $431 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 24. 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

1. Cat Production System (CPS) – The Cat Production System is the common Order-to-Delivery process being implemented enterprise-wide to achieve our safety, quality, velocity, earnings and growth goals for 2010 and beyond.
2. Consolidating Adjustments – Eliminations of transactions between Machinery and Engines and Financial Products.
3. Core Operating Costs – For the purpose of 2007 vs. 2006 consolidated operating profit comparison, core operating costs represent Machinery and Engines variable manufacturing cost change (adjusted for volume) and changes in period manufacturing costs, SG&A expenses and R&D expenses. Excludes the impact of currency.
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 impacts on sales and operating profit for the Machinery and Engines lines of business only; currency impacts on Financial Products revenues and operating profit are included in the Financial Products portions of the respective analyses. With respect to other income/expense, currency represents the effects of forward and option contracts entered into by the company to reduce the risk of fluctuations in exchange rates and the net effect of changes in foreign currency exchange rates on our foreign currency assets and liabilities for consolidated results.
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; on-highway vehicles and locomotives; marine, petroleum, construction, industrial, agricultural and other applications and related parts. Also includes remanufacturing of Caterpillar engines and a variety of Caterpillar machinery and engine components and remanufacturing services for other companies. Reciprocating engines meet power needs ranging from 10 to 21,700 horsepower (8 to more than 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), Caterpillar Power Ventures Corporation (Cat Power Ventures) and their respective subsidiaries. Cat Financial provides a wide range of financing alternatives to customers and dealers for Caterpillar machinery and engines, Solar gas turbines as well as other equipment and marine vessels. Cat Financial also extends loans to customers and dealers. Cat Insurance provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment. Cat Power Ventures is an investor in independent power projects using Caterpillar power generation equipment and services.

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, Progress Rail, Solar Turbines Customer Services, Cat Logistics, OEM Solutions and Cat Reman.

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

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

13. 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.

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

15. Manufacturing Costs – Manufacturing costs have been defined differently in the consolidated operating profit comparison for periods presented as follows:

    - For the purpose of 2008 vs. 2007 consolidated operating profit comparison, manufacturing costs represent the volume-adjusted change for manufacturing costs. Manufacturing costs are defined as material costs and labor and overhead costs related to the production process. Excludes the impact of currency.

    - For the purpose of 2007 vs. 2006 consolidated operating profit comparison, 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.

16. 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.

17. 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.

18. Shin Caterpillar Mitsubishi Ltd. (SCM) – Formerly a 50/50 joint venture between Caterpillar and Mitsubishi Heavy Industries Ltd. (MHI). On August 1, 2008, SCM redeemed one-half of MHI's shares. Caterpillar now owns 67 percent of the renamed entity, Caterpillar Japan Ltd.

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 their existing retail portfolio and commercial paper and term debt issuances. Despite recent credit market conditions, we have continued to have access to liquidity in both our Machinery and Engines and Financial Products operations. Given global recessionary conditions and sharply declining sales volume we are executing our strategic "trough" plans. Most of our trough actions, as discussed on pages A-101 to A-102, will result in lower cash needs in 2009.

Consolidated operating cash flow for 2008 was $4.79 billion, compared with $7.94 billion in 2007. The decrease of $3.15 billion is primarily the result of the absence of a 2007 benefit from reduced terms for North American receivables, a $497 million increase in taxes paid, and a $453 million increase in contributions to pension and other postretirement benefit plans. In addition, working capital requirements, particularly inventory, increased in 2008, negatively impacting operating cash flow. See further discussion of operating cash flow under Machinery and Engines and Financial Products. Although we expect profit to decline in 2009 (see Outlook on pages A-100 to A-102), we expect operating cash flow to benefit from a significant decline in inventory and receivables.

Total debt as of December 31, 2008 was $35.54 billion, an increase of $7.11 billion from year-end 2007. Debt related to Machinery and Engines increased $3.82 billion due to the consolidation of Cat Japan and also to provide for a higher cash position in the event that short-term credit markets become disrupted. Debt related to Financial Products increased $3.29 billion due to growth in Cat Financial's portfolio and also to provide for an appropriate cash position given uncertain market conditions.

We have three global credit facilities with a syndicate of banks totaling $6.85 billion (Credit Facility) available in the aggregate to both Machinery and Engines and Financial Products to support commercial paper programs in the event the programs become unavailable to us. During 2008, based on management's allocation decision, which can be revised at any time, the portion of the Credit Facility allocated to Cat Financial was increased from $5.55 billion to $5.85 billion. The five-year facility of $1.62 billion expires in September 2012. The five-year facility of $2.98 billion expires in September 2011. The 364-day facility was increased from $1.95 billion to $2.25 billion and will expire in September 2009. As part of the 2008 Credit Facility renewal, Cat Financial's year-end and six-month moving average leverage covenants have been increased from 8.5:1 to 10:1. In 2008, Cat Financial entered into a new 364-day facility of $300 million with a syndicate of banks, which expires in July 2009. The overall increase in the credit facilities was to support Cat Financial's portfolio growth.

At December 31, 2008, Caterpillar's annual consolidated net worth dropped below the level stipulated in the Credit Facility. This covenant requires Caterpillar to maintain a consolidated net worth of not less than 75% of the consolidated net worth as of the end of its immediately preceding fiscal year. The decrease was largely driven by a significant decline in pension asset returns, resulting in a $3.4 billion year-end charge to other comprehensive income.

In addition, at December 31, 2008, Cat Financial's quarterly interest coverage ratio for the fourth quarter dropped below the level stipulated in the Credit Facility. This covenant requires Cat Financial to maintain a ratio of (1) earnings before interest expense and income taxes to (2) interest expense of not less than 1.15 to 1 for each fiscal quarter. The ratio was negatively impacted in the fourth quarter of 2008 by, among other things, deteriorating economic conditions. This, in addition to Caterpillar's drop in consolidated net worth, also resulted in Cat Financial falling below or failing to meet similar covenant requirements in other loan agreements.

The associated bank group under the Credit Facility has consented to Caterpillar's lower annual consolidated net worth of $6.087 billion as of December 31, 2008, and to Cat Financial's lower quarterly interest coverage ratio of 0.97 as of December 31, 2008. The bank group also agreed that any failure to comply with consolidated net worth and interest coverage ratio requirements would not constitute an actual or potential event of default under the Credit Facility. In consideration of these agreements, the upper range of interest rate applicable to certain amounts that may be drawn by us under the Credit Facility was increased by approximately 1.00 to 1.50 percentage points.

The lenders under Cat Financial's other loan agreements also have agreed that Caterpillar and Cat Financial will not be required to comply with the covenant ratios for the fourth quarter 2008. In consideration of those agreements, the upper range of interest rate applicable to certain amounts that may be drawn by us under those loan agreements were increased by approximately 1.00 percentage point.

As noted above, the actions by the bank group and other lenders only apply to the fourth quarter of 2008. 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 non-compliant party or the commitments could be, depending on the circumstances, reallocated among Caterpillar and/or Cat Financial. Additionally, in such event, certain of Cat Financial's other lenders under other loan agreements where such financial covenants are applicable, may, at their election, choose to pursue remedies under such loan agreements, including accelerating outstanding borrowings. At December 31, 2008, there were no borrowings under the Credit Facility.

Our total credit commitments as of December 31, 2008 were:

(Millions of dollars)	Consolidated	Machinery and Engines	Financial Products
Credit lines available:			
Global credit facilities	$ 6,853	$ 1,000	$ 5,853
Other external	4,475	1,453	3,022
Total credit lines available	11,328	2,453	8,875
Less: Global credit facilities supporting commercial paper	(6,681)	(964)	(5,717)
Less: Utilized credit	(1,977)	(406)	(1,571)
Available credit	$ 2,670	$ 1,083	$ 1,587

Consolidated credit lines with banks as of December 31, 2008 total $4.48 billion. These credit lines, which are eligible for renewal at various future dates or have no specified expiration date, are used primarily by our subsidiaries for local funding requirements. Caterpillar Inc. or Cat Financial generally guarantees subsidiary borrowings under these lines.

The generally deteriorating economic conditions, our 2009 outlook and the condition of credit markets increase the risk that one or more of the credit rating agencies may decrease their credit rating for Caterpillar, Cat Financial or their debt securities. 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.

If global conditions deteriorate so significantly that access to debt market becomes unavailable, our Machinery and Engines operations would rely on cash flow from operations, use of existing cash balances ($1.52 billion at year-end 2008), borrowings from Cat Financial and access to our revolving credit facility. Our Financial Products operations would rely on cash flow from its existing retail portfolio of approximately $1 billion per month, utilization of existing cash balances ($1.22 billion at year-end 2008), access to our revolving credit facility and other credit line facilities held by Cat Financial and potential borrowings from Caterpillar.

Machinery and Engines

Operating cash flow was $3.56 billion in 2008 compared to $5.45 billion in 2007. Operating cash flow decreased primarily due to an increase in taxes paid and higher contributions to pension and other postretirement benefit plans. In addition, working capital requirements, particularly inventory, increased in 2008, negatively impacting Machinery and Engines operating cash flow. Net cash used for investing activities in 2008 was $2.56 billion compared to $1.68 billion in 2007. The increase was primarily due to higher capital expenditures. Net cash used for financing activities in 2008 was $519 million compared with $3.24 billion in 2007. The change is primarily the result of a $1.5 billion long-term debt issuance in December 2008 and a reduction in common stock repurchases. The long-term debt offering generated strong investor demand. Proceeds were used to reduce short-term borrowings and to provide a cash position appropriate for market conditions. We also have strong demand for our commercial paper and we have benefited from very low commercial paper interest rates.

Our priorities for the use of cash remain unchanged -- a strong financial position that helps protect our credit rating, capital to support growth, appropriately funded employee benefit plans, modestly increasing dividends and common stock repurchases 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 57.9 percent at December 31, 2008 compared to 31.2 percent at the end of 2007, above our target range of 35 to 45 percent. A $3.4 billion after-tax charge to Accumulated other comprehensive income(loss) to recognize the change in funded status of our pension and other postretirement benefit plans during 2008 increased the debt-to-capital ratio 11 percentage points. The consolidation of Cat Japan increased the debt-to-capital ratio about 7 percentage points. Additionally, our higher cash position increased short-term debt and added 3 percentage points to 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 2009 liquidity needs. This focus may result in higher cash balances and corresponding increases in the net cost of funds for Caterpillar Inc. and Cat Financial.

Capital to support growth - Capital expenditures during 2008 were $2.42 billion, an increase of $738 million compared to 2007. The expenditures were primarily used to replace and upgrade existing production assets, facilitate additional expansion of manufacturing capacity and support new product programs. Cash used for investments and acquisitions (net of cash acquired) was $148 million. We expect capital expenditures to be about $1.5 billion in 2009, a decline of about 38 percent from 2008.

Appropriately funded employee benefit plans - The funded status of our defined benefit pension plans declined significantly in 2008 due to plan asset losses. As a result, we expect to contribute approximately $1 billion to those plans in 2009 versus $422 million that was contributed in 2008.

Modestly increasing dividends - Dividends paid totaled $953 million for 2008, representing 36 cents per share paid in the first and second quarters and 42 cents per share paid in the third and fourth quarters. 2008 marks the fifteenth consecutive year our annual dividend per share has increased. We anticipate modestly increasing dividends in 2009.

Common stock repurchases - Pursuant to the February 2007 Board-authorized stock repurchase program, which expires on December 31, 2011, 27.3 million shares were repurchased at a cost of $1.88 billion during 2008. Through December 2008, $3.8 billion of the $7.5 billion authorized has been spent. Basic shares outstanding as of December 31, 2008 were 601.5 million. As a result of current economic conditions, we have temporarily put our stock repurchase program on hold.

Financial Products

Financial Products 2008 operating cash flow of $1.10 billion was about the same as 2007. Net cash used for investing activities in 2008 was $3.75 billion compared to $1.24 billion in 2007. This increased use of cash was primarily due to the growth in finance receivables and the absence of higher collections in 2007 related to reduced terms for trade receivables purchased by Cat Financial. Net cash provided by financing activities in 2008 was $3.62 billion compared with $190 million in 2007, primarily due to increased funding requirements related to the increased portfolio growth, as well as to provide a cash position appropriate for market conditions.

The allowance for credit losses was 1.44 percent of finance receivables, net of unearned income, at December 31, 2008, compared to 1.39 percent at December 31, 2007. Receivables written off due to uncollectibility, net of recoveries on receivables previously written off, were $121 million and $68 million for 2008 and 2007, respectively. The increase in write-offs is attributable to economic conditions primarily in North America. From a historical perspective, total write-offs, net of recoveries, for the last U.S. recessionary period in 2002 were 0.69 percent of our average retail portfolio compared to the year-to-date rate of 0.48 percent. Consistent with our economic outlook and expected further weakening of the global economy, we expect past dues and write-offs will likely be higher in 2009 compared with 2008.

At the end of 2008, Cat Financial's allowance for credit losses totaled $395 million, an increase of $42 million from the end of 2007. Of the increase, $28 million is attributable to growth in the retail finance receivable portfolio, while $14 million resulted from increasing the allowance rate from 1.39 percent to 1.44 percent of net finance receivables

Despite recent credit market conditions, Cat Financial continued to have access to liquidity, although at increased credit spreads on new term debt issuance. Cat Financial was able to issue commercial paper throughout the year. U.S. commercial paper issuance experienced consistent demand and attractive pricing although maturity conditions fluctuated as the year drew to a close. Throughout the year, demand and liquidity varied in non-U.S. markets and certain non-U.S. credit markets were periodically closed to Cat Financial and similarly situated issuers as a result of the volatile credit market conditions in 2008, particularly in the second half of the year. Cat Financial’s access to these non-U.S. markets has improved as credit market conditions have improved. As the global liquidity situation evolves, Cat Financial will continue to monitor and adapt their funding approach accordingly. As mentioned above, 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 2009 liquidity needs. This focus may result in higher cash balances and corresponding increases in the net cost of funds.

Financial Products total borrowings were $27.71 billion at December 31, 2008, an increase of $3.29 billion from December 31, 2007. Debt repayment in Financial Products depends primarily on timely repayment and collectibility of the receivables portfolio. At December 31, 2008, finance receivables past due over 30 days were 3.88 percent, compared with 2.36 percent at December 31, 2007. This increase began with the downturn in the U.S. economy and has spread to other geographic locations.

To maintain an alternative funding source, Cat Financial periodically (generally once a year) sells certain finance receivables relating to retail installment sale contracts and finance leases. In each of these transactions, the applicable finance receivables are sold to a special purpose entity (SPE). 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, typically trusts, are considered to be qualifying special-purpose entities (QSPEs) and thus, in accordance with Statement of Financial Accounting Standard No. 140 (SFAS 140), "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," are not consolidated. The QSPEs issue debt to pay for the finance receivables they acquire from Cat Financial. The primary source for repayment of the debt is the cash flows generated from the finance receivables owned by the QSPEs. The assets of the QSPEs are legally isolated and are not available to pay the creditors of Cat Financial or any other affiliate of Cat Financial. The QSPEs held total assets of $909 million related to these securitizations as of December 31, 2008. We use QSPEs in a manner consistent with conventional practices in the securitization industry to isolate these finance receivables, which are secured by new and used equipment, for the benefit of securitization investors.

The use of the QSPEs enables us to access the U.S. securitization market for the sale of these types of financial assets. The amounts of funding from securitizations reflect such factors as capital market accessibility, relative costs of funding sources and assets available for securitization. Cat Financial had cash proceeds from initial sales of these receivables of $600 million and $650 million in 2008 and 2007, respectively, and recognized a pre-tax gain of $12 million and $4 million for 2008 and 2007, respectively. The fair value of the retained interests in all securitizations of retail finance receivables outstanding, totaling $52 million and $49 million as of December 31, 2008 and 2007, respectively, are included in Other assets. Our sensitivity analysis indicated that the impact of a 20 percent adverse change in individual assumptions used to calculate the fair value of all our retained interests as of December 31, 2008, would be $8 million or less.

Dividends paid per common share

Quarter	2008	2007	2006
First	$ .360	$ .300	$ .250
Second	.360	.300	.250
Third	.420	.360	.300
Fourth	.420	.360	.300
	$ 1.560	$ 1.320	$ 1.100

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)	2009	2010	2011	2012	2013	After 2013	Total
Long-term debt:							
Machinery and Engines (excluding capital leases)	$ 325	$ 151	$ 561	$ 176	$ 494	$ 4,061	$ 5,768
Machinery and Engines-capital leases	131	125	65	26	34	43	424
Financial Products	5,036	4,734	2,326	1,562	1,800	6,676	22,134
Total long-term debt	5,492	5,010	2,952	1,764	2,328	10,780	28,326
Operating leases	223	183	149	119	99	487	1,260
Postretirement obligations[1]	1,340	1,380	2,350	1,400	1,420	6,080	13,970
Purchase obligations:							
Accounts payable[2]	4,827	—	—	—	—	—	4,827
Purchase orders[3]	3,733	—	—	—	—	—	3,733
Other contractual obligations[4]	226	63	37	25	12	—	363
Total purchase obligations	8,786	63	37	25	12	—	8,923
Interest on long-term debt[5]	1,107	851	744	664	612	6,916	10,894
Other long-term obligations[6]	172	153	115	80	12	30	562
Total contractual obligations	$ 17,120	$ 7,640	$ 6,347	$ 4,052	$ 4,483	$ 24,293	$ 63,935

1 Amounts represent expected contributions to our pension and other postretirement benefit plans through 2018, offset by expected Medicare Part D subsidy receipts.

2 Amount represents invoices received and recorded as liabilities in 2008, but scheduled for payment in 2009. 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, 2008 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.

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.

We adopted FIN 48, "Accounting for Uncertainty in Income Taxes" as of January 1, 2007. The total amount of gross unrecognized tax benefits for uncertain tax positions, including positions impacting only the timing of tax benefits, was $803 million at December 31, 2008. Payment of these obligations would result from settlements with taxing authorities. Due to the difficulty in determining the timing of settlements, FIN 48 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 market values for goodwill impairment tests, warranty liability, stock-based compensation, reserves for product liability and insurance losses, postretirement benefits, post-sale discounts, credit losses and income taxes. We have incorporated many years of data into the determination of each of these estimates and we have not historically experienced significant adjustments. These assumptions are reviewed at least annually with the Audit Committee of the Board of Directors. Following are the methods and assumptions used in determining our estimates and an indication of the risks inherent in each.

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

Fair 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.

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

The 2008 annual impairment test indicated the fair value of each of our reporting units exceeded its respective carrying value, including goodwill. In the fourth quarter of 2008, economic and market conditions deteriorated, affecting the outlook of our various businesses. Although our businesses have been impacted by the economic downturn, Caterpillar's market capitalization has remained significantly above its book value and an evaluation of our reporting units indicated that it was unlikely the fair value of any reporting unit fell below its carrying value. Accordingly, we did not perform an interim goodwill impairment test subsequent to the annual impairment test.

A prolonged economic downturn resulting in lower EBITDA multiples, 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 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 securities' 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 option and SARs. The calculation of the fair value of the awards using the lattice-based option-pricing model is affected by our stock price on the date of grant as well as assumptions regarding the following:

- Volatility is a measure of the amount by which the stock price is expected to fluctuate each year during the expected life of the award and is based on historical and current implied volatilities from traded options on Caterpillar stock. The implied volatilities from traded options are impacted by changes in market conditions. An increase in the volatility would result in an increase in our expense.
- The expected term represents the period of time that awards granted are expected to be outstanding and is an output of the lattice-based option-pricing model. In determining the expected term of the award, future exercise and forfeiture patterns are estimated from Caterpillar employee historical exercise behavior. These patterns are also affected by the vesting conditions of the award. Changes in the future exercise behavior of employees or in the vesting period of the award could result in a change in the expected term. An increase in the expected term would result in an increase to our expense.
- The weighted-average dividend yield is based on Caterpillar's historical dividend yields. As holders of stock-based awards do not receive dividend payments, this could result in employees retaining the award for a longer period of time if dividend yields decrease or exercising the award sooner if dividend yields increase. A decrease in the dividend yield would result in an increase in our expense.
- The risk-free interest rate is based on the U.S. Treasury yield curve in effect at time of grant. As the risk-free interest rate increases, the expected term increases, resulting in an increase in our expense.

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

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

Product liability and insurance loss reserve — 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. For 2008, 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. Previously, we used the Moody's Aa bond yield as of our measurement date, November 30, and validated the discount rate using the benefit cash flow-matching approach. A similar change was made 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 and OEMs through merchandising programs that are administered by our marketing groups. We have numerous programs that are designed to promote the sale of our products. The most common dealer programs provide a discount when the dealer sells a product to a targeted end user. OEM programs provide discounts designed to encourage the use of our engines. The cost of discounts is estimated based on historical experience and planned changes in merchandising programs and is reported as a reduction to sales when the product sale is recognized. The amount of accrued post-sale discounts was $828 million, $669 million and $726 million as of December 31, 2008, 2007 and 2006, respectively. The reserve represents discounts that we expect to pay on previously sold units and is reviewed at least quarterly. The reserve is adjusted if discounts paid differ from those estimated. Historically, those adjustments have not been material.

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

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

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

Income tax reserve — Despite our belief that our tax return positions are consistent with applicable tax laws, we believe that certain positions are likely to be challenged by taxing authorities. Settlement of any challenge can result in no change, a complete disallowance, or some partial adjustment reached through negotiations or litigation. Our tax reserves reflect the difference between the tax benefit claimed on tax returns and the amount recognized in financial statements in accordance with FIN 48. FIN 48 requires that tax benefits recognized in the financial statements must be at least more likely than not of being sustained based on technical merits. The amount of benefit recorded for these positions is measured as the largest benefit more likely than not to be sustained. Significant judgment is required in making these determinations. As the examination process progresses with tax authorities, adjustments to tax reserves may be necessary to reflect taxes payable upon settlement. Tax reserve adjustments related to positions impacting the effective tax rate affect the provision for income taxes. Tax reserve adjustments related to positions impacting the timing of deductions impact deferred tax assets and liabilities.

EMPLOYMENT

Caterpillar's worldwide employment was 112,887 at the end of 2008, up 11,554 from a year ago. Of the increase, approximately 5,500 were the result of consolidating Cat Japan and about 1,300 were the result of acquisitions. The remaining increase of 4,800 employees primarily supported growth and new product introductions.

Full-Time Employees at Year-End

	2008	2007	2006
Inside U.S.	53,509	50,545	48,709
Outside U.S.	59,378	50,788	45,884
Total	112,887	101,333	94,593
By Region:			
North America	54,284	50,901	49,018
EAME	26,983	26,168	24,845
Latin America	14,403	13,930	13,231
Asia/Pacific	17,217	10,334	7,499
Total	112,887	101,333	94,593

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 "Accrued expenses" in the Consolidated Statement of Financial Position.

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

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

We have disclosed certain individual legal proceedings in this filing. Additionally, we are involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance liability (including claimed asbestos and welding fumes exposure), contracts, employment issues or intellectual property rights. Although it is not possible to predict with certainty the outcome of these unresolved legal actions, we believe that these actions will not individually or in the aggregate have a material adverse effect on our consolidated financial position, liquidity or results of operations.

On September 29, 2004, Kruse Technology Partnership (Kruse) filed a lawsuit against Caterpillar in the United States District Court for the Central District of California alleging that certain Caterpillar engines built from October 2002 to the present infringe upon certain claims of three of Kruse's patents on engine fuel injection timing and combustion strategies. Caterpillar denied Kruse's allegations and filed a counterclaim seeking a declaration from the court that Caterpillar is not infringing upon Kruse's patents and that the patents are invalid and unenforceable. On December 20, 2008, Caterpillar and Kruse entered into a confidential settlement agreement whereby all pending claims with regard to the lawsuit were settled. The settlement, which did not have a material impact on our financial statements, included an agreement by both parties to not bring any future actions in the matter. Subsequent to the agreement, the court entered an order dismissing the case.

STOCK-BASED COMPENSATION

On January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," (SFAS 123R) using the modified prospective transition method. The modified prospective transition method requires compensation expense to be recognized in the financial statements for all awards granted after the date of adoption as well as for the unvested portion of previously granted awards outstanding as of the date of adoption. Prior to the date of adoption of SFAS 123R, we used the intrinsic-value based method, as described in Accounting Principles Board No. 25, to account for stock options and no compensation expense was recognized in association with our stock awards.

In anticipation of the adoption of SFAS 123R, we did not modify the terms of any previously granted options. Our stock incentive plans provide for the granting of nonqualified options, stock-settled stock appreciation rights (SARs) and restricted stock units (RSUs) to officers, directors and key employees of the company. In 2007, in order to align our stock award program with the overall market, we adjusted our 2007 grant by reducing the overall number of employee awards and utilizing RSUs in addition to the SARs and option awards. The 2008, 2007 and 2006 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.

We use a lattice-based option-pricing model to estimate the fair value of options and SARs granted. We use the stock price on the day of grant reduced by the present value of the estimated dividends to be paid during the vesting period to estimate the fair value of the RSUs granted. The adoption of SFAS 123R reduced operating profit for the year ended December 31, 2006 by $137 million and reduced profit after-tax by $92 million ($.14 per share basic and $.09 per share diluted). 2008 and 2007 stock-based compensation expense was $194 million and $146 million, respectively. At December 31, 2008, $136 million of expense with respect to unvested stock-based awards has yet to be recognized and will be expensed over a weighted-average period of approximately 1.8 years.

RETIREMENT BENEFITS

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 (SFAS 158), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132R." SFAS 158 requires the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, gains and losses, prior service costs and credits and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost are recognized in Accumulated other comprehensive income (loss), net of tax effects, until they are amortized as a component of net periodic cost. Also, the measurement date – the date at which the benefit obligation and plan assets are measured – is required to be the company's fiscal year-end. 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 balance sheet recognition provisions reduced December 31, 2006 assets by approximately $500 million, increased liabilities by approximately $2.20 billion and reduced stockholders' equity by approximately $2.70 billion. Also, we reclassified approximately $500 million from current liabilities to long-term liabilities based on the classification guidelines provided in SFAS 158. The adoption of the year-end measurement date provisions increased January 1, 2008 assets by $8 million, increased liabilities by $24 million and reduced stockholders’ equity by $16 million. The adoption of this Statement did not impact our results of operations.

We recognized pension expense of $200 million in 2008 as compared to $361 million in 2007. The decrease in expense was primarily a result of lower amortization of net actuarial losses due to higher discount rates and better than expected asset returns. In addition, pension expense for 2007 included a $44 million charge to recognize previously unrecorded liabilities related to a subsidiary pension plan. SFAS 87, "Employers' Accounting for Pensions," as amended by SFAS 158, requires companies to discount future benefit obligations back to today's dollars using a discount rate that is based on high-quality fixed-income investments. A decrease in the discount rate increases the pension benefit obligation, 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. SFAS 87 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 2008, total actuarial losses recognized in Accumulated other comprehensive income (loss) were $7.74 billion, as compared to $2.72 billion in 2007. The majority of the actuarial losses are due to significant asset losses during 2008 in addition to losses from other demographic and economic assumptions over the past several years. The $5.02 billion increase from 2007 to 2008 was primarily the result of asset losses during 2008, partially offset by an increase in discount rate and foreign exchange rate gains for non-U.S. plans.

In 2008, we recognized other postretirement benefit expense of $287 million compared to $311 million in 2007. The decrease in expense was primarily the result of lower amortization of actuarial losses due to higher discount rates. Actuarial losses recognized in Accumulated other comprehensive income (loss) for other postretirement benefit plans were $881 million at the end of 2008. These losses mainly reflect significant asset losses during 2008, an increase in expected health care inflation and several years of declining discount rates. The losses were $122 million higher at the end of 2008 as compared to 2007 due to asset losses during 2008, partially offset by lower than expected health care costs.

Actuarial losses for both pensions and other postretirement benefits will be impacted in future periods by actual asset returns, actual health care inflation, discount rate changes, actual demographic experience and other factors that impact these expenses. These losses, reported in Accumulated other comprehensive income (loss), will be amortized as a component of net periodic benefit cost on a straight-line basis over the average remaining service period of active employees expected to receive benefits under the benefit plans. At the end of 2008, the average remaining service period of active employees was 10 years for our U.S. pension plans, 13 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 $87 million in 2009 as compared to 2008, primarily due to asset losses during 2008. We expect our total pension and other postretirement benefits expense to increase approximately $250 million in 2009, excluding any impact from redundancy charges.

For our U.S. pension plans, our 2008 asset allocation was 70 percent equity securities and 30 percent debt securities, and our target allocation for 2009 is 70 percent equity securities, 25 percent debt securities and 5 percent real estate. The 2008 asset allocation for our non-U.S. pension plans was 50 percent equity securities, 41 percent debt securities, 6 percent real estate and 3 percent other. The 2009 target allocation for our non-U.S. pension plans is 54 percent equity securities, 37 percent debt securities, 6 percent real estate and 3 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 currently utilize futures contracts to offset current equity positions in order to rebalance the total portfolio to the target asset allocation. During 2008, approximately 5 percent of the U.S. pension plans’ assets were rebalanced from equity to fixed income positions through the use of futures contracts, as compared to 10 percent for 2007 and 2006. The actual asset allocation percentages above represent this rebalancing effort. The plans do not engage in futures contracts for speculative purposes.

During 2008, we made cash contributions of $288 million to our U.S. defined benefit pension plans and $134 million to our non-U.S. pension plans. We expect to make approximately $1 billion of contributions during 2009, most of which are required. 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 2008 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 2008 pension and other postretirement benefits costs and obligations:

(Millions of dollars)	2008 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	$ (156)	$ 165	$ (1,652)	$ 1,873
Expected rate of compensation increase	88	(83)	437	(406)
Expected long-term rate of return on plan assets	(126)	126	—	—
Other postretirement benefits:				
Assumed discount rate	(31)	30	(476)	527
Expected rate of compensation increase	—	—	1	(1)
Expected long-term rate of return on plan assets	(15)	15	—	—
Assumed health care cost trend rate	55	(49)	350	(309)

Primary Actuarial Assumptions

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Weighted-average assumptions used to determine benefit obligations, end of year:									
Discount rate	6.1%	5.8%	5.5%	4.1%	5.3%	4.7%	6.0%	5.8%	5.5%
Rate of compensation increase	4.5%	4.5%	4.0%	4.1%	4.1%	4.0%	4.4%	4.4%	4.0%
Weighted-average assumptions used to determine net cost:									
Discount rate	5.8%	5.5%	5.6%	5.3%	4.7%	4.6%	5.8%	5.5%	5.6%
Expected return on plan assets	9.0%	9.0%	9.0%	7.6%	7.7%	7.5%	9.0%	9.0%	9.0%
Rate of compensation increase	4.5%	4.0%	4.0%	4.0%	4.0%	3.5%	4.4%	4.0%	4.0%
Health care cost trend rates at year-end:									
Health care trend rate assumed for next year							7.4%	7.9%	7.5%
Rate that the cost trend rate gradually declines to							5.0%	5.0%	5.0%
Year that the cost trend rate reaches ultimate rate							2016	2016	2013

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 2009 cash flow for our Machinery and Engines operations by approximately $378 million. Last year similar assumptions and calculations yielded a potential $100 million adverse impact on 2008 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 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. A hypothetical 100 basis point adverse move (increase) in interest rates along the entire interest rate yield curve would adversely affect 2009 pretax earnings of Machinery and Engines by $16 million. Last year, similar assumptions and calculations yielded a potential $9 million adverse impact on 2008 pretax earnings. This effect is caused by the interest rate fluctuations on our short-term debt 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, 2008 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 a $28 million decrease to pretax earnings for 2009. Last year, similar assumptions and calculations yielded a potential $19 million adverse impact on 2008 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

Profit Per Share Excluding Redundancy Costs

Caterpillar has historically provided a profit per share outlook for the following year in our Annual Report on Form 10-K. In 2009, we expect to incur significant redundancy costs related to employment reductions as a result of company actions to reduce costs in response to an expected significant decline in sales volume and so we provided an outlook for profit per share of $2.50 excluding redundancy costs, a non-GAAP measure. We believe it is important to separately quantify the expected amount of redundancy charges in order for our outlook to be meaningful to our readers.

Reconciliation of profit per share excluding redundancy costs to the most directly comparable GAAP measure, profit per share:

2009 Outlook		
Profit per share	$	2.00
Per share redundancy costs	$	0.50
Profit per share excluding redundancy costs	$	2.50

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-97 to A-99 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-97 to A-99 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

				Supplemental consolidating data								
(Millions of dollars)	Consolidated			Machinery & Engines[1]			Financial Products			Consolidating Adjustments		
	2008	2007	2006	2008	2007	2006	2008	2007	2006	2008	2007	2006
Sales and revenues:												
Sales of Machinery and Engines	$ 48,044	$ 41,962	$ 38,869	$ 48,044	$ 41,962	$ 38,869	$ —	$ —	$ —	$ —	$ —	$ —
Revenues of Financial Products	3,280	2,996	2,648	—	—	—	3,588	3,396	3,114	(308) [2]	(400) [2]	(466) [2]
Total sales and revenues	51,324	44,958	41,517	48,044	41,962	38,869	3,588	3,396	3,114	(308)	(400)	(466)
Operating costs:												
Cost of goods sold	38,415	32,626	29,549	38,415	32,626	29,549	—	—	—	—	—	—
Selling, general and administrative expenses	4,399	3,821	3,706	3,812	3,356	3,294	616	480	446	(29) [3]	(15) [3]	(34) [3]
Research and development expenses	1,728	1,404	1,347	1,728	1,404	1,347	—	—	—	—	—	—
Interest expense of Financial Products	1,153	1,132	1,023	—	—	—	1,162	1,137	1,033	(9) [4]	(5) [4]	(10) [4]
Other operating (income) expenses	1,181	1,054	971	(33)	(8)	22	1,231	1,089	965	(17) [3]	(27) [3]	(16) [3]
Total operating costs	46,876	40,037	36,596	43,922	37,378	34,212	3,009	2,706	2,444	(55)	(47)	(60)
Operating profit	4,448	4,921	4,921	4,122	4,584	4,657	579	690	670	(253)	(353)	(406)
Interest expense excluding Financial Products	274	288	274	270	294	285	—	—	—	4 [4]	(6) [4]	(11) [4]
Other income (expense)	299	320	214	80	(104)	(256)	(38)	77	75	257 [5]	347 [5]	395 [5]
Consolidated profit before taxes	4,473	4,953	4,861	3,932	4,186	4,116	541	767	745	—	—	—
Provision for income taxes	953	1,485	1,405	822	1,220	1,158	131	265	247	—	—	—
Profit of consolidated companies	3,520	3,468	3,456	3,110	2,966	2,958	410	502	498	—	—	—
Equity in profit (loss) of unconsolidated affiliated companies	37	73	81	38	69	79	(1)	4	2	—	—	—
Equity in profit of Financial Products' subsidiaries	—	—	—	409	506	500	—	—	—	(409) [6]	(506) [6]	(500) [6]
Profit	$ 3,557	$ 3,541	$ 3,537	$ 3,557	$ 3,541	$ 3,537	$ 409	$ 506	$ 500	$ (409)	$ (506)	$ (500)

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.

Supplemental Data for Financial Position
At December 31

(Millions of dollars)	Consolidated		Supplemental consolidating data: Machinery & Engines[1]		Financial Products		Consolidating Adjustments	
	2008	2007	2008	2007	2008	2007	2008	2007
Assets								
Current assets:								
Cash and short-term investments	$ 2,736	$ 1,122	$ 1,517	$ 862	$ 1,219	$ 260	$ —	$ —
Receivables - trade and other	9,397	8,249	6,032	4,715	545	525	2,820 [2,3]	3,009 [2,3]
Receivables - finance	8,731	7,503	—	—	12,137	10,961	(3,406) [3]	(3,458) [3]
Deferred and refundable income taxes	1,223	816	1,014	746	209	70	—	—
Prepaid expenses and other current assets	765	583	510	565	280	39	(25) [4]	(21) [4]
Inventories	8,781	7,204	8,781	7,204	—	—	—	—
Total current assets	31,633	25,477	17,854	14,092	14,390	11,855	(611)	(470)
Property, plant and equipment – net	12,524	9,997	9,380	6,782	3,144	3,215	—	—
Long-term receivables - trade and other	1,479	685	357	90	549	30	573 [2,3]	565 [2,3]
Long-term receivables - finance	14,264	13,462	—	—	14,867	14,057	(603) [3]	(595) [3]
Investments in unconsolidated affiliated companies	94	598	137	610	—	12	(43) [5]	(24) [5]
Investments in Financial Products subsidiaries	—	—	3,727	3,948	—	—	(3,727) [6]	(3,948) [6]
Noncurrent deferred and refundable income taxes	3,311	1,553	3,725	1,803	35	68	(449) [7]	(318) [7]
Intangible assets	511	475	510	471	1	4	—	—
Goodwill	2,261	1,963	2,261	1,963	—	—	—	—
Other assets	1,705	1,922	310	293	1,395	1,629	—	—
Total assets	$ 67,782	$ 56,132	$ 38,261	$ 30,052	$ 34,381	$ 30,870	$ (4,860)	$ (4,790)
Liabilities								
Current liabilities:								
Short-term borrowings	$ 7,209	$ 5,468	$ 1,632	$ 187	$ 6,012	$ 5,556	$ (435) [8]	$ (275) [8]
Accounts payable	4,827	4,723	4,654	4,518	323	373	(150) [9]	(168) [9]
Accrued expenses	4,121	3,178	2,621	1,932	1,526	1,273	(26) [10]	(27) [10]
Accrued wages, salaries and employee benefits	1,242	1,126	1,228	1,108	14	18	—	—
Customer advances	1,898	1,442	1,898	1,442	—	—	—	—
Dividends payable	253	225	253	225	—	—	—	—
Other current liabilities	1,027	951	1,002	867	29	105	(4) [7]	(21) [7]
Long-term debt due within one year	5,492	5,132	456	180	5,036	4,952	—	—
Total current liabilities	26,069	22,245	13,744	10,459	12,940	12,277	(615)	(491)
Long-term debt due after one year	22,834	17,829	5,766	3,669	17,098	14,190	(30) [8]	(30) [8]
Liability for postemployment benefits	9,975	5,059	9,975	5,058	—	1	—	—
Other liabilities	2,293	2,116	2,165	1,983	616	454	(488) [5,7]	(321) [5,7]
Total liabilities	61,171	47,249	31,650	21,169	30,654	26,922	(1,133)	(842)
Commitments and contingencies								
Redeemable noncontrolling interest	524	—	524	—	—	—	—	—
Stockholders' equity								
Common stock	3,057	2,744	3,057	2,744	860	860	(860) [6]	(860) [6]
Treasury stock	(11,217)	(9,451)	(11,217)	(9,451)	—	—	—	—
Profit employed in the business	19,826	17,398	19,826	17,398	2,975	2,566	(2,975) [6]	(2,566) [6]
Accumulated other comprehensive income	(5,579)	(1,808)	(5,579)	(1,808)	(108)	522	108 [6]	(522) [6]
Total stockholders' equity	6,087	8,883	6,087	8,883	3,727	3,948	(3,727)	(3,948)
Total liabilities, redeemable noncontrolling interest and stockholders' equity	$ 67,782	$ 56,132	$ 38,261	$ 30,052	$ 34,381	$ 30,870	$ (4,860)	$ (4,790)

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

Supplemental Data for Statement of Cash Flow
For the Years Ended December 31

(Millions of dollars)	Consolidated		Supplemental consolidating data: Machinery & Engines[1]		Financial Products		Consolidating Adjustments	
	2008	2007	2008	2007	2008	2007	2008	2007
Cash flow from operating activities:								
Profit	$ 3,557	$ 3,541	$ 3,557	$ 3,541	$ 409	$ 506	$ (409) [2]	$ (506) [2]
Adjustments for non-cash items:								
Depreciation and amortization	1,980	1,797	1,225	1,093	755	704	—	—
Undistributed profit of Financial Products	—	—	(409)	(256)	—	—	409 [3]	256 [3]
Other	383	199	194	114	55	(267)	134 [4]	352 [4]
Changes in assets and liabilities:								
Receivables - trade and other	(545)	899	(471)	(317)	(49)	(105)	(25) [4,5]	1,321 [4,5]
Inventories	(833)	(745)	(833)	(745)	—	—	—	—
Accounts payable and accrued expenses	656	618	574	408	69	216	13 [4]	(6) [4]
Customer advances	286	576	286	576	—	—	—	—
Other assets—net	(470)	66	(503)	63	(102)	(9)	135 [4]	12 [4]
Other liabilities—net	(227)	984	(60)	969	(33)	40	(134) [4]	(25) [4]
Net cash provided by (used for) operating activities	4,787	7,935	3,560	5,446	1,104	1,085	123	1,404
Cash flow from investing activities:								
Capital expenditures—excluding equipment leased to others	(2,445)	(1,700)	(2,421)	(1,683)	(24)	(17)	— [4]	— [4]
Expenditures for equipment leased to others	(1,566)	(1,340)	—	—	(1,588)	(1,349)	22 [4]	9 [4]
Proceeds from disposals of property, plant and equipment	982	408	30	14	952	398	— [4]	(4) [4]
Additions to finance receivables	(14,031)	(13,946)	—	—	(37,811)	(36,251)	23,780 [5]	22,305 [5]
Collections of finance receivables	9,717	10,985	—	—	32,135	33,456	(22,418) [5]	(22,471) [5]
Proceeds from sale of finance receivables	949	866	—	—	2,459	2,378	(1,510) [5]	(1,512) [5]
Net intercompany borrowings	—	—	(168)	(177)	33	3	135 [6]	174 [6]
Investments and acquisitions (net of cash acquired)	(117)	(229)	(148)	(244)	28	—	3 [7]	15 [7]
Proceeds from release of security deposit	—	290	—	290	—	—	—	—
Proceeds from sale of available-for-sale securities	357	282	23	23	334	259	—	—
Investments in available-for-sale securities	(339)	(485)	(18)	(29)	(321)	(456)	—	—
Other—net	197	461	139	122	58	341	— [7]	(2) [7]
Net cash provided by (used for) investing activities	(6,296)	(4,408)	(2,563)	(1,684)	(3,745)	(1,238)	12	(1,486)
Cash flow from financing activities:								
Dividends paid	(953)	(845)	(953)	(845)	—	(254)	— [8]	254 [8]
Common stock issued, including treasury shares reissued	135	328	135	328	—	(2)	— [7]	2 [7]
Payment for stock repurchases derivative contracts	(38)	(56)	(38)	(56)	—	—	—	—
Treasury shares purchased	(1,800)	(2,405)	(1,800)	(2,405)	—	—	—	—
Excess tax benefit from stock-based compensation	56	155	56	155	—	—	—	—
Net intercompany borrowings	—	—	(33)	(3)	168	177	(135) [6]	(174) [6]
Proceeds from debt issued (original maturities greater than three months)	17,930	11,039	1,673	224	16,257	10,815	—	—
Payments on debt (original maturities greater than three months)	(14,439)	(10,888)	(296)	(598)	(14,143)	(10,290)	—	—
Short-term borrowings (original maturities three months or less)—net	2,074	(297)	737	(41)	1,337	(256)	—	—
Net cash provided by (used for) financing activities	2,965	(2,969)	(519)	(3,241)	3,619	190	(135)	82
Effect of exchange rate changes on cash	158	34	177	22	(19)	12	—	—
Increase (decrease) in cash and short-term investments	1,614	592	655	543	959	49	—	—
Cash and short-term investments at beginning of period	1,122	530	862	319	260	211	—	—
Cash and short-term investments at end of period	$ 2,736	$ 1,122	$ 1,517	$ 862	$ 1,219	$ 260	$ —	$ —

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

OUTLOOK

The financial and banking crisis accelerated in the fourth quarter of 2008 and has significantly impacted economic growth in general and the industries that we serve around the globe. As a result, our outlook for 2009 has worsened.

We expect 2009 will be the weakest year for economic growth in the postwar period. We are expecting recessionary conditions to persist in most of the world throughout the year, with a slight decline in the world economy.

- Preliminary data indicates the world economy fell into recession in fourth quarter 2008. The developed economies of the United States, euro-zone, United Kingdom and Japan declined sharply, many developing economies slowed, and commodity prices dropped in response to weaker demand.
- Economic policymakers were distracted by inflationary concerns during last summer's surge in commodity prices and were slow to respond to economic weaknesses and the credit crisis. Effective actions did not really begin until after the collapse of Lehman Brothers in September. The timing of the response means the world economy will likely remain severely depressed through at least the middle of 2009.
- Central banks in developed economies have cut interest rates to, or near, record lows, and several key developing economies have responded by lowering rates. In addition, some countries are implementing measures to increase monetary growth, reduce credit spreads and drive spending through fiscal stimulus programs, which should aid construction.
- Most commodity prices dropped below investment threshold levels in late 2008, and producers are reducing and delaying investments. We expect this unfavorable environment to persist throughout the year.
- We expect 2009 will be a dismal year for the world economy, but conditions for much better growth are developing, particularly in industries we serve. Interest rates throughout the world are at historically low levels and should eventually be favorable for investment. Despite a higher level of spending over the past few years, capacity in the world's infrastructure, mining and energy industries is still inadequate or outdated. Reduced investment in 2009 is going to leave future capacity even more strained. Government stimulus plans are a step in the right direction and should help economic growth.
- While we are encouraged by actions that have been taken to drive economic improvements, we are concerned that the European Central Bank and the Bank of Japan are responding too slowly to today's economic crisis. In addition, we are concerned that central banks may begin tightening policies at the first sign of economic recovery and could create another downturn.

North American economies should decline 1.5 percent in 2009, but we expect the United States will be the first major economy to pull out of recession, sometime in the second half of 2009.

- The U.S. economy has been in recession throughout 2008, GDP started declining in the third quarter of 2008, and U.S. machinery industries that we serve have been declining since early 2006. Output likely will decline throughout the second quarter, causing this recession to about match the 1981-82 recession in duration and severity.
- The Federal Funds rate has traded at the lowest level on record, and the Fed has indicated it will keep rates low for an extended time. So, we assume no rate increases will occur this year. Despite the low Federal Funds rate, credit spreads remain elevated, so the Fed is focusing on increasing liquidity and providing funds directly to businesses and consumers. Monetary growth has accelerated at unprecedented rates and should eventually encourage more spending, possibly in the second half of 2009.
- The Obama administration's stimulus program should increase funds for infrastructure construction. Quick passage of the bill could increase funding in the second half of 2009, and some improvement in infrastructure spending is expected.
- Housing affordability is near a record high, and 30-year mortgage rates could fall below 4.5 percent this year, helping to stabilize housing later in the year. We expect housing starts will be approximately 900 thousand units, about the same as 2008.
- Central Appalachian coal prices should average a little more than $40 per ton in 2009, which should allow a 0.5 percent increase in coal production.
- The Canadian economy should decline slightly, prompting the Bank of Canada to cut its interest rate another 25 basis points to 0.75 percent.

We expect European economies to decline almost 2 percent this year. Recessions in both the euro-zone and United Kingdom will likely last most of the year, making the recessions some of the worst in the postwar period.

- The Bank of England recently cut interest rates to 1.0 percent. The European Central Bank cut interest rates to 2 percent and boosted monetary growth. However, the bank has been less aggressive in cutting interest rates than other central banks, creating the risk of an extended period of weakness.
- European governments announced stimulus packages, which will provide funds for infrastructure construction. However, we expect housing and nonresidential construction will decline in most European countries.

The Japanese economy should decline about 2 percent, remaining in recession for most of the year.

- The Bank of Japan recently cut interest rates from 0.3 percent to 0.1 percent. However, the short-term interest rate, as in the last cycle, has not had a significant impact on improving growth.
- The bank has started buying commercial paper and has increased bank reserves slightly. Easing, however, has not been sufficient to provide the liquidity for an economic recovery.
- Government stimulus packages should boost public construction, but private construction likely will continue declining.

Economic growth in the developing economies should average about 2 percent in 2009, the slowest since 1998, but still outperform developed economies.

- In recent years, these economies have benefited from lower inflation and interest rates, more competitive exports and higher commodity prices. Many of those factors remain more favorable than in past downturns.
- Key countries, particularly in Asia, have aggressively reversed past policy tightening; with interest rates at or below lows earlier this decade. We expect further easing in many countries.
- In the past, balance-of-payments problems often prevented these countries from adopting expansive economic policies during worldwide economic slowdowns. We do not expect these countries to be as severely constrained since many are running surpluses with developed countries and have accumulated significant foreign exchange reserves.
- Most governments have not increased spending in line with increases in export and commodity revenues. As a result, governments will not need to cut spending in line with declines in exports and commodity revenues.

SALES AND REVENUES OUTLOOK

The depth and duration of economic decline throughout the world makes it very difficult to forecast sales and revenues. As a result, we are focused on executing our strategic “trough” plans throughout the company.

We are encouraged by the actions of central banks around the world and the prospects of fiscal stimulus. We are optimistic that economic conditions in the United States will stabilize later in the year and may show some signs of recovery. However, we are implementing actions throughout the company to be prepared for a very negative year with sales and revenues in a range of plus or minus 10 percent from $40 billion.

While sales and revenues could be higher than $40 billion in 2009, the economic picture is extremely difficult to predict, and it is prudent to focus the company on actions that will deliver our “trough” profit goal.

We expect significant declines in all geographic regions in most industries. At $40 billion, the sales volume decline, excluding the impact of consolidating Cat Japan, is about 25 percent. Volume related to machines and engines would be down about 30 percent, and sales and revenues of ***integrated service businesses*** would be down about 5 percent.

Some improvement in price realization and about $1 billion of additional sales as a result of the consolidation of Cat Japan are partial offsets to the sharp drop in volume.

PROFIT OUTLOOK

As a result of sharply declining sales, we expect 2009 profit to drop significantly from 2008, and we are taking actions to achieve “trough” profit targets. At $40 billion in 2009 sales and revenues, we expect to achieve profit per share of about $2.00 per share, or $2.50 per share excluding redundancy costs of about $500 million before tax. We have initiated actions which will remove about 20,000 workers from our business and every indirect spend dollar will be heavily scrutinized. These actions support lowering our production costs in line with a 25-percent decline in sales volume and reducing SG&A and R&D costs supporting our Machinery and Engines business collectively by about 15 percent. Actions include:

- Voluntary and involuntary separations and layoffs of about 6,000 full-time production employees. Depending on business conditions more layoffs may be required as the year unfolds.
- Sharp declines in overtime work. Factory overtime is a key element of volume flexibility and many facilities were working high levels of overtime through most of 2008.
- Several facilities have shortened workweeks, and thousands of employees have been, or will be, affected by temporary layoffs and full and partial plant shutdowns.
- Elimination of almost 8,000 temporary, contract and agency workers. While these workers are a key element of our “flexible workforce” they are not included among the 112,887 full-time employees at year end.

- Voluntary separations of about 2,200 support and management employees.
- Additional layoffs or separations of as many as 5,000 support and management employees.
- Hiring freezes and suspension of salary increases for most support and management employees.
- Significant reductions in total compensation for executives / senior managers.
- For our short-term incentive plans to trigger payment, we must achieve above $2.50 profit per share.
- Reduction in indirect expenses of about 15 percent.
- Significant reduction in capital expenditures.
- Shifting more resources to work on short- and medium-term material cost reduction.
- Shifting more resources to work on inventory reduction projects.

ELEMENTS OF PROFIT OUTLOOK

- We expect significantly lower sales volume across all regions and most industries. The consolidation of Cat Japan is expected to add about $1 billion to sales, but be negative to profit as a result of severe economic decline in Japan.
- We are forecasting improved price realization for 2009 as there still is cost pressure in the system.
- To support our price realization forecast, we are rapidly scaling back production to align dealer inventory with demand as we move through the year, and we believe the industry is rapidly scaling back to minimize inventory as well.
- Material costs are expected to increase slightly. Because material costs rose significantly in the second half of 2008 and our material costs tend to lag trends in commodities, we expect that year-over-year cost comparisons will be negative in the first half of the year and will improve in the second half.
- We expect efficiency improvement as a result of continued implementation of the *Cat Production System (CPS).* However, production volume, particularly in the first quarter, will likely drop faster than manufacturing costs as we sharply lower production, employment and cost levels.
- Excluding Cat Japan, Machinery and Engines SG&A and R&D expenses are forecast to decline about 15 percent. R&D spending in 2009 will be primarily focused on new products to meet Tier 4 regulatory emissions requirements.
- We expect about $500 million of redundancy expense related to employment reductions; most of the expense is expected to occur in the first quarter.
- The tax rate in 2009 is expected to approximate the 2008 rate of 31.5 percent, excluding discrete tax items.
- Financial Products profit before tax is expected to decline by about 50 percent in 2009 as a result of higher liquidity costs and the resulting tighter spreads between the cost of borrowing and Cat Financial's lending rates.

FIRST QUARTER 2009

It is not our practice to provide specific quarterly profit guidance, and we do not intend to start. However, we are in unprecedented times, and some discussion around the first quarter is appropriate.

While we expect the full year of 2009 to be very challenging, profit in the first half, and particularly the first quarter, will be under severe pressure. In fact, a first-quarter loss is possible. There are two primary reasons that profit will be particularly weak early in the year:

- First, production volume will be severely depressed and is likely to fall faster than dealer sales to end users. We opened dealer order boards around the world in the fourth quarter to allow dealers to cancel existing orders in response to deteriorating economic conditions. Dealers reacted and have cut orders substantially. We expect that this will result in further declines in dealer inventory in the first quarter at a time of year when dealers normally build inventory in preparation for higher sales to end users in the spring and summer. We have announced significant measures to bring production, costs and employment down, but given lead times necessary for employees, we expect that our production and sales will fall faster than costs early in the year.
- Second, we expect a substantial charge for redundancy costs, about $500 million for the year, with most of it coming in the first quarter.

The information included in the Outlook section is forward looking and involves risks and uncertainties that could significantly affect expected results. A discussion of these risks and uncertainties is contained in Item 1A of this Form 10-K.

SUPPLEMENTAL STOCKHOLDER INFORMATION

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.CAT.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.CAT.com/investor

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 email alerts by visiting www.CAT.com/materialsrequest

Historical information -

- view/download on-line at www.CAT.com/historical

Annual Meeting

On Wednesday, June 10, 2009, at 1:30 p.m., Central Time, the annual meeting of stockholders will be held at the Northern Trust Building, Chicago, Illinois. Proxy materials are being sent to stockholders on or about May 1, 2009.

Internet

Visit us on the Internet at www.CAT.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 and Chicago stock exchanges in the United States, and on stock exchanges in Belgium, France, Germany, Great Britain and Switzerland.

Compliance: For 2008, Caterpillar filed an Annual CEO Certification in compliance with New York stock exchange rules and CEO/CFO certifications in compliance with Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. These certifications are included as exhibits to our Form 10-K filing for the relevant fiscal year.

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:

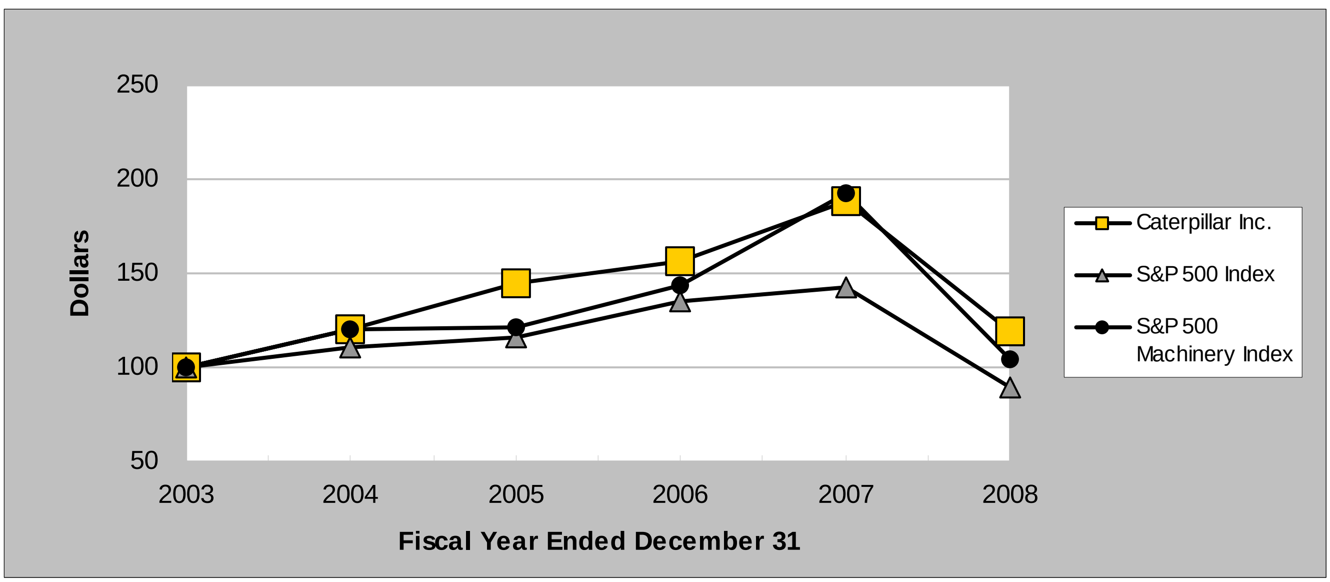
	2008		2007	
Quarter	High	Low	High	Low
First	$ 78.63	$ 59.60	$ 68.43	$ 57.98
Second	$ 85.96	$ 72.56	$ 82.89	$ 65.86
Third	$ 75.87	$ 58.11	$ 87.00	$ 70.59
Fourth	$ 59.03	$ 31.95	$ 82.74	$ 67.00

Number of Stockholders: Stockholders of record at year-end totaled 39,578, compared with 39,061 at the end of 2007. Approximately 60 percent of our issued shares are held by institutions and banks, 32 percent by individuals, and 8 percent by employees through company stock plans.

Caterpillar tax qualified defined contribution retirement plans held 40,114,225 shares at year-end, including 10,108,741 shares acquired during 2008. Non-U.S. employee stock purchase plans held an additional 4,909,252 shares at year-end, including 965,309 shares acquired during 2008.

Performance Graph: Total Cumulative Stockholder Return for Five-Year Period Ending December 31, 2008

The graph below shows the cumulative stockholder return assuming an investment of $100 on December 31, 2003, and reinvestment of dividends issued thereafter.



	2003	2004	2005	2006	2007	2008
Caterpillar Inc.	$ 100.00	$ 119.84	$ 144.67	$ 156.09	$ 188.05	$ 118.87
S&P 500	$ 100.00	$ 110.87	$ 116.31	$ 134.67	$ 142.06	$ 89.51
S&P 500 Machinery	$ 100.00	$ 120.37	$ 121.54	$ 143.94	$ 192.70	$ 104.29

DIRECTORS AND OFFICERS

Directors/Committee Membership (as of December 31, 2008)

	Audit	Compensation	Governance	Public Policy
W. Frank Blount			√*	
John R. Brazil	√			
Daniel M. Dickinson		√		
John T. Dillon	√			
Eugene V. Fife	√*			
Gail D. Fosler			√	
Juan Gallardo				√
David R. Goode		√*		
Peter A. Magowan			√	
William A. Osborn	√			
James W. Owens				
Charles D. Powell				√*
Edward B. Rust, Jr.		√		
Joshua I. Smith				√
		* Chairman of Committee		

Officers (as of December 31, 2008, except as noted)

James W. Owens	Chairman and Chief Executive Officer
Richard P. Lavin	Group President
Stuart L. Levenick	Group President
Douglas R. Oberhelman	Group President
Edward J. Rapp	Group President
Gérard R. Vittecoq	Group President
Steven H. Wunning	Group President
Kent M. Adams	Vice President
William P. Ainsworth	Vice President
Ali M. Bahaj	Vice President
Sidney C. Banwart	Vice President
Michael J. Baunton [1]	Vice President
Rodney C. Beeler	Vice President
Mary H. Bell	Vice President
Thomas J. Bluth	Vice President
James B. Buda	Vice President, General Counsel and Secretary
David B. Burritt	Vice President and Chief Financial Officer
Richard J. Case	Vice President
Robert B. Charter [2]	Vice President
Christopher C. Curfman	Vice President
Paolo Fellin	Vice President
Steven L. Fisher	Vice President
Gregory S. Folley [2]	Vice President
Thomas A. Gales [3]	Vice President
Stephen A. Gosselin	Vice President
Hans A. Haefeli	Vice President
John S. Heller	Vice President and Chief Information Officer
Gwenne A. Henricks	Vice President
Stephen P. Larson	Vice President
Daniel M. Murphy	Vice President
James J. Parker	Vice President
Mark R. Pflederer	Vice President
William J. Rohner	Vice President
Christiano V. Schena	Vice President
William F. Springer	Vice President
Gary A. Stampanato	Vice President
Gary A. Stroup	Vice President
Tana L. Utley	Vice President
James D. Waters, Jr.	Vice President
Robert T. Williams	Vice President
Jiming Zhu [2]	Vice President
Bradley M. Halverson	Controller
Kevin E. Colgan	Treasurer
Edward J. Scott	Chief Ethics and Compliance Officer
Jananne A. Copeland	Chief Accounting Officer
Robin D. Beran	Assistant Treasurer
Tinkie E. Demmin	Assistant Secretary
Laurie J. Huxtable	Assistant Secretary

1 Will retire effective May 1, 2009.
2 Effective January 1, 2009.
3 Will retire effective year end 2009.

EXHIBIT 21

CATERPILLAR INC.
Subsidiaries and Affiliated Companies
(as of December 31, 2008)

Subsidiaries (51% or more ownership)	
Name of Company	Where Organized
1446790 Ontario Limited	Ontario
Acefun S.A. de C.V.	Mexico
Aceros Fundidos Internacionales LLC	Delaware
Aceros Fundidos Internacionales S. de R.L. de C.V.	Mexico
Anchor Coupling Inc.	Delaware
Asia Power Systems (Tianjin) Ltd.	China
AsiaTrak (Tianjin) Ltd.	China
Carter Machinery Company, Incorporated	Delaware
Carter Rental, Inc.	Virginia
Cat Rental Kyushu Ltd.	Japan
Cat Rental Central Japan Ltd.	Japan
Cat Rental East Japan Ltd.	Japan
Cat Rental Hokkaido Co., Ltd.	Japan
Cat Rental Kyushu Ltd.	Japan
Cat Rental West Japan Ltd.	Japan
Caterpillar (Africa) (Proprietary) Limited	South Africa
Caterpillar (Bermuda) Holding Company	Bermuda
Caterpillar (Bermuda) Investments Parent Company	Bermuda
Caterpillar (China) Financial Leasing Co., Ltd.	China
Caterpillar (China) Investment Co., Ltd.	China
Caterpillar (China) Machinery Components Co., Ltd.	China
Caterpillar (HK) Limited	Hong Kong
Caterpillar (Kunming) Training and Consulting Co., Ltd.	China
Caterpillar (Shanghai) Trading Co., Ltd.	China
Caterpillar (Suzhou) Co., Ltd.	China
Caterpillar (Thailand) Limited	Thailand
Caterpillar (U.K.) Limited	England
Caterpillar (Xuzhou) Design Center Ltd.	China
Caterpillar AccessAccount Corporation	Nevada
Caterpillar Americas C.V.	Netherlands
Caterpillar Americas Co.	Delaware
Caterpillar Americas Funding Inc.	Delaware
Caterpillar Americas Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Americas Services Co.	Delaware
Caterpillar Asia Limited	Hong Kong
Caterpillar Asia Pacific L.P.	Bermuda
Caterpillar Asia Pte. Ltd.	Singapore
Caterpillar Belgium S. A.	Belgium
Caterpillar Brasil Ltda.	Brazil
Caterpillar Brasil Servicos Ltda.	Brazil
Caterpillar Brazil LLC	Delaware
Caterpillar Business Services (UK) Limited	England and Wales
Caterpillar Central Japan Ltd.	Japan
Caterpillar Centro de Formacion, S.L.	Spain

Caterpillar China Limited	Hong Kong
Caterpillar CIS LLC	Russia
Caterpillar CMC, LLC	Delaware
Caterpillar Commercial Australia Pty. Ltd.	Australia
Caterpillar Commercial Holding S.A.R.L.	Switzerland
Caterpillar Commercial LLC	Delaware
Caterpillar Commercial Northern Europe Limited	England and Wales
Caterpillar Commercial Private Limited	India
Caterpillar Commercial S.A.	Belgium
Caterpillar Commercial S.A.R.L.	France
Caterpillar Commercial Services S.A.R.L.	France
Caterpillar Commerciale S.r.L.	Italy
Caterpillar Communications LLC	Delaware
Caterpillar Corporativo Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Credito, S.A. de C.V., Sociedad Financiera de Objecto Multiple, E. N.R.	Mexico
Caterpillar DC Pension Trust	England and Wales
Caterpillar Distribution Mexico S.R.L. de C.V.	Mexico
Caterpillar Distribution Services Europe B.V.B.A.	Belgium
Caterpillar East Japan Ltd.	Japan
Caterpillar Elkader LLC	Delaware
Caterpillar Engine Systems Inc.	Delaware
Caterpillar Environmental Technologies Mexico, S. de R.L. de C.V.	Mexico
Caterpillar European Finance s.r.o.	Czechoslovakia
Caterpillar Finance Corporation	Japan
Caterpillar Finance France S.A.	France
Caterpillar Finance, s.r.o.	Czech Republic
Caterpillar Financial Acquisition Funding LLC	Delaware
Caterpillar Financial Acquisition Funding Partners	United Kingdom
Caterpillar Financial Australia Limited	Australia
Caterpillar Financial Corporacion Financiera, S.A., E.F.C.	Spain
Caterpillar Financial Dealer Funding LLC	Delaware
Caterpillar Financial Funding Corporation	Nevada
Caterpillar Financial Member Company	Delaware
Caterpillar Financial New Zealand Limited	New Zealand
Caterpillar Financial Nordic Services AB	Sweden
Caterpillar Financial Nova Scotia Corporation	Nova Scotia
Caterpillar Financial OOO	Russia
Caterpillar Financial Receivables Corporation	Nevada
Caterpillar Financial Renting, S.A.	Spain
Caterpillar Financial S.A. Arrendamento Mercantil	Brazil
Caterpillar Financial S.A. Credito, Financiamento e Investimento	Brazil
Caterpillar Financial SARL	Switzerland
Caterpillar Financial Services (Dubai) Limited	United Arab Emirates
Caterpillar Financial Services (Ireland) plc	Ireland
Caterpillar Financial Services (UK) Limited	England and Wales
Caterpillar Financial Services Argentina S.A.	Argentina
Caterpillar Financial Services Asia Pte. Ltd.	Singapore
Caterpillar Financial Services Belgium S.P.R.L.	Belgium
Caterpillar Financial Services Corporation	Delaware
Caterpillar Financial Services CR, s.r.o.	Czech Republic
Caterpillar Financial Services GmbH	Germany

Caterpillar Financial Services Korea, Ltd.	Korea
Caterpillar Financial Services Limited Les Services Financiers Caterpillar Limitee	Canada
Caterpillar Financial Services Malaysia Sdn Bhd	Malaysia
Caterpillar Financial Services Netherlands B.V.	Netherlands
Caterpillar Financial Services Norway AS	Norway
Caterpillar Financial Services Philippines Inc.	Philippines
Caterpillar Financial Services Poland Sp. z o.o.	Poland
Caterpillar Financial Ukraine LLC	Ukraine
Caterpillar Finansal Kiralama Anomim Sirketi	Turkey
Caterpillar Fomento Comercial Ltda.	Brazil
Caterpillar Forest Products Inc.	Delaware
Caterpillar France S.A.S.	France
Caterpillar GB, L.L.C.	Delaware
Caterpillar Global Mining Pty. Ltd.	Australia
Caterpillar Global Services LLC	Delaware
Caterpillar Group Services S.A.	Belgium
Caterpillar Hokkaido Ltd.	Japan
Caterpillar Holding (France) S.A.S.	France
Caterpillar Holding Germany GmbH	Germany
Caterpillar Holding Ltd.	Bermuda
Caterpillar Holdings Singapore Pte. Ltd.	Singapore
Caterpillar Hungary Component Manufacturing Ltd.	Hungary
Caterpillar Hydraulics Italia S.r.l.	Italy
Caterpillar Impact Products Limited	England and Wales
Caterpillar India Private Limited	India
Caterpillar Insurance Co. Ltd.	Bermuda
Caterpillar Insurance Company	Missouri
Caterpillar Insurance Holdings Inc.	Delaware
Caterpillar Insurance Services Corporation	Tennessee
Caterpillar International Finance Limited	Ireland
Caterpillar International Finance Luxembourg, S.a.r.l.	Luxembourg
Caterpillar International Holding S.A.R.L.	Switzerland
Caterpillar International Investments Coöperatie U.A.	Netherlands
Caterpillar International Investments S.A.R.L.	Switzerland
Caterpillar International Ltd.	Bermuda
Caterpillar International Services Corporation	Nevada
Caterpillar International Services del Peru S.A.	Peru
Caterpillar Investment One SARL	Switzerland
Caterpillar Investment Two SARL	Switzerland
Caterpillar Investments	England and Wales
Caterpillar Japan Accounting Services Ltd.	Japan
Caterpillar Japan Akashi General Services Ltd.	Japan
Caterpillar Japan Ltd.	Japan
Caterpillar Japan Sagami Engineering Ltd.	Japan
Caterpillar Japan Sagami General Services Ltd.	Japan
Caterpillar Japan System Services Ltd.	Japan
Caterpillar Okinawa Ltd.	Japan
Caterpillar Operator Training Ltd.	Japan
Caterpillar Special Products Ltd.	Japan
Caterpillar Latin America Services de Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Latin America Services de Panama, S. de R.L.	Panama

Caterpillar Latin America Services de Puerto Rico, S. en C.	Puerto Rico
Caterpillar Latin America Services, S.R.L.	Costa Rica
Caterpillar Latin America Servicios de Chile Limitada	Chile
Caterpillar Latin America Support Services, S. DE R.L.	Panama
Caterpillar Leasing (Thailand) Limited	Thailand
Caterpillar Leasing Chile, S.A.	Chile
Caterpillar Leasing GmbH (Leipzig)	Germany
Caterpillar Leasing Operativo Limitada	Chile
Caterpillar Life Insurance Company	Missouri
Caterpillar Logistics (Shanghai) Co. Ltd.	China
Caterpillar Logistics Administrative Services de Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Logistics France S.A.S.	France
Caterpillar Logistics ML Services France S.A.S.	France
Caterpillar Logistics Services (France) S.A.R.L.	France
Caterpillar Logistics Services (Tianjin) Ltd.	China
Caterpillar Logistics Services (UK) Limited	England and Wales
Caterpillar Logistics Services Canada Ltd.	Canada
Caterpillar Logistics Services China Limited	China
Caterpillar Logistics Services de Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Logistics Services Egypt Ltd.	Egypt
Caterpillar Logistics Services Germany GmbH	Germany
Caterpillar Logistics Services India Private Limited	India
Caterpillar Logistics Services International GmbH	Germany
Caterpillar Logistics Services International LLC	Russia
Caterpillar Logistics Services International N.V.	Belgium
Caterpillar Logistics Services Polska Sp. z o.o.	Poland
Caterpillar Logistics Services Spain, S.A.	Spain
Caterpillar Logistics Services, Inc.	Delaware
Caterpillar Logistics Supply Chain Services GmbH	Germany
Caterpillar Logistics Supply Chain Services Italia S.r.l.	Italy
Caterpillar Logistics Supply Chain Services Limited Liability Company	Hungary
Caterpillar Luxembourg Group S.a.r.l.	Luxembourg
Caterpillar Luxembourg S.a.r.l.	Luxembourg
Caterpillar Marine Asia Pacific Pte. Ltd.	Singapore
Caterpillar Marine Power UK Limited	England and Wales
Caterpillar Marine Trading (Shanghai) Co., Ltd.	China
Caterpillar Materiels Routiers S.A.S.	France
Caterpillar Mexico, S.A. de C.V.	Mexico
Caterpillar Mining Chile Servicios Limitada	Chile
Caterpillar Motoren (Guangdong) Co. Ltd.	China
Caterpillar Motoren GmbH & Co. KG	Germany
Caterpillar Motoren Rostock GmbH	Germany
Caterpillar Motoren Verwaltungs-GmbH	Germany
Caterpillar North America C.V.	Netherlands
Caterpillar NZ Funding Parent Limited	Netherlands
Caterpillar of Australia Pty. Ltd.	Australia
Caterpillar of Canada Corporation	Canada
Caterpillar of Delaware, Inc.	Delaware
Caterpillar Overseas Credit Corporation S.A.R.L.	Switzerland
Caterpillar Overseas Investment Holding, S.A.R.L.	Switzerland
Caterpillar Overseas S.A.R.L.	Switzerland

Caterpillar Panama Services SA	Panama
Caterpillar Paving Products Inc.	Oklahoma
Caterpillar Paving Products Xuzhou Ltd.	China
Caterpillar Pension Trust Limited	England and Wales
Caterpillar Poland Sp. z o.o.	Poland
Caterpillar Power Generations Systems (Chile) SpA	Chile
Caterpillar Power Generations Systems L.L.C.	Delaware
Caterpillar Power Systems Inc.	Delaware
Caterpillar Power Systems y Compañia Limitada	Nicaragua
Caterpillar Power Ventures Corporation	Delaware
Caterpillar Power Ventures Europe B.V.	Netherlands
Caterpillar Power Ventures International, Ltd.	Bermuda
Caterpillar Prodotti Stradali S.r.l.	Italy
Caterpillar Product Development S.A.R.L.	Switzerland
Caterpillar Product Services Corporation	Missouri
Caterpillar R&D Center (China) Co., Ltd.	China
Caterpillar Redistribution Services Inc.	Delaware
Caterpillar Redistribution Services International S.A.R.L.	Switzerland
Caterpillar Reman Powertrain Indiana LLC	Delaware
Caterpillar Reman Powertrain Services, Inc.	South Carolina
Caterpillar Remanufacturing Drivetrain LLC	Delaware
Caterpillar Remanufacturing Limited	England and Wales
Caterpillar Remanufacturing Services (Shanghai) Co. Ltd.	China
Caterpillar Renting France S.A.S.	France
Caterpillar S.A.R.L.	Switzerland
Caterpillar Sales Inc.	Delaware
Caterpillar Services Limited	Delaware
Caterpillar Servicios Limitada	Chile
Caterpillar Servicios Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Servizi Italia Srl	Italy
Caterpillar Skinningrove Limited	England and Wales
Caterpillar Special Services Belgium S.P.R.L.	Belgium
Caterpillar Switchgear Holding Inc.	Georgia
Caterpillar Technologies Singapore Pte. Ltd.	Singapore
Caterpillar Torreon S. de R.L. de C.V.	Mexico
Caterpillar Tosno, L.L.C.	Russia
Caterpillar Transmissions France S.A.R.L.	France
Caterpillar Tunnelling Canada Ltd.	Ontario
Caterpillar UGM Techonolgy Pty. Ltd.	Australia
Caterpillar UK Acquisition Partners LP	United Kingdom
Caterpillar UK Employee Trust Limited	England and Wales
Caterpillar UK Group Limited	United Kingdom
Caterpillar UK Holding Company Limited	United Kingdom
Caterpillar UK Holdings Limited	England and Wales
Caterpillar Underground Mining Pty. Ltd.	Australia
Caterpillar West Japan Ltd.	Japan
Caterpillar Work Tools B.V.	Netherlands
Caterpillar Work Tools, Inc.	Kansas
Caterpillar World Trading Corporation	Delaware
Caterpillar Xuzhou Ltd.	China
Caterpillar/SCB Investments LP	Delaware

Caterpillar/SCB Receivables Finance LP	Nevada
Catsub I, Inc.	Oregon
Centre de Distribution de Wallonie S.A.	Belgium
CFRC/CFMC Investments, LLC	Delaware
Chemetron-Railway Products, Inc.	Delaware
EDC European Excavator Design Center GmbH & Co. KG	Germany
EDC European Excavator Design Center Verwaltungs GmbH	Germany
Elektrocieplawnia Starahowice Sp. z o.o.	Poland
Energy Services International Limited	Bermuda
Ensambladora Tecnologica de Mexico, S.A. de C.V.	Mexico
Euronov Polska	France
Eurenov S.A.S.	Poland
F.G. Wilson (Engineering) Limited	Northern Ireland
F.G. Wilson (Proprietary) Limited	South Africa
F.G. Wilson (USA) LLC	Delaware
F G Wilson Generators India Private Limited	India
Federal Financial Services LLC	Delaware
Forchester do Brasil Ltda.	Brazil
Forchester International S.A.	Uruguay
GFCM Servicios, S.A. de C.V.	Mexico
Guangzhou MaK Diesel Engine Limited Company	China
Inmobiliaria Conek, S.A.	Mexico
Ironmart LLC	Delaware
Kentuckiana Railcar Repair & Storage Facility, LLC	Indiana
Lovat Europe Limited	England and Wales
Lovat Holdings Ltd.	Ontario
Lovat Inc.	Ontario
Lovat Trading (Shanghai) Co. Ltd.	China
Magnum Power Products, LLC	Delaware
MaK Americas Inc.	Illinois
MaK Beteiligungs GmbH	Germany
MaK Power Systems Lanka (Private) Ltd.	Sri Lanka
Mec-Track S.r.l.	Italy
Metalmark Financial Services Limited	England and Wales
MGE Equipamentos e Servicos Ferroviarios Ltda.	Brazil
MICA Energy Systems	Michigan
Motori Perkins S.P.A.	Italy
Nadri Limited	Ontario
Necoles Investments B.V.	Netherlands
P. T. Caterpillar Finance Indonesia	Indonesia
P. T. Natra Raya	Indonesia
P. T. Solar Services Indonesia	Indonesia
Perkins Engines (Asia Pacific) Pte Ltd	Singapore
Perkins Engines Company Limited	England and Wales
Perkins Engines, Inc.	Maryland
Perkins France (S.A.S.)	France
Perkins Holdings Limited LLC	Delaware and England and Wales
Perkins International Inc.	Delaware
Perkins Limited	England and Wales
Perkins Motoren GmbH	Germany

Perkins Motores do Brasil Ltda.	Brazil
Perkins Power Systems Technology (Wuxi) Co., Ltd.	China
Perkins Shibaura Engines (Wuxi) Co., Ltd.	China
Perkins Shibaura Engines Limited	England and Wales
Perkins Shibaura Engines LLC	Delaware
Perkins Technology Inc.	Delaware
Pioneer Distribution, Inc.	South Carolina
Pioneer Machinery LLC	Delaware
PMHC LLC	Delaware
Premier Automotive Parts Limited	United Kingdom
Progress Metal Reclamation Company	Kentucky
Progress Rail Canada Corporation	Canada
Progress Rail Holdings Inc.	Alabama
Progress Rail Raceland Corporation	Delaware
Progress Rail Services Corporation	Alabama
Progress Rail Services de Mexico S.A. de C.V.	Mexico
Progress Rail Services Holdings Corp.	Delaware
Progress Rail Services LLC	Delaware
Progress Rail Services Participacoies Do Brazil Ltda.	Brazil
Progress Rail TransCanada Corporation	Nova Scotia
Progress Rail Wildwood, LLC	Florida
Progress Vanguard Corporation	Delaware
Przedsiebiorstwem Energetyki Cieplncj (Bugaj) Sp. Z o.o.	Poland
Qingzhou Aoweier Engineering Machinery Co., Ltd.	China
Qingzhou Shandong Logistics Co., Ltd.	China
Railcar, Ltd.	Georgia
Rapisarda Industries Srl	Italy
RelayStar S.A.	Belgium
Richlu Holdings Inc.	Ontario
S & L Railroad, LLC	Nebraska
SCM Singapore Holdings Pte. Ltd.	Singapore
SEM Service & Distribution Centre	United Arab Emirates
Servicios Administrativos Progress S. de R.L. de C.V.	Mexico
Servicios Ejecutivos Progress S. de R.L. de C.V.	Mexico
Servicios Logisticos Progress S. de R.L. de C.V.	Mexico
Shandong SEM Machinery Co Ltd.	China
Societe Industrial Rubber Hoses Sarl	Tunisia
Solar Turbines Canada Ltd./Ltee.	Canada
Solar Turbines Europe S.A.	Belgium
Solar Turbines Incorporated	Delaware
Solar Turbines International Company	Delaware
Solar Turbines Malaysia Sdn Bhd	Malaysia
Solar Turbines Overseas Pension Scheme Limited	Guernsey
Solar Turbines Services Company	California
Solar Turbines Services Nigeria Limited	Nigeria
Solar Turbines Services of Argentina S.R.L.	Argentina
Solar Turbines Trinidad & Tobago	Trinidad and Tobago
SPL Software Alliance LLC	Delaware
Tecnologia Modificada, S.A. de C.V.	Mexico
Tokyo Rental Ltd.	Japan
Turbinas Solar de Venezuela, C.A.	Venezuela

Turbo Tecnologia de Reparaciones S.A. de C.V.	Mexico
Turbomach (India) Private Limited	India
Turbomach Asia Ltd.	Thailand
Turbomach Deutschland GmbH	Germany
Turbomach Endustriyel Gaz Turbinleri Sanayi Ve Ticaret Limited	Turkey
Turbomach Energie S.A.R.L.	France
Turbomach Limited	United Kingdom
Turbomach Netherlands B.V.	Netherlands
Turbomach Pakistan (Private) Limited	Pakistan
Turbomach S.r.L.	Italy
Turbomach SA - Spain	Spain
Turbomach SA - Switzerland	Switzerland
Turbomach Sp. Z o.o.	Poland
Turner Powertrain Systems Limited	England and Wales
UK Hose Assembly Limited	England and Wales
United Industries Corporation	Kentucky
VALA (UK) LP	England and Wales
VALA Inc.	Delaware
VALA LLC	Delaware
Veratech Holding B.V.	Netherlands
West Virginia Auto Shredding Inc.	West Virginia
XPart Limited	United Kingdom

Affiliated Companies (50% and less ownership)	
Name of Company	Where Organized
10G LLC	Delaware
Advanced Filtration Systems Inc.	Delaware
AFSI Europe s.r.o.	Czech Republic
Akoya, Inc.	Delaware
ARCH Development Fund I, L.P.	Delaware
ASIMCO International Casting (Shanxi) Co. Ltd.	China
Cat Rental Tohoku Ltd.	Japan
Caterpillar Institute (Vic-Tas) Pty Ltd	Australia
Caterpillar Trimble Control Technologies LLC	Delaware
Energy Technologies Institute LLP	England and Wales
Energyst B.V.	Netherlands
Evercompounds S.p.a.	Italy
Firefly Energy Inc.	Delaware
FMS Equipment Rentals Inc.	Delaware
Intelligent Switchgear Organization LLC	Delaware
IronPlanet Australia Pty Limited	Australia
IronPlanet.com, Inc.	Delaware
K-Lea Co., Ltd.	Japan
M.O.P.E.S.A. Motores Power, S.A.	Mexico
MaK Trainings GmbH	Germany
MCFA Canada Ltd.	Ontario
MCFA FSC Inc.	Barbados
Mitsubishi Caterpillar Forklift America de Argentina S.A.	Argentina
Mitsubishi Caterpillar Forklift America Inc.	Delaware
Mitsubishi Caterpillar Forklift Asia Pte. Ltd.	Singapore

Mitsubishi Caterpillar Forklift Europe B.V.	Netherlands
Monte Rio Power Corporation Ltd.	Bermuda
Nagano Kouki Co., Ltd.	Japan
Nihon Kenki Lease Co., Ltd.	Japan
Polyhose India (Rubber) Private Limited	India
Rapidparts Inc.	Delaware
Rensel Co.	Japan
Societe de Electricite d'el Bibane	Tunisia
Tech Itoh Co., Ltd.	Japan
Technocast, S.A. de C.V.	Mexico
Tri-County Venture Capital Fund I, LLC	Delaware
Turboservices SDN BHD	Malaysia
VirtualSite Solutions LLC	Delaware
Yaita Jusyaryou Co., Ltd.	Japan
Yeep Co.	Japan

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-43133, 33-46194, 333-22041, 333-43983, 333-57512, 333-71468, 333-136265, 333-135123, 333-135465, 33-40393, 33-39120), Form S-8 (Nos. 2-97450, 333-37353, 33-8003, 333-03609, 333-41464, 333-98197, 333-115837, 333-32853, 333-32851, 333-111355, 333-128342, 333-135467, 333-133275, 333-133266, 333-133265, 333-141548) and Form S-4 (No. 333-121003) of Caterpillar Inc. of our report dated February 19, 2009 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Peoria, Illinois
February 19, 2009

EXHIBIT 31.1

SECTION 302 CERTIFICATION

I, James W. Owens, certify that:

1. I have reviewed this annual report on Form 10-K of Caterpillar Inc.;

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

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

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

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

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

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

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrants most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 20, 2009	*/s/ James W. Owens* (James W. Owens)	Chairman of the Board and Chief Executive Officer

EXHIBIT 31.2

SECTION 302 CERTIFICATION

I, David B. Burritt, certify that:

1. I have reviewed this annual report on Form 10-K of Caterpillar Inc.;

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

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

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

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

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

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

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrants most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

February 20, 2009	*/s/ David B. Burritt*	Vice President and Chief Financial Officer
	(David B. Burritt)	

EXHIBIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Caterpillar Inc. (the "Company") on Form 10-K for the period ending December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 20, 2009	*/s/ James W. Owens* (James W. Owens)	Chairman of the Board and Chief Executive Officer
February 20, 2009	*/s/ David B. Burritt* (David B. Burritt)	Vice President and Chief Financial Officer

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

EXHIBIT 99.1

Form Last Updated by the NYSE on April 28, 2006

NYSE Regulation

Domestic Company
Section 303A
Annual CEO Certification

As the Chief Executive Officer of Caterpillar Inc. (CAT) and as required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual, I hereby certify that as of the date hereof I am not aware of any violation by the Company of NYSE's corporate governance listing standards, other than has been notified to the Exchange pursuant to Section 303A.12(b) and disclosed on Exhibit H to the Company's Domestic Company Section 303A Annual Written Affirmation.

This certification is:

[X] Without qualification

or

[ ] With qualification

By:	*/s/ James W. Owens*
Printed Name:	James W. Owens
Title:	Chairman and Chief Executive Officer
Date:	July 09, 2008

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