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, 2010

**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] | 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 New York Stock Exchange, Caterpillar common stock is also listed on stock exchanges in Belgium, France, Germany, Great Britain and Switzerland. Caterpillar voluntarily delisted from The Chicago Stock Exchange in November 2010.

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 a check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ✓ ] 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 the 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, 2010, there were 630,472,409 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 $37.4 billion.

As of December 31, 2010, there were 638,822,714 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 $59.1 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 | 2011 Annual Meeting Proxy Statement (Proxy Statement) to be filed with the Securities and Exchange Commission (SEC) within 120 days after the end of the calendar year. |
| Parts I, II, IV | General and Financial Information for 2010 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). |

## TABLE OF CONTENTS


| | | | Page |
|---|---|---|---|
| **Part I** | Item 1. | Business | 1 |
| | Item 1A. | Risk Factors | 10 |
| | Item 1B. | Unresolved Staff Comments as of December 31, 2010 | 18 |
| | Item 1C. | Executive Officers of the Registrant as of December 31, 2010 | 19 |
| | Item 2. | Properties | 19 |
| | Item 3. | Legal Proceedings | 21 |
| | Item 4. | [Removed and reserved.] | 21 |
| **Part II** | Item 5. | Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 21 |
| | Item 6. | Selected Financial Data | 22 |
| | Item 7. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 22 |
| | Item 7A. | Quantitative and Qualitative Disclosures About Market Risk | 22 |
| | Item 8. | Financial Statements and Supplementary Data | 22 |
| | Item 9. | Changes in and Disagreements With Accountants on Accounting and Financial Disclosure | 23 |
| | Item 9A. | Controls and Procedures | 23 |
| | Item 9B. | Other Information | 23 |
| **Part III** | Item 10. | Directors, Executive Officers and Corporate Governance | 24 |
| | Item 11. | Executive Compensation | 24 |
| | Item 12. | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 25 |
| | Item 13. | Certain Relationships and Related Transactions, and Director Independence | 25 |
| | Item 14. | Principal Accountant Fees and Services | 25 |
| **Part IV** | Item 15. | Exhibits and Financial Statement Schedules | 25 |

# 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, underground mining equipment, tunnel boring equipment and related parts. In addition, this line of business also includes Electro-Motive Diesel, Inc. (EMD), a manufacturer of diesel-electric locomotives, which we acquired in 2010. Also includes the design, manufacture, remanufacture, maintenance and services of rail-related products and logistics services for other companies.

2. **Engines**— A principal line of business including the design, manufacture, marketing and sales of engines for Caterpillar machinery; electric power generation systems; marine, petroleum, construction, industrial, agricultural and other applications and related parts. Also includes remanufacturing of Caterpillar engines and a variety of Caterpillar 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) 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.

Due to financial information required by accounting guidance on segment reporting, we have also divided our business into 12 reportable segments for financial reporting purposes. Information about our reportable segments, including geographic information, appears in Note 22 – "Segment information" of Exhibit 13.

Other information about our operations in 2010, including certain risks associated with our operations, is incorporated by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Exhibit 13.

***Company Strengths***
For more than 85 years, Caterpillar has been making sustainable progress possible and driving positive change on every continent. With 2010 sales and revenues of $42.588 billion, Caterpillar is the world's leading manufacturer of construction and mining equipment, diesel and natural gas engines, industrial gas turbines and diesel-electric locomotives. The company also is a leading services provider through Cat Financial, Caterpillar Remanufacturing Services, Caterpillar Logistics Services, Inc. (Cat Logistics) and Progress Rail Services Corporation (Progress Rail). Caterpillar is also a leading U.S. exporter. Through a global network of independent dealers and direct sales of certain products, Caterpillar builds long-term relationships with customers around the world.

***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 of our 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., Deere & Co., Hitachi Construction Machinery Co., J.C.Bamford Ltd., Doosan Infracore Co., Ltd. and LiuGong Construction Machinery N.A., LLC. Each of these companies have varying numbers of product lines that compete with Caterpillar products, and each have varying degrees of regional focus.

The world economy started to recover from its worst postwar recession in 2009 and that recovery continued throughout 2010. Developing countries had the strongest recoveries, which increased the need for construction and commodities. End users increased equipment purchases to meet this increased demand and dealers began rebuilding their inventories to support higher deliveries. Economic recoveries in the developed economies were weak and unemployment remained near record highs. Most construction continued to decline in developed economies. Despite weak economic recoveries and construction declines, end users purchased more equipment to slow deterioration in their fleets. In response, dealers added to their inventories. Worldwide, the change in dealer inventory practices and increased deliveries to end users resulted in a significant increase in machine sales volume in 2010.

Caterpillar's logistics business provides integrated supply chain services for Caterpillar and approximately 50 customers worldwide. It competes with global, regional and local logistics competitors, including companies such as DHL International, CEVA Logistics and Kuehne + Nagel Inc. The unit has grown significantly since its inception in 1987.

Caterpillar also provides rail-related products and services through its wholly owned subsidiary, Progress Rail. Progress Rail is a leading provider of a broad range of products and services to the railroad industry, including new and remanufactured locomotives, railcar and track products and design and maintenance services. It competes with global, regional and local competitors, including companies such as GE Transportation, Bombardier, Siemens and VAE Nortrak North America, Inc.

## *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, 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 global competitive environment for reciprocating engines in marine, petroleum, construction, industrial, agriculture and electric power generation systems along with turbines consists of a few larger global competitors who compete in a variety of markets that Caterpillar serves, and a substantial number of smaller companies who compete in a limited-size product range, geographic region and/or application. Principal global competitors include, but are not limited to, Cummins Inc., Tognum AG, GE Energy Infrastructure, Siemens Energy and Wartsila Corp. Other competitors, such as John Deere Power Systems, MAN Diesel SE, Mitsubishi Heavy Industries Ltd., Volvo Penta (part of Volvo Group AB), Kawasaki Heavy Industries, multiple emerging Chinese competitors and Rolls Royce Group plc compete in certain markets in which Caterpillar competes. An additional set of competitors, including Generac Power Systems, Inc., Kohler Co., 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.

As previously announced, Caterpillar no longer provides new engines for trucks and other on-highway original equipment manufacturers (OEMs) subject to current U.S. and European emissions regulations. Caterpillar will continue to service our previous on-highway engine customers through Caterpillar and truck OEM dealer channels.

Since the introduction of Caterpillar's ACERT® Technology in 2003, Caterpillar has continued to focus investment and resources on leveraging this technology. The building blocks for ACERT Technology are flexible and scalable and are being applied as needed based on engine platform and application. Caterpillar is adding several new technologies to our portfolio of ACERT Technologies to meet Tier 4 Interim/Stage IIIB non-road emissions regulations. We believe ACERT provides Caterpillar with a valuable foundation to meet emissions and performance requirements.

Caterpillar's remanufacturing business provides services for a variety of products 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 150 million pounds of remanufactured products each year. The business continues to grow at rates well above that of the global economy as a whole.

## *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 and dealers around the world. Retail financing is primarily comprised of financing of Caterpillar equipment, machinery and engines. 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 and its subsidiaries. The various financing plans offered by Cat Financial are primarily 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, product structuring 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 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 and investors, (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 ability to comply with these governmental and legal requirements and restrictions affects its operations.

Cat Financial's retail leases and installment sale contracts (totaling 56 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 (16 percent*).
- Finance (non-tax) leases, where the lessee for tax purposes is considered to be the owner of the equipment during the term of the lease, that either require or allow 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 structure payments over time (18 percent*).
- Governmental lease-purchase plans in the U.S. that offer low interest rates and flexible terms to qualified non-federal government agencies (1 percent*).

Cat Financial's wholesale notes receivable, finance leases and installment sale contracts (totaling 12 percent*) include:

- Inventory/rental programs, which provide assistance to dealers by financing their new Caterpillar inventory and rental fleets (5 percent*).
- Short-term dealer receivables we purchase from Caterpillar at a discount (7 percent*).

Cat Financial's retail notes receivables (32 percent*) include:

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

---

*Indicates the percentage of Cat Financial's total portfolio at December 31, 2010. 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 6 – "Cat Financial Financing Activities" of Exhibit 13.

Cat Financial operates in a highly competitive environment, 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 own financial subsidiaries such as Volvo Financial Services, Komatsu Financial L.P. and John Deere Capital Corporation that utilize 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. See also the risk factor titled "Risks to Financial Products Line of Business" for general risks associated with our financial products business included in Item 1A. 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.

Cat Financial provides financing only when certain 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. We believe that these marketing programs provide Cat Financial a significant competitive advantage in financing Caterpillar products.

Caterpillar Insurance Company, a wholly owned subsidiary of Caterpillar Insurance Holdings Inc., 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 50 states and the District of Columbia and, as such, is also regulated in those jurisdictions. 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 Insurance Company is also licensed to conduct insurance business through a branch in Zurich, Switzerland and, as such, is regulated by the Swiss Financial Market Supervisory Authority.

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 also regulated in those jurisdictions. 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 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 Caterpillar Insurance Holdings Inc., 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 its parent and affiliates. 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 Germany and France by providing machine extended warranty reimbursement protection to dealers in Germany and France.

Caterpillar Insurance Services Corporation, a wholly owned subsidiary of Caterpillar Insurance Holdings Inc., 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 and its affiliates, Caterpillar dealers and OEMs for extended service contracts (parts and labor) offered by Caterpillar, 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.

## ***Business Developments in 2010***

### Economic and Market Conditions

Global economic conditions continued to improve throughout 2010, resulting in an increased demand for Caterpillar products. Our focus in 2009 on reducing costs, maintaining solid profitability and cash flow and improving our balance sheet prepared us to ramp up production and add capacity to accommodate current and expected growth in the future. During 2010, improving economies in both the developing and developed countries, replenishment of inventories and rental fleets and an increase in commodity prices all contributed to our increased sales.

### Financial Results and Stockholder Value

Full year 2010 results marked a significant increase from 2009 in both sales and revenues and profit for Caterpillar. The company realized 2010 sales and revenues of $42.588 billion, a 31 percent increase from 2009, and profit of $2.7 billion, a 202 percent increase from 2009. Our profit per share in 2010 was $4.15, up from $1.43 in 2009.

### Sustainability

The company has a long-standing commitment to sustainable development and in 2010, we continued to align our sustainability efforts with our business strategy. We were selected as a member of the Dow Jones Sustainability World Index (DJSI World) for the tenth consecutive year and were recognized as a leader in the Industrial Engineering sector. DJSI World 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 have continued our focus on deploying CPS with 6 Sigma. Through the implementation of CPS, we believe we have made continued progress on our safety and quality goals, reduced inventory and improved cost performance. CPS continues to be an important component in achieving our near-term goals and our Vision 2020.

### Strategy Update

In June 2010, we updated our Vision 2020 strategy, which was first introduced in 2005. Our updated strategy is focused on executing our business model to ensure that our customers succeed, delivering superior returns to stockholders and attracting and developing the best people. In addition, we have established key areas of focus that we believe will help us reach our goals, including increasing product development, reducing our cost structure, achieving our profit and cash pull through goals, achieving leadership positions in key industries, products and regions and continued growth in strategic markets. Our updated strategy coincided with the election of Douglas R. Oberhelman as our Chief Executive Officer and an internal reorganization that streamlined our corporate structure and realigned executive responsibilities to provide increased visibility and accountability toward reaching our goals.

**Growth Initiatives**

As the global economy continued to improve in 2010, the demand for our products increased substantially. In response to increased demand and improving economic conditions, we announced plans to increase capacity, expand production and make strategic acquisitions, including, but not limited to the following:

Mining

- In November 2010, Caterpillar announced that it entered into an agreement to purchase Bucyrus International, Inc. (Bucyrus). Bucyrus designs and manufactures mining equipment for the surface and underground mining industries and provides service for its equipment. The acquisition is part of our strategy to grow our mining business. The transaction is subject to customary closing conditions and regulatory approvals.

- A manufacturing and component assembly facility in Winston-Salem, North Carolina to provide increased capacity for our mining business. The facility will be primarily used for the machining, assembly, test and painting of axle assemblies for large mining machines.

- Additional investments in our mining business relating to capacity expansion for trucks produced in Decatur, Illinois and Chennai, India.

Rail

- In August 2010, Caterpillar acquired EMD. This acquisition continued our strategic plan to grow our presence in the rail industry and enables us to provide rail and transit customers with locomotive, engine and emissions solutions, aftermarket product and parts support and a broad line of rail-related services and solutions.

- In May 2010, Caterpillar acquired FCM Rail Ltd. (FCM). FCM is a lessor of maintenance of way (MOW) equipment in the United States and expands our service offerings in the MOW industry.

- In March 2010, Caterpillar acquired the Inspection Products business from GE Transportation's Intelligent Control Systems division. This acquisition expands the scope and product range of our rail signaling business. The acquired business has operations primarily in the United States, Germany and Italy.

- A manufacturing facility in Muncie, Indiana to produce diesel-electric locomotives. The facility is expected to begin production in 2012. In addition to increasing our ability to serve the diesel-electric locomotive market, we also expect to be able to pursue transit-rail opportunities, particularly in the United States.

Engines

- In October 2010, Caterpillar announced that it entered into an agreement to acquire MWM Holding GmbH (MWM), headquartered in Mannheim, Germany. MWM is a supplier of engines that are capable of operating on a wide range of gaseous fuels including natural gas, biogas, mine gas and industrial waste gas. MWM focuses on generator setups, combined heat and power, trigeneration (heat, power and cooling), as well as complete turnkey solutions, and its engines cover a range of 400 to 4 300 kilowatts. The transaction is subject to customary closing conditions and regulatory approvals.

- A manufacturing facility in Tianjin, China to increase worldwide capacity for our 3500 series engines. The facility is expected to begin production in 2013 and will become our third global source for these engines, with a focus on producing engines for customers in China and the Asia-Pacific region.

Excavators

- Increased production capacity of excavators in China by acquiring the remaining ownership interest in Caterpillar Xuzhou Limited (CXL), a joint venture between Caterpillar and Xuzhou Construction Machinery Group (XCMG). We also announced facility expansions for small, medium and large excavators at our Xuzhou, China facility.

- A manufacturing facility in Victoria, Texas to produce hydraulic excavators. The facility is expected to begin production in mid-2012 and, once fully operational, is projected to triple our current capacity for hydraulic excavators produced in the United States. The new facility will manufacture the two models of excavators now made in Aurora, Illinois as well as several additional excavator models produced in Akashi, Japan and exported to the United States.

- A manufacturing facility in Wujiang, China to produce mini hydraulic excavator models in the under 8-ton range for Chinese customers. Currently, Caterpillar supplies Chinese customers with mini excavators produced at Caterpillar's facility in Xuzhou, China and with machines produced in Sagami, Japan. This facility is expected to increase capacity for other Caterpillar products at our Xuzhou and Sagami operations.

- An alliance agreement with Wacker Neuson SE (Wacker), located in Munich, Germany, for the design, manufacture, sale and support of Caterpillar mini hydraulic excavators in the under three-ton category. The agreement calls for Wacker to produce these excavators at its facility in Linz, Austria.

<u>Backhoe and Wheel Loaders</u>

- A manufacturing facility in Brazil to produce backhoe loaders and small wheel loaders which are currently made at Caterpillar's facility in Piracicaba, Brazil. The new facility will allow us to increase capacity for other machines produced in Piracicaba.

<u>Compact Construction Equipment</u>

- Expansion of our compact construction equipment operations located in Sanford, North Carolina to provide increased logistics and fabrications capacity to meet the growing global demand for our skid steer, compact track and multi-terrain loaders. The expansion will facilitate increased logistics capabilities and robotic welding technology for fabrication production.

<u>Components</u>

- A joint-venture agreement with AVIC Liyuan Hydraulics Co., Ltd. to establish a company to design and manufacture medium- and heavy-duty hydraulic pumps and motors for the construction equipment industry. The joint venture is expected to provide components for use in Caterpillar products as well as third-party machinery and equipment, and enhance our supply base and key component capacity in support of our expansion plans in China.

<u>Engineering Design</u>

- An engineering design center in Rapid City, South Dakota to provide additional engineering support services for our U.S. operations. This center will complement the company's existing engineering design centers.

<u>Distribution and Logistics</u>

- Completion of a new logistics center in Suzhou, China to provide inbound logistics support for our growing manufacturing footprint in China and other manufacturing operations in the Asia-Pacific region. In addition, the facility will serve as a consolidation/deconsolidation hub and provide warehousing and distribution support.

- A parts distribution center in Dubai, United Arab Emirates. The new distribution center is the third facility added to Caterpillar's global service parts distribution network in the last five years and is part of our multi-year expansion and enhancement of the Europe, Africa and Middle East Caterpillar parts distribution network. During the past five years, distribution capacity has been added in Shanghai, China, Moscow, Russia and Waco, Texas.

***<u>Business Combinations</u>***
Information related to acquisitions and alliances appears in Note 23 – "Business combinations and alliances" of Exhibit 13.

***<u>Raw Materials and Component Products</u>***
We source our raw materials and manufactured components from suppliers both domestically and internationally. These purchases include unformed materials and rough and finished parts. Unformed materials include a variety of steel products, which are then cut or formed to shape and machined in our facilities. Rough parts include 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 either to 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 the ability to timely deliver raw materials and component products 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, the ability to increase or decrease production levels, business continuity, quality and delivery.

***Order Backlog***

The dollar amount of backlog believed to be firm was approximately $18.7 billion, $9.6 billion and $14.7 billion at December 31, 2010, 2009 and 2008, respectively. Of the total backlog, approximately $2.8 billion, $2.5 billion and $2.2 billion at December 31, 2010, 2009 and 2008, respectively, was not expected to be filled in the following year. The backlog decrease during 2009 reflects the impact of weak global economic conditions. In 2010, order backlog increased by approximately $1 billion due to the acquisition of EMD. The remaining increase for 2010 compared to 2009 and 2008 year end is primarily due to an increase in order volume across most business units.

***Dealers and Distributors***

Our machines are distributed principally through a worldwide organization of dealers (dealer network), 50 located in the United States and 138 located outside the United States, serving 182 countries and operating 3,475 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 Engines Company Limited (Perkins) are also sold through its worldwide network of 142 distributors located in 183 countries. Most of the electric power generation systems manufactured by F.G. Wilson Engineering Limited (FG Wilson) are sold through its worldwide network of 154 distributors located in 179 countries. Some of the large, medium speed reciprocating engines are also sold under the MaK brand through a worldwide network of 19 distributors located in 130 countries.

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

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 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," "Electro-Motive," "FG Wilson," "MaK," "Olympian," "Perkins," "Progress Rail" and "Solar Turbines." 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 2010, 2009 and 2008, we spent $1,905 million, $1,421 million and $1,728 million, or 4.5 percent, 4.4 percent, and 3.4 percent of our sales and revenues, respectively, on our research and development programs. R&D expense is expected to increase about 20 percent in 2011, primarily related to the roll-out of products designed to meet applicable emissions requirements.

***Employment***
As of December 31, 2010, we employed 104,490 persons of whom 57,171 were located outside the United States. From a global enterprise perspective, we believe our relationship with our employees is very good. We build and maintain a productive, motivated workforce by striving to treat all employees fairly and equitably.

In the United States, most of our 47,319 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, 2010, there were 12,496 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 9,423 Caterpillar employees under a six-year central labor agreement that expires on March 1, 2011 and that we are currently in the process of renegotiating. The International Association of Machinists represents 1,814 employees under labor agreements that will expire on April 30, 2012 and May 17, 2015.

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 68 percent of consolidated sales for 2010, 69 percent for 2009 and 67 percent for 2008.

***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 other forms or reports 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.Caterpillar.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.Caterpillar.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.Caterpillar.com/governance). The information contained on the company's website is not included in, or incorporated by reference into, this annual report on Form 10-K.

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.Caterpillar.com/materialsrequest

***Historical information -***

- view/download on-line at www.Caterpillar.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, the statements in this section include "forward-looking statements" as that term is defined in 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 are forward-looking and involve uncertainties that could significantly impact results. From time to time, we also provide forward-looking statements in oral presentations to the public or in other materials we issue to the public. Forward-looking statements give current expectations or forecasts of future events about the company or our outlook. 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, product 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. Such statements are based on assumptions and on known risks and uncertainties. Although we believe we have been prudent in our assumptions, any or all of our forward-looking statements may prove to be inaccurate, and we can make no guarantees about our future performance. 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 related disclosures we make in subsequent Form 10-Q or Form 8-K filings with the SEC.

The following is a cautionary discussion of risks, uncertainties and assumptions that we believe are significant to our business. In addition to the factors discussed elsewhere in this report, the following are some of the important factors that, individually or in the aggregate, we believe could make our actual results differ materially from those described in any forward-looking statements. 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.

***Our business is highly sensitive to global economic conditions and economic conditions in the industries and markets we serve.***

Our results of operations are materially affected by the conditions in the global economy generally and various capital markets. The demand for our products and services tends to be cyclical and can be significantly reduced in an economic environment characterized by higher unemployment, lower consumer spending, lower corporate earnings and lower levels of government and business investment.

The energy and mining industries are major users of our machines and engines. Decisions to purchase our machines and engines are dependent upon the performance of the industries in which our customers operate. 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 the general economic and financial outlooks we disclose each quarter (our “outlooks”). Commodity prices lower than those assumed in our outlooks may 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 United States, demand for our products may be significantly impacted, which could negatively impact our results. Slower rates of economic growth than anticipated in our outlooks could also adversely impact our business, results of operations and financial condition.

***Changes in government monetary or fiscal policies may negatively impact our results***.

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 affects demand for residential and nonresidential structures, energy and mined products, which in turn affects sales of our products that serve these activities. Interest rate changes also affect customers’ abilities to finance machine purchases, can change the optimal time to keep machines in a fleet and can impact the ability of our suppliers to finance the production of parts and components necessary to manufacture and support our products. Our outlooks typically include assumptions about interest rates in a number of countries. Interest rates higher than those contained in our assumptions could result in lower sales than anticipated and supply chain inefficiencies.

Economic events have reduced the availability of liquidity to fund investments in many markets that we serve. Central banks and other policy arms of many countries have implemented various actions to restore liquidity and increase the availability of credit. The continuing effectiveness of these and related government actions is uncertain and could have an 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 business. 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 of our products can retain, both of which influence investment decisions. Unfavorable developments, such as declines in government revenues, decisions to reduce public spending or increases in taxes, could negatively impact our results.

***Commodity or component price increases and significant shortages of component products may adversely impact our financial results or our ability to meet commitments to customers.***

We are a significant user of steel and many other commodities required for the manufacture of our products. As a result, unanticipated increases in the prices of such commodities would increase our costs more than expected, negatively impacting our business, results of operations and financial condition if we are unable to fully offset the effect of these increased costs through price increases, productivity improvements or cost reduction programs.

We rely on suppliers to secure component products, particularly steel, required for the manufacture of our products. During the global economic downturn, we reduced our own production levels and, as a result, our suppliers experienced significant decreases in demand for their products. Although we monitor the ability of key suppliers to ramp up production in the event that demand continues to grow, we cannot guarantee that they will be able to timely increase production to meet our demands. A disruption in deliveries to or from suppliers or decreased availability of such components or commodities could have an adverse effect on our ability to meet our commitments to customers or increase our operating costs. We believe our sources of raw materials and component products will generally be sufficient for our needs in the foreseeable future. However, our business, results of operations or financial condition could be negatively impacted if supply is insufficient for our operations.

***Disruptions or volatility in global financial markets could limit our sources of liquidity, or the liquidity of our customers, dealers and suppliers.***

Global economic conditions may cause volatility and disruptions in the capital and credit markets. During the 2008-2009 global economic downturn, financial markets decreased the availability of liquidity, credit and credit capacity for certain issuers, including certain of our customers, dealers and suppliers. 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, continuing to meet these cash requirements over the long-term requires 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. Market volatility, changes in counterparty credit risk, the impact of government intervention in financial markets and general economic conditions may also adversely impact our ability to access capital and credit markets to fund operating needs. An 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, 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. Subject to global economic conditions, many of our customers may experience increased difficulty in generating funds from operations. Further, following capital and credit market volatility and uncertainty, many financial institutions have revised their lending standards, thereby decreasing access to capital. If capital and credit market volatility occurs, the liquidity of our customers may decline which, in turn, would reduce their ability to purchase our products.

***Our global operations are exposed to political and economic risks, commercial instability and events beyond our control in the countries in which we operate.***

Our global operations are dependent upon products manufactured, purchased and sold in the U.S. and internationally, including in countries with political and economic instability. In some cases, these countries have greater political and economic volatility and greater vulnerability to infrastructure and labor disruptions than in our other markets. Operating and seeking to expand business in a number of different regions and countries exposes us to a number of risks, including:

- multiple and potentially conflicting laws, regulations and policies that are subject to change;
- imposition of currency restrictions, restrictions on repatriation of earnings or other restraints;
- imposition of burdensome tariffs or quotas;
- national and international conflict, including terrorist acts; and
- political and economic instability or civil unrest that may severely disrupt economic activity in affected countries.

The occurrence of one or more of these events may negatively impact our business, results of operations and financial condition.

***Failure to maintain our credit ratings would increase our cost of borrowing and could adversely affect our access to capital markets.***

Caterpillar's and Cat Financial's costs of borrowing and ability to access the capital markets are affected not only by market conditions but also by the short- and long-term debt ratings assigned to their debt by the major credit rating agencies. These ratings are based, in significant part, on Caterpillar's and Cat Financial's performance as measured by financial metrics such as net worth and interest coverage and leverage ratios, as well as transparency with rating agencies and timeliness of financial reporting. In 2009, each of the major credit rating agencies either modified their outlook for the company and Cat Financial or downgraded the rating. While the rating agencies subsequently improved their outlooks to stable, there can be no assurance that Caterpillar's or Cat Financial's credit ratings will not be lowered in the future.

Although the company and Cat Financial have committed credit facilities to provide liquidity, any downgrades of our credit ratings may increase our cost of borrowing and could have an adverse effect on our access to the capital markets, including restricting, in whole or in part, our access to the commercial paper market. There can be no assurance that the commercial paper market will continue to be a reliable source of short-term financing for the company. An inability to access the capital markets could have a material adverse effect on our cash flow, results of operations and financial condition.

***Our Financial Products line of business is subject to risks associated with the financial services industry.***

Difficult and volatile market conditions may have an adverse effect upon 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.

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 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 Cat Financial's and our earnings and cash flows. Because a significant number of the loans made by Cat Financial are made at fixed interest rates, its business is subject to fluctuations in interest rates. Changes in market interest rates may influence its financing costs, returns on financial investments and the valuation of derivative contracts and could reduce its and our earnings and cash flows. In addition, because Cat Financial makes a significant number of loans in currencies other than the U.S. dollar, fluctuations in foreign currency exchange rates could also reduce its and our earnings and cash flows. 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 flows. 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 Insurance's investment activities, changes in the equity and bond markets could cause an impairment of the value of its investment portfolio, requiring a negative adjustment to earnings.

The U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law in July 2010 and includes extensive provisions regulating the financial services industry. The impact of this legislation remains uncertain, as regulators continue to propose and adopt implementing rules. If the rules, as adopted, impose significant costs or restrictions on the company, including, without limitation, costs or restrictions on our or Cat Financial's use of derivatives or asset backed securitizations, we could experience an adverse effect on our results of operations and financial condition.

Cat Financial 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, increase the associated funding costs and reduce its and our earnings and cash flows. A large portion of Cat Financial's borrowings have been issued in the medium term note and commercial paper markets. While Cat Financial has maintained access to key global medium term note and commercial paper markets, there can be no assurance that such markets will continue to represent a reliable source of financing for Cat Financial. Should global economic conditions deteriorate or access to debt markets be reduced, Cat Financial could experience materially higher financing costs and become unable to access adequate funding to operate and grow its business and/or meet its debt service obligations as they mature, or it could be required to draw 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. Any of these events could negatively impact Cat Financial's business, results of operations and financial condition. The extent of any impact on our ability to meet funding or liquidity needs would depend on several factors, including our operating cash flows, the duration of any future market disruptions, the effects of governmental intervention in the financial markets including the effects of any programs or legislation designed to increase or restrict liquidity for certain areas of the market, general credit conditions, the volatility of equity and debt markets, our credit ratings and credit capacity and the cost of financing and other general economic and business conditions.

Market disruption and volatility may also lead to a number of other risks, including:

- Market developments that may affect customer confidence levels and cause declines in the demand for financing and adverse changes in payment patterns, causing increases in delinquencies and default rates, which could impact Cat Financial's write-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. 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 disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations.
- As Cat Financial's counterparties are primarily financial institutions, their ability to perform in accordance with any of its underlying agreements could be adversely affected by market volatility and/or disruptions in financial markets.

***We engage in acquisitions and divestitures, including the recently announced acquisition of Bucyrus; we may not realize all of the anticipated benefits of these transactions or these benefits may take longer to realize than expected.***

From time to time we engage in strategic transactions involving risks, including the possible failure to successfully integrate and realize the expected benefits of such transactions. On November 14, 2010, we entered into an agreement to acquire Bucyrus, subject to the satisfaction or waiver of certain closing conditions and regulatory approvals. If the merger with Bucyrus is consummated, the combined company's ability to realize the anticipated benefits of the merger, including the expected synergies and cost savings, will depend, to a large extent, on our ability to integrate the mining businesses of both companies. Our management will be required to devote significant attention and resources to this integration process, which may disrupt the business of either or both of the companies and, if implemented ineffectively, could preclude realization of the full benefits we expect. Failure to successfully integrate the operations of the Caterpillar and Bucyrus mining businesses or otherwise to realize the anticipated benefits of the merger could cause an interruption of, or a loss of momentum in, the mining operations of the combined company. In addition, the integration may result in material unanticipated problems, expenses, liabilities, competitive responses, loss of customer relationships, and the diversion of management's attention, and may cause our stock price to decline. The risks associated with the Bucyrus acquisition and our other past or future acquisitions include:

- 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;
- Unforeseen expenses, delays or conditions may be imposed upon the acquisition, including due to required regulatory approvals or consents;
- The company may acquire or assume unexpected liabilities;
- Faulty assumptions may be made regarding the integration process;
- Unforeseen difficulties may arise in integrating operations and systems;
- The company may fail to retain, motivate and integrate key management and other 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.

Many of these factors will be outside of the combined company's control and any one of them could result in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy. With respect to the Bucyrus acquisition specifically, it is possible that regulators will impose conditions on required antitrust approvals, including by requiring dispositions. Even if the mining businesses are successfully integrated, the combined company may not realize the full benefits of the transaction, including the synergies, cost savings or sales or growth opportunities that the combined company expects. These benefits may not be achieved within the anticipated time frame, or at all. If we fail to complete the Bucyrus acquisition or to achieve the anticipated benefits of the acquisition, this could have an adverse effect on the market price of our common stock.

In addition, in order to conserve cash for operations, we may undertake acquisitions financed in part through public offerings or private placements of debt or equity securities, or other arrangements. In connection with the announcement of the Bucyrus acquisition, we announced that we intend to issue debt and equity securities to fund the acquisition of Bucyrus. Such acquisition financing could result in a decrease of our ratio of earnings to fixed charges and adversely affect other leverage measures. If we issue equity securities or equity-linked securities, the issued securities may have a dilutive effect on the interests of the holders of our common shares.

Failure to implement the company's acquisition strategy, including successfully integrating acquired businesses, could have an adverse effect on our business, financial condition and results of operations. Furthermore, we make strategic divestitures from time to time. These divestitures may result in continued financial involvement in the divested businesses, including through guarantees or other financial arrangements, following the transaction. Lower performance by those divested businesses could affect our future financial results.

***International trade policies may impact demand for our products and our competitive position.***

Government policies on international trade and investment such as import quotas, capital controls or tariffs, whether adopted by individual governments or addressed by regional trade blocs, can affect the demand for our products and services, impact the competitive position of our products or prevent us from being able to sell products in certain countries. The implementation of more restrictive trade policies, such as more detailed inspections, higher tariffs or new barriers to entry, in countries in which we sell large quantities of products and services could negatively impact our business, results of operations and financial condition. For example, a government's adoption of "buy national" policies or retaliation by another government against such policies could have a negative impact on our results of operations.

***Our introduction of Tier 4 emissions compliant machines and engines may not be successful.***

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. We intend to use certain technology with state of the art integrated systems, as well as the transitional provisions provided by the regulations in order to comply with the Tier 4 emissions requirements.

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. We are incurring research and development costs to design and introduce products to meet Tier 4 requirements. We plan to include costs associated with Tier 4 development and production in prices of our products. The level of market acceptance of prices for products that meet Tier 4 requirements could negatively impact our financial results and competitive position.

***The success of our business depends on our ability to develop, produce and market quality products that meet our customers' needs.***

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, our ability to produce products that meet the quality expectations of our customers 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, to adequately protect our intellectual property rights, to supply products that meet applicable regulatory requirements or to predict market demands for, or gain market acceptance of, our products, could have a negative impact on our business, results of operations and financial condition.

***We operate in a highly competitive environment, which could adversely affect our sales and pricing.***

We operate in a highly competitive environment, and our outlook depends on a forecast of the company's share of industry sales based 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 products will be able to compete successfully with 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, our failure to produce our products at a competitive cost 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 an adverse 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 our 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.

***Union disputes or other employee relations issues could adversely affect our operations and financial results***.

Some of our employees are represented by labor unions in a number of countries under various collective bargaining agreements with varying durations and expiration dates. While we do not expect to be impacted by employee relations issues, there can be no assurance that future issues with our employees will be resolved or that we will not encounter future strikes, work stoppages or other types of conflicts with labor unions or our employees. We may not be able to satisfactorily renegotiate collective bargaining agreements in the United States and other countries when they expire, including the master collective bargaining agreement with the United Automobile, Aerospace and Agricultural Implement Workers, which is scheduled to expire on March 1, 2011. If we fail to renegotiate our existing collective bargaining agreements, we could encounter strikes or work stoppages or other types of conflicts with labor unions. In addition, existing collective bargaining agreements may not prevent a strike or work stoppage at our facilities in the future. We may also be subject to general country strikes or work stoppages unrelated to our business or collective bargaining agreements. Any such work stoppages (or potential work stoppages) could have a material adverse effect on our business, results of operations and financial condition.

***We may not realize all of the anticipated benefits from the implementation of the Caterpillar Production System (CPS) or other productivity initiatives.***

CPS is a significant productivity initiative that aims to improve our order-to-delivery processes and factory efficiency, as well as to reduce waste and maximize value for our customers. Inability or failure to implement and utilize CPS or other productivity initiatives could have an adverse impact on our business and our results of operations. There can be no assurance that this initiative or others will be beneficial to the extent anticipated, or that the estimated cost savings will be realized.

***Our business is subject to the sourcing practices of our dealers and our Original Equipment Manufacturer (OEM) customers.***

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. Decreased levels of production outsourcing 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 an adverse effect on our business, results of operations and financial condition.

***We are subject to stringent environmental laws and regulations that impose significant compliance costs.***

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 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 provide assurances 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.

In particular, 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 United States and other regulatory agencies around the world. For instance, national, state or local 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.

***Our global operations are subject to extensive trade and anti-corruption laws and regulations.***

Due to the international scope of our operations, we are subject to a complex system of import- and export-related laws and regulations, including U.S. regulations issued by Customs and Border Protection, the Bureau of Industry and Security, the Office of Antiboycott Compliance, the Directorate of Defense Trade Controls and the Office of Foreign Assets Control, as well as the counterparts of these agencies in other countries. Any alleged or actual violations may subject us to government scrutiny, investigation and civil and criminal penalties, and may limit our ability to import or export our products or to provide services outside the United States. We cannot predict the nature, scope or effect of future regulatory requirements to which our operations might be subject or the manner in which existing laws might be administered or interpreted.

In addition, the U.S. Foreign Corrupt Practices Act and similar foreign anti-corruption laws generally prohibit companies and their intermediaries from making improper payments or providing anything of value to improperly influence foreign government officials for the purpose of obtaining or retaining business, or obtaining an unfair advantage. Recent years have seen a substantial increase in the global enforcement of anti-corruption laws. Our continued operation and expansion outside the United States, including in developing countries, could increase the risk of such violations. Violations of these laws may result in severe criminal or civil sanctions, could disrupt our business, and result in a material adverse effect on our reputation, business and results of operations or financial condition.

Moreover, several of our joint venture partners are domiciled in areas of the world with laws, rules and business practices that differ from those in the United States. Although we strive to select joint venture partners who share our values and understand our reporting requirements as a U.S.-domiciled company and to ensure that an appropriate business culture exists within these ventures to minimize and mitigate our risk, we nonetheless face the reputational and legal risk that our joint venture partners will violate applicable laws, rules and business practices.

***We may incur additional tax expense or become subject to additional tax exposure.***

We are subject to income taxes in the United States and numerous foreign jurisdictions, and our domestic and international tax liabilities are dependent upon the distribution of income among these different jurisdictions. Our provision for income taxes and cash tax liability in the future could be adversely affected by numerous factors, including income before taxes being lower than anticipated in countries with lower statutory tax rates and higher than anticipated in countries with higher statutory tax rates, changes in the valuation of deferred tax assets and liabilities and changes in tax laws and regulations. We are also subject to the continuous examination of our income tax returns by the U.S. Internal Revenue Service and other tax authorities. The results of audits and examinations of previously filed tax returns and continuing assessments of our tax exposures may have an adverse effect on the company's provision for income taxes and cash tax liability.

***Currency exchange rate fluctuations affect our results of operations, as reported in our financial statements.***

We conduct operations in many areas of the world, involving transactions denominated in a variety of currencies. We are subject to currency exchange rate risk to the extent that our costs are denominated in currencies other than those in which we earn revenues. In addition, because our financial statements are denominated in U.S. dollars, changes in currency exchange rates between the U.S. dollar and other currencies have had, and will continue to have, an impact on our results of operations. While we customarily enter into financial transactions to address these risks, there can be no assurance that currency exchange rate fluctuations will not adversely affect our results of operations, financial condition and cash flows. In addition, while the use of currency hedging instruments may provide us with protection from adverse fluctuations in currency exchange rates, by utilizing these instruments we potentially forego the benefits that might result from favorable fluctuations in currency exchange rates.

We also face risks arising from the imposition of exchange controls and currency devaluations. Exchange controls may limit our ability to convert foreign currencies into U.S. dollars or to remit dividends and other payments by our foreign subsidiaries or businesses located in or conducted within a country imposing controls. Currency devaluations result in a diminished value of funds denominated in the currency of the country instituting the devaluation.

***Restrictive covenants in our debt agreements could limit our financial and operating flexibility.***

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 applicable to us and certain of our subsidiaries, including Cat Financial. These covenants include maintaining a consolidated net worth (defined as the consolidated stockholder's equity including preferred stock but excluding the pension and other post-retirement benefits balance within accumulated other comprehensive income (loss)) of not less than $9 billion, limitations on the incurrence of liens and certain restrictions on consolidation and merger. Cat Financial has also agreed under certain of these agreements to maintain a leverage ratio (consolidated debt to consolidated net worth, calculated (1) on a monthly basis as the average of the leverage ratios determined on the last day of each of the six preceding calendar months and (2) at each December 31) not greater than 10.0 to 1, to maintain a minimum interest coverage ratio (profit excluding income taxes, interest expense and net gain/(loss) from interest rate derivatives to interest expense, calculated at the end of each calendar quarter for the rolling four quarter period then most recently ended) of not less than 1.15 to 1 and not to terminate, amend or modify its support agreement with us.

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 adverse consequences that could negatively impact our business, results of operations and financial condition. These 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 to enter into new facilities or the lowering or modification of our credit ratings or those of one or more of our subsidiaries.

In 2008, we received the consent of lenders under certain of our 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 amounts that may be drawn by us and Cat Financial under certain of our facilities.

***Sustained increases in funding obligations under our pension plans may reduce our profitability.***

We maintain certain defined benefit pension plans for our employees, which impose on us certain funding obligations. 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. Significant adverse changes in credit or capital markets could result in actual rates of return being materially lower than projected and increased pension expense in future years. We may be required to make contributions to our pension plans in the future, and these contributions could be material. Our cost growth rates may also be materially higher than projected. These factors 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.

***Costs associated with lawsuits or increases in the reserves we establish based on our assessment of contingencies may have an adverse effect on our results of operations.***

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 U.S. generally accepted accounting principles (GAAP), we establish reserves based on our assessment of contingencies, including contingencies related to legal claims asserted against us. Subsequent developments in legal proceedings may affect our assessment and estimates of the loss contingency recorded as a reserve and require us to make additional material payments, which could have an adverse effect on our results of operations.

***National governments or inter-governmental organizations may impose carbon emissions regulations.***
The potential for government-mandated reductions of carbon emissions from our facilities and products is increasing. Mandatory reductions being considered by many jurisdictions may take the form of new legislation and/or regulations. For example, in the United States, the EPA has stated that it plans to promulgate regulations governing carbon emissions from automobiles, which may lead to regulation of other mobile sources, as well as stationary sources. Additionally, the American Clean Energy and Security Act has passed the U.S. House of Representatives, and similar legislation has been introduced in the U.S. Senate. This legislation is also designed to restrict and reduce carbon emissions from U.S. stationary and mobile sources. The final details and scope of these legislative and regulatory measures are unclear and their potential impact is still uncertain, so we cannot fully predict the impact on the company. Should final legislation or regulations be adopted imposing significant operational restrictions and compliance requirements upon us or our products, they could negatively impact the company's capital expenditures, results of operations and competitive position.

***Changes in accounting guidance could have an adverse effect on our results of operations, as reported in our financial statements.***
Our financial statements are prepared in accordance with GAAP, which is periodically revised and/or expanded. Accordingly, from time to time we are required to adopt new or revised accounting guidance issued by recognized authoritative bodies, including the Financial Accounting Standards Board. Market conditions have prompted accounting guidance setters to issue new guidance that further interprets or seeks to revise accounting pronouncements related to various transactions as well as to issue new guidance 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 guidance 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 an adverse effect on our results of operations, as reported in our consolidated financial statements.

***Unexpected events, including natural disasters, may increase our cost of doing business or disrupt our operations.***
The occurrence of one or more unexpected events, including fires, tornadoes, hurricanes, earthquakes, floods and other forms of severe weather in the United States or in other countries in which we operate or in which our suppliers are located could adversely affect our operations and financial performance. Natural disasters, pandemic illness, equipment failures, power outages or other unexpected 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 international 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. Existing insurance arrangements may not provide protection for all of the costs that may arise from such events.

## Item 1B. Unresolved Staff Comments as of December 31, 2010.

None.

## Item 1C. Executive Officers of the Registrant as of December 31, 2010.

| 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 |
|---|---|---|
| Douglas R. Oberhelman (57) | Chairman and Chief Executive Officer (2010) | Group President (2001-2010) |
| Richard P. Lavin (58) | Group President (2007) | Vice President (2004-2007) |
| Stuart L. Levenick (57) | Group President (2004) | |
| Edward J. Rapp (53) | Group President (2007) and Chief Financial Officer (2010) | Vice President (2000-2007) |
| Gerard R. Vittecoq (62) | Group President (2004) | |
| Steven H. Wunning (59) | Group President (2004) | |
| James B. Buda (63) | Vice President and Chief Legal Officer (2010) | Vice President, General Counsel and Secretary (2001-2010) |
| Jananne A. Copeland (48) | Chief Accounting Officer and Corporate Controller (2010) | Corporate Financial Reporting Manager, Corporate Services Division (2004–2006)<br>Corporate Financial Reporting Manager, Global Finance & Strategic Support Division (2006–2007)<br>Chief Accounting Officer (2007) |

## Item 2. Properties.

***General Information***

Caterpillar's operations are highly integrated. Although the majority of our plants are involved primarily in production relating to our Machinery or Engines lines of business, several plants are involved in manufacturing relating to both lines of business. 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 in Mossville, Illinois involve both machines and engines.

We believe the properties we own 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 do not anticipate any 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, China; Singapore, Republic of 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, using both Caterpillar and 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. As discussed under "Item 1. Business - Business Developments in 2010" above, we have announced investments to expand the capacity of existing facilities and to build new facilities to support the company's growth.

**Inside the U.S.**

***Alabama***
- Albertville
- Montgomery

***Arkansas***
- Little Rock

***California***
- Gardena
- Mohave
- Rocklin
- San Diego

***Colorado***
- Pueblo

***Florida***
- Jacksonville
- Wildwood

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

***Illinois***
- Alorton
- Aurora
- Champaign[1]
- Chicago
- Decatur
- Dixon
- East Peoria
- Joliet
- LaGrange
- Mapleton
- Mossville
- Peoria
- Pontiac
- Sterling

***Indiana***
- Charlestown
- East Chicago
- Franklin
- Lafayette
- Muncie

***Iowa***
- Elkader

***Kansas***
- Fort Scott
- Wamego

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

***Michigan***
- Menominee

***Minnesota***
- Minneapolis
- Owatonna

***Mississippi***
- Corinth
- Oxford
- Prentiss County

***Missouri***
- Boonville
- Independence
- Kansas City
- West Plains

***Montana***
- Laurel

***Nebraska***
- Alliance
- Gering
- Lincoln
- Northport
- Sidney

***Nevada***
- Sparks

***New Mexico***
- Santa Fe

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

***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
- Seguin
- Sherman
- Waco
- Waskom

***Virginia***
- Petersburg
- Roanoke

***Wisconsin***
- Prentice

***Wyoming***
- Bill
- Laramie
- Rock Springs

**Outside the U.S.**

***Australia***
- Burnie
- Melbourne
- Tullamarine
- Wivenhoe

***Belgium***
- Gosselies

***Brazil***
- Curitiba
- Diadema
- Hortolandia
- Piracicaba

***Canada***
- Edmonton
- Montreal
- London
- 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***
- Chennai
- Hosur
- Pondicherry
- Thiruvallur

***Indonesia***
- Bandung[2]
- Jakarta

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

***Japan***
- Akashi[2]
- Sagamihara[2]

***Malaysia***
- Kuala Lumpur[1]

***Mexico***
- Monterrey
- Nuevo Laredo
- Reynosa
- Saltillo
- San Luis Potosi
- 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

***Poland***
- Janow Lubelski
- Radom[1]
- Sosnowiec

***Russia***
- Tosno

***Scotland***
- Aberdeen

***South Korea***
- Pyeongtaek-si

***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 impact on our consolidated results of operations, financial position or liquidity.

On May 14, 2007, the U.S. Environmental Protection Agency (EPA) issued a Notice of Violation to Caterpillar alleging various violations of Clean Air Act Sections 203, 206 and 207. EPA claims that Caterpillar violated such sections by shipping engines and catalytic converter after-treatment devices separately, introducing into commerce a number of uncertified and/or misbuilt engines, and failing to timely report emissions-related defects. Caterpillar is currently engaged in negotiations with EPA and the U.S. Department of Justice to resolve these issues. On July 9, 2010, the Department of Justice issued a penalty demand to Caterpillar seeking a civil penalty of $3.2 million and implementation of injunctive relief involving expanded use of certain technologies. Caterpillar continues to cooperate with EPA and the Department of Justice and, while penalties will likely exceed $100,000, management does not believe that this issue will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

On February 8, 2009, an incident at Caterpillar's Joliet, Illinois facility resulted in the release of approximately 3,000 gallons of wastewater into the Des Plaines River. In coordination with state and federal authorities, appropriate remediation measures have been taken. On February 23, 2009, the Illinois Attorney General filed a Complaint in Will County Circuit Court containing seven counts of violations of state environmental laws and regulations. Caterpillar recently settled this matter with the State of Illinois, resolving all allegations in the Complaint. This settlement does not have a material adverse impact on our consolidated results of operations, financial position, or liquidity. In addition, on March 5, 2009, the EPA served Caterpillar with a Notice of Intent to file a Civil Administrative Action (notice), indicating the EPA's intent to seek civil penalties for alleged violations of the Clean Water Act and Oil Pollution Act. On January 25, 2010, the EPA issued a revised notice seeking civil penalties in the amount of $167,800, and Caterpillar responded to the revised notice and is engaged in follow up discussions with the EPA. At this time, we do not believe this remaining proceeding will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

In May 2010, an incident at Caterpillar's Gosselies, Belgium facility resulted in the release of wastewater into the Perupont River. In coordination with local authorities, appropriate remediation measures have been taken. In January 2011, Caterpillar learned that the public prosecutor for the Belgian administrative district of Charleroi had referred the matter to an examining magistrate of the civil court of Charleroi for further investigation. Caterpillar is cooperating with the Belgian authorities on this investigation. At this time, it is uncertain whether penalties will be assessed, and any penalties could potentially exceed $100,000. Management does not believe this matter will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

## Item 4. [Removed and reserved.]

# PART II

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

Information required by Item 5 regarding our stock is incorporated by reference from the Supplemental Stockholder Information section of Exhibit 13 under "Common Stock (NYSE:CAT) — Listing Information," "— Price Ranges," " — Number of Stockholders" and "Performance Graph: Total Cumulative Stockholder Return for Five-Year Period Ending December 31, 2010" 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 non-U.S. employees. As of December 31, 2010, those plans had approximately 11,600 participants in the aggregate. During the fourth quarter of 2010, approximately 307,000 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.

**Issuer Purchases of Equity Securities**

No shares were repurchased during the fourth quarter 2010.

**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, 2010 | 5,925 | $ 78.30 | N/A | N/A |
| November 1-30, 2010 | 126,298 | 79.35 | N/A | N/A |
| December 1-31, 2010 | 25,573 | 86.40 | N/A | N/A |
| **Total** | **157,796** | **$ 80.45** | | |

[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 "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 17 – "Fair values disclosures" and Note 18 – "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 chief executive officer and our chief financial officer, our management conducted an evaluation of the effectiveness 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 as such term is defined under Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

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

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

The effectiveness of the company's internal control over financial reporting as of December 31, 2010 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Their report appears on page A-4 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 2011 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.

***Legal Proceedings Involving Officers and Directors***
Information required by this Item is incorporated by reference from the 2011 Proxy Statement.

***Audit Committee Financial Expert***
Information required by this Item is incorporated by reference from the 2011 Proxy Statement.

***Identification of Audit Committee***
Information required by this Item is incorporated by reference from the 2011 Proxy Statement.

***Stockholder Recommendation of Board Nominees***
Information required by this Item is incorporated by reference from the 2011 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 2011 Proxy Statement.

***Code of Ethics***
Our Worldwide Code of Conduct (Code), first published in 1974 and most recently updated in 2010, 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.Caterpillar.com/code 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 2011 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 2011 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, 2010)**

| 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.......... | 62,996,929 | $48.4982 | 27,124,292 |
| Equity compensation plans not approved by security holders..... | n/a | n/a | n/a |
| **Total** ................................................... | **62,996,929** | **$48.4982** | **27,124,292** |

[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 2011 Proxy Statement.

## Item 14. Principal Accountant Fees and Services.

Information required by this Item is incorporated by reference from the 2011 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:

| | |
|---|---|
| 2.1 | Agreement and Plan of Merger, dated as of November 14, 2010, by and among Caterpillar Inc., Badger Merger Sub, Inc. and Bucyrus International, Inc., (incorporated by reference from Exhibit 2.1 to Form 8-K filed November 18, 2010). |
| 3.1 | Restated Certificate of Incorporation (incorporated by reference from Exhibit 3.1 to the Form 10-Q filed for the quarter ended June 30, 2010). |
| 3.2 | Bylaws amended and restated as of December 8, 2010. |
| 4.1 | Indenture dated as of May 1, 1987, between Caterpillar Inc. and The First National Bank of Chicago, as Trustee (incorporated by reference from Exhibit 4.1 to Form S-3 (Registration No. 333-22041) filed February 19, 1997). |
| 4.2 | First Supplemental Indenture, dated as of June 1, 1989, between Caterpillar Inc. and The First National Bank of Chicago, as Trustee (incorporated by reference from Exhibit 4.2 to Form S-3 (Registration No. 333-22041) filed February 19, 1997). |
| 4.3 | Appointment of Citibank, N.A. as Successor Trustee, dated October 1, 1991, under the Indenture, as supplemented, dated as of May 1, 1987 (incorporated by reference from Exhibit 4.3 to Form S-3 (Registration No. 333-22041) filed February 19, 1997). |
| 4.4 | Second Supplemental Indenture, dated as of May 15, 1992, between Caterpillar Inc. and Citibank, N.A., as Successor Trustee (incorporated by reference from Exhibit 4.4 to Form S-3 (Registration No. 333-22041) filed February 19, 1997). |
| 4.5 | Third Supplemental Indenture, dated as of December 16, 1996, between Caterpillar Inc. and Citibank, N.A., as Successor Trustee (incorporated by reference from Exhibit 4.5 to Form S-3 (Registration No. 333-22041) filed February 19, 1997). |
| 4.6 | Tri-Party Agreement, dated as of November 2, 2006, between Caterpillar Inc., Citibank, N.A. and U.S. Bank National Association appointing U.S. Bank as Successor Trustee under the Indenture dated as of May 1, 1987, as amended and supplemented (incorporated by reference from Exhibit 4.6 to the 2006 Form 10-K). |
| 10.1 | Caterpillar Inc. 1996 Stock Option and Long-Term Incentive Plan amended and restated through fourth amendment (incorporated by reference from Exhibit 10.1 to the 2008 Form 10-K).* |
| 10.2 | Caterpillar Inc. 2006 Long-Term Incentive Plan as amended and restated through first amendment dated December 6, 2010.* |
| 10.3 | Equity Award Grant to James W. Owens pursuant to the 2006 Long-Term Incentive Plan (incorporated by reference from Exhibit 10.1 to Form 8-K filed March 3, 2010).* |
| 10.4 | Terms Applicable to Awards of Restricted Stock Units pursuant to the 2006 Long-Term Incentive Plan (incorporated by reference from Exhibit 10.1 to Form 10-Q filed for the quarter ended March 31, 2010).* |
| 10.5 | Caterpillar Inc. Supplemental Retirement Plan (formerly known as the Caterpillar Inc. Supplemental Pension Benefit Plan), as amended and restated through first amendment dated November 1, 2010.* |
| 10.6 | Caterpillar Inc. Supplemental Employees' Investment Plan, as amended and restated through June 1, 2009 (incorporated by reference from Exhibit 10.4 to the 2009 Form 10-K).* |
| 10.7 | Caterpillar Inc. Executive Short-Term Incentive Plan, as amended and restated through first amendment effective as of February 14, 2007 (incorporated by reference from Exhibit 10.5 to the 2009 Form 10-K).* |
| 10.8 | Caterpillar Inc. 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).* |
| 10.9 | Caterpillar Inc. Directors' Charitable Award Program, as amended and restated through April 1, 2008 (incorporated by reference from Exhibit 10.7 to the 2008 Form 10-K).* |
| 10.10 | Caterpillar Inc. Deferred Employees' Investment Plan, as amended and restated through June 1, 2009 (incorporated by reference from Exhibit 10.8 to the 2009 Form 10-K).* |
| 10.11 | Caterpillar Inc. Supplemental Deferred Compensation Plan as amended and restated through October 18, 2010.* |
| 10.12 | Solar Turbines Incorporated Managerial Retirement Objective Plan, as amended and restated through first amendment effective July 16, 2009 (incorporated by reference from Exhibit 10.9 to the 2009 Form 10-K).* |
| 10.13 | Solar Turbines Incorporated Pension Plan for European Foreign Service Employees, as amended and restated effective January 1, 2005 (incorporated by reference from Exhibit 10.10 to the 2009 Form 10-K).* |
| 10.14 | Separation and Release Agreement dated May 25, 2010 (incorporated by reference from Exhibit 10.1 to the Form 10-Q filed for the quarter ended June 30, 1010).* |
| 10.15 | Administrative Support and Home Security letter dated June 9, 2010 (incorporated by reference from Exhibit 10.2 to the Form 10-Q filed for the quarter ended June 30, 2010).* |

| | |
|---|---|
| 10.16 | Five-Year Credit Agreement dated September 20, 2007 (the “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). |
| 10.17 | Amendment No. 1 to the 2007 Five-Year Credit Agreement (incorporated by reference from Exhibit 99.3 to Form 8-K filed September 23, 2008). |
| 10.18 | Amendment No. 2 to the 2007 Five-Year Credit Agreement (incorporated by reference from Exhibit 99.2 to Form 8-K filed January 26, 2009). |
| 10.19 | Amendment No. 3 to the 2007 Five-Year Credit Agreement (incorporated by reference from Exhibit 99.4 to the Form 8-K filed September 23, 2009). |
| 10.20 | Amendment No. 4 to the 2007 Five-Year Credit Agreement (incorporated by reference from Exhibit 99.7 to the Form 8-K filed September 21, 1010). |
| 10.21 | Japan Local Currency Addendum to the 2007 Five-Year Credit Agreement (the “2007 Japan Local Currency Addendum”) (incorporated by reference from Exhibit 99.2 to Form 8-K filed September 25, 2007). |
| 10.22 | Amendment No. 1 to 2007 Japan Local Currency Addendum (incorporated by reference from Exhibit 99.4 to Form 8-K filed January 26, 2009). |
| 10.23 | Credit Agreement (Four-Year Facility) (the “Four-Year Facility”) dated as of September 16, 2010 among Caterpillar Inc., Caterpillar Financial Services Corporation, Caterpillar International Finance Limited, Caterpillar Finance Corporation, certain financial institutions named therein, Citibank, N.A., as agent, Citibank International plc. as the Local Currency Agent, and the Bank of Tokyo-Mitsubishi UFJ, Ltd., as the Japan Local Currency Agent (incorporated by reference from Exhibit 99.4 to Form 8-K filed September 21, 2010). |
| 10.24 | Local Currency Addendum to the Four-Year Facility (incorporated by reference from Exhibit 99.5 to Form 8-K filed September 21, 2010). |
| 10.25 | Japan Local Currency Addendum to the Four-Year Facility (incorporated by reference from Exhibit 99.6 to Form 8-K filed September 21, 2010). |
| 10.26 | Credit Agreement (364-Day Facility) (the “364-Day Facility”) dated as of September 16, 2010 among Caterpillar Inc., Caterpillar Financial Services Corporation, Caterpillar International Finance Limited, Caterpillar Finance Corporation, certain financial institutions named therein, Citibank, N.A., as agent, Citibank International plc, as the Local Currency Agent, and the Bank of Tokyo-Mitsubishi UFJ, Ltd., as the Japan Local Currency Agent (incorporated by reference from Exhibit 99.1 to Form 8-K filed September 21, 2010). |
| 10.27 | Local Currency Addendum to the 364-Day Facility (incorporated by reference from Exhibit 99.2 to Form 8-K filed September 21, 2010). |
| 10.28 | Japan Local Currency Addendum to the 364-Day Facility (incorporated by reference from Exhibit 99.3 to Form 8-K filed September 21, 2010). |
| 10.29 | Senior Bridge Term Loan Credit Facility Commitment Letter, dated as of November 14, 2010, by and among Caterpillar Inc., JPMorgan Chase Bank, N.A. and J.P. Morgan Securities LLC (incorporated by reference from Exhibit 10.1 to Form 8-K filed November 18, 2010). |
| 10.30 | Bridge Loan Agreement dated as of December 3, 1010 among Caterpillar Inc., the Banks named therein and JPMorgan Chase Bank, N.A., as Agent (incorporated by reference from Exhibit 99 .1 to Form 8-K filed December 7, 2010). |
| 10.31 | Joint Venture Operating Agreement dated September 9, 2009 by and among Caterpillar Inc. and Navistar Inc. (incorporated by reference from Exhibit 10.1 to the Form 8-K filed September 15, 2009). |
| 11 | Computations of Earnings per Share. |
| 12 | Computation of Ratios of Earnings to Fixed Charges. |

| | |
|---|---|
| 13 | General and Financial Information for 2010 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 Form 10-Q filed for the quarter ended June 30, 2010). |
| 21 | Subsidiaries and Affiliates of the Registrant. |
| 23 | Consent of Independent Registered Public Accounting Firm. |
| 31.1 | Certification of Douglas R. Oberhelman, Chairman and Chief Executive Officer of Caterpillar Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Edward J. Rapp, Group President and Chief Financial Officer of Caterpillar Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | Certification of Douglas R. Oberhelman, Chairman and Chief Executive Officer of Caterpillar Inc. and Edward J. Rapp, Group President and Chief Financial Officer of Caterpillar Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

*Management contracts and compensatory plans and arrangements required to be filed as exhibits pursuant to Item 15(b) of this report.

**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 22, 2011 By: */s/James B. Buda*

James B. Buda, Senior Vice President and Chief Legal Officer

**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 22, 2011 | */s/Douglas R. Oberhelman*<br>(Douglas R. Oberhelman) | Chairman of the Board and Chief Executive Officer |
| February 22, 2011 | */s/Richard P. Lavin*<br>(Richard P. Lavin) | Group President |
| February 22, 2011 | */s/Stuart L. Levenick*<br>(Stuart L. Levenick) | Group President |
| February 22, 2011 | */s/Edward J. Rapp*<br>(Edward J. Rapp) | Group President and Chief Financial Officer |
| February 22, 2011 | */s/Gerard R. Vittecoq*<br>(Gerard R. Vittecoq) | Group President |
| February 22, 2011 | */s/Steven H. Wunning*<br>(Steven H. Wunning) | Group President |
| February 22, 2011 | */s/Jananne A. Copeland*<br>(Jananne A. Copeland) | Chief Accounting Officer and Corporate Controller |

| | | |
|---|---|---|
| February 22, 2011 | */s/John R. Brazil*<br>(John R. Brazil) | Director |
| February 22, 2011 | */s/Daniel M. Dickinson*<br>(Daniel M. Dickinson) | Director |
| February 22, 2011 | */s/Eugene V. Fife*<br>(Eugene V. Fife) | Director |
| February 22, 2011 | */s/Juan Gallardo*<br>(Juan Gallardo) | Director |
| February 22, 2011 | */s/David R. Goode*<br>(David R. Goode) | Director |
| February 22, 2011 | */s/Jesse J. Greene, Jr.*<br>(Jesse J. Greene, Jr.) | Director |
| February 22, 2011 | */s/Peter A. Magowan*<br>(Peter A. Magowan) | Director |
| February 22, 2011 | */s/William A. Osborn*<br>(William A. Osborn) | Director |
| February 22, 2011 | */s/Charles D. Powell*<br>(Charles D. Powell) | Director |
| February 22, 2011 | */s/Edward B. Rust, Jr.*<br>(Edward B. Rust, Jr.) | Director |
| February 22, 2011 | */s/Susan C. Schwab*<br>(Susan C. Schwab) | Director |
| February 22, 2011 | */s/Joshua I. Smith*<br>(Joshua I. Smith) | Director |
| February 22, 2011 | */s/Miles D. White*<br>(Miles D. White) | Director |

**EXHIBIT 3.2**

# CATERPILLAR INC.
# BYLAWS

(as amended and restated as of December 8, 2010)

## Article I
## Offices

**Section 1. Registered Office.**

The registered office of the corporation in the State of Delaware shall be in the City of Wilmington, County of New Castle, State of Delaware.

**Section 2. Other Offices.**

The corporation may also have offices at such other places both within and without the State of Delaware as the board of directors may from time to time determine or the business of the corporation may require.

## Article II
## Stockholders

**Section 1. Stockholder Meetings.**

(a) Place of Meetings. Meetings of stockholders shall be held at such places, within or without the State of Delaware, as may from time to time be designated by the board of directors.

(b) Annual Meeting.

(i) The annual meeting of stockholders shall be held on the second Wednesday in April in each year at a time designated by the board of directors, or at such a time and date as may be designated by the board.

(ii) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (b) otherwise properly brought before the meeting by or at the direction of the board of directors, or (c) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the secretary of the corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation, not less than 45 days nor more than 90 days prior to the meeting; provided, however, that in the event that less than 60 days' notice of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the fifteenth (15th) day following the date on which such notice of the date of the annual meeting was mailed. A stockholder's notice to the secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting, (b) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (c) the class and number of shares of the corporation which are beneficially owned by the stockholder and (d) any material interest of the stockholder in such business. Notwithstanding anything in the bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 1(b)(ii). The presiding officer of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 1, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

(c) Special Meetings. Special meetings of the stockholders of this corporation for any purpose or purposes may be called at any time by the chairman of the board or the vice chairman, or by the board of directors pursuant to a resolution approved by a majority of the entire board of directors, but such special meetings may not be called by any other person or persons.

(d) Notice of Meetings. Notice of every meeting of the stockholders shall be given in any manner permitted by law, and such notice shall include the record date for determining the stockholders entitled to vote at the meeting, if such date is different from the record date for determining stockholders entitled to notice of the meeting.

(e) Quorum. Except as otherwise required by law, the certificate of incorporation and these bylaws, the holders of not less than one-third of the shares entitled to vote at any meeting of the stockholders, present in person or by proxy, shall constitute a quorum at all meetings of the stockholders. If a quorum shall fail to attend any meeting, the chairman of the meeting may adjourn the meeting to another place, date or time. If a notice of any adjourned special meeting of stockholders is sent to all stockholders entitled to vote thereat, stating that it will be held with those present constituting a quorum, then, except as otherwise required by law, those present at such adjourned meeting shall constitute a quorum.

**Section 2. Determination of Stockholders Entitled to Vote.**

To determine the stockholders entitled to notice of any meeting or to vote, the board of directors may fix in advance a record date for each as provided in Article VI, Section 1 hereof.

**Section 3. Voting.**

(a) Subject to the provisions of applicable law, and except as otherwise provided in the certificate of incorporation, each stockholder present in person or by proxy shall be entitled to one vote for each full share of stock registered in the name of such stockholder at the time fixed by the board of directors or by law as the record date of the determination of stockholders entitled to vote at a meeting.

(b) Every stockholder entitled to vote may do so in person or by one or more agents authorized by proxy. Such authorization may be in writing or by transmission of an electronic communication, as permitted by law and in accordance with procedures established for the meeting.

(c) Voting may be by voice or by ballot as the chairman of the meeting shall determine.

(d) In all matters other than the election of directors, the affirmative vote of the majority of shares present in person or by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders. Directors shall be elected by a plurality of the votes of the shares present in person or by proxy at the meeting and entitled to vote on the election of directors.

(e) In advance of any meeting of stockholders the board of directors may appoint one or more persons (who shall not be candidates for office) as inspectors of election to act at the meeting. If inspectors are not so appointed, or if an appointed inspector fails to appear or fails or refuses to act at a meeting, the chairman of any meeting of stockholders may, and on the request of any stockholder or his proxy shall, appoint inspectors of election at the meeting.

(f) Any action required or permitted to be taken by the stockholders of the corporation must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders.

## Article III
## Board of Directors

**Section 1. Election of Directors.**

(a) Number. The authorized number of directors of the corporation shall be fixed from time to time by the board of directors but shall not be less than three (3). The exact number of directors shall be determined from time to time either by a resolution or bylaw duly adopted by the board of directors.

(b) Election and Terms of Directors. Each director shall serve for a term of office to expire at the next annual meeting of stockholders, with each director to serve until his successor is duly elected and qualified or until his death, resignation or removal.

(c) Newly Created Directorships and Vacancies. No decrease in the number of directors constituting the board of directors shall shorten the term of any incumbent director. Newly created directorships resulting from any increase in the number of directors and any vacancies on the board of directors resulting from death, resignation, disqualification, removal or other cause shall be filled by the affirmative vote of a majority of the remaining directors then in office (and not by stockholders), even though less than a quorum of the board of directors. Any director elected in accordance with the preceding sentence shall hold office until the next annual meeting of stockholders and until such director's successor shall have been elected and qualified.

(d) Nomination of Directors. Candidates for director shall be nominated either

(i) by the board of directors or a committee appointed by the board of directors or

(ii) by nomination at any such stockholders' meeting by or on behalf of any stockholder entitled to vote at such meeting provided that written notice of such stockholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the secretary of the corporation not later than (1) with respect to an election to be held at an annual meeting of stockholders, ninety (90) days in advance of such meeting, and (2) with respect to an election to be held at a special meeting of stockholders for the election of directors, the close of business on the tenth (10th) day following the date on which notice of such meeting is first given to stockholders. Each such notice shall set forth: (a) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the board of directors; and (e) the consent of each nominee to serve as a director of the corporation if so elected. The presiding officer of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

(e) Removal. Any director may be removed from office without cause but only by the affirmative vote of the holders of not less than a majority of the outstanding stock of the corporation entitled to vote generally in the election of directors, voting together as a single class.

(f) Preferred Stock Provisions. Notwithstanding the foregoing, whenever the holders of any one or more classes or series of stock issued by this corporation having a preference over the common stock as to dividends or upon liquidation, shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies, nominations, terms of removal and other features of such directorships shall be governed by the terms of Article FOURTH of the certificate of incorporation and the resolution or resolutions establishing such class or series adopted pursuant thereto.

**Section 2. Meetings of the Board of Directors.**

(a) Regular Meetings. Regular meetings of the board of directors shall be held without call at the following times (unless otherwise set forth in a meeting notice):

(i) 7:30 a.m. on the second Wednesday in February, April, June, August, October and December;

(ii) one-half hour prior to any special meeting of the stockholders, and immediately following the adjournment of any special meeting of the stockholders.

Notice of all such regular meetings is permitted but not required.

(b) Special Meetings. Special meetings of the board of directors may be called by the chairman of the board, any two (2) directors or by any officer authorized by the board.

(c) Notice of Meetings. Notices setting the time and place of meetings shall be given by the secretary or an assistant secretary, or by any other officer authorized by the board. Such notices shall be given to each director personally or by mail, messenger, telephone or electronic transmission. Notice by mail shall be deposited in the United States mail, postage prepaid, not later than the third (3rd) day prior to the date fixed for the meeting. Notice by telephone or electronic transmission shall be sent, and notice given personally or by messenger shall be delivered, at least twenty-four (24) hours prior to the time set for the meeting. Notice of a special meeting need not contain a statement of the purpose of the meeting.

(d) Adjourned Meetings. A majority of directors present at any regular or special meeting of the board of directors, whether or not constituting a quorum, may adjourn from time to time until the time fixed for the next regular meeting. Notice of the time and place of holding an adjourned meeting shall not be required if the time and place are fixed at the meeting adjourned.

(e) Place of Meetings. Unless (i) a resolution of the board of directors, or (ii) the written consent of all directors given either before or after the meeting and filed with the secretary or (iii) the meeting notice, designates a different place within or without the State of Delaware, meetings of the board of directors, both regular and special, shall be held at the corporation's offices at 100 N.E. Adams Street, Peoria, Illinois.

(f) Participation by Telephone or Other Means. Members of the board may participate in a meeting through use of conference telephone or other communications equipment, so long as all members participating in such meeting can hear one another, and such participation shall constitute presence in person at such meeting.

(g) Quorum. At all meetings of the board one-third of the total number of directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action is approved by at least a majority of the required quorum for such meeting. Less than a quorum may adjourn any meeting of the board from time to time without notice.

**Section 3. Action Without a Meeting.**

Any action required or permitted to be taken by the board of directors may be taken without a meeting if all members of the board consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of the proceedings of the board.

**Section 4. Compensation of Directors.**

The directors may be paid such compensation for their services as the board shall from time to time determine. Directors who receive salaries as officers or employees of the corporation shall not receive additional compensation for their services as directors.

**Section 5. Committees of the Board.**

There shall be such committees of the board of directors each consisting of two or more directors with such authority, subject to applicable law, as a majority of the board shall by resolution determine. Committees of the board shall meet subject to the call of the chairman of each committee and shall prepare and file with the secretary minutes of their meetings. Unless a committee shall by resolution establish a different procedure, notice of the time and place of committee meetings shall be given by the chairman of the committee, or at his request by the chairman of the board or by the secretary or an assistant secretary. Such notice shall be given to each committee member personally or by mail, messenger, telephone or electronic transmission at the times provided in subsection (c) of Section 2 of this Article for notice of special meetings of the board of directors. One-third of a committee but not less than two members shall constitute a quorum for the transaction of business. Except as a committee by resolution may determine otherwise, the provisions of Section 3 and of subsections (d), (e) and (f) of Section 2 of this Article shall apply, mutatis mutandis, to meetings of board committees.

## Article IV
## Officers

**Section 1. Officers.**

The officers of the corporation shall be a chairman of the board, who shall be the chief executive officer, one or more group presidents, one or more vice presidents, a chief financial officer, a secretary and a treasurer, together with such other officers as the board of directors shall determine. Any two or more offices may be held by the same person.

Notwithstanding the foregoing or any other provision of these bylaws, the chairman of the board may be an individual other than the chief executive officer only for a period not to exceed six months commencing upon the effective date of the election of a new chief executive officer.

**Section 2. Election and Tenure of Officers.**

Officers shall be elected by the board of directors, shall hold office at the pleasure of the board, and shall be subject to removal at any time by the board. Vacancies in office may be filled by the board.

**Section 3. Powers and Duties of Officers.**

Each officer shall have such powers and duties as may be prescribed by the board of directors or by an officer authorized so to do by the board.

**Section 4. Compensation of Officers.**

The compensation of officers shall be determined by the board of directors; provided that the board may delegate authority to determine the compensation of any assistant secretary or assistant treasurer, with power to redelegate.

## Article V
## Indemnification

The corporation shall indemnify to the full extent permitted by, and in the manner permissible under, the laws of the State of Delaware any person made, or threatened to be made, a party to an action or proceeding, whether criminal, civil, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he, his testator or intestate is or was a director or officer of the corporation or any predecessor of the corporation, or served any other enterprise as a director or officer at the request of the corporation or any predecessor of the corporation. The corporation shall pay or reimburse the actual and reasonable expenses (including attorneys fees) of such person incurred in defending any threatened or pending proceeding in advance of its final disposition if the corporation has received an undertaking by the person receiving such payment or reimbursement to repay all amounts advanced if it should be ultimately determined that he or she is not entitled to be indemnified under this Article V or otherwise.

The foregoing provisions of this Article V shall be deemed to be a contract between the corporation and each director and officer who serves in such capacity at any time while this bylaw is in effect, and any repeal or modification thereof shall not affect any rights or obligations then existing with respect to any state of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought based in whole or in part upon any such state of facts.

The foregoing rights of indemnification and advancement of expenses shall not be deemed exclusive of any other rights to which any director or officer may be entitled apart from the provisions of this Article.

The board of directors in its discretion shall have power on behalf of the corporation to indemnify and advance expenses to any person, other than a director or officer, made a party to any action, suit or proceeding by reason of the fact that he, his testator or intestate, is or was an employee of the corporation.

## Article VI
## Miscellaneous

**Section 1. Record Date.**

(a) In order that the corporation may determine the stockholders entitled to notice of any meeting of stockholders or any adjournment thereof, the board of directors may fix, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors and which record date shall not be more than sixty (60) nor less than ten (10) days prior to the date of such meeting. If the board of directors so fixes a date, such date shall also be the record date for determining the stockholders entitled to vote at such meeting unless the board of directors determines, at the time it fixes such record date, that a later date on or before the date of the meeting shall be the date for making such determination. If no record date is fixed by the board of directors, the record date for determining stockholders entitled to notice of and to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for determination of stockholders entitled to vote at the adjourned meeting, and in such case shall also fix as the record date for stockholders entitled to notice of such adjourned meeting the same or an earlier date as that fixed for determination of stockholders entitled to vote in accordance with the foregoing provisions at the adjourned meeting.

(b) In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the board may fix, in advance, a record date, which shall not be more than sixty (60) days prior to any such corporate action. If not fixed by the board, the record date shall be at the close of business on the day on which the board of directors adopts resolution relating thereto.

(c) Stockholders on a record date are entitled to notice, to vote or to receive the dividend, distribution or allotment of rights or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date, except as otherwise provided by agreement or by applicable law.

**Section 2. Stock Certificates.**

(a) Shares of the corporation may be certificated or uncertificated, as provided under the laws of the State of Delaware. Every holder of certificated shares in the corporation shall be entitled to have a certificate signed in the name of the corporation by the chairman of the board or the vice chairman, or by the president or vice president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary, certifying the number of shares and the class or series of shares owned by the stockholder. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were an officer, transfer agent or registrar at the date of issue.

(b) The corporation may issue a new share certificate or a new certificate for any other security in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate or the owner's legal representative to give the corporation a bond (or other adequate security) sufficient to indemnify it against any claim that may be made against it (including any expense or liability) on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

**Section 3. Corporate Seal.**

The corporation shall have a corporate seal in such form as shall be prescribed and adopted by the board of directors.

**Section 4. Construction and Definitions.**

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the General Corporation Law of Delaware shall govern the construction of these bylaws.

**Section 5. Amendments.**

Subject to the provisions of the certificate of incorporation, these bylaws may be altered, amended or repealed at any regular meeting of the stockholders (or at any special meeting thereof duly called for that purpose) by a majority vote of the shares represented and entitled to vote at the meeting; provided that in the notice of such special meeting notice of such purpose shall be given. Subject to the laws of the State of Delaware, the certificate of incorporation and these bylaws, the board of directors may by majority vote of those present at any meeting at which a quorum is present amend these bylaws, or enact such other bylaws as in their judgment may be advisable for the regulation of the conduct of the affairs of the corporation.

EXHIBIT 10.2

# CATERPILLAR INC.
# 2006 LONG-TERM INCENTIVE PLAN

**(As Amended and Restated Through First Amendment Dated December 6, 2010)**

**Caterpillar Inc.**
**2006 Long-Term Incentive Plan**

**Section 1.**
**Establishment, Objectives and Duration**

**1.1. Establishment**. With the approval of the stockholders of Caterpillar Inc., a Delaware corporation (the "Company"), the Company established the Caterpillar Inc. 2006 Long-Term Incentive Plan (the "Plan") effective June 14, 2006. 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 was originally effective on June 14, 2006. This amendment and restatement of the Plan shall be effective as of the later of (a) the date the amendment and restatement of the Plan is adopted by the Board or (b) the date the Company's stockholders approve the amendment and restatement of the Plan (the "Effective Date"). The amendment and restatement of 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 original effective date of the Plan, June 14, 2006. 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 with 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 twenty percent (20%) 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) upon the consummation of a Company stockholder-approved merger or consolidation that results 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 to 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 of restricted stock or restricted stock units 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 a SAR, pursuant to the terms of Section 7.

**2.36. "Subsidiary"** means any partnership, limited liability company, corporation, trust or other entity or association, directly or indirectly, through one or more intermediaries, controlled by the Company. The term "control," as used in the immediately preceding sentence, means, with respect to a corporation or limited liability company, the right to exercise, directly or indirectly, more than fifty percent (50%) of the voting rights attributable to the controlled corporation or limited liability company, and, with respect to any partnership, trust, other entity or association, the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of the controlled entity.

**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 forty million (40,000,000) 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. Accordingly, the total Shares authorized and available for Awards under the Plan are fifty-seven million six hundred thousand (57,600,000) Shares. 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 no more than an aggregate of thirty-five percent (35%) of the authorized Shares under the Plan may be issued with respect to Awards of Restricted Stock and 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 (excluding shares withheld for the payment of taxes),

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 all purposes of Awards under the Plan (including, without limitation, for purposes of applying the limitations set forth in the last sentence of Section 4.1(a)). 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 eight hundred thousand (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 five million dollars ($5,000,000).

**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. 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. <u>Payment</u>**. 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. <u>Termination of Employment or Service as a Director</u>**. 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) **<u>Long Service Separation, Death or Disability</u>**. 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) **<u>Termination for Cause</u>**. 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) **<u>Other Termination</u>**. 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. Prohibition on Repricing**. Except (a) as provided in Section 4.3 or (b) to the extent approved by the stockholders of the Company, the Option Price of an Option may not be changed following the date such Option is granted. Similarly, the exchange of an Option (an "Original Option") for cash, Shares, or other Awards at a time when the Option Price of such Original Option is equal to or greater than the Fair Market Value of a Share is prohibited. Notwithstanding the preceding sentence, the exchange of an Original Option for a SAR or another Option (a "New Option") shall be permitted only if: (a) the exchange is approved by the stockholders of the Company and (b) either (i) the grant price of the SAR is greater than the Option Price of the Original Option or (ii) the Option Price of the New Option is greater than the Option Price of the Original Option.

**6.10. Acceleration 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.

(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 exercisable pursuant to this Section 76.6(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

(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. Prohibition on Repricing**. Except (a) as provided in Section 4.3 or (b) to the extent approved by the stockholders of the Company, the grant price of a SAR may not be changed following the date the SAR is granted. Similarly, the exchange of a SAR (an "Original SAR") for cash, Shares, or other Awards at a time when the grant price of such Original SAR is equal to or greater than the Fair Market Value of a Share is prohibited. Notwithstanding the preceding sentence, the exchange of an Original SAR for an Option or another SAR (a "New SAR") shall be permitted only if: (a) the exchange is approved by the stockholders of the Company and (b) either (i) the Option Price amount is greater than the grant price of the Original SAR or (ii) the grant price of the New SAR is greater than the grant price of the Original SAR.

**7.9. 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 Restricted Stock to Participants in such amounts as the Committee shall determine.

(b) **Award Document**. All grants of Restricted Stock shall be evidenced by an Award Document. The Award Document shall specify the Period or Periods of Restriction, the number of shares of Restricted Stock granted, and such other provisions as the Committee shall determine pursuant to Section 8.2 or otherwise, and which shall not be inconsistent with the terms and provisions of the Plan. 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.

(c) **Limitation on the Committee**. Notwithstanding the preceding provisions of Section 8.1(b) and subject to the provisions of the Plan, no more than five percent (5%) of the shares that may be issued as Restricted Stock pursuant to Section 4.1 may have a Period of Restriction as determined by the Committee at the time of grant that will lapse prior to the third anniversary of the grant date. All remaining shares that may be issued with respect to Awards of Restricted Stock pursuant to Section 4.1 shall have a Period of Restriction determined by the Committee at the time of grant that will not lapse until on or after the third anniversary of the grant date. For the avoidance of doubt, this Section 8.1(c) shall not impair the Committee's ability to accelerate the vesting of Restricted Stock pursuant to Section 8.6 or to make grants that provide that vesting is accelerated upon Long Service Separation, death or Disability pursuant to Section 8.5 and the shares of Restricted Stock for which such acceleration of vesting occurs shall not be considered in applying the limitations set forth in this Section 8.1(c).

**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 (*i.e.*, a restricted stock unit), 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 (but not restricted stock units) 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 (but not restricted stock units) 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 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 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) **Long-Service Separation, 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 Long Service Separation, 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 Long Service Separation, 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 pre-established 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; (e) cash flow from operations; (f) total cash flow; (g) return on equity; (h) return on invested capital; (i) return on assets; (j) net operating profits after taxes; (k) economic value added; (l) total stockholder return; (m) return on sales; or (n) 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 pre-established 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 and Section 409A

**13.1 Restrictions on Payments and Distributions**.

**(a) Restrictions**. To the extent that an Award constitutes a deferral of compensation subject to Code Section 409A (for example, certain grants of restricted stock units), payment or distribution of such deferred compensation shall not occur prior to the first to occur of the following events:

**(i)** The Participant's Separation from Service, or in the case of a Participant who is a Specified Employee, the date which is six months after the Participant's Separation from Service;

**(ii)** The date the Participant becomes Disabled;

**(iii)** The Participant's death;

**(iv)** A specified time (or pursuant to a fixed schedule) specified at the date of the deferral of compensation;

**(v)** An Unforeseeable Emergency; or

**(vi)** To the extent provided by the Secretary of the Treasury, a change in the ownership or effective control of the Company or a Subsidiary or in the ownership of a substantial portion of the assets of the Company or a Subsidiary.

This Section 13.1 restates the restrictions on payments and distributions set forth in Code Section 409A and is intended to impose restrictions on payments and distributions made pursuant to the Plan. This Section 13.1 does not describe the instances in which payments and distributions actually will be made. Rather, payments and distributions will be made only if and when permitted by: (1) the provisions of this Section 13.1 and (2) the terms of the governing Award Document.

**(b)** **Special Definitions**. For purposes of this Section 13.1, the following terms shall have the following meanings:

**(i)** "Disabled" means that a Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment, which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months.

**(ii)** "Separation from Service" means a separation from service as defined in Treas. Reg. 1.409A-1(h).

**(iii)** "Specified Employee" means certain officers and highly compensated employees of the Company and its Subsidiaries as defined in Treas. Reg. 1.409A-1(i), and determined in accordance with such procedures as may be adopted from time to time by the Company.

**(iv)** "Unforeseeable Emergency" means a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant's spouse, or a dependent (as defined in Code Section 152 without regard to Code Sections 152(b)(1), (b)(2) and (d)(1)(B)) of the Participant, loss of the Participant's property due to casualty or some other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. Whether an Unforeseeable Emergency has occurred will be determined in accordance with Treas. Reg. 1.409A-3(i)(3).

**13.2** **Ban on Acceleration.** To the extent that an Award constitutes a deferral of compensation subject to Code Section 409A, neither the time nor the schedule of any payment or distribution of such deferred compensation may be accelerated or subject to a further deferral except as provided in Treas. Reg. 1.409A-3(j)(4).

**13.3** **Section 409A**. Except to the extent specifically provided otherwise by the Committee, Awards under the Plan are intended to satisfy the requirements of Code Section 409A (and the Treasury Department guidance and regulations issued thereunder) so as to avoid the imposition of any additional taxes or penalties under Section 409A of the Code. If the Committee determines that an Award, Award Document, payment, distribution, deferral election, transaction or any other action or arrangement contemplated by the provisions of the Plan would, if undertaken, cause a Participant to become subject to any additional taxes or other penalties under Code

Section 409A, then unless the Committee specifically provides otherwise, such Award, Award Document, payment, distribution, deferral election, transaction or other action or arrangement shall not be given effect to the extent it causes such result and the related provisions of the Plan and/or Award Document will be deemed modified, or, if necessary, suspended in order to comply with the requirements of Code Section 409A to the extent determined appropriate by the Committee, in each case without the consent of or notice to the Participant.

**13.4** **Deferrals**. The Committee may permit a Participant to elect 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 SAR 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 permitted, the Committee shall, in its sole discretion, establish rules and procedures for such payment deferrals. The rules and procedures regarding such payment deferrals shall be set forth clearly in the Award Document to which the compensation relates. All such deferrals (and rules and procedures) shall comply with Code Section 409A (and the Treasury Department guidance and regulations issued thereunder) and any other applicable law.

## Section 14.
## Rights and Obligations of Parties

**14.1.** **No Guarantee of Employment or Service Rights**. 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.** **Temporary Absence**. 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.** **Participation**. 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.** **Right of Setoff**. 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. Section 83(b) Election**. 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. Disqualifying Disposition Notification**. 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. Change of Control**. 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.

* * * * *

**EXHIBIT 10.5**

# CATERPILLAR INC.
# SUPPLEMENTAL RETIREMENT PLAN

**(formerly known as the Caterpillar Inc. Supplemental Pension Benefit Plan)**

**(As Amended and Restated Through First Amendment dated November 1, 2010)**

---

**Caterpillar Inc.**
**Supplemental Retirement Plan**
**(formerly known as the Caterpillar Inc. Supplemental Pension Benefit Plan)**
**(As Amended and Restated Through First Amendment dated November 1, 2010)**

**Table of Contents**


| | | |
|---|---|---|
| **ARTICLE I. DEFINITIONS** | | **1** |
| 1.1 | General | 1 |
| 1.2 | Construction | 4 |
| **ARTICLE II. ELIGIBILITY; ADOPTION BY AFFILIATES** | | **4** |
| 2.1 | Eligible Employees | 4 |
| 2.2 | Existing Participants | 4 |
| 2.3 | New Participants | 4 |
| 2.4 | Discontinuance of Participation | 4 |
| 2.5 | Adoption by Affiliates | 5 |
| **ARTICLE III. DETERMINATION OF BENEFIT** | | **5** |
| 3.1 | General | 5 |
| 3.2 | Amount of Benefit Payable to Participant | 5 |
| 3.3 | Survivor Benefits | 6 |
| 3.4 | Early Retirement Reductions | 7 |
| 3.5 | Future Adjustments | 7 |
| **ARTICLE IV. VESTING** | | **7** |
| 4.1 | Vesting | 7 |
| **ARTICLE V. PAYMENT OF BENEFIT** | | **7** |
| 5.1 | Payments on or After Effective Date But Prior to January 1, 2009 | 7 |
| 5.2 | Payments on or After January 1, 2009 | 8 |
| 5.3 | Automatic Lump Sum Distributions | 10 |

5.4 Withholding 11

5.5 Ban on Acceleration of Benefits 11

**ARTICLE VI. ADMINISTRATION OF THE PLAN 11**

6.1 General Powers and Duties 11

6.2 Claims Procedures 12

**ARTICLE VII. AMENDMENT 12**

7.1 Amendment 12

7.2 Effect of Amendment 13

7.3 Termination 13

**ARTICLE VIII. GENERAL PROVISIONS 13**

8.1 Participant's Rights Unsecured 13

8.2 No Guaranty of Benefits 13

8.3 No Enlargement of Employee Rights 13

8.4 Section 409A Compliance 13

8.5 Spendthrift Provision 13

8.6 Domestic Relations Orders 14

8.7 Incapacity of Recipient 14

8.8 Successors 14

8.9 Limitations on Liability 14

8.10 Overpayments 14

8.11 Plan Frozen 14

**CATERPILLAR INC.**
**SUPPLEMENTAL RETIREMENT PLAN**

**PREAMBLE**

The Caterpillar Inc. Supplemental Retirement Plan (formerly known as the Caterpillar Inc. Supplemental Pension Benefit Plan and hereinafter referred to as the "Plan") was established as of January 1, 1976 by Caterpillar Inc. (the "Company") to provide additional pension benefits to individuals who participate in the Caterpillar Inc. Retirement Income Plan, as amended, or any successor(s) to such plan ("RIP"), but whose benefits are limited due to the application of Section 401(a)(17) and/or Section 415 of the Internal Revenue Code of 1986, as amended. The Plan also provides the benefits that would otherwise be payable pursuant to RIP but for (i) an individual's deferral of compensation under the Caterpillar Inc. Deferred Employees' Investment Plan, the Caterpillar Inc. Supplemental Employees' Investment Plan, or the Caterpillar Inc. Supplemental Deferred Compensation Plan or (ii) the exclusions from "Total Earnings" under RIP for an individual's lump sum discretionary awards and variable base pay. This amended and restated Plan is effective as of January 1, 2005.

**ARTICLE I.**
**DEFINITIONS**

**1.1 General.** When a word or phrase appears in the Plan with the initial letter capitalized, and the word or phrase does not begin a sentence, the word or phrase shall generally be a term defined in this Article I. The following words and phrases used in the Plan with the initial letter capitalized shall have the meanings set forth in this Article I, unless a clearly different meaning is required by the context in which the word or phrase is used or the word or phrase is defined for a limited purpose elsewhere in the Plan document:

**(a) "Adopting Affiliate"** means any Affiliate that has been authorized by the Company to adopt the Plan and which has adopted the Plan in accordance with Section 2.5. All Affiliates that adopted the Plan on or before the Effective Date and that had not terminated such adoption shall continue to be Adopting Affiliates of the Plan.

**(b) "Affiliate"** means a parent business that controls, or a subsidiary business that is controlled by, the Company.

**(c) "Beneficiary"** means, with respect to a Participant, the person or persons entitled to receive distributions of the Participant's death benefits under RIP.

**(d)** "**Benefit Determination Date**" means the following:

(i) **On or After Effective Date But Prior to January 1, 2009**. On or after the Effective Date but prior to January 1, 2009, a Participant's Benefit Determination Date shall be the date as of which the Participant has elected to commence benefits under RIP.

(ii) **On or After January 1, 2009**. On or after January 1, 2009, a Participant's Benefit Determination Date shall be the date determined under (1) or (2) below:

(i) With respect to (x) a Participant's PEP Benefit (as defined in Section 3.2(b)), (y) a Choice Participant's benefits under this Plan, or (z) a Participant's Traditional Benefit (as defined in Section 3.2(a)) where the Participant satisfies the requirements under Section 5.2(d)(1)(i), (ii), (iii), (iv), or (v) as of the Participant's Separation from Service, the Participant's Benefit Determination Date shall be the first day of the month following the Participant's Separation from Service.

(ii) With respect to a Participant's Traditional Benefit (as defined in Section 3.2(a)) for a Participant other than a Choice Participant where the Participant does not satisfy the requirements under Section 5.2(d)(1)(i), (ii), (iii), (iv), or (v) as of the Participant's Separation from Service, the Participant's Benefit Determination Date shall be the first day of the month following the date that the Participant first satisfies the requirements under Section 5.2(d)(1)(i), (ii), (iii), (iv), or (v).

**(e)** **"Benefit Payment Date"** means the date as of which the Participant's benefit amounts under the Plan shall be payable, as determined in accordance with Section 5.2(d).

**(f)** **"Board"** means the Board of Directors of the Company, or any authorized committee of the Board.

**(g)** "**Choice Participant**" means a Participant who (i) has a "frozen traditional benefit" under RIP as a result of the election made by such Participant to cease accruing a benefit under the traditional benefit formula of RIP and to begin accruing a benefit under the pension equity formula of RIP and (ii) had accrued a Traditional Benefit (as defined in Section 3.2(a)) under this Plan as of June 30, 2003.

**(h)** **"Code"** means the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

**(i)** **"Company"** means Caterpillar Inc., and, to the extent provided in Section 8.8 below, any successor corporation or other entity resulting from a merger or consolidation into or with the Company or a transfer or sale of substantially all of the assets of the Company.

**(j)** **"DEIP"** means the Caterpillar Inc. Deferred Employees' Investment Plan, as amended.

**(k)** **"Director"** means the Company's Director of Compensation + Benefits.

**(l)** "**Disability**" or "**Disabled**" means that a Participant is determined to be totally disabled by the United States Social Security Administration.

**(m)** **"Effective Date"** means January 1, 2005.

**(n)** **"ERISA"** means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any regulations promulgated thereunder.

**(o)** "**Lump Sum Discretionary Award**" means any lump sum discretionary award paid to a Participant as determined in accordance with the established pay practices of the Company and Adopting Affiliates.

**(p)** **"Participant"** means an employee of the Company or any Adopting Affiliate who satisfies the eligibility requirements for participation in the Plan.

**(q)** **"Plan"** means the Caterpillar Inc. Supplemental Retirement Plan, as set forth herein and as it may be amended from time to time.

**(r)** **"Plan Administrator"** means the Director.

**(s)** **"Plan Year"** means the calendar year.

**(t)** **"RIP"** means the Caterpillar Inc. Retirement Income Plan, as amended or any successor(s) to such plan.

**(u)** **"SDCP"** means the Caterpillar Inc. Supplemental Deferred Compensation Plan, as amended or any successor(s) to such plan.

**(v)** **"SEIP"** means the Caterpillar Inc. Supplemental Employees' Investment Plan, as amended.

**(w)** **"Separation from Service"** means separation from service as determined in accordance with any regulations, rulings or other guidance issued by the Department of the Treasury pursuant to Section 409A(a)(2)(A)(i) of the Code, as it may be amended or replaced from time to time.

**(x)** **"Specified Employee"** means a "key employee" as defined in Section 416(i) of the Code without regard to Section 416(i)(5) and determined in accordance with Section 409A(a)(2)(B)(i) of the Code.

**(y)** **"Unforeseeable Emergency"** means a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant's spouse, or a dependent (as defined in Section 152(a) of the Code) of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. For purposes of the Plan, an "Unforeseeable Emergency" shall not include a Participant's need to send his or her child to college or a Participant's desire to purchase a home. Any determination as to whether a Participant has incurred an Unforeseeable Emergency shall be made in the sole discretion of the Plan Administrator in accordance with rules prescribed pursuant to Section 409A of the Code.

**(z)** "**Variable Base Pay**" means the variable base pay paid to a Participant as determined in accordance with the established pay practices of the Company and Adopting Affiliates.

**(aa)** **"Sunset Participant"** means a Participant who is classified as a "Sunset Participant" under the terms of RIP.

**1.2** **Construction**. The masculine gender, when appearing in the Plan, shall include the feminine gender (and vice versa), and the singular shall include the plural, unless the Plan clearly states to the contrary. Headings and subheadings are for the purpose of reference only and are not to be considered in the construction of the Plan. If any provision of the Plan is determined to be for any reason invalid or unenforceable, the remaining provisions shall continue in full force and effect. All of the provisions of the Plan shall be construed and enforced according to the laws of the State of Illinois without regard to conflict of law principles and shall be administered according to the laws of such state, except as otherwise required by ERISA, the Code, or other Federal law.

## ARTICLE II.
## ELIGIBILITY; ADOPTION BY AFFILIATES

**2.1** **Eligible Employees**. The purpose of the Plan is to provide supplemental retirement benefits to a select group of management or highly compensated employees. This group of employees is sometimes referred to as a "top hat group." The Plan constitutes an unfunded supplemental retirement plan and is fully exempt from Parts 2, 3, and 4 of Title I of ERISA. The Plan shall be governed and construed in accordance with Title I of ERISA.

**2.2** **Existing Participants**. Each individual who was a Participant in the Plan as of the date of execution of this plan document shall continue as such, subject to the provisions hereof.

**2.3** **New Participants**. An employee shall participate in the Plan if the employee is receiving, is eligible to receive, or is accruing retirement benefits pursuant to RIP; and

**(a)** the employee's RIP benefits are limited by application of Section 401(a)(17) of the Code;

**(b)** the employee's RIP benefits are limited by application of Section 415(b) of the Code;

**(c)** the employee's RIP benefits are decreased due to the employee's deferral of salary or incentive compensation under SEIP, DEIP or SDCP; or

**(d)** the employee's RIP benefits are limited due to the exclusions from "Total Earnings" (as defined under RIP) for the employee's Lump Sum Discretionary Awards and Variable Base Pay.

**2.4** **Discontinuance of Participation**. As a general rule, once an individual is a Participant, he will continue as such for all future Plan Years until his retirement or other termination of employment. In addition, prior to retirement or other termination of employment, the Plan Administrator shall discontinue an individual's participation in the Plan if the Plan Administrator concludes, in the exercise of his discretion, that the individual is no longer properly included in the top hat group. If an individual's participation is discontinued, the individual will no longer be eligible to accrue a benefit under the Plan. The individual will not be entitled to receive a distribution, however, until the occurrence of another event (e.g., death or Separation from Service) that entitles the individual to receive a distribution.

**2.5** **Adoption by Affiliates**. An employee of an Affiliate may not become a Participant in the Plan unless the Affiliate has previously adopted the Plan. An Affiliate of the Company may adopt the Plan only with the approval of the Company. By adopting the Plan, the Affiliate shall be deemed to have agreed to assume the obligations and liabilities imposed upon it by the Plan, agreed to comply with all of the other terms and provisions of the Plan, delegated to the Plan Administrator the power and responsibility to administer the Plan with respect to the Affiliate's employees, and delegated to the Company the full power to amend or terminate the Plan with respect to the Affiliate's employees. Notwithstanding the foregoing, an Affiliate that has previously adopted the Plan may terminate its participation in the Plan in accordance with such rules and procedures that are promulgated by the Company.

## ARTICLE III.
## DETERMINATION OF BENEFIT

**3.1** **General**. Benefit amounts payable under the Plan shall be determined pursuant to Section 3.2 and, if applicable, adjusted pursuant to Section 3.4. Such determinations shall be made by reference to (a) the benefit amounts that would be payable to the Participant under RIP if SEIP, DEIP and SDCP deferrals and any Lump Sum Discretionary Awards or Variable Base Pay were taken into account in determining the Participant's benefits thereunder and (b) without regard to the applicable limitations under Sections 401(a)(17) and 415 of the Code. For avoidance of doubt, effective January 1, 2011, any Participant who is not a Sunset Participant shall not receive any additional benefit accruals under this Article III, and any Sunset Participant shall not receive any additional benefit accruals under this Article III effective as of the earlier of: (1) the date he is no longer a Sunset Participant or (2) January 1, 2020.

**3.2** **Amount of Benefit Payable to Participant**. The monthly benefit payable to the Participant by the Plan shall be equal to the sum of the Participant's "Traditional Benefit" and "PEP Benefit" amounts (both as defined below), if any, determined under subsections (a) and (b) below as of the Participant's Benefit Determination Date:

**(a)** **"Traditional Benefit"**. Any benefit payable to the Participant by the Plan under the "traditional benefit" provisions of RIP, as it may be amended from time to time, shall be determined as follows:

(1) **Step One**. The Plan Administrator shall determine the benefit that would be payable to the Participant pursuant to RIP if SEIP, DEIP and SDCP deferrals and any Lump Sum Discretionary Awards or Variable Base Pay were taken into account and without regard to the applicable limitations under Sections 401(a)(17) and 415 of the Code. For purposes of this Section 3.2(a)(1), the parenthetical phrase of Section 5.2 of RIP reading "(2% for Participants in salary grades 30 or 31, 2.25% for Participants in salary grade 32, 2.4% for Participants in salary grades 33 or higher)" shall be disregarded.

(2) **Step Two**. The Plan Administrator shall determine the Participant's benefit that would be payable pursuant to RIP (as calculated as of the Participant's Benefit Determination Date).

(3) **Step Three**. The amount determined pursuant to paragraph (2) above shall be subtracted from the amount determined pursuant to paragraph (1) above to determine the benefit payable to the Participant pursuant to this Section 3.2(a) of the Plan (herein referred to as a Participant's "Traditional Benefit").

**(b) "PEP Benefit"**. Any benefit payable by the Plan to the Participant under the "pension equity formula" provisions of RIP, as it may be amended from time to time, shall be determined as follows:

(1) **Step One**. The Plan Administrator shall determine the single sum amount that would be payable to the Participant pursuant to RIP if SEIP, DEIP and SDCP deferrals and any Lump Sum Discretionary Awards or Variable Base Pay were taken into account and without regard to the applicable limitations under Sections 401(a)(17) and 415 of the Code.

(2) **Step Two**. The Plan Administrator shall determine the Participant's single sum amount that would be payable pursuant to RIP (as calculated as of the Participant's Benefit Determination Date).

(3) **Step Three**. The amount determined pursuant to paragraph (2) above shall be subtracted from the amount determined pursuant to paragraph (1) above to determine the single sum amount payable to the Participant pursuant to this Section 3.2(b) of the Plan (herein referred to as a Participant's "PEP Benefit").

**3.3 Survivor Benefits.** In the event a Participant dies after becoming vested under the Plan pursuant to Section 4.1 but prior to commencing his benefits under the Plan pursuant to Article V, a survivor benefit shall be payable as follows:

**(a) Traditional Benefit**. With respect to a Participant's Traditional Benefit, if any, determined under Section 3.2(a) (and, if applicable, adjusted under Section 3.4), the Participant's surviving spouse, if any, shall be entitled to a monthly survivor benefit payable during the spouse's lifetime and terminating with the payment for the month in which such spouse's death occurs. The monthly benefit payable to the surviving spouse shall be the portion of the amount determined under Section 3.2(a) (and, if applicable, adjusted under Section 3.4) as of the Participant's Benefit Determination Date that the surviving spouse would have been entitled to receive under this Plan if the Participant had separated from service on the date of his death, commenced benefits in accordance with Article V in the form of a 50% joint and survivor annuity, and then died immediately thereafter. A surviving spouse who was not married to the deceased Participant for at least one year at the date of death shall not be eligible for the monthly survivor benefit pursuant to this Section 3.3.

**(b) PEP Benefit**. With respect to a Participant's PEP Benefit, if any, determined under Section 3.2(b), such benefit shall be paid to the Participant's Beneficiary in a single sum amount as soon as administratively feasible after the Benefit Determination Date.

**(c) Certain Choice Participant Benefits**. Notwithstanding the provisions of (a) and (b) above, with respect to a Choice Participant who does not make a contrary election pursuant to Section 5.2(c)(3), such Participant's Beneficiary shall receive a single sum amount equal to the actuarial equivalent present value (using the actuarial assumptions under RIP applicable to the Participant as of his or her Benefit Determination Date) of the Participant's Traditional Benefit and PEP Benefit calculated as of the date specified in Section 5.2(d)(1)(i), and as further adjusted by using the actuarial assumptions under RIP applicable to the Beneficiary as of the Participant's Benefit Determination Date. Notwithstanding the foregoing, if a Choice Participant makes an election pursuant to Section 5.2(c)(3) to receive his or her benefits under the Plan in the form of monthly annuity payments, his or her Beneficiary, in lieu of the single sum amount described in the preceding sentence, shall receive a monthly benefit paid for the remainder of the Beneficiary's life; provided that, the Beneficiary's monthly benefit shall be equal to the actuarially equivalent monthly benefit of such single sum amount (using the actuarial assumptions under RIP applicable to the Beneficiary as of the Participant's Benefit Determination Date); provided further that, in no event shall the Beneficiary's monthly benefit be less than the monthly survivor benefit determined under Section 3.3(a) that, but for this Section 3.3(c), would have been payable to the Participant's surviving spouse (or, if there is no surviving spouse, would have been payable under Section 3.3(a) had the Participant died with a surviving spouse). Any single sum amount or monthly benefit determined under this Section 3.3(c) shall be payable to the Participant's Beneficiary as soon as administratively feasible after the date of the Participant's death.

**3.4** **Early Retirement Reductions**. Any benefits determined pursuant to this Article III shall be subject to the same reductions for early retirement as applicable under RIP.

**3.5** **Future Adjustments**. Any benefit amounts payable under this Plan may be adjusted to take into account future amendments to RIP and increases in retirement income that are granted under RIP due to cost-of-living increases. Any benefit amounts payable under this Plan shall be adjusted to take into account future factors and adjustments made by the Secretary of the Treasury (in regulations or otherwise) to the limitations under Sections 401(a)(17) and 415 of the Code.

## ARTICLE IV.
## VESTING

**4.1** **Vesting**. Subject to Section 8.1, each Participant shall be vested in his or her benefit, if any, that becomes payable under Article V of the Plan to the same extent that the Participant is vested in his or her benefit accrued under RIP.

## ARTICLE V.
## PAYMENT OF BENEFIT

**5.1** **Payments on or After Effective Date But Prior to January 1, 2009**. In accordance with the transitional guidance issued by the Internal Revenue Service and the Department of Treasury in Section 3 of IRS Notice 2007-86, any payment of benefits to a Participant or his Beneficiary commencing on or after the Effective Date but prior to January 1, 2009 shall be made pursuant to the Participant's applicable payment election or the applicable pre-retirement survivor provisions under RIP.

**5.2 Payments on or After January 1, 2009**. Any payment of benefits to a Participant commencing on or after January 1, 2009 shall be determined in accordance with this Section 5.2.

**(a) Limitation on Right to Receive Distribution**. A Participant shall not be entitled to receive a distribution prior to the first to occur of the following events:

(1) The Participant's Separation from Service, or in the case of a Participant who is a Specified Employee, the date which is six months after the Participant's Separation from Service;

(2) The date the Participant becomes Disabled;

(3) The Participant's death;

(4) A specified time (or pursuant to a fixed schedule) specified at the date of deferral of compensation;

(5) An Unforeseeable Emergency; or

(6) To the extent provided by the Secretary of the Treasury, a change in the ownership or effective control of the Company or an Adopting Affiliate or in the ownership of a substantial portion of the assets of the Company or an Adopting Affiliate.

This Section 5.2(a) restates the restrictions on distributions set forth in Section 409A of the Code and is intended to impose restrictions on distributions pursuant to the Plan accordingly. This Section 5.2(a) does not describe the instances in which distributions will be made. Rather, distributions will be made only if and when permitted both by this Section 5.2(a) and another provision of the Plan.

**(b) General Right to Receive Distribution**. Following a Participant's termination of employment or death, the Participant's benefit amounts will be paid to the Participant in the manner and at the time provided in Sections 5.2(c) and 5.2(d), as applicable. A transfer of a Participant from the Company or any Affiliate to any other Affiliate or the Company shall not be deemed to be a termination of employment for purposes of this Section 5.2(b).

**(c) Form of Payment**.

(1) **Traditional Benefit**. Any monthly benefit payable to a Participant under Section 3.2(a) (and, if applicable, adjusted under Section 3.4) shall be paid in the form of annuity payments as follows:

(i) **Unmarried Participants**. The benefits of an unmarried Participant shall be paid in the form of a single life annuity for the Participant's life. No payments shall be made after the Participant dies. Notwithstanding the foregoing, in accordance with uniform rules and procedures as may be adopted by the Plan Administrator from time to time, an unmarried Participant may elect, in lieu of a single life annuity, to have his or her benefits paid in any actuarially equivalent form of annuity permitted under RIP.

(ii) **Married Participants**. Subject to Section 3.3, the benefits of a married Participant shall be paid in the form of a joint and survivor annuity in a reduced monthly benefit for the Participant's life (as determined in accordance with the applicable actuarial assumptions in effect under RIP) and then, if the Participant's spouse is still alive, a benefit equal to 50% of the Participant's monthly benefit is paid to the spouse for the remainder of his or her life. If the Participant's spouse is not alive when the Participant dies, no further payments shall be made. Notwithstanding the foregoing, in accordance with uniform rules and procedures as may be adopted by the Plan Administrator from time to time, a married Participant may, with the written consent of the Participant's spouse, elect to waive the joint and survivor annuity of this subparagraph (ii) and instead elect a single life annuity or any actuarially equivalent form of annuity permitted under RIP.

In addition, if the Participant's Benefit Payment Date, as described in clauses (i)-(v) of Section 5.2(d)(1), is delayed pursuant to the last sentence of Section 5.2(d)(1), then any monthly benefit amounts that would have been paid if not for such last sentence will be credited with interest at five percent (5%) per annum through the Participant's Benefit Payment Date. Such delayed monthly benefit amounts and interest shall be paid in a single sum amount as soon as administratively feasible after such Benefit Payment Date.

(2) **PEP Benefit**. Any benefit payable to a Participant determined under Section 3.2(b) shall be paid in a single sum amount. In addition, if the Participant's Benefit Payment Date, as described in Section 5.2(d)(2), is delayed pursuant to the first sentence of Section 5.2(d)(2), then any single sum amount that would have been paid if not for such first sentence will be credited with interest at five percent (5%) per annum through the Participant's Benefit Payment Date. Such interest shall be paid in a single sum amount as soon as administratively feasible after such Benefit Payment Date.

(3) **Special One-Time Election for Choice Participants**. Pursuant to the transitional guidance issued by the Internal Revenue Service and the Department of Treasury, the Plan Administrator shall provide a special one-time election to Choice Participants whose benefits have not commenced as of December 31, 2008, to elect to have their benefits paid other than in the forms otherwise described in (1) and (2) above, subject to such procedures as are established by the Plan Administrator; provided that, if a Choice Participant does not make such an election, any benefit amounts under the Plan that become payable to such Choice Participant shall be paid in the forms described in (1) and (2) above, as applicable. In addition, if the Participant's Benefit Payment Date, as described in Section 5.2(d)(3), is delayed pursuant to Section 5.2(d)(3), then any monthly benefit amounts or single sum amounts that would have been paid if not for such delay will be credited with interest at five percent (5%) per annum through the Participant's Benefit Payment Date in accordance with the applicable provisions of (1) and (2) above. Such delayed monthly benefit amounts or single sum amounts and interest shall be paid in a single sum amount as soon as administratively feasible after such Benefit Payment Date.

**(d) Timing of Payment**.

(1) **Traditional Benefit.** Except as provided below, any benefit determined under Section 3.2(a) (and, if applicable, adjusted under Section 3.4) that becomes

payable to the Participant following Separation from Service shall commence on the first day of the month following the earliest of the following:

(i) the Participant's attainment of age 65 or, if later, the Participant's fifth anniversary of the date he or she commenced participation under RIP;

(ii) the Participant's attainment of age 55 with the number of the Participant's years of vesting service plus his or her age equaling at least 85;

(iii) the Participant's attainment of age 60 after completing at least 10 years of vesting service;

(iv) the Participant's attainment of age 55 after completing at least 15 years of vesting service; or

(v) the Participant's completing at least 30 years of vesting service.

For purposes of (ii), (iii), (iv) or (v) above, the Plan Administrator shall determine the Participant's "years of vesting service" by reference to the applicable terms under RIP in existence as of the date the Participant first commenced participation under this Plan.

Notwithstanding the foregoing provisions of this Section 5.2(d)(1), in no event shall any benefit payable to a Participant under Section 3.2(a) (and, if applicable, adjusted under Section 3.4) commence earlier than the first day of the month coincident with or next following a date that is at least six months after the Participant's Separation from Service, except in the event of the Participant's death, in which case any benefit payable to the Participant's Beneficiary shall commence as of the applicable date specified in Section 3.3(a).

(2) **PEP Benefit.** Any benefit determined under Section 3.2(b) that becomes payable to the Participant following Separation from Service shall be paid on the first day of the month that is at least six months after the Participant's Separation from Service. Notwithstanding the foregoing, in the event of the Participant's death, any benefit payable to the Participant's Beneficiary will be paid as soon as administratively feasible after the date of the Participant's death.

(3) **Certain Choice Participant Benefits**. Any benefits that become payable to a Choice Participant following Separation from Service shall be paid on the first day of the month that is at least six months after the Participant's Separation from Service. Notwithstanding the foregoing, in the event of the Participant's death, any benefit payable to the Participant's Beneficiary will be paid as soon as administratively feasible after the date of the Participant's death.

**5.3 Automatic Lump Sum Distributions**. Notwithstanding any provision of the Plan to the contrary:

**(a) Certain Distributions on or After Effective Date But Prior to January 1, 2009**. Effective as of the Effective Date but prior to January 1, 2009, if the actuarial equivalent present value of an individual's benefit amounts payable under this Plan (as determined in accordance with the applicable actuarial assumptions in effect under RIP as of the individual's Benefit Determination Date) is less than or equal to $10,000, the individual's benefit amounts under the Plan shall be distributed in a single sum amount as soon as administratively feasible on or after such Benefit Determination Date.

**(b)** **<u>Certain Distributions on or After January 1, 2009</u>**. Effective January 1, 2009, if the sum of (i) the actuarial equivalent present value of an individual's benefit amounts payable under this Plan (as determined in accordance with the applicable actuarial assumptions in effect under RIP as of the individual's Benefit Determination Date) and (ii) the interest, if any, credited on such amounts through the individual's Benefit Payment Date (as determined in accordance with the applicable provisions of Section 5.2(c)) is less than or equal to the dollar limitation under Section 402(g)(1)(B) of the Code in effect for the calendar year in which the individual's Benefit Payment Date occurs, the individual's benefit amounts under the Plan shall be distributed in a single sum amount equal to the sum of (i) and (ii) above as soon as administratively feasible on or after such Benefit Payment Date.

**5.4** **<u>Withholding</u>**. All distributions will be subject to all applicable tax and withholding requirements.

**5.5** **<u>Ban on Acceleration of Benefits</u>**. Neither the time nor the schedule of any payment under the Plan may be accelerated except as permitted in regulations or other guidance issued by the Internal Revenue Service or the Department of the Treasury and as incorporated herein.

## ARTICLE VI.
## ADMINISTRATION OF THE PLAN

**6.1** **<u>General Powers and Duties.</u>** The following list of powers and duties is not intended to be exhaustive, and the Plan Administrator shall, in addition, exercise such other powers and perform such other duties as he may deem advisable in the administration of the Plan, unless such powers or duties are expressly assigned to another pursuant to the provisions of the Plan.

**(a)** **<u>General</u>**. The Plan Administrator shall perform the duties and exercise the powers and discretion given to him in the Plan document and by applicable law and his decisions and actions shall be final and conclusive as to all persons affected thereby. The Company and the Adopting Affiliates shall furnish the Plan Administrator with all data and information that the Plan Administrator may reasonably require in order to perform his functions. The Plan Administrator may rely without question upon any such data or information.

**(b)** **<u>Disputes</u>**. Any and all disputes that may arise involving Participants or beneficiaries shall be referred to the Plan Administrator and his decision shall be final. Furthermore, if any question arises as to the meaning, interpretation or application of any provisions of the Plan, the decision of the Plan Administrator shall be final.

**(c)** **<u>Agents</u>**. The Plan Administrator may engage agents, including recordkeepers, to assist him and he may engage legal counsel who may be counsel for the

Company. The Plan Administrator shall not be responsible for any action taken or omitted to be taken on the advice of such counsel, including written opinions or certificates of any agent, counsel, actuary or physician.

**(d)** **Insurance**. At the Director's request, the Company shall purchase liability insurance to cover the Director in his activities as the Plan Administrator.

**(e)** **Allocations**. The Plan Administrator is given specific authority to allocate responsibilities to others and to revoke such allocations. When the Plan Administrator has allocated authority pursuant to this paragraph, the Plan Administrator is not to be liable for the acts or omissions of the party to whom such responsibility has been allocated.

**(f)** **Records**. The Plan Administrator shall supervise the establishment and maintenance of records by his agents, the Company and each Adopting Affiliate containing all relevant data pertaining to any person affected hereby and his or her rights under the Plan.

**(g)** **Interpretations**. The Plan Administrator, in his sole discretion, shall interpret and construe the provisions of the Plan (and any underlying documents or policies).

**(h)** **Electronic Administration**. The Plan Administrator shall have the authority to employ alternative means (including, but not limited to, electronic, internet, intranet, voice response or telephonic) by which Participants may submit elections, directions and forms required for participation in, and the administration of, the Plan. If the Plan Administrator chooses to use these alternative means, any elections, directions or forms submitted in accordance with the rules and procedures promulgated by the Plan Administrator will be deemed to satisfy any provision of the Plan calling for the submission of a written election, direction or form.

**(i)** **Delegation**. The Plan Administrator may delegate his authority hereunder, in whole or in part, in his sole and absolute discretion.

**6.2** **Claims Procedures.** Benefit claims under the Plan shall be resolved in accordance with Code Section 409A and uniform and nondiscriminatory procedures adopted by the Plan Administrator in accordance with Section 503 of ERISA.

## ARTICLE VII.
## AMENDMENT

**7.1** **Amendment**. The Company shall have the right at any time to amend, in whole or in part, any or all of the provisions of this Plan by action of the Board of Directors of the Company; provided, however, if the amendment does not constitute a reallocation of fiduciary duties among those designated to act under the Plan or an allocation of fiduciary duties to committees and/or persons not previously designated to act under the Plan, then the Company's Vice President, Human Services Division, shall have the authority to amend the Plan, acting in consultation with the Company's Chairman of the Board and the appropriate Group President(s) of the Company (or in consultation with the full Board of Directors if the Chairman of the Board deems it necessary and appropriate). The Company's Vice President, Human Services Division, may designate any other officer(s) of the Company as having authority to amend the Plan in the

Vice President's absence, which officer shall also act in consultation with the Company's Chairman of the Board and the appropriate Group President(s) of the Company (or in consultation with the full Board of Directors if the Chairman of the Board deems it necessary and appropriate).

**7.2** **Effect of Amendment**. Any amendment of the Plan shall not directly or indirectly reduce the benefits previously accrued by the Participant.

**7.3** **Termination**. The Company expressly reserves the right to terminate the Plan. In the event of termination, the Company shall specify whether termination will change the time at which distributions are made; provided that any acceleration of a distribution is consistent with Section 409A of the Code. In the absence of such specification, the timing of distributions shall be unaffected by termination.

## ARTICLE VIII.
## GENERAL PROVISIONS

**8.1** **Participant's Rights Unsecured**. The Plan at all times shall be entirely unfunded and no provision shall at any time be made with respect to segregating any assets of the Company for payment of any distributions hereunder. The right of a Participant or his or her Beneficiary to receive benefits hereunder shall be an unsecured claim against the general assets of the Company, and neither the Participant nor his Beneficiary shall have any rights in or against any specific assets of the Company. All amounts accrued by Participants hereunder shall constitute general assets of the Company and may be disposed of by the Company at such time and for such purposes as it may deem appropriate. Nothing in this Section shall preclude the Company from establishing a "Rabbi Trust," but the assets in the Rabbi Trust must be available to pay the claims of the Company's general creditors in the event of the Company's insolvency.

**8.2** **No Guaranty of Benefits**. Nothing contained in the Plan shall constitute a guaranty by the Company or any other person or entity that the assets of the Company will be sufficient to pay any benefit hereunder.

**8.3** **No Enlargement of Employee Rights**. No Participant shall have any right to receive a distribution from the Plan except in accordance with the terms of the Plan. Participation in the Plan shall not be construed to give any Participant the right to be retained in the service of the Company or an Adopting Affiliate.

**8.4** **Section 409A Compliance**. The Company intends that the Plan meet the requirements of Section 409A of the Code and the guidance issued thereunder. The Plan shall be administered, construed and interpreted in a manner consistent with that intention.

**8.5** **Spendthrift Provision**. No interest of any person or entity in, or right to receive a distribution under, the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor shall any such interest or right to receive a distribution be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including claims in bankruptcy proceedings. This Section shall not preclude arrangements for the withholding of taxes from deferrals, credits, or benefit payments, arrangements for the recovery of benefit overpayments, arrangements for the transfer of benefit rights to another plan, or arrangements for direct deposit of benefit payments to an account in a bank, savings and loan association or credit union (provided that such arrangement is not part of an arrangement constituting an assignment or alienation).

**8.6** **Domestic Relations Orders**. Notwithstanding any provision of the Plan to the contrary, and to the extent permitted by law, the amounts payable pursuant to the Plan may be assigned or alienated pursuant to a "Domestic Relations Order" (as such term is defined in Section 414(p)(1)(B) of the Code), subject to such uniform rules and procedures as may be adopted by the Plan Administrator from time to time.

**8.7** **Incapacity of Recipient**. If the Plan Administrator is served with a court order holding that a person entitled to a distribution under the Plan is incapable of personally receiving and giving a valid receipt for such distribution, the Plan Administrator shall postpone payment until such time as a claim therefore shall have been made by a duly appointed guardian or other legal representative of such person. The Plan Administrator is under no obligation to inquire or investigate as to the competency of any person entitled to a distribution. Any payment to an appointed guardian or other legal representative under this Section shall be a payment for the account of the incapacitated person and a complete discharge of any liability of the Company and the Plan therefor.

**8.8** **Successors**. The Plan shall be binding upon the successors and assigns of the Company and upon the heirs, beneficiaries and personal representatives of the individuals who become Participants hereunder.

**8.9** **Limitations on Liability**. Notwithstanding any of the preceding provisions of the Plan, neither the Plan Administrator, the Director, or the Company, nor any individual acting as the Plan Administrator's, the Director's, or the Company's employee, agent, or representative shall be liable to any Participant, former Participant, Beneficiary or other person for any claim, loss, liability or expense incurred in connection with the Plan.

**8.10** **Overpayments**. If it is determined that the benefits under the Plan should not have been paid or should have been paid in a lesser amount, written notice thereof shall be given to the recipient of such benefits (or his legal representative) and he shall repay the amount of overpayment to the Company. If he fails to repay such amount of overpayment promptly, the Company shall arrange to recover for the Plan the amount of the overpayment by making an appropriate deduction or deductions from any future benefit payment or payments payable to that person (or his survivor or beneficiary) under the Plan or from any other benefit plan of the Company.

**8.11** **Plan Frozen**. As a result of the freeze of RIP, participation and benefit accruals are frozen under the Plan. This Section 8.11 provides clarification regarding the freeze of the Plan.

**(a)** **Participation Frozen**. The Plan is frozen to (1) all employees hired after November 30, 2010 and (2) all employees rehired after December 31, 2010. Any employee hired or rehired after the applicable date in the preceding sentence shall not be eligible for the Plan and, in the case of a rehire, shall accrue no additional benefits under the Plan for any period of employment after such date. Similarly, the Plan is frozen to all individuals hired or rehired by the Company or any Affiliate thereof prior to the applicable date in the first sentence who, as of such date, were not Participants in the Plan and therefore such individuals will never become eligible to participate in the Plan.

**(b)** **Benefits Frozen — Non-Sunset Participants**. Effective January 1, 2011, the Plan is frozen with respect to any Participant who is not classified as a Sunset Participant on December 31, 2010. Any Participant who was not a Sunset Participant on December 31, 2010 shall no longer accrue any additional benefits under the Plan for periods of employment on or after January 1, 2011.

**(c)** **Benefits Frozen — Sunset Participants.**

(1) The Plan is frozen with respect to any Participant who is a Sunset Participant on December 31, 2010, but who later loses his status as a Sunset Participant, on the date such Participant loses status as a Sunset Participant.

(2) Effective January 1, 2020, the Plan is frozen for all employees including by way of example but not limitation, Sunset Participants.

**(d)** **Plan Completely Frozen — January 1, 2020**. For avoidance of doubt, no individual shall: (1) become a new Participant in the Plan after November 30, 2010 regardless of hire date or transfer date; and (2) accrue any benefits under the Plan for any period of employment on or after January 1, 2020.

**(e)** **Vesting Service Continues**. For avoidance of doubt, a Participant shall continue to receive vesting service for any period of employment on or after the applicable freeze date referenced in this Section 8.11 for purposes of determining his or her vesting under Section 4.1 and his or her eligibility to commence benefits under Section 5.2(d).”

EXHIBIT 10.11

# CATERPILLAR INC.
# SUPPLEMENTAL DEFERRED
# COMPENSATION PLAN

**(As Amended and Restated through October 18, 2010)**

**Caterpillar Inc.**
**Supplemental Deferred Compensation Plan**
**(As Amended and Restated through October 18, 2010)**

**Table of Contents**


**Page**

ARTICLE I DEFINITIONS ... 1
1.1 General ... 1
1.2 Construction ... 5
ARTICLE II ELIGIBILITY; ADOPTION BY AFFILIATES ... 5
2.1 Eligibility and Participation ... 5
2.2 Discontinuance of Participation ... 6
2.3 Resumption of Participation ... 6
2.4 Adoption by Affiliates ... 6
ARTICLE III DEFERRALS, MATCHING AND NON-ELECTIVE CONTRIBUTION CREDITS ... 7
3.1 Deferral Agreement. ... 7
3.2 Timing of Deferral Elections and Automatic Participation. ... 7
3.3 Deferrals ... 9
3.4 Matching Credits ... 9
3.5 Non-Elective Contribution Credits ... 10
3.6 Certain Deferrals and Matching Credits ... 11
3.7 Allocation Among Affiliates ... 11
3.8 Deferrals Attributable to Qualified Military Service ... 11
3.9 Additional Deferral Election Period in 2010 ... 11
ARTICLE IV VESTING ... 12
4.1 Vesting of Non-Elective Contribution Account ... 12
4.2 Vesting of All Other Accounts ... 12
ARTICLE V INVESTMENT OF ACCOUNTS ... 12
5.1 Adjustment of Accounts ... 12
5.2 Investment Direction. ... 12

**Caterpillar Inc.**
**Supplemental Deferred Compensation Plan**
**(As Amended and Restated through October 18, 2010)**

**Table of Contents**
**(continued)**

Page


5.3 Special Company Stock Fund Provisions. 14

5.4 Application to Beneficiaries 15

ARTICLE VI DISTRIBUTIONS 16

6.1 Limitation on Right to Receive Distribution 16

6.2 General Right to Receive Distribution 16

6.3 Amount of Distribution 16

6.4 Form of Distribution 16

6.5 Timing of Distribution 17

6.6 Changes in Time and Form of Distribution 17

6.7 Special Election Period for 2007 17

6.8 Default Provisions for Certain Participants Relating to 2010 Election Period 19

6.9 Payment Upon Death. 19

6.10 Payment Upon Unforeseeable Emergency. 20

6.11 Payment Upon Re-Employment 20

6.12 Withholding 20

6.13 Ban on Acceleration of Benefits 20

ARTICLE VII SPIN-OFF FROM SEIP AND DEIP 21

7.1 General 21

7.2 Amounts Spun-Off 21

7.3 Allocation and Investment of SEIP and DEIP Amounts 21

7.4 Deferral Elections 21

7.5 Distribution Elections. 22

7.6 Effective Date of Spin-Off 22

**Caterpillar Inc.**
**Supplemental Deferred Compensation Plan**
**(As Amended and Restated through October 18, 2010)**

**Table of Contents**
**(continued)**


Page

ARTICLE VIII ADMINISTRATION OF THE PLAN ... 22
8.1 General Powers and Duties ... 22
8.2 Claims Procedures ... 23

ARTICLE IX AMENDMENT ... 23
9.1 Amendment ... 23
9.2 Effect of Amendment ... 24
9.3 Termination ... 24

ARTICLE X GENERAL PROVISIONS ... 24
10.1 Participant's Rights Unsecured ... 24
10.2 No Guaranty of Benefits ... 24
10.3 No Enlargement of Employee Rights ... 24
10.4 Section 409A Compliance ... 24
10.5 Spendthrift Provision ... 24
10.6 Domestic Relations Orders ... 25
10.7 Incapacity of Recipient ... 25
10.8 Successors ... 25
10.9 Limitations on Liability ... 25
10.10 Conflicts ... 25
10.11 Overpayments ... 25

# CATERPILLAR INC.
# SUPPLEMENTAL DEFERRED COMPENSATION PLAN

## PREAMBLE

By a document executed March 21, 2007, Caterpillar Inc. (the "Company") established the Caterpillar Inc. Supplemental Deferred Compensation Plan (the "Plan"), effective January 1, 2005. The purpose of the Plan is to provide additional income deferral and investment opportunities to a select group of management or highly compensated employees who are eligible to participate in certain tax-qualified 401(k) plans sponsored by the Company. Subsequent to the establishment of the Plan, final regulations were promulgated under Section 409A of the Code, necessitating changes to the Plan retroactive to its adoption which were reflected in a document executed by the Company on December 17, 2007. The Company now desires to amend the Plan to reflect certain changes to the tax-qualified 401(k) plans sponsored by the Company. By execution of this document, the Company hereby amends and restates the Plan in its entirety generally effective as of January 1, 2011.

## ARTICLE I
## DEFINITIONS

**1.1** **General.** When a word or phrase appears in the Plan with the initial letter capitalized, and the word or phrase does not begin a sentence, the word or phrase shall generally be a term defined in this Article I. The following words and phrases used in the Plan with the initial letter capitalized shall have the meanings set forth in this Article I, unless a clearly different meaning is required by the context in which the word or phrase is used or the word or phrase is defined for a limited purpose elsewhere in the Plan document:

**(a)** **"401(k) Plan"** means either: the 401(k) Retirement Plan or the 401(k) Savings Plan depending upon which plan the Participant is eligible to make elective deferrals (without regard to the limitations of Sections 402(g) or 401(a)(17) of the Code) or to receive Company non-elective contributions as of the date the Participant's corresponding credits under this Plan are determined.

**(b)** **"401(k) Plan Compensation"** means the Base Pay and Incentive Compensation taken into account for purposes of the Company non-elective contributions under the 401(k) Plan.

**(c)** **"401(k) Retirement Plan"** means the Caterpillar 401(k) Retirement Plan, as such plan may be amended or any successor to such plan.

**(d)** **"401(k) Savings Plan"** means the Caterpillar 401(k) Savings Plan, as such plan may be amended or any successor to such plan.

**(e)** **"Adopting Affiliate"** means any Affiliate that has been authorized by the Company to adopt the Plan and which has adopted the Plan in accordance with Section 2.4. All Affiliates that adopted the Plan on or before the Effective Date and that had not terminated such adoption shall continue to be Adopting Affiliates of the Plan.

**(f)** **"Affiliate"** means a parent business that controls, or a subsidiary business that is controlled by, the Company.

**(g)** **"Base Pay"** means the base salary paid to a Participant as determined in accordance with the established pay practices of the Company and Adopting Affiliates. Base Pay shall include any lump-sum base salary adjustment and any variable base pay.

**(h)** **"BFC"** means the Benefit Funds Committee of the Company, which is the committee formed by resolution of the Board of Directors of the Company, and which has the responsibility and authority to ensure the proper operation and management of the financial aspects of the 401(k) Plan.

**(i)** **"Board"** means the Board of Directors of the Company, or any authorized committee of the Board.

**(j)** **"Code"** means the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

**(k)** **"Company"** means Caterpillar Inc., and, to the extent provided in Section 10.8 below, any successor corporation or other entity resulting from a merger or consolidation into or with the Company or a transfer or sale of substantially all of the assets of the Company.

**(l)** **"Company Stock"** means common stock issued by the Company.

**(m)** **"Company Stock Fund"** means the Investment Fund described in Section 5.3.

**(n)** **"Deferral Agreement"** means the deferral agreement(s) described in Section 3.1 that are entered into by a Participant pursuant to the Plan.

**(o)** **"DEIP"** means the Caterpillar Inc. Deferred Employees' Investment Plan, as amended.

**(p)** **"Director"** means the Company's Director of Compensation + Benefits.

**(q)** **"Disability" or "Disabled"** means that a Participant is determined to be totally disabled by the United States Social Security Administration.

**(r)** **"Distribution Election Form"** means the election form by which a Participant elects the time and manner in which his accounts shall be distributed pursuant to Sections 6.4 and 6.5. The Plan Administrator may, in his sole discretion, require two separate Distribution Election Forms for purposes of making distributions regarding the time and manner in which accounts will be distributed, respectively.

**(s)** **"Effective Date"** means January 1, 2011, except as otherwise provided herein.

**(t)** **"Eligible Pay"** means Base Pay minus any Supplemental Deferrals of Base Pay.

**(u)** **"Excess Deferral Account"** means the bookkeeping account maintained pursuant to the Plan to record amounts deferred under Section 3.3(b).

**(v)** **"Excess Deferrals"** means the deferrals allocated to a Participant's Excess Deferral Account in accordance with Section 3.3(b).

**(w)** **"Excess Matching Credit Account"** means the bookkeeping account maintained pursuant to the Plan to record the amounts credited to a Participant in accordance with Section 3.4(b).

**(x)** **"Excess Matching Credits"** means the matching credits allocated to a Participant's Excess Matching Credit Account in accordance with Section 3.4(b).

**(y)** **"ERISA"** means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any regulations promulgated thereunder.

**(z)** **"ESTIP"** means the Caterpillar Inc. Executive Short-Term Incentive Plan, as amended or any predecessor or successor to such plan.

**(aa)** **"Incentive Compensation"** means STIP Pay, LTCPP Pay and Lump-Sum Awards.

**(bb)** **"Investment Fund"** means the notional investment funds established by the terms of the Plan pursuant to Article V.

**(cc)** **"LTCPP Pay"** means the amounts designated by the Company as a cash-based performance award under the "Long-Term Cash Performance Plan" and paid pursuant to the terms of the Caterpillar Inc. 2006 Long-Term Incentive Plan (or any successor to such plan). Performance awards under the "Long-Term Cash Performance Plan" that are paid pursuant to the terms of the Caterpillar Inc. 2006 Long-Term Incentive Plan (or any successor to such plan) in the form of Company Stock are not LTCPP Pay hereunder.

**(dd)** **"Lump-Sum Award"** means the discretionary lump-sum cash awards paid to employees pursuant to the uniform and nondiscriminatory pay practices of the Company or an Affiliate, but not including any lump-sum base salary adjustment.

**(ee)** **"Maximum Matching Contribution Percentage"** means 100% if the Participant participates in the 401(k) Retirement Plan and 50% if the Participant participates in the 401(k) Savings Plan. For purposes of this Section 1.1(ee), an individual participates in a plan if such individual is eligible to make elective deferrals under such plan (without regard to the limitations of Sections 402(g) or 401(a)(17) of the Code).

**(ff)** **"NEC Eligible Pay"** means the sum of Base Pay and Incentive Compensation minus the sum of LTCPP Pay and 401(k) Plan Compensation. The Plan

Administrator shall determine NEC Eligible Pay for all Participants in a uniform and non-discriminatory manner.

**(gg)** **"Non-Elective Contribution Account"** means the bookkeeping account maintained pursuant to the Plan to record amounts credited under Section 3.5.

**(hh)** **"Non-Elective Contribution Credits"** means the non-elective contribution credits allocated to a Participant's Non-Elective Contribution Account in accordance with Section 3.5.

**(ii)** **"Participant"** means an employee of the Company or any Adopting Affiliate who satisfies the eligibility requirements for participation in the Plan and who affirmatively elects to participate in the Plan pursuant to Section 2.1, or who becomes a Participant pursuant to Section 3.2(c)(2) or Section 3.9(c).

**(jj)** **"Plan"** means the Caterpillar Inc. Supplemental Deferred Compensation Plan, as set forth herein and as it may be amended from time to time.

**(kk)** **"Plan Administrator"** means the Director.

**(ll)** **"Plan Year"** means the calendar year.

**(mm)** **"Points"** means "Points" as such term is defined under the 401(k) Plan.

**(nn)** **"Qualified Military Service"** means service by a Participant or employee in the armed forces of the United States of a character that entitles the Participant or employee to re-employment under the Uniformed Services Employment and Reemployment Rights Act of 1994, but only if the Participant or employee is re-employed during the period following such service in which his right of re-employment is protected by such Act.

**(oo)** **"SEIP"** means the Caterpillar Inc. Supplemental Employees' Investment Plan, as amended.

**(pp)** **"Separation from Service"** means separation from service as determined in accordance with any regulations, rulings or other guidance issued by the Department of the Treasury pursuant to Section 409A(a)(2)(A)(i) of the Code, as it may be amended or replaced from time to time.

**(qq)** **"Specified Employee"** means a "key employee" as defined in Section 416(i) of the Code without regard to Section 416(i)(5) and determined in accordance with Section 409A(a)(2)(B)(i) of the Code.

**(rr)** **"Supplemental Deferral Account"** means the bookkeeping account maintained pursuant to the Plan to record amounts deferred under Section 3.3(a).

**(ss)** **"Supplemental Deferrals"** means the deferrals allocated to a Participant's Supplemental Deferral Account in accordance with Section 3.3(a).

**(tt) "<u>Supplemental Matching Credit Account</u>"** means the bookkeeping account maintained pursuant to the Plan to record the amounts credited to a Participant in accordance with Section 3.4(a).

**(uu) "<u>Supplemental Matching Credits</u>"** means the matching credits allocated to a Participant's Supplemental Matching Credit Account in accordance with Section 3.4(a).

**(vv) "<u>STIP</u>"** means the Caterpillar Inc. Short-Term Incentive Plan, as amended or any successor to such plan.

**(ww) "<u>STIP Pay</u>"** means amounts paid to employees of the Company or an Adopting Affiliate pursuant to the terms of STIP and/or ESTIP.

**(xx) "<u>Unforeseeable Emergency</u>"** means a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant's spouse, or a dependent (as defined in Section 152(a) of the Code) of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. For purposes of the Plan, an "Unforeseeable Emergency" shall not include a Participant's need to send his or her child to college or a Participant's desire to purchase a home. Any determination as to whether a Participant has incurred an Unforeseeable Emergency shall be made in the sole discretion of the Plan Administrator in accordance with rules prescribed pursuant to Section 409A of the Code.

**(yy) "<u>Valuation Date</u>''** means each day of the Plan Year on which the New York Stock Exchange is open for trading.

**1.2 <u>Construction</u>.** The masculine gender, when appearing in the Plan, shall include the feminine gender (and vice versa), and the singular shall include the plural, unless the Plan clearly states to the contrary. Headings and subheadings are for the purpose of reference only and are not to be considered in the construction of the Plan. If any provision of the Plan is determined to be for any reason invalid or unenforceable, the remaining provisions shall continue in full force and effect. All of the provisions of the Plan shall be construed and enforced according to the laws of the State of Illinois without regard to conflict of law principles and shall be administered according to the laws of such state, except as otherwise required by ERISA, the Code, or other Federal law.

## ARTICLE II
## ELIGIBILITY; ADOPTION BY AFFILIATES

**2.1 <u>Eligibility and Participation</u>.** An employee shall be eligible to participate in the Plan as of the first day of the month next following the date that he (a) is in salary grade 28 or higher pursuant to the Company's standard salary grades; and (b) is eligible to make elective deferrals to either the 401(k) Retirement Plan or the 401(k) Savings Plan, provided, that, (i) for an employee first promoted to salary grade 28 or higher, clause (a) shall be satisfied after the employee's supervisor has completed all administrative requirements to effect such promotion; and (ii) clause (b) shall not apply if he had already made elective deferrals equal to or in excess of the applicable dollar amount for purposes of Section 402(g) of the Code and (if applicable) catch-up contributions equal to or in excess of the applicable dollar amount for purposes of

Sections 402(g) and 414(v)(2)(B) of the Code or he had already received compensation in excess of the applicable dollar limitation under Section 401(a)(17) of the Code, for such calendar year. Notwithstanding the foregoing, if an employee is employed in a division of the Company or by an Affiliate that does not use the Company's standard salary grades, such employee shall be eligible to participate in the Plan if he (1) is in a salary grade that is considered in all respects to be the equivalent of a salary grade 28 or higher pursuant to the Company's standard salary grades; and (2) is eligible to make elective deferrals to either the 401(k) Retirement Plan or the 401(k) Savings Plan, provided, that, clauses (1) and (2) shall be subject to the rules described in clauses (a) and (b) of this Section 2.1. The Plan Administrator shall determine in a uniform and nondiscriminatory manner whether a salary grade is equivalent for this purpose.

**2.2 Discontinuance of Participation.** The Plan Administrator shall discontinue an individual's active participation in the Plan if the individual is no longer in a salary grade of 28 or higher (or the equivalent, as described above), or no longer is eligible to make elective deferrals to either the 401(k) Retirement Plan or the 401(k) Savings Plan (other than by reason of the individual's elective deferrals during a calendar year reaching the applicable dollar limitation under Section 402(g)(1) of the Code or the individual's receiving compensation for the calendar year in excess of the applicable dollar limitation under Section 401(a)(17) of the Code). If an individual's active participation is discontinued, the individual's Deferral Agreements shall be cancelled and the individual will not be entitled to make Deferrals or to receive Matching Credits or Non-Elective Contribution Credits under the Plan. The individual will not be entitled to receive a distribution, however, until the occurrence of another event *(e.g.,* death or Separation from Service) that entitles the Participant to receive a distribution. The Participant's accounts will continue to be adjusted to reflect investment earnings or losses in accordance with Section 5.1 until the accounts are distributed.

**2.3 Resumption of Participation.** With respect to an individual whose participation in the Plan was discontinued and who subsequently meets the eligibility requirements to resume active participation in the Plan, such employee shall (1) be permitted to complete a new Deferral Agreement during the annual election period described in Section 3.1(a) in accordance with procedures established by the Plan Administrator, subject to the applicable restrictions in Sections 3.1 and 3.2, and (2) be entitled to receive Non-Elective Contribution Credits subject to Section 3.5 with respect to NEC Eligible Pay for services to be performed beginning as of the first day of the month next following the date that the individual meets the eligibility requirements to resume active participation in the Plan.

**2.4 Adoption by Affiliates.** An employee of an Affiliate may not become a Participant in the Plan unless the Affiliate has previously adopted the Plan. An Affiliate of the Company may adopt the Plan only with the approval of the Company. By adopting the Plan, the Affiliate shall be deemed to have agreed to assume the obligations and liabilities imposed upon it by the Plan, agreed to comply with all of the other terms and provisions of the Plan, delegated to the Plan Administrator (and the BFC as applicable) the power and responsibility to administer the Plan with respect to the Affiliate's employees, and delegated to the Company the full power to amend or terminate the Plan with respect to the Affiliate's employees. Notwithstanding the foregoing, an Affiliate that has previously adopted the Plan may terminate its participation in the Plan in accordance with such rules and procedures that are promulgated by the Company.

## ARTICLE III
## DEFERRALS, MATCHING AND NON-ELECTIVE CONTRIBUTION CREDITS

**3.1 Deferral Agreement.**

**(a) General.** In order to make Supplemental Deferrals and/or Excess Deferrals, a Participant must complete a Deferral Agreement in the form and during the election period prescribed by the Plan Administrator. In the Deferral Agreement, the Participant shall agree to reduce his compensation in exchange for Supplemental Deferrals and/or Excess Deferrals. The Deferral Agreement shall be delivered to the Plan Administrator by the time specified in Section 3.2. At the end of the election period prescribed by the Plan Administrator, an election made by a Participant pursuant to a Deferral Agreement shall be irrevocable with respect to the Plan Year covered by the election.

**(b) Initial Deferral Agreement.**

**(1) Deferrals Prior to March 26, 2007.** Except as otherwise provided in paragraph (b)(2) below, a Participant shall not be permitted to make Supplemental Deferrals and/or Excess Deferrals pursuant to this Plan prior to March 26, 2007.

**(2) SEIP and DEIP.** The deferral elections made pursuant to SEIP and DEIP relating to amounts to be deferred in 2007 on and after March 26, 2007 shall apply to the Plan as provided in Section 7.4.

**(c) Revocation.** The Plan Administrator shall terminate a Participant's election to make Supplemental Deferrals and/or Excess Deferrals if the Participant has made a withdrawal due to Unforeseeable Emergency as provided in Section 6.10, but only to the extent that terminating the election would help the Participant to meet the related emergency need; provided that, any such Participant shall be permitted to complete a new Deferral Agreement during the annual election period described in Section 3.l(a), subject to the applicable restrictions in this Section 3.1 and Section 3.2. Similarly, a Participant shall terminate an election to make Supplemental Deferrals and/or Excess Deferrals if such termination is required for the Participant to obtain a hardship distribution from the 401(k) Plan and permitted under Section 409A of the Code; provided that, (1) notwithstanding the foregoing, such termination shall apply only to the Participant's Supplemental Deferrals and/or Excess Deferrals that would have been made during the six-month period following receipt of the hardship distribution, and (2) following such termination, unless the Participant makes a different deferral election during the annual election period described in Section 3.l(a), the Plan Administrator shall automatically reinstate the Participant's deferral election to make Supplemental Deferrals and/or Excess Deferrals in effect immediately prior to receipt of the hardship distribution as soon as administratively practicable after the end of such six-month period.

**3.2 Timing of Deferral Elections and Automatic Participation.**

**(a) Deferral of Base Pay.** Except as provided in Section 3.2(c), Deferral Agreements that relate to the deferral of Base Pay (including Supplemental Deferrals pursuant to Section 3.3(a) and Excess Deferrals pursuant to Section 3.3(b)) shall be completed by the Participant and delivered to the Plan Administrator prior to the beginning of the Plan Year in which the Base Pay to be deferred is otherwise payable to the Participant. The Deferral Agreement will remain in effect from year-to-year until changed by the Participant in accordance with the preceding sentence. The Plan Administrator, in his discretion, may require an earlier time by which the election to defer Base Pay must be completed. Notwithstanding any provision of the Plan to the contrary, a Deferral Agreement shall also apply to Base Pay paid to a Participant after the Participant's Separation from Service but within a time period identified by the Plan Administrator in its sole discretion and in a uniform and non-discriminatory manner, which time period shall not exceed two and one-half months from the date of the Participant's Separation from Service.

**(b)** **<u>Deferral of Incentive Compensation</u>.** Deferral Agreements that relate to the deferral of Incentive Compensation shall be completed by the Participant and delivered to the Plan Administrator prior to the date that is six months before the end of the performance period to which the Incentive Compensation relates. The Deferral Agreement will remain in effect with respect to all future Incentive Compensation until changed by the Participant in accordance with the preceding sentence. The Plan Administrator, in his discretion, may require an earlier time by which the election to defer Incentive Compensation must be completed. In addition, the Plan Administrator, in his discretion, may require that Participants make separate elections for one or more different types of Incentive Compensation (*e.g.,* STIP Pay, LTCPP Pay and Lump-Sum Awards). Notwithstanding any provision of the Plan to the contrary, a Deferral Agreement shall also apply to Incentive Compensation paid to a Participant after the Participant's Separation from Service but within a time period identified by the Plan Administrator in its sole discretion and in a uniform and non-discriminatory manner, which time period shall not exceed two and one-half months from the date of the Participant's Separation from Service.

**(c)** **<u>Initial Deferral Election</u>.**

**(1)** **<u>General</u>**. For the Plan Year in which an eligible employee first becomes eligible to participate in the Plan (but only if the eligible employee has never been eligible to participate in another "account balance plan," other than a separation pay plan, of the Company or an Affiliate that is aggregated with the Plan under Section 409A of the Code), the Participant may elect to make Supplemental Deferrals and Excess Deferrals by completing and delivering a Deferral Agreement within 28 days commencing with the date the Participant first becomes eligible to participate in the Plan pursuant to Section 2.1. Any such Deferral Agreement shall take effect with respect to compensation for services to be performed beginning as of the first day of the month immediately following the date of any such election.

**(2)** **<u>Automatic Participation and Default Elections for Certain Eligible Employees</u>**. Any eligible employee described in paragraph (1) of this Section 3.2(c) who does not complete and deliver a Deferral Agreement within 28 days commencing with the date that the employee first becomes eligible to participate in the Plan pursuant to Section 2.1 will become a Participant as of the first day of the next month. Any such Participant will be eligible for Non-Elective Contribution Credits under Section 3.5 but will not make Deferrals under Section 3.3 or receive Matching Credits under Section 3.4 until such Participant makes an election in accordance with Section 3.2(a) or 3.2(b), as applicable. The investment elections and distribution elections of any such Participant shall be determined pursuant to the applicable provisions of Sections 5.2 and Article VI, respectively. The provisions of this Section shall also apply to an employee who becomes eligible to participate in the Plan from September 26, 2010 through December 31, 2010 who fails to complete and deliver a Deferral Agreement within 30 days commencing with the date the employee first becomes eligible under the terms of the Plan in effect immediately prior to January 1, 2011.

**(3)** **Re-Employment**. The provisions of this paragraph (c) permitting an eligible employee to elect to make Supplemental Deferrals and Excess Deferrals shall not apply to a Participant who: (i) incurs a Separation from Service; (ii) is subsequently re-employed by the Company or an Affiliate; and (iii) at any time during such period of re-employment meets the eligibility requirements for active participation in the Plan pursuant to Section 2.1. However, an eligible employee described in this paragraph (c) will be permitted to, within the applicable period described in this paragraph (c), make a distribution election in accordance with Article VI.

**(d)** **Deferral Elections Upon Re-Employment**. A Participant who: (1) incurs a Separation from Service; (2) is subsequently re-employed by the Company or an Affiliate; and (3) at any time during such period of re-employment meets the eligibility requirements for active participation in the Plan pursuant to Section 2.1 shall be only permitted to make a deferral election of Base Pay (including Supplemental Deferrals pursuant to Section 3.3(a) and Excess Deferrals pursuant to Section 3.3(b)) or a deferral election of Incentive Compensation during such period of re-employment by completing a Deferral Agreement in accordance with procedures established by the Plan Administrator, subject to the applicable restrictions in Section 3.1 and this Section 3.2.

**3.3** **Deferrals.**

**(a)** **Supplemental Deferrals.** Any Participant may elect to supplement the deferrals made pursuant to the 401(k) Plan by deferring, pursuant to a Deferral Agreement, the receipt of up to 70% (designated in whole percentages) of the Base Pay and/or up to 70% (designated in whole percentages) of the Incentive Compensation, otherwise payable to the Participant by the Company or an Adopting Affiliate in any Plan Year. The amount deferred pursuant to this paragraph (a) shall be allocated to the Supplemental Deferral Account maintained for the Participant.

**(b)** **Excess Deferrals.** Any Participant may elect to defer, pursuant to a Deferral Agreement, the receipt of 6% of the Eligible Pay otherwise payable to him by the Company or an Adopting Affiliate in any Plan Year. A Participant's election to receive Excess Deferrals shall only apply to the Eligible Pay not recognized in 401(k) Plan Compensation during the Plan Year. The amount deferred pursuant to this paragraph (b) shall be allocated to the Excess Deferral Account maintained for the Participant.

**3.4** **Matching Credits.** As soon as administratively practicable following the last day of each Plan Year (or more frequently in the sole discretion of the Plan Administrator), the Plan Administrator shall allocate matching credits to the Participant's accounts for that Plan Year as follows:

**(a)** **Supplemental Matching Credit.** The Supplemental Matching Credit shall be in an amount equal to: (1) 6% times the Maximum Matching Contribution Percentage of

Base Pay deferred by the Participant as Supplemental Deferrals and (2) the Maximum Matching Contribution Percentage of the STIP Pay and Lump- Sum Awards deferred by the Participant as Supplemental Deferrals (up to the a maximum deferral of 6% of the Participant's STIP Pay and Lump-Sum Awards for the Plan Year). LTCPP Pay deferred by the Participant as Supplemental Deferrals shall not be considered when determining Supplemental Matching Credits. The amount credited pursuant to this paragraph (a) shall be allocated to the Supplemental Matching Credit Account maintained for the Participant.

**(b) Excess Matching Credit.** The Excess Matching Credit shall be in an amount equal to the Maximum Matching Contribution Percentage of the Participant's Excess Deferrals. The amount credited pursuant to this paragraph (b) shall be allocated to the Excess Matching Credit Account maintained for the Participant.

**3.5 Non-Elective Contribution Credits**.

**(a) Amount and Eligibility Requirements for Non-Elective Contribution Credits.** Effective January 1, 2011, if the Participant is eligible to receive the Company non-elective contributions under the 401(k) Plan (i.e., the 3%/4%/5% non-elective contributions under the 401(k) Plan), then as soon as administratively practicable following the last day of each Plan Year (or more frequently in the sole discretion of the Plan Administrator), the Plan Administrator shall allocate non-elective contribution credits to the Participant's accounts for that Plan Year based on the Participant's Points in an amount equal to the product of the applicable percentage specified below multiplied by the Participant's NEC Eligible Pay:

| Points | Applicable Percentage |
|---|---|
| 44 or less | 3% |
| 45 to 64 | 4% |
| 65 or more | 5% |

A Participant shall only receive a Non-Elective Contribution Credit for a Plan Year if: (a) such Participant is employed by the Company or an Affiliate on the last day of the plan year for which the Company non-elective contributions are made under the 401(k) Plan and (2) such Participant is credited with a "Year of Benefit Service" (as such term is defined under the 401(k) Plan) during the Plan Year.

**(b) Non-Elective Contribution Credits Upon Re-Employment**. A Participant who: (1) incurs a Separation from Service; (2) is subsequently re-employed by the Company or an Affiliate; and (3) at any time during such period of re-employment meets the eligibility requirements for active participation in the Plan pursuant to Section 2.1 shall be entitled to receive Non-Elective Contribution Credits with respect to NEC Eligible Pay for services to be performed beginning as of the first day of the month next following the date that the individual meets the eligibility requirements to resume active participation in the Plan.

**3.6 Certain Deferrals and Matching Credits.** Supplemental Deferrals, Excess Deferrals, Supplemental Matching Credits and Excess Matching Credits allocated to Participants for the 2005, 2006 and 2007 Plan Years prior to the Spin-Off described in Article VII shall have been made initially to SEIP and DEIP but shall be transferred to this Plan and become subject hereto by virtue of such Spin-Off. For periods beginning on and after such Spin-Off, Supplemental Deferrals, Excess Deferrals, Supplemental Matching Credits and Excess Matching Credits shall be made pursuant to the terms of this Article III.

**3.7 Allocation Among Affiliates.** Each Adopting Affiliate may be required to bear the costs and expenses of providing benefits accrued by Participants that are currently or were previously employees of such Adopting Affiliate. Such costs and expenses will be allocated among the Adopting Affiliates in accordance with (a) agreements entered into between the Company and any Adopting Affiliate, or (b) in the absence of such an agreement, reasonable procedures adopted by the Company.

**3.8 Deferrals Attributable to Qualified Military Service.** An employee who was, or was eligible to become, a Participant immediately before commencing Qualified Military Service and who is re-employed following such Qualified Military Service shall, upon his returning from Qualified Military Service, have the right to elect additional Supplemental Deferrals and/or Excess Deferrals ("Additional Deferrals") in accordance with Section 3.1, over a period of time equal to the lesser of (a) three times the length of his Qualified Military Service, or (b) five years. Such Participant shall also be entitled to receive Supplemental Matching Credits and/or Excess Matching Credits ("Additional Credits") attributable to such Additional Deferrals, in accordance with Section 3.4, in the amount he would have received had such Additional Deferrals been made during his period of Qualified Military Service. All such Additional Deferrals and Additional Credits shall be deemed to have been received during the period of Qualified Military Service for purposes of applying all limitations under this Plan, but shall otherwise be subject to the terms of the Plan, including but not limited to the provisions of Section 3.1, Section 3.2, Section 3.3, and Section 3.4. For purposes of this Section 3.8, a Participant shall be deemed to have received Base Pay and Incentive Compensation during his period of Qualified Military Service based on the rate of Base Pay and Incentive Compensation he would have received had he been an employee during such period or, if such rate cannot be determined with reasonable accuracy, based on his average Base Pay and Incentive Compensation received during the 12-month period (or his entire period of employment, if shorter) immediately prior to the period of military service. The provisions of this Section 3.8 shall be interpreted and applied in accordance with Section 414(u) of the Code.

**3.9 Additional Deferral Election Period in 2010.** In anticipation of the changes to the Plan effective January 1, 2011, an additional deferral election period, as permitted by Sections 3.1 and 3.2 and as described in this Section 3.9, shall be held.

**(a) Election Period**. The election period described in this Section 3.9 shall begin on October 26, 2010 and end on November 30, 2010, unless extended to a later date by the Plan Administrator in a uniform and non-discriminatory manner. In no event, however, shall such special election period extend beyond December 31, 2010.

**(b) <u>Application of Election Period</u>.** The deferral election period described in this Section 3.9 applies to: (1) all Participants and (2) those eligible employees as of September 25, 2010 who are not yet Participants and, who as a result, have never (i) made Supplemental Deferrals or Excess Deferrals under the Plan and, thus, have never submitted Distribution Election Forms hereunder or (ii) otherwise participated in another "account balance plan" other than a separation pay plan, of the Company or an Affiliate that is aggregated with the Plan under Section 409A of the Code.

**(c) <u>Default Provisions</u>**. If an individual identified in clause (2) of paragraph (b) above fails to make a deferral election during the special election period, the applicable provisions of Section 3.2(c)(2) shall apply.

## ARTICLE IV
## VESTING

**4.1 <u>Vesting of Non-Elective Contribution Account</u>.** Subject to Section 10.1, amounts credited to or allocable to a Participant's Non-Elective Contribution Account shall become fully vested and the rights and interests therein shall not be forfeitable to the same extent that the Participant is vested in his or her Company non-elective contributions, if any, under the 401(k) Plan. To the extent any amounts are forfeited pursuant to this Section 4.1, such amounts shall be subject to restoration to the Participant's Non-Elective Contribution Account in a similar manner to which Company non-elective contributions forfeited under the 401(k) Plan are subject to restoration.

**4.2 <u>Vesting of All Other Accounts</u>**. Subject to Section 10.1, amounts credited to or allocable to a Participant's Supplemental Deferral Account, Excess Deferral Account, Supplemental Matching Credit Account, and Excess Matching Credit Account shall be fully vested at all times and the rights and interests therein shall not be forfeitable

## ARTICLE V
## INVESTMENT OF ACCOUNTS

**5.1 <u>Adjustment of Accounts</u>.** Except as otherwise provided elsewhere in the Plan, as of each Valuation Date, each Participant's accounts will be adjusted to reflect credits under Article III and the positive or negative rate of return on the Investment Funds selected by the Participant pursuant to Section 5.2(b). The rate of return will be determined by the Plan Administrator pursuant to Section 5.2(f) and will be credited or charged in accordance with policies applied uniformly to all Participants.

**5.2 <u>Investment Direction</u>.**

**(a) <u>Investment Funds</u>.** Each Participant may direct the notional investment of amounts credited to his Plan accounts in one or more of the Investment Funds. The Investment Funds shall, at all times, be notional funds that track the returns of the investment funds selected by the BFC for purposes of the 401(k) Retirement Plan and made available to 401(k) Retirement Plan participants. In addition, the Investment Funds shall, at all times, include a Company Stock Fund as described in Section 5.3. Neither the Company, each Adopting Affiliate, the Plan Administrator, the BFC, nor any other party shall have any responsibility, duty of care (whether express or implied) or liability to any Participant in regards to designation of the Investment Funds as set forth in Section 5.2(a).

**(b) Participant Directions.**

**(1) General.** Each Participant may direct that all of the amounts attributable to his accounts be invested in a single Investment Fund or may direct that whole percentage increments of his accounts be invested in such fund or funds as he shall desire in accordance with such procedures as may be established by the Plan Administrator. Unless the Plan Administrator prescribes otherwise, such procedures generally shall mirror the procedures established under the 401(k) Retirement Plan for participant investment direction.

**(2) Spin-Off from SEIP and DEIP.** Each Participant who became a Participant in the Plan as a result of the Spin-Off described in Article VII or by reason of Section 3.1(b)(2) shall be conclusively deemed to have directed the Plan Administrator to invest all of the amounts attributable to his accounts in the same manner as the Participant's accounts were invested in SEIP and/or DEIP as of the effective date of the Spin-Off and, in the absence of an affirmative direction by the Spin-Off Participant regarding future deferrals pursuant to paragraph (b)(l) above, such Participant shall be conclusively deemed to have directed the Plan Administrator to invest such deferrals in the same manner as the Participant's deferrals were directed to be invested in SEIP and/or DEIP as of the effective date of the Spin-Off. If a Participant participated in both SEIP and DEIP as of the effective date of the Spin-Off and his investment elections for future deferrals were different among plans, the Participant shall be conclusively deemed to have directed the Plan Administrator to invest future deferrals in the same manner as the Participant's deferral elections pursuant to DEIP. The Participant may change his directions at any time in accordance with the provisions of the Plan.

**(c) Changes and Intra-Fund Transfers.** Participant investment directions may be changed, and amounts may be transferred from one Investment Fund to another, in accordance with the procedures established by the Plan Administrator. The designation will remain in effect until changed by the timely submission of a new designation by the Participant.

**(d) Default Selection.** In the absence of a designation by the Participant, such Participant will be deemed to have directed the notional investment of his accounts in the Investment Fund that tracks the return of the 401(k) Retirement Plan investment fund that is designated by the BFC as the "default" investment fund for purposes of the 401(k) Retirement Plan.

**(e) Impact of Election.** The Participant's selection of Investment Funds shall serve only as a measurement of the value of the Participant's Accounts pursuant to Section 5.1 and this Section 5.2. None of the Company, the BFC, or the Plan Administrator are required to actually invest a Participant's accounts in accordance with the Participant's selections.

**(f) Investment Performance.** Accounts shall be adjusted on each Valuation Date to reflect investment gains and losses as if the accounts were invested in the Investment Funds selected by the Participants in accordance with this Section 5.2 and charged with any and all reasonable expenses as provided in paragraph (g) below. The earnings and losses determined by the Plan Administrator in good faith and in his discretion pursuant to this Section shall be binding and conclusive on the Participant, the Participant's beneficiary and all parties claiming through them,

**(g)** **Charges.** The Plan Administrator may (but is not required to) charge Participants' accounts for the reasonable expenses of administration including, but not limited to, carrying out and/or accounting for investment instructions directly related to such accounts.

**(h)** **Investment of Matching Credits**. Supplemental Matching Credits and Excess Matching Credits allocated to a Participant's Supplemental Matching Credit Account and/or Excess Matching Credit Account during the period beginning on June 1, 2009 and ending on October 14, 2010 were notionally invested in the Company Stock Fund. A Participant may diversify the Supplemental Matching Credits and/or Excess Matching Credits that were notionally invested in the Company Stock Fund as described in this Section 5.2(h) by directing the notional investment of the value of such matching credits to any other Investment Fund as permitted by Section 5.2(b)(1). If a Participant fails to diversify the value of the Supplemental Matching Credits and/or Excess Matching Credits notionally invested in the Company Stock Fund as described in this Section 5.2(h), he shall be deemed to have directed the notional investment of such matching credits in the Company Stock Fund.

**5.3** **Special Company Stock Fund Provisions.**

**(a)** **General.** A Participant's interest in the Company Stock Fund shall be expressed in whole and fractional notional units of the Company Stock Fund. The Company Stock Fund shall track an investment in Company Stock in the same manner as the 401(k) Retirement Plan's company stock fund. Accordingly, the value of the unit in the Plan's Company Stock Fund shall be the same as the value of a unit in the 401(k) plan's company stock fund. Notwithstanding the foregoing, if and to the extent that a company stock fund is no longer maintained under the 401(k) Retirement Plan, the Plan Administrator shall establish such rules and procedures as are necessary to maintain the Company Stock Fund hereunder.

**(b)** **Investment Directions.** A Participant's ability to direct investments into or out of the Company Stock Fund shall be subject to such procedures as the Plan Administrator may prescribe from time to time to assure compliance with Rule 16b-3 promulgated under Section 16(b) of the Securities Exchange Act of 1934, as amended, and other applicable requirements. Such procedures also may limit or restrict a Participant's ability to make (or modify previously made) deferral and distribution elections pursuant to Articles III and VI, respectively. In furtherance, and not in limitation, of the foregoing, to the extent a Participant acquires any interest in an equity security under the Plan for purposes of Section 16(b), the Participant shall not dispose of that interest within six months, unless specifically exempted by Section 16(b) or any rules or regulations promulgated thereunder.

**(c)** **Compliance with Securities Laws.** Any election by a Participant to hypothetically invest any amount in the Company Stock Fund, and any elections to transfer amounts from or to the Company Stock Fund to or from any other Investment Fund, shall be subject to all applicable securities law requirements, including but not limited to the last sentence of paragraph (b) above and Rule 16b-3 promulgated by the Securities Exchange Commission.

To the extent that any election violates any securities law requirement or the Company's stock trading policies and procedures, the election shall be void.

**(d) Compliance with Company Trading Policies and Procedures.** Any election by a Participant to hypothetically invest any amount in the Company Stock Fund, and any elections to transfer amounts from or to the Company Stock Fund to or from any other Investment Fund, shall be subject to all Company Stock trading policies promulgated by the Company. To the extent that any election violates any such trading policy or procedures, the election shall be void.

**5.4 Application to Beneficiaries.** Following the death of a Participant, the term "Participant" in this Article V shall refer to the Participant's beneficiary described in Section 6.9.

## ARTICLE VI
## DISTRIBUTIONS

**6.1 Limitation on Right to Receive Distribution.** A Participant shall not be entitled to receive a distribution prior to the first to occur of the following events:

**(a)** The Participant's Separation from Service, or in the case of a Participant who is a Specified Employee, the date which is six months after the Participant's Separation from Service;

**(b)** The date the Participant becomes Disabled;

**(c)** The Participant's death;

**(d)** A specified time (or pursuant to a fixed schedule) specified at the date of deferral of compensation;

**(e)** An Unforeseeable Emergency; or

**(f)** To the extent provided by the Secretary of the Treasury, a change in the ownership or effective control of the Company or an Adopting Affiliate or in the ownership of a substantial portion of the assets of the Company or an Adopting Affiliate.

This Section 6.1 restates the restrictions on distributions set forth in Section 409A of the Code and is intended to impose restrictions on distributions pursuant to the Plan accordingly. This Section 6.1 does not describe the instances in which distributions actually will be made. Rather, distributions will be made only if and when permitted both by this Section 6.1 and another provision of the Plan.

**6.2 General Right to Receive Distribution.** Following a Participant's termination of employment or death, the Participant's Plan accounts will be distributed to the Participant in the manner and at the time provided in Sections 6.4 and 6.5 or Section 6.9, as applicable. A transfer of a Participant from the Company or any Affiliate to any other Affiliate or the Company shall not be deemed to be a termination of employment for purposes of this Section 6.2.

**6.3 Amount of Distribution.** The amount distributed to a Participant shall be based on the vested amounts credited to the Participant's accounts as of the Valuation Date immediately preceding the date of the distribution. Amounts shall be valued at the fair market value on the relevant Valuation Date determined pursuant to uniform and non-discriminatory rules established by the Plan Administrator.

**6.4 Form of Distribution.** Accounts shall be distributed in cash in a single lump-sum payment or in quarterly, semi-annual or annual installments. Distributions shall be subject to such uniform rules and procedures as may be adopted by the Plan Administrator from time to time, consistent with Section 409A of the Code. The form of payment shall be selected by the Participant in the initial Distribution Election Form (which may be contained in and be a part of a Deferral Agreement) submitted by the Participant to the Plan Administrator on entry into the Plan. A Participant may change his election by filing a new Distribution Election Form with the

Plan Administrator in accordance with Section 6.6. If a revised Distribution Election Form is not honored because it was not timely filed, distributions shall be made in the form specified in the most recent valid Distribution Election Form filed by the Participant. If no valid Distribution Election Form exists, the Participant's accounts will be distributed in a single lump-sum.

**6.5** **Timing of Distribution.** Except as provided in the next sentence, funds will be distributed within an administratively reasonable period of time following the six-month anniversary of the Participant's Separation from Service. Notwithstanding the foregoing, a Participant may elect to further defer the distribution of his accounts by filing a Distribution Election with the Plan Administrator in accordance with Section 6.6. If a revised Distribution Election Form is not honored because it was not timely filed, distributions shall be made pursuant to the most recent valid Distribution Election Form filed by the Participant. If no valid Distribution Election Form exists, the Participant's accounts will be distributed in accordance with the first sentence of this Section 6.5. If a Participant's Separation from Service is caused by his death, or a Participant dies after Separation from Service, then funds will be distributed as described in Section 6.9.

**6.6** **Changes in Time and Form of Distribution.** A new Distribution Election Form that delays the time of a payment elected by a Participant or the form of payment selected by a Participant may be filed with the Plan Administrator at any time, will be subject to such uniform rules and procedures as may be adopted by the Plan Administrator from time to time, and only will be honored in accordance with the following:

**(a)** The new form will not take effect until at least 12 months after the date on which the new form is filed with the Plan Administrator; and

**(b)** The election may not be made less than 12 months prior to the date the payment is scheduled to be made, is commenced or otherwise would be made; and

**(c)** The first payment with respect to which the election is made must be deferred for a period of not less than five years from the date such payment would otherwise be made.

The provisions of this Section 6.6 are intended to comply with Section 409A(a)(4)(C) of the Code and shall be interpreted in a manner consistent with the requirements of such section and any regulations, rulings or other guidance issued pursuant thereto.

**6.7** **Special Election Period for 2007.** Pursuant to the transitional guidance issued by the Internal Revenue Service and the Department of Treasury in Section 3.02 of IRS Notice 2006-79, Participants may make distribution elections in regards to their Plan accounts in accordance with this Section 6.7.

**(a)** **Election Period.** The election period described in this Section 6.7 shall begin on April 1, 2007 and end on May 7, 2007 unless extended to a later date by the Plan Administrator in a uniform and non-discriminatory manner, in his sole discretion. In no event, however, shall such special election period extend beyond December 31, 2007.

**(b)** **Application of Election Period.** The special election period described in this Section 6.7 shall apply to Participants as provided in this paragraph (b).

**(1)** **Participants to Whom Election Period Applies.** The special election period shall only apply to the following Participants:

**(i)** **Active Participants.** Individuals who are Participants in the Plan by reason of the Spin-Off described in Article VII or by reason of Section 3.1(b)(2) and who, as of the first day of the special election period, have not incurred a Separation of Service, have not died and are not Disabled;

**(ii)** **Separated Participants.** Individuals who are Participants in the Plan by reason of the Spin-Off described in Article VII and who, as of the first day of the special election period, have incurred a Separation from Service and distributions pursuant to the Plan have not yet commenced; and

**(iii)** **Beneficiaries.** Beneficiaries described in Section 6.9 of Participants who, as of the first day of the special election period had deceased if, as of such date, distributions pursuant to the Plan have not yet commenced with respect to the Participant.

**(2)** **Participants to Whom Election Period Does Not Apply.** The special election period shall not apply to the following Participants:

**(i)** **Participants in Pay Status.** Individuals who are Participants in the Plan by reason of the Spin-Off described in Article VII and who, as of the first day of the special election period, are receiving distributions pursuant to the Plan;

**(ii)** **Other Participants.** Any other Participants not described in paragraphs (b)(l) and (b)(2)(i) of this Section 6.7; and

**(iii)** **Beneficiaries.** Any beneficiary not described in paragraph (b)(l)(iii) of this Section 6.7.

**(c)** **Default Provisions.** If a Participant to whom the special election period applies fails to make a distribution election during the special election period the following rules shall apply:

**(1)** **Active Participants.** If a Participant identified in paragraph (b)(l)(i) above fails to make an election during the special election period, the default provisions of Section 6.4 and Section 6.5 shall apply (subject to the Participant's ability to change his distribution elections pursuant to Section 6.6).

**(2)** **Separated Participants and Beneficiaries.** If a Participant identified in paragraph (b)(l)(ii) above or a beneficiary described in paragraph (b)(l)(iii) above fails to affirmatively make an election during the special election period, such individual shall be deemed to have made an election pursuant to the Plan that is identical to the distribution elections made pursuant to SEIP and/or DEIP in good faith compliance with Section 409A of the

Code (subject to the individual's ability to change his distribution elections pursuant to Section 6.6).

**(d) April 1, 2007 Commencements.** Notwithstanding anything in this Section 6.7 to the contrary, the special election period shall not apply to a Participant or beneficiary described in Section 6.9 who had previously made an election (and, therefore, for whom a default election is not in effect) pursuant to SEIP and/or DEIP whereby a lump-sum distribution or installment payments are scheduled to commence as of April 1, 2007. In the case of these Participants and beneficiaries, such lump sum distribution or installment payments shall commence as of April 1, 2007 as previously elected (i.e., in accordance with the distribution elections made pursuant to SEIP and/or DEIP in good faith compliance with Section 409A of the Code).

**6.8 Default Provisions for Certain Participants Relating to 2010 Election Period.** If an individual identified in clause (2) of Section 3.9(b) fails to complete an initial Distribution Election Form during the election period described Section 3.9, the default provisions of Section 6.4 and Section 6.5 shall apply to such individual's Plan accounts (subject to the ability to change distribution elections pursuant to Section 6.6).

**6.9 Payment Upon Death.**

**(a) Beneficiary Designation.** If a Participant should die before receiving a full distribution of his Plan accounts, distribution shall be made to the beneficiary designated by the Participant, in accordance with such uniform rules and procedures as may be adopted by the Plan Administrator from time to time. If a Participant has not designated a beneficiary, or if no designated beneficiary is living on the date of distribution, then the Participant's beneficiary shall be that person or persons entitled to receive distributions of the Participant's accounts under the 401(k) Plan.

**(b) Timing and Form of Payment to Beneficiary.**

**(1) Payments Commenced at Time of Death.** If, at the time of the Participant's death, installment payments of the Participant's accounts have commenced pursuant to this Article VI, such payments shall continue to the Participant's beneficiary in the same time and the same form as if the Participant has remained alive until the last installment payment was scheduled to be made. Notwithstanding the foregoing, a beneficiary may take a withdrawal upon an Unforeseeable Emergency pursuant to Section 6.10, applying the provisions of such Section by substituting the term "beneficiary" for "Participant."

**(2) Payments Not Commenced at Time of Death.** If, at the time of the Participant's death, payments of the Participant's accounts has not commenced pursuant to this Article VI, the distributions made pursuant to this Section 6.9 shall be made to the Participant's beneficiary in accordance with the then current and valid distribution election made by the Participant (or, in the absence of such a distribution election, in accordance with the "default" provisions of Section 6.4). If the distribution election applicable to the Participant provided for payment to commence within an administratively reasonable period of time following the six-month anniversary of the Participant's Separation from Service, this six-month anniversary shall be disregarded in the even of the Participant's death, and payments shall commence within an administratively reasonable period of time following the Participant's death. Notwithstanding the foregoing, a beneficiary may take a withdrawal upon an Unforeseeable Emergency pursuant to Section 6.10 or change the timing and form of payment pursuant to Section 6.6 applying the provisions of such Sections by substituting the term "beneficiary" for "Participant" as the context requires, thereunder.

**6.10 Payment Upon Unforeseeable Emergency.**

**(a) General.** Notwithstanding any provision of the Plan to the contrary, if a Participant incurs an Unforeseeable Emergency, the Participant may elect to make a withdrawal from the Participant's account (even after distribution of the Participants accounts has commenced pursuant to Section 6.2. A withdrawal on account of Unforeseeable Emergency may be made if, as determined under regulations of the Secretary of the Treasury, the amounts withdrawn with respect to an emergency do not exceed the amounts necessary to satisfy such emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the withdrawal, after taking into account the extent to which such hardship is or may be relieved: (1) through reimbursement or compensation by insurance or otherwise; (2) by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship; or (3) by cessation of deferrals under the Plan.

**(b) Information Required.** A Participant who wishes to receive a distribution pursuant to this Section 6.10 shall apply for such distribution to the Plan Administrator and shall provide information to the Plan Administrator reasonably necessary to permit the Plan Administrator to determine whether an Unforeseeable Emergency exists and the amount of the distribution reasonably needed to satisfy the emergency need.

**6.11 Payment Upon Re-Employment.** This Section 6.11 shall apply to an individual who incurs a Separation from Service (if, at the time of such Separation from Service, such individual is a Participant), who is subsequently re-employed by the Company or an Affiliate and with respect to whom all amounts allocated to such Participant's accounts have not been paid out at the time of re-employment. Distributions of the amounts allocated to such Participant's accounts with respect to the Participant's participation before such re-employment shall be made in accordance with the distribution elections in effect immediately prior to such re-employment without regard to any subsequent Separation from Service, subject to the other provisions of this Article VI. If, pursuant to Section 3.2(d) or Section 3.5(b), a Participant elects to make Deferrals or is eligible to receive Non-Elective Contribution Credits following such re-employment, such post re-employment Deferrals and Non-Elective Contribution Credits shall be subject to their own distribution elections made in accordance with Section 3.2(c)(3) and this Article VI.

**6.12 Withholding.** All distributions will be subject to all applicable tax and withholding requirements.

**6.13 Ban on Acceleration of Benefits.** Neither the time nor the schedule of any payment under the Plan may be accelerated except as permitted in regulations or other guidance issued by the Internal Revenue Service or the Department of the Treasury and as incorporated herein.

## ARTICLE VII
## SPIN-OFF FROM SEIP AND DEIP

**7.1 General.** In response to the enactment of Section 409A of the Code and pursuant to transitional guidance issued by the Internal Revenue Service and the Department of Treasury, deferrals and matching credits under SEIP and DEIP have been frozen and all amounts deferred and vested in those plans prior to January 1, 2005 have been "grandfathered" and thus are not subject to the requirements of Section 409A. The deferrals and matching credits made pursuant to SEIP and DEIP from January 1, 2005 through March 25, 2007, (and the earnings/losses thereon) were spun-off to the Plan as provided in this Article VII.

**7.2 Amounts Spun-Off.** All amounts credited to participant accounts in SEIP and DEIP on or after January 1, 2005 through March 25, 2007 and not fully distributed on or before April 1, 2007 were spun-off and allocated to Plan accounts, and were invested, as provided in Section 7.3. The amounts deferred prior to January 1, 2005 were determined in accordance with Q&A- 17 of IRS Notice 2005-1, proposed and final regulations, and any other applicable guidance issued by the Internal Revenue Service or the Department of Treasury.

**7.3 Allocation and Investment of SEIP and DEIP Amounts.** Amounts spun-off from SEIP and DEIP are allocated to accounts under the Plan in accordance with this Section 7.3.

**(a) SEIP.** Amounts deferred by participants under SEIP are allocated to the Participant's Excess Deferral Account in the Plan. Matching credits made by the Company under SEIP are allocated to the Participant's Excess Matching Credit Account in the Plan.

**(b) DEIP.** Amounts deferred by participants under DEIP are allocated to the Participant's Supplemental Deferral Account in the Plan. Matching credits made by the Company under DEIP are allocated to the Participant's Supplemental Matching Credit Account in the Plan.

**(c) Investments.** The amounts spun-off to the Plan in accordance with Section 7.2 are invested in accordance with Section 5.2(b)(2).

**7.4 Deferral Elections.** Deferral elections made by participants in DEIP and SEIP for amounts deferred in 2007 on and after March 26, 2007 shall apply to the Plan as provided in this Section 7.4.

**(a) SEIP.** Elections to defer Eligible Pay in 2007 under SEIP are considered Excess Deferral elections pursuant to the Plan, provided such elections otherwise comply with Section 409A of the Code and any transitional guidance issued by the Internal Revenue Service or the Department of Treasury.

**(b) DEIP.** Elections to defer Base Pay in 2007 and elections to defer Incentive Compensation paid in 2007 for any performance periods ending between July 1, 2006 and December 31, 2006 under DEIP are considered Supplemental Deferral elections pursuant to the Plan, provided such elections otherwise comply with Section 409A of the Code and any transitional guidance issued by the Internal Revenue Service or the Department of Treasury.

**(c) Investments.** The amounts deferred in accordance with this Section 7.4 are invested in accordance with Section 5.2(b)(2).

**7.5 Distribution Elections.**

**(a) Participants in Pay Status.** The distribution elections made pursuant to SEIP and/or DEIP in good faith compliance with Section 409A by the Participants identified in Section 6.7(b)(2)(i) shall continue to apply.

**(b) Other Participants.** All other individuals whom become Participants by virtue of the Spin-Off described in this Article VII shall make elections regarding the timing and form of distributions in accordance with Section 6.7.

**7.6 Effective Date of Spin-Off.** The Spin-Off described in this Article VII shall be effective as of 11:59:59 P.M. on March 25, 2007.

## ARTICLE VIII
## ADMINISTRATION OF THE PLAN

**8.1 General Powers and Duties.** The following list of powers and duties is not intended to be exhaustive, and the Plan Administrator shall, in addition, exercise such other powers and perform such other duties as he may deem advisable in the administration of the Plan, unless such powers or duties are expressly assigned to another pursuant to the provisions of the Plan.

**(a) General.** The Plan Administrator shall perform the duties and exercise the powers and discretion given to him in the Plan document and by applicable law and his decisions and actions shall be final and conclusive as to all persons affected thereby. The Company and the Adopting Affiliates shall furnish the Plan Administrator with all data and information that the Plan Administrator may reasonably require in order to perform his functions. The Plan Administrator may rely without question upon any such data or information.

**(b) Disputes.** Any and all disputes that may arise involving Participants or beneficiaries shall be referred to the Plan Administrator and his decision shall be final. Furthermore, if any question arises as to the meaning, interpretation or application of any provisions of the Plan, the decision of the Plan Administrator shall be final.

**(c) Agents.** The Plan Administrator may engage agents, including recordkeepers, to assist him and he may engage legal counsel who may be counsel for the Company. The Plan Administrator shall not be responsible for any action taken or omitted to be taken on the advice of such counsel, including written opinions or certificates of any agent, counsel, actuary or physician.

**(d) Insurance.** At the Director's request, the Company shall purchase liability insurance to cover the Director in his activities as the Plan Administrator.

**(e) Allocations.** The Plan Administrator is given specific authority to allocate responsibilities to others and to revoke such allocations. When the Plan Administrator has allocated authority pursuant to this paragraph, the Plan Administrator is not to be liable for the acts or omissions of the party to whom such responsibility has been allocated.

**(f) Records.** The Plan Administrator shall supervise the establishment and maintenance of records by its agents, the Company and each Adopting Affiliate containing all relevant data pertaining to any person affected hereby and his or her rights under the Plan.

**(g) Interpretations.** The Plan Administrator, in his sole discretion, shall interpret and construe the provisions of the Plan (and any underlying documents or policies).

**(h) Electronic Administration.** The Plan Administrator shall have the authority to employ alternative means (including, but not limited to, electronic, internet, intranet, voice response or telephonic) by which Participants may submit elections, directions and forms required for participation in, and the administration of, the Plan. If the Plan Administrator chooses to use these alternative means, any elections, directions or forms submitted in accordance with the rules and procedures promulgated by the Plan Administrator will be deemed to satisfy any provision of the Plan calling for the submission of a written election, direction or form.

**(i) Accounts.** The Plan Administrator shall combine the various accounts of a Participant if he deems such action appropriate. Furthermore, the Plan Administrator shall divide a Participant's accounts into sub-accounts if he deems such action appropriate.

**(j) Delegation.** The Plan Administrator may delegate his authority hereunder, in whole or in part, in his sole and absolute discretion.

**8.2 Claims Procedures.** Benefit claims under the Plan shall be resolved in accordance with Code Section 409A and uniform and nondiscriminatory procedures adopted by the Plan Administrator in accordance with Section 503 of ERISA.

## ARTICLE IX
## AMENDMENT

**9.1 Amendment.** The Company shall have the right at any time to amend, in whole or in part, any or all of the provisions of this Plan by action of the Board of Directors of the Company; provided, however, if the amendment does not constitute a reallocation of fiduciary duties among those designated to act under the Plan or an allocation of fiduciary duties to committees and/or persons not previously designated to act under the Plan, then the Company's Vice President, Human Services Division, shall have the authority to amend the Plan, acting in consultation with the Company's Chairman of the Board and the appropriate Group President(s) of the Company (or in consultation with the full Board of Directors if the Chairman of the Board deems it necessary and appropriate). The Company's Vice President, Human Services Division, may designate any other officer(s) of the Company as having authority to amend the Plan in the Vice President's absence, which officer shall also act in consultation with the Company's Chairman of the Board and the appropriate Group President(s) of the Company (or in consultation with the full Board of Directors if the Chairman of the Board deems it necessary and appropriate).

**9.2 Effect of Amendment.** Any amendment of the Plan shall not directly or indirectly reduce the balance of any Plan account as of the effective date of such amendment.

**9.3 Termination.** The Company expressly reserves the right to terminate the Plan. In the event of termination, the Company shall specify whether termination will change the time at which distributions are made; provided that any acceleration of a distribution is consistent with Section 409A of the Code. In the absence of such specification, the timing of distributions shall be unaffected by termination.

## ARTICLE X
## GENERAL PROVISIONS

**10.1 Participant's Rights Unsecured.** The Plan at all times shall be entirely unfunded and no provision shall at any time be made with respect to segregating any assets of the Company for payment of any distributions hereunder. The right of a Participant or his or her designated beneficiary to receive a distribution hereunder shall be an unsecured claim against the general assets of the Company, and neither the Participant nor a designated beneficiary shall have any rights in or against any specific assets of the Company. All amounts credited to a Participant's accounts hereunder shall constitute general assets of the Company and may be disposed of by the Company at such time and for such purposes as it may deem appropriate. Nothing in this Section shall preclude the Company from establishing a "Rabbi Trust," but the assets in the Rabbi Trust must be available to pay the claims of the Company's general creditors in the event of the Company's insolvency.

**10.2 No Guaranty of Benefits.** Nothing contained in the Plan shall constitute a guaranty by the Company or any other person or entity that the assets of the Company will be sufficient to pay any benefit hereunder.

**10.3 No Enlargement of Employee Rights.** No Participant shall have any right to receive a distribution from the Plan except in accordance with the terms of the Plan. Participation in the Plan shall not be construed to give any Participant the right to be retained in the service of the Company or an Adopting Affiliate.

**10.4 Section 409A Compliance.** The Company intends that the Plan meet the requirements of Section 409A of the Code and the guidance issued thereunder. The Plan shall be administered, construed and interpreted in a manner consistent with that intention.

**10.5 Spendthrift Provision.** No interest of any person or entity in, or right to receive a distribution under, the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor shall any such interest or right to receive a distribution be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including claims in bankruptcy proceedings. This Section shall not preclude arrangements for the withholding of taxes from deferrals, credits, or benefit payments, arrangements for the recovery of benefit overpayments, arrangements for the transfer of benefit rights to another plan, or arrangements for direct deposit of benefit payments to an account in a bank, savings and loan association or credit union (provided that such arrangement is not part of an arrangement constituting an assignment or alienation).

**10.6 Domestic Relations Orders.** Notwithstanding any provision of the Plan to the contrary, and to the extent permitted by law, a Participant's accounts may be assigned or alienated pursuant to a "Domestic Relations Order" (as such term is defined in Section 414(p)(1)(B) of the Code), subject to such uniform rules and procedures as may be adopted by the Plan Administrator from time to time. Any amount subject to a Domestic Relations Order shall be distributed as soon as practicable.

**10.7 Incapacity of Recipient.** If the Plan Administrator is served with a court order holding that a person entitled to a distribution under the Plan is incapable of personally receiving and giving a valid receipt for such distribution, the Plan Administrator shall postpone payment until such time as a claim therefore shall have been made by a duly appointed guardian or other legal representative of such person. The Plan Administrator is under no obligation to inquire or investigate as to the competency of any person entitled to a distribution. Any payment to an appointed guardian or other legal representative under this Section shall be a payment for the account of the incapacitated person and a complete discharge of any liability of the Company and the Plan therefor.

**10.8 Successors.** The Plan shall be binding upon the successors and assigns of the Company and upon the heirs, beneficiaries and personal representatives of the individuals who become Participants hereunder.

**10.9 Limitations on Liability.** Notwithstanding any of the preceding provisions of the Plan, neither the Plan Administrator, the Director, or the Company, nor any individual acting as the Plan Administrator's, the Director's, or the Company's employee, agent, or representative shall be liable to any Participant, former Participant, beneficiary or other person for any claim, loss, liability or expense incurred in connection with the Plan.

**10.10 Conflicts.** If any person holds a position under the Plan through which he or she is charged with making a decision about the administration of his or her own (or any immediate family member's) Plan participation, including, without limitation, decisions regarding eligibility, or account valuation, or the administration of his or her Plan investments, then such person shall be recused and the decision shall be made by the Plan Administrator. If a decision is required regarding the administration of the Plan Administrator's Plan participation, including without limitation, decisions regarding eligibility, or account valuation, or the administration of his or her Plan investments, such decision shall be made by the Company's Vice President, Human Services Division. Nothing in this Section 10.10 shall be construed to limit a Participant's or the Plan Administrator's ability to make decisions or elections with regard to his or her participation in the Plan in the same manner as other Participants.

**10.11 Overpayments**. If it is determined that a distribution under the Plan should not have been paid or should have been paid in a lesser amount, written notice thereof shall be given to the recipient of such distribution (or his legal representative) and he shall repay the amount of overpayment to the Company. If he fails to repay such amount of overpayment promptly, the Company shall arrange to recover for the Plan the amount of the overpayment by making an appropriate deduction or deductions from any future benefit payment or payments payable to that person (or his survivor or beneficiary) under the Plan or from any other benefit plan of the Company.

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)

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Profit for the period (A):[1] | **$ 2,700** | $ 895 | $ 3,557 |
| | | | |
| Determination of shares (in millions): | | | |
| Weighted average number of common shares outstanding (B) | **631.5** | 615.2 | 610.5 |
| Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price | **18.9** | 10.8 | 17.4 |
| Average common shares outstanding for fully diluted computation (C) | **650.4** | 626.0 | 627.9 |
| | | | |
| Profit per share of common stock: | | | |
| Assuming no dilution (A/B) | **$ 4.28** | $ 1.45 | $ 5.83 |
| Assuming full dilution (A/C) | **$ 4.15** | $ 1.43 | $ 5.66 |
| | | | |
| Shares outstanding as of December 31 (in millions) | **638.8** | 624.7 | 601.5 |

[1]Profit attributable to common stockholders.

EXHIBIT 12

# CATERPILLAR INC.
# AND CONSOLIDATED SUBSIDIARIES

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

### YEARS ENDED DECEMBER 31,

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Earnings [1] | $ 3,750 | $ 569 | $ 4,501 | $ 4,990 | $ 4,890 |
| Plus: Interest expense | 1,257 | 1,434 | 1,427 | 1,420 | 1,297 |
| One-third of rental expense [2] | 120 | 127 | 133 | 119 | 105 |
| Adjusted Earnings | 5,127 | 2,130 | 6,061 | 6,529 | 6,292 |
| Fixed charges: | | | | | |
| Interest expense [3] | 1,257 | 1,434 | 1,427 | 1,420 | 1,297 |
| Capitalized interest | 26 | 25 | 27 | 15 | 10 |
| One-third of rental expense [2] | 120 | 127 | 133 | 119 | 105 |
| Total fixed charges | $ 1,403 | $ 1,586 | $ 1,587 | $ 1,554 | $ 1,412 |
| Ratio of earnings to fixed charges | 3.7 | 1.3 | 3.8 | 4.2 | 4.5 |

(1) Consolidated profit before taxes
(2) Considered to be representative of interest factor in rental expense
(3) Does not include interest on income taxes and other non-third-party indebtedness

**EXHIBIT 13**

# CATERPILLAR INC.
# GENERAL AND FINANCIAL INFORMATION
# 2010

**TABLE OF CONTENTS**

Management's Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm

Consolidated Financial Statements and Notes

Five-year Financial Summary

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A)

- Overview
- 2010 Compared with 2009
- Fourth Quarter 2010 Compared with Fourth Quarter 2009
- 2009 Compared with 2008
- Glossary of Terms
- Liquidity and Capital Resources
- Critical Accounting Policies
- Global Workforce
- Other Matters
- Non-GAAP Financial Measures

Supplemental Stockholder Information

Directors and Officers

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

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

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

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

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

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

*/s/ Edward J. Rapp*
Edward J. Rapp
Group President
and Chief Financial Officer

February 22, 2011

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of results of operations, changes in stockholders' equity, and of cash flow, including pages A-5 through A-78, present fairly, in all material respects, the financial position of Caterpillar Inc. and its subsidiaries at December 31, 2010, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing on page A-3. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

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

/s/ PricewaterhouseCoopers LLP

Peoria, Illinois
February 22, 2011

**STATEMENT 1** **Caterpillar Inc.**

**Consolidated Results of Operations for the Years Ended December 31**

(Dollars in millions except per share data)

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

1 Profit attributable to common stockholders.

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

**See accompanying notes to Consolidated Financial Statements.**

**STATEMENT 2** **Caterpillar Inc.**

**Consolidated Financial Position at December 31**

(Dollars in millions)

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

**See accompanying notes to Consolidated Financial Statements.**

**STATEMENT 3** **Caterpillar Inc.**

**Changes in Consolidated Stockholders' Equity for the Years Ended December 31**

(Dollars in millions)

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

**(Continued)**

**STATEMENT 3** **Caterpillar Inc.**

**Changes in Consolidated Stockholders' Equity for the Years Ended December 31**

(Dollars in millions)

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

1 See Note 12 regarding shares issued for benefit plans.
2 See Note 6 for additional information.
3 Amount consists of $1,800 million of cash-settled purchases and $94 million of derivative contracts.
4 See Notes 23 and 24 regarding the Cat Japan share redemption.
5 Includes noncredit component of other-than-temporary impairment losses on retained interests of $(8) million, net of tax of $4 million, for the twelve months ended December 31, 2009. See Note 6 and 17 for additional information.

**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)

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

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

Non-cash activities:

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

**See accompanying notes to Consolidated Financial Statements.**

## 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, underground mining equipment, tunnel boring equipment and related parts. In addition, this line of business also includes Electro-Motive Diesel, Inc., (EMD), a manufacturer of diesel-electric locomotives, which we acquired in 2010. Also includes the design, manufacture, remanufacture, maintenance and services of rail-related products and logistics services for other companies.

(2) **Engines -** A principal line of business including the design, manufacture, marketing and sales of engines for Caterpillar machinery; electric power generation systems; marine, petroleum, construction, industrial, agricultural and other applications and related parts. Also includes remanufacturing of Caterpillar engines and a variety of Caterpillar machinery and engine components and remanufacturing services for other companies. Reciprocating engines meet power needs ranging from 10 to 21,700 horsepower (8 to over 16 000 kilowatts). Turbines range from 1,600 to 30,000 horsepower (1 200 to 22 000 kilowatts).

(3) **Financial Products -** A principal line of business consisting primarily of Caterpillar Financial Services Corporation (Cat Financial), Caterpillar Insurance Holdings Inc. (Cat Insurance) and their respective subsidiaries. Cat Financial provides a wide range of financing alternatives to customers and dealers for Caterpillar machinery and engines, Solar gas turbines as well as other equipment and marine vessels. Cat Financial also extends loans to customers and dealers. Cat Insurance provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment.

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

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

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

Machines are distributed principally through a worldwide organization of dealers (dealer network), 50 located in the United States and 138 located outside the United States. Worldwide, these dealers serve 182 countries and operate 3,475 places of business, including 1,341 dealer rental outlets. Reciprocating engines are sold principally through the dealer network and to other manufacturers for use in products manufactured by them. Some of the reciprocating engines manufactured by Perkins are also sold through a worldwide network of 142 distributors located in 183 countries. The FG Wilson branded electric power generation systems are sold through a worldwide network of 154 distributors located in 179 countries. Some of the large, medium speed reciprocating engines are also sold under the MaK brand through a worldwide network of 19 distributors located in 130 countries. Our dealers do not deal exclusively with our products; however, in most cases sales and servicing of our products are the dealers' principal business. Turbines are sold through sales forces employed by the company. At times, these employees are assisted by independent sales representatives.

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

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

**B. Basis of consolidation**

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

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

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

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

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

**C. Sales and revenue recognition**

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

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

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

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

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

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

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

- Retail (end-customer) finance revenue on finance leases and installment sale contracts is recognized over the term of the contract at a constant rate of return on the scheduled outstanding principal balance. Revenue on retail notes is recognized based on the daily balance of retail receivables outstanding and the applicable effective interest rate.

- Operating lease revenue is recorded on a straight-line basis in the period earned over the life of the contract.

- Wholesale (dealer) finance revenue on installment contracts and finance leases is recognized over the term of the contract at a constant rate of return on the scheduled outstanding principal balance. Revenue on wholesale notes is recognized based on the daily balance of wholesale receivables outstanding and the applicable effective interest rate.

- Loan origination and commitment fees are deferred and then amortized to revenue using the interest method over the life of the finance receivables.

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

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

### D. Inventories

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

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

### E. Securitized receivables

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

### F. Depreciation and amortization

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

### G. Foreign currency translation

The functional currency for most of our Machinery and Engines consolidated companies is the U.S. dollar. The functional currency for most of our Financial Products and affiliates accounted for under the equity method is the respective local currency. Gains and losses resulting from the translation of foreign currency amounts to the functional currency are included in Other income (expense) in Statement 1. Gains and losses resulting from translating assets and liabilities from the functional currency to U.S. dollars are included in Accumulated other comprehensive income (loss) in Statement 2.

### H. Derivative financial instruments

Our earnings and cash flow are subject to fluctuations due to changes in foreign currency exchange rates, interest rates and commodity prices. Our Risk Management Policy (policy) allows for the use of derivative financial instruments to prudently manage foreign currency exchange rate, interest rate, commodity price and Caterpillar stock price exposures and not for the purpose of creating speculative positions. Derivatives that we use are primarily foreign currency forward and option contracts, interest rate swaps, commodity forward and option contracts and stock repurchase contracts. All derivatives are recorded at fair value. See Note 3 for more information.

### I. Income taxes

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

### J. Estimates in financial statements

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

### K. New accounting guidance

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

In January 2010, the FASB issued new accounting guidance that requires the gross presentation of activity within the Level 3 fair value measurement roll forward and details of transfers in and out of Level 1 and 2 fair value measurements. It also clarifies existing disclosure requirements regarding the level of disaggregation of fair value measurements and disclosures on inputs. We adopted this new accounting guidance for the quarterly period ended March 31, 2010. The adoption of this guidance did not have a material impact on our financial statements. See Note 17 for additional information.

**Employers' accounting for defined benefit pension and other postretirement plans** - In September 2006, the FASB issued accounting guidance on employers' accounting for defined benefit pension and other postretirement plans. This guidance requires recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under this guidance, gains and losses, prior service costs and credits and any remaining transition amounts under previous guidance that have not yet been recognized through net periodic benefit cost are recognized in Accumulated other comprehensive income (loss), net of tax effects, until they are amortized as a component of net periodic benefit cost. Also, the measurement date – the date at which the benefit obligation and plan assets are measured – is required to be the company's fiscal year-end.

We adopted the balance sheet recognition provisions at December 31, 2006. We adopted the year-end measurement date effective January 1, 2008 using the “one measurement” approach. Under the one measurement approach, net periodic benefit cost for the period between any early measurement date and the end of the fiscal year that the measurement provisions are applied is allocated proportionately between amounts to be recognized as an adjustment of Profit employed in the business and net periodic benefit cost for the fiscal year. Previously, we used a November 30th measurement date for our U.S. pension and other postretirement benefit plans and September 30th for our non-U.S. plans. The following summarizes the effect of adopting the year-end measurement date provisions as of January 1, 2008. See Note 12 for additional information.

**Adoption of postretirement benefit year-end measurement date**

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

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

**Disclosures about derivative instruments and hedging activities** - In March 2008, the FASB issued accounting guidance on disclosures about derivative instruments and hedging activities. This guidance expands disclosures for derivative instruments by requiring entities to disclose the fair value of derivative instruments and their gains or losses in tabular format. It also requires disclosure of information about credit risk-related contingent features in derivative agreements, counterparty credit risk, and strategies and objectives for using derivative instruments. We adopted this new guidance on January 1, 2009. The adoption of this guidance did not have a material impact on our financial statements. See Note 3 for additional information.

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

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

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

**Consolidation of variable-interest entities -** In June 2009, the FASB issued accounting guidance on the consolidation of VIEs. This new guidance revises previous guidance by eliminating the exemption for qualifying special purpose entities, by establishing a new approach for determining who should consolidate a VIE and by changing when it is necessary to reassess who should consolidate a VIE. We adopted this new guidance on January 1, 2010. The adoption of this guidance resulted in the consolidation of QSPEs related to Cat Financial's asset-backed securitization program that were previously not recorded on our consolidated financial statements. The restricted assets (Receivables-finance, Long-term receivables-finance, Prepaid expenses and other current assets, and Other assets) of the consolidated QSPEs totaled $324 million at January 1, 2010. The liabilities (Accrued expenses, Long-term debt due within one year-Financial Products and Long-term debt due after one year-Financial Products) of the consolidated QSPEs totaled $327 million at January 1, 2010. See Note 6 for additional information.

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

## L. Goodwill

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

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

## M. Accumulated other comprehensive income (loss)

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

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

## N. Cash flow revision

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

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

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

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

## 2. Stock-based compensation

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

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

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

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

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

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

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

The fair value of the RSU grant was determined by reducing the stock price on the day of grant by the present value of the estimated dividends to be paid during the vesting period. The estimated dividends are based on Caterpillar's weighted-average dividend yield.

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

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

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

**TABLE I—Financial Information Related to Stock-based Compensation**

| | **2010** | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| | **Shares** | **Weighted-Average Exercise Price** | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| **Stock options/SARs activity:** | | | | | | |
| Outstanding at beginning of year | **63,082,787** | **$44.24** | 60,398,074 | $45.68 | 60,855,854 | $42.18 |
| Granted to officers and key employees[1] | **7,556,481** | **$57.85** | 6,823,227 | $22.17 | 4,886,601 | $73.20 |
| Exercised | **(12,568,232)** | **$32.83** | (3,906,785) | $28.13 | (5,006,435) | $30.04 |
| Forfeited / expired | **(188,038)** | **$43.64** | (231,729) | $38.05 | (337,946) | $46.45 |
| Outstanding at end of year | **57,882,998** | **$48.50** | 63,082,787 | $44.24 | 60,398,074 | $45.68 |
| Exercisable at year-end | **41,658,033** | **$48.23** | 48,256,847 | $43.14 | 43,083,319 | $35.81 |
| **RSUs activity:** | | | | | | |
| Outstanding at beginning of year | **4,531,545** | | 2,673,474 | | 1,253,326 | |
| Granted to officers and key employees | **1,711,771** | | 2,185,674 | | 1,490,645 | |
| Granted to outside directors | **—** | | — | | 20,878 | |
| Vested | **(1,538,047)** | | (286,413) | | (61,158) | |
| Forfeited | **(55,028)** | | (41,190) | | (30,217) | |
| Outstanding at end of year | **4,650,241** | | 4,531,545 | | 2,673,474 | |

**Stock options/SARs outstanding and exercisable:**

| | **Outstanding** | | | | **Exercisable** | | | |
|---|---|---|---|---|---|---|---|---|
| **Exercise Prices** | **# Outstanding at 12/31/10** | **Weighted-Average Remaining Contractual Life (Years)** | **Weighted-Average Exercise Price** | **Aggregate Intrinsic Value[2]** | **# Outstanding at 12/31/10** | **Weighted-Average Remaining Contractual Life (Years)** | **Weighted-Average Exercise Price** | **Aggregate Intrinsic Value[2]** |
| $22.17 - 25.36 | 8,716,831 | 6.49 | $22.96 | $616 | 3,189,844 | 3.58 | $24.32 | $221 |
| $26.03 - 29.43 | 5,614,162 | 2.23 | $27.11 | 373 | 5,614,162 | 2.23 | $27.11 | 373 |
| $38.63 - 40.64 | 9,355,978 | 3.44 | $38.65 | 514 | 9,355,978 | 3.44 | $38.65 | 514 |
| $44.90 - 57.85 | 16,257,410 | 6.47 | $51.28 | 688 | 9,244,580 | 4.42 | $46.30 | 437 |
| $63.04 - 73.20 | 17,938,617 | 5.92 | $70.22 | 420 | 14,253,469 | 5.60 | $69.45 | 344 |
| | 57,882,998 | | $48.50 | $2,611 | 41,658,033 | | $48.23 | $1,889 |

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

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

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

**TABLE II— Additional Stock-based Award Information**

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

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

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

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

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

## 3. Derivative financial instruments and risk management

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

All derivatives are recognized in Statement 2 at their fair value. On the date the derivative contract is entered, we designate the derivative as (1) a hedge of the fair value of a recognized asset or liability (fair value hedge), (2) a hedge of a forecasted transaction or the variability of cash flow to be paid (cash flow hedge), or (3) an undesignated instrument. Changes in the fair value of a derivative that is qualified, designated and highly effective as a fair value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in current earnings. Changes in the fair value of a derivative that is qualified, designated and highly effective as a cash flow hedge are recorded in Accumulated other comprehensive income (loss) (AOCI) in Statement 2 until they are reclassified to earnings in the same period or periods during which the hedged transaction affects earnings. Changes in the fair value of undesignated derivative instruments and the ineffective portion of designated derivative instruments are reported in current earnings. Cash flow from designated derivative financial instruments are classified within the same category as the item being hedged on Statement 4. Cash flow from undesignated derivative financial instruments are included in the investing category on Statement 4.

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

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

### A. Foreign currency exchange rate risk

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

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

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

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

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

### B. Interest rate risk

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

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

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

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

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

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

**C. Commodity price risk**

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

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

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

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

| Designated derivatives | Consolidated Statement of Financial Position Location | Asset (Liability) Fair Value December 31, 2010 | December 31, 2009 |
|---|---|---|---|
| Foreign exchange contracts | | | |
| Machinery and Engines | Receivables – trade and other | **$65** | $27 |
| Machinery and Engines | Long-term receivables – trade and other | **52** | 125 |
| Machinery and Engines | Accrued expenses | **(66)** | (22) |
| Machinery and Engines | Other liabilities | **(1)** | (3) |
| Interest rate contracts | | | |
| Machinery and Engines | Receivables – trade and other | **1** | 1 |
| Machinery and Engines | Accrued expenses | **—** | (1) |
| Financial Products | Receivables – trade and other | **14** | 18 |
| Financial Products | Long-term receivables – trade and other | **197** | 127 |
| Financial Products | Accrued expenses | **(18)** | (100) |
| | | **$244** | $172 |

| Undesignated derivatives | | | |
|---|---|---|---|
| Foreign exchange contracts | | | |
| Machinery and Engines | Receivables – trade and other | **$120** | $— |
| Machinery and Engines | Long-term receivables – trade and other | **—** | 66 |
| Machinery and Engines | Accrued expenses | **(46)** | — |
| Machinery and Engines | Other liabilities | **(58)** | (3) |
| Financial Products | Receivables – trade and other | **6** | 20 |
| Financial Products | Accrued expenses | **(9)** | (18) |
| Interest rate contracts | | | |
| Machinery and Engines | Accrued expenses | **(6)** | (7) |
| Financial Products | Receivables – trade and other | **—** | 1 |
| Financial Products | Long-term receivables – trade and other | **—** | 1 |
| Financial Products | Accrued expenses | **(1)** | (6) |
| Commodity contracts | | | |
| Machinery and Engines | Receivables – trade and other | **17** | 10 |
| | | **$23** | $64 |

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

**Fair Value Hedges**
**(Millions of dollars)**

| | Classification | Year ended December 31, 2010 Gains (Losses) on Derivatives | Gains (Losses) on Borrowings |
|---|---|---|---|
| Interest rate contracts | | | |
| Financial Products | Other income (expense) | **$107** | **$(98)** |
| | | **$107** | **$(98)** |

| | Classification | Year ended December 31, 2009 Gains (Losses) on Derivatives | Gains (Losses) on Borrowings |
|---|---|---|---|
| Interest rate contracts | | | |
| Machinery and Engines | Other income (expense) | $1 | $(1) |
| Financial Products | Other income (expense) | (205) | 220 |
| | | $(204) | $219 |

| Cash Flow Hedges (Millions of dollars) | **Year ended December 31, 2010** | | | |
|---|---|---|---|---|
| | | **Recognized in Earnings** | | |
| | **Recognized in AOCI - Effective Portion** | **Classification of Gains (Losses)** | **Reclassified from AOCI - Effective Portion** | **Recognized in Earnings - Ineffective Portion** |
| Foreign exchange contracts | | | | |
| Machinery and Engines | **$(72)** | Other income (expense) | **$(1)** | **$2** |
| Interest rate contracts | | | | |
| Machinery and Engines | **—** | Other income (expense) | **(3)** | **—** |
| Financial Products | **(7)** | Interest expense of Financial Products | **(49)** | **(1)[1]** |
| | **$(79)** | | **$(53)** | **$1** |

| | Year ended December 31, 2009 | | | |
|---|---|---|---|---|
| | | Recognized in Earnings | | |
| | Recognized in AOCI - Effective Portion | Classification of Gains (Losses) | Reclassified from AOCI - Effective Portion | Recognized in Earnings - Ineffective Portion |
| Foreign exchange contracts | | | | |
| Machinery and Engines | $102 | Other income (expense) | $176 | $2 |
| Interest rate contracts | | | | |
| Machinery and Engines | (30) | Other income (expense) | (3) | — |
| Financial Products | (37) | Interest expense of Financial Products | (83) | 9[1] |
| | $35 | | $90 | $11 |

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

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

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

## D. Stock repurchase risk

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

In connection with our stock repurchase program, we entered into capped call transactions ("call") with a major bank for an aggregate of 6.0 million shares. A call permits us to reduce share repurchase price volatility by providing a floor and cap on the price at which the shares can be repurchased. The floor, cap and strike prices for the calls were based upon the average purchase price paid by the bank to purchase our common stock to hedge these transactions. Each call matured and was exercised within one year after the call was established. If we exercised a call, we could elect to settle the transaction with the bank by physical settlement (paying cash and receiving shares), cash settlement (receiving a net amount of cash) or net share settlement (receiving a net amount of shares). Premiums paid were accounted for as a reduction of stockholders' equity.

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

## 4. Other income (expense)

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

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

## 5. Income taxes

**The components of profit (loss) before taxes were:**

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

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

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

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

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

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

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

The provision for income taxes for 2010 included a deferred tax charge of $90 million due to the enactment of U.S. healthcare legislation effectively making government subsidies received for Medicare equivalent prescription drug coverage taxable. Guidance on accounting for income taxes requires that the deferred tax effects of changes in laws be reflected in the financial statements in the period in which the legislation is enacted regardless of the effective date. Deferred tax assets had previously been recorded based on the liability for other postretirement benefits without regard to the tax-free subsidy. As a result of the law change, deferred tax assets were reduced to reflect the expected future income tax on the subsidy. Beginning in 2013, a cash tax cost will be incurred when the subsidies received increase taxable income.

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

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

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

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

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

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

**Deferred income tax assets and liabilities:**

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

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

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

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

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

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

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

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

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

[1] Foreign currency translation amounts are included within each line as applicable.
[2] Includes cash payment or other reduction of assets to settle liability.

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

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

The Internal Revenue Service (IRS) is currently examining U.S. tax returns for 2007 to 2009 and has completed its field examination of our tax returns for 1992 to 2006. For tax years 1992 to 1994, we expect to litigate the unagreed adjustments related to transfer pricing. In 2009, we reached a settlement with the IRS for tax years 1995 to 1999. For tax years 2000 to 2006, we are in the appeals process for unagreed adjustments primarily related to export tax benefits. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

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

## 6. Cat Financial Financing Activities

### A. Wholesale inventory receivables

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

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

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

## B. Finance receivables

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

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

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

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

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

We adopted the accounting guidance on disclosures about the credit quality of financing receivables and the allowance for credit losses as of December 31, 2010. See Note 1K for additional information. This guidance requires information to be disclosed at disaggregated levels, defined as portfolio segments and classes.

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

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

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

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

**Impaired loans and finance leases**

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

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

| | As of December 31, 2010 | | | 2010 | |
|---|---|---|---|---|---|
| (Millions of dollars) | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| **Impaired Loans and Finance Leases With No Allowance Recorded**[1] | | | | | |
| **Customer** | | | | | |
| North America | $87 | $87 | $— | $39 | $2 |
| Europe | 6 | 4 | — | 7 | — |
| Asia Pacific | 13 | 13 | — | 9 | — |
| Latin America | 3 | 3 | — | 5 | — |
| Global Power Finance | 174 | 174 | — | 92 | — |
| **Total** | $283 | $281 | $— | $152 | $2 |
| **Impaired Loans and Finance Leases With An Allowance Recorded** | | | | | |
| **Customer** | | | | | |
| North America | $191 | $185 | $44 | $271 | $11 |
| Europe | 62 | 57 | 15 | 85 | 4 |
| Asia Pacific | 27 | 27 | 7 | 40 | 3 |
| Latin America | 44 | 43 | 9 | 39 | 3 |
| Global Power Finance | 34 | 33 | 4 | 17 | — |
| **Total** | $358 | $345 | $79 | $452 | $21 |
| **Total Impaired Loans and Finance Leases** | | | | | |
| **Customer** | | | | | |
| North America | $278 | $272 | $44 | $310 | $13 |
| Europe | 68 | 61 | 15 | 92 | 4 |
| Asia Pacific | 40 | 40 | 7 | 49 | 3 |
| Latin America | 47 | 46 | 9 | 44 | 3 |
| Global Power Finance | 208 | 207 | 4 | 109 | — |
| **Total** | $641 | $626 | $79 | $604 | $23 |

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

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

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

**Non-accrual and past due loans and finance leases**

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

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

| (Millions of dollars) | 2010 |
|---|---|
| **Customer** | |
| North America | **$217** |
| Europe | **89** |
| Asia Pacific | **31** |
| Latin America | **139** |
| Global Power Finance | **163** |
| **Total** [1] | **$639** |

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

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

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

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

**Allowance for credit loss activity**

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

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

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

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

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

### Credit quality of finance receivables

The credit quality of finance receivables is reviewed on a monthly basis. Credit quality indicators include performing and non-performing. Non-performing is defined as finance receivables currently over 120 days past due and/or on non-accrual status or in bankruptcy. Finance receivables not meeting the criteria listed above are considered performing. Non-performing receivables have the highest probability for credit loss. The allowance for credit losses attributable to non-performing receivables is based on the most probable source of repayment, which is normally the liquidation of collateral. In determining collateral value, we estimate the current fair market value of the collateral and factor in credit enhancements such as additional collateral and third-party guarantees.

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

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

### D. Securitized Retail Installment Sale Contracts and Finance Leases

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

In accordance with the new consolidation accounting guidance adopted January 1, 2010, these SPEs were concluded to be VIEs. Cat Financial determined that it was the primary beneficiary based on its power to direct activities through its role as servicer and its obligation to absorb losses and right to receive benefits and therefore consolidated the entities using the carrying amounts of the SPEs' assets and liabilities.

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

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

During 2008, Cat Financial sold certain finance receivables relating to retail installment sale contracts and finance leases to SPEs as part of their asset-backed securitization program. Net gains of $12 million were recorded in Revenues of Financial Products in Statement 1 and were based on the estimated fair value of the assets sold and retained and liabilities incurred, net of transaction costs. Subordinated retained interests included certificates with an initial fair value of $27 million, an interest in certain future cash flows (excess) with an initial fair value of $8 million and a reserve account with an initial fair value of $9 million.

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

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

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

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

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

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

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

| **Cash flows from retail securitizations:** **(Millions of dollars)** | Years ended December 31, 2009 | Years ended December 31, 2008 |
|---|---|---|
| Cash proceeds from initial sales of receivables | $— | $600 |
| Purchases of contracts through clean-up calls | 95 | 81 |
| Servicing fees received | 6 | 12 |
| Other cash flows received on retained interests | 10 | 25 |

| **Characteristics of securitized retail receivables:** | Years ended December 31, 2009 | Years ended December 31, 2008 |
|---|---|---|
| Total securitized principal balance at December 31, | $346 | $909 |
| Average securitized principal balance for the year ended December 31, | 583 | 1,147 |
| Loans > 30 days past due at year ended December 31, | 62 | 98 |
| Net credit losses during the year | 36 | 23 |

## E. Sales and Servicing of Trade Receivables

Our Machinery and Engines operations generate trade receivables from the sale of inventory to dealers and customers. Certain of these receivables are sold to Cat Financial.

During 2009 and 2008, Cat Financial sold interests in a certain pool of trade receivables through a revolving structure to third-party commercial paper conduits, which are asset-backed commercial paper issuers that are special purpose entities (SPEs) of the sponsor bank and are not consolidated by Cat Financial. Cat Financial services the sold trade receivables and receives an annual servicing fee of approximately 0.5 percent of the average outstanding principal balance. Consolidated expenses of $4 million and $10 million related to the sale of trade receivables were recognized during 2009 and 2008, respectively, and are included in Other income (expense) in Statement 1.

As of December 31, 2010 and 2009, there were no outstanding trade receivables sold to the third-party commercial paper conduits. As of December 31, 2008, the outstanding principal balance of the sold trade receivables was $240 million. Cat Financial's remaining interest in the pool of trade receivables as of December 31, 2008 of $1,432 million is included in Receivables-trade and other in Statement 2.

The cash collections from this pool of trade receivables are first applied to satisfy any obligations of Cat Financial to the third-party commercial paper conduits. The third-party commercial paper conduits have no recourse to Cat Financial's assets, other than the remaining interest, for failure of debtors to pay when due.

| **Cash flows from sale of trade receivables:** | | |
|---|---|---|
| | Years ended December 31, | |
| **(Millions of dollars)** | 2009 | 2008 |
| Cash proceeds from sales of receivables to the conduits | $887 | $1,510 |
| Servicing fees received | $1 | $1 |
| Cash flows received on the interests that continue to be held | $7,548 | $11,270 |

## 7. Inventories

Inventories (principally using the LIFO method) are comprised of the following:

| | December 31, | | |
|---|---|---|---|
| **(Millions of dollars)** | **2010** | 2009 | 2008 |
| Raw materials | **$2,766** | $1,979 | $2,678 |
| Work-in-process | **1,483** | 656 | 1,508 |
| Finished goods | **5,098** | 3,465 | 4,316 |
| Supplies | **240** | 260 | 279 |
| Total inventories | **$9,587** | $6,360 | $8,781 |

We had long-term material purchase obligations of approximately $927 million at December 31, 2010.

During 2009 inventory quantities were reduced. This reduction resulted in a liquidation of LIFO inventory layers carried at lower costs prevailing in prior years as compared with current costs. In 2009, the effect of this reduction of inventory decreased Cost of goods sold in Statement 1 by approximately $300 million and increased Profit by approximately $240 million or $0.39 per share. There were no significant LIFO liquidations during 2010 or 2008.

## 8. Property, plant and equipment

| | | December 31, | | |
|---|---|---|---|---|
| **(Millions of dollars)** | Useful Lives (Years) | **2010** | 2009 | 2008 |
| Land | — | **$682** | $639 | $575 |
| Buildings and land improvements | 20-45 | **5,174** | 4,914 | 4,647 |
| Machinery, equipment and other | 3-10 | **13,414** | 12,917 | 12,173 |
| Equipment leased to others | 1-10 | **4,444** | 4,717 | 4,561 |
| Construction-in-process | — | **1,192** | 1,034 | 1,531 |
| Total property, plant and equipment, at cost | | **24,906** | 24,221 | 23,487 |
| Less: Accumulated depreciation | | **(12,367)** | (11,835) | (10,963) |
| Property, plant and equipment—net | | **$12,539** | $12,386 | $12,524 |

We had commitments for the purchase or construction of capital assets of approximately $593 million at December 31, 2010.

| **Assets recorded under capital leases [1]:** | | | |
|---|---|---|---|
| | December 31, | | |
| **(Millions of dollars)** | **2010** | 2009 | 2008 |
| Gross capital leases [2] | **$251** | $493 | $565 |
| Less: Accumulated depreciation | **(134)** | (258) | (221) |
| Net capital leases | **$117** | $235 | $344 |

[1] Included in Property, plant and equipment table above.
[2] Consists primarily of machinery and equipment.

At December 31, 2010, scheduled minimum rental payments on assets recorded under capital leases were:

| (Millions of dollars) | | | | | |
|---|---|---|---|---|---|
| 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter |
| $54 | $26 | $14 | $8 | $5 | $28 |

| Equipment leased to others (primarily by Cat Financial): | | | |
|---|---|---|---|
| | December 31, | | |
| (Millions of dollars) | **2010** | 2009 | 2008 |
| Equipment leased to others—at original cost | **$4,444** | $4,717 | $4,561 |
| Less: Accumulated depreciation | **(1,533)** | (1,616) | (1,416) |
| Equipment leased to others—net | **$2,911** | $3,101 | $3,145 |

At December 31, 2010, scheduled minimum rental payments to be received for equipment leased to others were:

| (Millions of dollars) | | | | | |
|---|---|---|---|---|---|
| 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter |
| $735 | $477 | $298 | $146 | $55 | $32 |

## 9. Investments in unconsolidated affiliated companies

Our investments in affiliated companies accounted for by the equity method have historically consisted primarily of a 50 percent interest in Shin Caterpillar Mitsubishi Ltd. (SCM) located in Japan. On August 1, 2008, SCM redeemed half of Mitsubishi Heavy Industries Ltd.'s (MHI's) shares in SCM. As a result, Caterpillar now owns 67 percent of the renamed entity, Caterpillar Japan Ltd. (Cat Japan) and consolidates its financial statements. See Note 23 for additional information. In February 2008, we sold our 23 percent equity investment in A.S.V. Inc. (ASV) resulting in a $60 million pretax gain, recognized in Other income (expense) in Statement 1. Accordingly, the financial position and equity investment amounts noted below do not include ASV or Cat Japan.

Combined financial information of the unconsolidated affiliated companies accounted for by the equity method (generally on a lag of 3 months or less) was as follows:

| Results of Operations of unconsolidated affiliated companies: | | | |
|---|---|---|---|
| | Years ended December 31, | | |
| (Millions of dollars) | **2010** | 2009 | 2008 |
| Results of Operations: | | | |
| Sales | **$812** | $569 | $3,727 |
| Cost of sales | **627** | 434 | 3,082 |
| Gross profit | **$185** | $135 | $645 |
| Profit (loss) | **$(36)** | $(39) | $55 |

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

**Financial Position of unconsolidated affiliated companies:**

| (Millions of dollars) | December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| Financial Position: | | | |
| Assets: | | | |
| Current assets | **$414** | $223 | $209 |
| Property, plant and equipment—net | **196** | 219 | 227 |
| Other assets | **39** | 5 | 26 |
| | **649** | 447 | 462 |
| Liabilities: | | | |
| Current liabilities | **274** | 250 | 173 |
| Long-term debt due after one year | **72** | 41 | 110 |
| Other liabilities | **40** | 17 | 35 |
| | **386** | 308 | 318 |
| Equity | **$263** | $139 | $144 |

**Caterpillar's investments in unconsolidated affiliated companies:**

| (Millions of dollars) | December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| Investments in equity method companies | **$135** | $70 | $66 |
| Plus: Investments in cost method companies | **29** | 35 | 28 |
| Total investments in unconsolidated affiliated companies | **$164** | $105 | $94 |

At December 31, 2010, consolidated Profit employed in the business in Statement 2 included no net undistributed profits of the unconsolidated affiliated companies.

## 10. Intangible assets and goodwill

### A. Intangible assets

Intangible assets are comprised of the following:

| (Millions of dollars) | Weighted Amortizable Life (Years) | December 31, 2010 Gross Carrying Amount | Accumulated Amortization | Net |
|---|---|---|---|---|
| Customer relationships | 17 | **$630** | **$(108)** | **$522** |
| Intellectual property | 9 | **306** | **(166)** | **140** |
| Other | 13 | **197** | **(72)** | **125** |
| Total finite-lived intangible assets | 14 | **1,133** | **(346)** | **787** |
| Indefinite-lived intangible assets - In-process research & development | | **18** | **-** | **18** |
| Total intangible assets | | **$1,151** | **$(346)** | **$805** |

| (Millions of dollars) | Weighted Amortizable Life (Years) | December 31, 2009 Gross Carrying Amount | Accumulated Amortization | Net |
|---|---|---|---|---|
| Customer relationships | 18 | $396 | $(75) | $321 |
| Intellectual property | 10 | 211 | (143) | 68 |
| Other | 11 | 130 | (54) | 76 |
| Total intangible assets | 15 | $737 | $(272) | $465 |

| (Millions of dollars) | Weighted Amortizable Life (Years) | December 31, 2008 Gross Carrying Amount | Accumulated Amortization | Net |
|---|---|---|---|---|
| Customer relationships | 18 | $388 | $(50) | $338 |
| Intellectual property | 10 | 210 | (122) | 88 |
| Other | 11 | 122 | (37) | 85 |
| Total intangible assets | 15 | $720 | $(209) | $511 |

During 2010, we acquired finite-lived intangible assets aggregating $409 million primarily due to purchases of Electro-Motive Diesel, Inc. (EMD) ($329 million), GE Transportation's Inspection Products business ($28 million), JCS Company, Ltd. (JCS) ($12 million) and FCM Rail Ltd. (FCM) ($10 million). Also, associated with the purchase of EMD, we acquired $18 million of indefinite-lived intangible assets. See Note 23 for details on these business combinations.

During 2008, the Cat Japan share redemption resulted in additional finite-lived intangible assets of $54 million. In 2008, we acquired finite-lived intangible assets of $17 million due to the purchase of Lovat Inc. See Note 23 for details on these business combinations. Also in 2008, we acquired finite-lived intangible assets of $32 million from other acquisitions.

Finite-lived intangible assets are amortized over their estimated useful lives and tested for impairment if events or changes in circumstances indicate that the asset may be impaired. Indefinite-lived intangible assets are tested for impairment at least annually.

Amortization expense related to intangible assets was $76 million, $61 million and $61 million for 2010, 2009 and 2008, respectively.

Amortization expense related to intangible assets is expected to be:

| (Millions of dollars) 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter |
|---|---|---|---|---|---|
| $86 | $80 | $73 | $69 | $63 | $434 |

## B. Goodwill

During 2010, we acquired net assets with related goodwill of $286 million as part of the purchase of EMD. In 2010, we also acquired net assets with related goodwill as part of the purchases of FCM ($17 million), GE Transportation's Inspection Products business ($15 million), JCS ($8 million) and other acquisitions ($8 million). See Note 23 for details on the acquisition of these assets.

During 2008, the Cat Japan share redemption resulted in $206 million of goodwill. In 2008, we also acquired net assets with related goodwill as part of the purchase of Gremada Industries, Inc. ($41 million) and Lovat Inc. ($22 million). See Note 23 for details on these business combinations. Also during 2008, we acquired net assets with related goodwill of $8 million from other acquisitions.

See Note 1L regarding the accounting policy for goodwill and impairment testing. No goodwill was impaired or disposed of during 2010 or 2008.

The 2009 annual impairment test, completed in the fourth quarter, indicated the fair value of each of our reporting units was well above its respective carrying value with the exception of our Forest Products reporting unit, included in the All Other category. Because the carrying value of Forest Products exceeded its fair value, step two in the impairment test process was required. We allocated the fair value to the unit's assets and liabilities and determined the implied fair value of the goodwill was insignificant. Accordingly, a goodwill impairment charge of $22 million for Forest Products was recognized in Other operating (income) expense in Statement 1. The primary factor contributing to the impairment was the historic decline in demand for purpose built forest product machines caused by the significant reduction in U.S. housing construction, lower prices for pulp, paper, and wood product commodities, and reduced capital availability in the forest products industry.

The changes in carrying amount of goodwill by reportable segment for the years ended December 31, 2010, 2009 and 2008 were as follows:

| (Millions of dollars) | Building Construction Products | Cat Japan | Core Components | Earthmoving | Electric Power |
|---|---|---|---|---|---|
| Balance at January 1, 2008 | $4 | $— | $— | $43 | $203 |
| Business combinations | — | 206 | — | — | — |
| Other adjustments[2] | — | 27 | — | — | — |
| Balance at December 31, 2008 | 4 | 233 | — | 43 | 203 |
| Impairments | — | — | — | — | — |
| Other adjustments[2] | — | 23 | — | — | — |
| Balance at December 31, 2009 | 4 | 256 | — | 43 | 203 |
| **Business combinations** | **—** | **—** | **8** | **—** | **—** |
| **Other adjustments[2]** | **—** | **10** | **1** | **—** | **—** |
| **Balance at December 31, 2010** | **$4** | **$266** | **$9** | **$43** | **$203** |

| | Excavation | Large Power Systems | Marine & Petroleum Power | Mining | All Other[1] | Consolidated Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2008 | $39 | $569 | $60 | $8 | $1,037 | $1,963 |
| Business combinations | — | — | — | 22 | 49 | 277 |
| Other adjustments[2] | — | — | — | (3) | (3) | 21 |
| Balance at December 31, 2008 | 39 | 569 | 60 | 27 | 1,083 | 2,261 |
| Impairments | — | — | — | — | (22) | (22) |
| Other adjustments[2] | — | — | — | 3 | 4 | 30 |
| Balance at December 31, 2009 | 39 | 569 | 60 | 30 | 1,065 | 2,269 |
| **Business combinations** | **—** | **—** | **—** | **—** | **326** | **334** |
| **Other adjustments[2]** | **—** | **—** | **—** | **1** | **(1)** | **11** |
| **Balance at December 31, 2010** | **$39** | **$569** | **$60** | **$31** | **$1,390** | **$2,614** |

1 Includes all other operating segments (See Note 22).

2 Other adjustments are comprised primarily of foreign currency translation.

## 11. Available-for-sale securities

We have investments in certain debt and equity securities, primarily at Cat Insurance, that have been classified as available-for-sale and recorded at fair value based upon quoted market prices. These fair values are primarily included in Other assets in Statement 2. Unrealized gains and losses arising from the revaluation of available-for-sale securities are included, net of applicable deferred income taxes, in equity (Accumulated other comprehensive income (loss) in Statement 2). Realized gains and losses on sales of investments are generally determined using the FIFO (first-in, first-out) method for debt instruments and the specific identification method for equity securities. Realized gains and losses are included in Other income (expense) in Statement 1.

Effective April 1, 2009, we adopted the new accounting and disclosure requirements regarding recognition and presentation of other-than-temporary impairments. See Note 1K for additional information.

| (Millions of dollars) | **December 31, 2010** Cost Basis | Unrealized Pretax Net Gains (Losses) | Fair Value | December 31, 2009 Cost Basis | Unrealized Pretax Net Gains (Losses) | Fair Value | December 31, 2008 Cost Basis | Unrealized Pretax Net Gains (Losses) | Fair Value |
|---|---|---|---|---|---|---|---|---|---|
| **Government debt** | | | | | | | | | |
| U.S. treasury bonds | **$12** | **$—** | **$12** | $14 | $— | $14 | $14 | $1 | $15 |
| Other U.S. and non-U.S. government bonds | **76** | **1** | **77** | 65 | — | 65 | 15 | (1) | 14 |
| **Corporate bonds** | | | | | | | | | |
| Corporate bonds | **481** | **30** | **511** | 455 | 20 | 475 | 343 | (22) | 321 |
| Asset-backed securities | **136** | **—** | **136** | 141 | (7) | 134 | 165 | (27) | 138 |
| **Mortgage-backed debt securities** | | | | | | | | | |
| U.S. governmental agency mortgage-backed securities | **258** | **15** | **273** | 295 | 13 | 308 | 319 | 5 | 324 |
| Residential mortgage-backed securities | **43** | **(3)** | **40** | 61 | (10) | 51 | 79 | (19) | 60 |
| Commercial mortgage-backed securities | **164** | **4** | **168** | 175 | (13) | 162 | 176 | (47) | 129 |
| **Equity securities** | | | | | | | | | |
| Large capitalization value | **100** | **22** | **122** | 76 | 13 | 89 | 126 | (13) | 113 |
| Smaller company growth | **23** | **8** | **31** | 19 | 5 | 24 | 20 | (2) | 18 |
| Total | **$1,293** | **$77** | **$1,370** | $1,301 | $21 | $1,322 | $1,257 | $(125) | $1,132 |

During 2010, 2009 and 2008, charges for other-than-temporary declines in the market values of securities were $3 million, $12 million and $37 million, respectively. These charges were accounted for as a realized loss and were included in Other income (expense) in Statement 1. The cost basis of the impacted securities was adjusted to reflect these charges.

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

| | **December 31, 2010** | | | | | |
|---|---|---|---|---|---|---|
| | **Less than 12 months [1]** | | **12 months or more [1]** | | **Total** | |
| **(Millions of dollars)** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| **Government debt** | | | | | | |
| Other U.S. and non-U.S. government bonds | **$13** | **$—** | **$3** | **$—** | **$16** | **$—** |
| **Corporate bonds** | | | | | | |
| Corporate bonds | **29** | **—** | **1** | **—** | **30** | **—** |
| Asset-backed securities | **19** | **—** | **19** | **4** | **38** | **4** |
| **Mortgage-backed debt securities** | | | | | | |
| U.S. governmental agency mortgage-backed securities | **16** | **—** | **—** | **—** | **16** | **—** |
| Residential mortgage-backed securities | **2** | **—** | **25** | **4** | **27** | **4** |
| Commercial mortgage-backed securities | **3** | **—** | **14** | **1** | **17** | **1** |
| **Equity securities** | | | | | | |
| Large capitalization value | **14** | **1** | **12** | **2** | **26** | **3** |
| Smaller company growth | **3** | **—** | **1** | **—** | **4** | **—** |
| Total | **$99** | **$1** | **$75** | **$11** | **$174** | **$12** |

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

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

| (Millions of dollars) | December 31, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months [1] | | 12 months or more [1] | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **Government debt** | | | | | | |
| U.S. treasury bonds | $4 | $— | $— | $— | $4 | $— |
| Other U.S. and non-U.S. government bonds | 14 | — | 2 | — | 16 | — |
| **Corporate bonds** | | | | | | |
| Corporate bonds | 25 | — | 10 | 1 | 35 | 1 |
| Asset-backed securities | 4 | 1 | 44 | 10 | 48 | 11 |
| **Mortgage-backed debt securities** | | | | | | |
| U.S. governmental agency mortgage-backed securities | — | — | 3 | — | 3 | — |
| Residential mortgage-backed securities | — | — | 49 | 10 | 49 | 10 |
| Commercial mortgage-backed securities | 24 | — | 73 | 14 | 97 | 14 |
| **Equity securities** | | | | | | |
| Large capitalization value | 2 | — | 23 | 3 | 25 | 3 |
| Smaller company growth | 1 | — | 2 | — | 3 | — |
| Total | $74 | $1 | $206 | $38 | $280 | $39 |

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

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

| (Millions of dollars) | December 31, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months [1] | | 12 months or more [1] | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **Government debt** | | | | | | |
| Other U.S. and non-U.S. government bonds | $— | $— | $8 | $1 | $8 | $1 |
| **Corporate bonds** | | | | | | |
| Corporate bonds | 176 | 18 | 33 | 5 | 209 | 23 |
| Asset-backed securities | 101 | 16 | 30 | 11 | 131 | 27 |
| **Mortgage-backed debt securities** | | | | | | |
| U.S. governmental agency mortgage-backed securities | 7 | — | 19 | 1 | 26 | 1 |
| Residential mortgage-backed securities | 32 | 6 | 27 | 14 | 59 | 20 |
| Commercial mortgage-backed securities | 71 | 15 | 59 | 32 | 130 | 47 |
| **Equity securities** | | | | | | |
| Large capitalization value | 60 | 13 | 5 | 2 | 65 | 15 |
| Smaller company growth | 7 | 2 | — | — | 7 | 2 |
| Total | $454 | $70 | $181 | $66 | $635 | $136 |

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

**Government Debt.** The unrealized losses on our investments in other U.S. and non-U.S. government bonds are the result of changes in interest rates since time of purchase. We do not intend to sell the investments and it is not likely that we will be required to sell these investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of December 31, 2010.

**Corporate Bonds.** The unrealized losses on our investments in corporate bonds and asset-backed securities relate primarily to changes in interest rates and credit-related yield spreads since time of purchase. We do not intend to sell the investments and it is not likely that we will be required to sell the investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of December 31, 2010.

**Mortgage-Backed Debt Securities.** The unrealized losses on our investments in mortgage-backed securities and mortgage-related asset-backed securities relate primarily to the continuation of elevated housing delinquencies and default rates, credit-related yield spreads and risk aversion. We do not intend to sell the investments and it is not likely that we will be required to sell these investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of December 31, 2010.

**Equity Securities.** Cat Insurance maintains a well-diversified equity portfolio consisting of two specific mandates: large capitalization value stocks and smaller company growth stocks. U.S. equity valuations were generally higher in 2010 due to improved corporate earnings and the improving U.S. and global economies. In each case where unrealized losses exist, the respective company's management is taking corrective action in order to increase shareholder value. We do not consider these investments to be other-than-temporarily impaired as of December 31, 2010.

The fair value of the available-for-sale debt securities at December 31, 2010, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay and creditors may have the right to call obligations.

| **(Millions of dollars)** | **Fair Value** |
|---|---|
| Due in one year or less | $75 |
| Due after one year through five years | $428 |
| Due after five years through ten years | $230 |
| Due after ten years | $484 |

Proceeds from sale of available-for-sale securities during 2010, 2009 and 2008 were $228 million, $291 million and $357 million, respectively. Gross gains of $10 million, $9 million and $17 million and gross losses of $1 million, $10 million and $23 million have been included in current earnings as a result of these sales for 2010, 2009 and 2008, respectively.

## 12. Postemployment benefit plans

We have both U.S. and non-U.S. pension plans covering substantially all of our U.S. employees and a portion of our non-U.S. employees, primarily in our European and Japanese facilities. Our defined benefit plans provide a benefit based on years of service and/or the employee's average earnings near retirement. Our defined contribution plans allow employees to contribute a portion of their salary to help save for retirement, and in certain cases, we provide a matching contribution. We also have defined-benefit retirement health care and life insurance plans covering substantially all of our U.S. employees.

As discussed in Note 1K, we adopted the balance sheet recognition provisions of the guidance on employers' accounting for defined benefit pension and other postretirement plans at December 31, 2006, and adopted the year-end measurement date effective January 1, 2008 using the “one measurement” approach. Under the one measurement approach, net periodic benefit cost for the period between any early measurement date and the end of the fiscal year that the measurement provisions are applied is allocated proportionately between amounts to be recognized as an adjustment of Profit employed in the business and net periodic benefit cost for the fiscal year. Previously, we used a November 30th measurement date for our U.S. pension and other postretirement benefit plans and September 30th for our non-U.S. plans. Year-end asset and obligation amounts are disclosed as of the plan measurement dates.

As discussed in Note 25, during 2009 voluntary and involuntary separation programs impacted employees participating in certain U.S. and non-U.S. pension and other postretirement benefit plans. Due to the significance of these events, certain plans were re-measured as follows:

> *U.S. Separation Programs* – Plan re-measurements as of January 31, 2009, March 31, 2009 and December 31, 2009 resulted in net curtailment losses of $127 million to pension and $55 million to other postretirement benefit plans. Early retirement pension benefit costs of $6 million were also recognized.
>
> *Non-U.S. Separation Programs* – Certain plans were re-measured as of March 31, 2009 and December 31, 2009, resulting in pension settlement losses of $34 million, special termination benefits of $2 million to pension and curtailment losses of $1 million to other postretirement benefit plans.

In March 2009, we amended our U.S. support and management other postretirement benefit plan. Beginning in 2010, certain retirees age 65 and older enrolled in individual health plans that work with Medicare and will no longer participate in a Caterpillar-sponsored group health plan. In addition, Caterpillar began funding a tax-advantaged Health Reimbursement Arrangement (HRA) to assist the retirees with medical expenses. The plan amendment required a plan re-measurement as of March 31, 2009, which resulted in a decrease in our Liability for postretirement benefits of $432 million and an increase in Accumulated other comprehensive income (loss) of $272 million, net of tax. The plan was further amended in December 2009 to define the HRA benefit that active employees will receive once they are retired and reach age 65. The plan was re-measured at year-end 2009 and the December amendment resulted in a decrease in our Liability for postretirement benefits of $101 million and an increase in Accumulated other comprehensive income (loss) of $64 million, net of tax. These decreases will be amortized into earnings on a straight-line basis over approximately 7 years, the average remaining service period of active employees in the plan. The amendments reduced other postretirement benefits expense by approximately $110 million and $60 million in 2010 and 2009, respectively.

In August 2010, we announced changes in our U.S. support and management pension plans. Beginning January 1, 2011, retirement benefits for U.S. support and management employees will transition from defined benefit pension plans to defined contribution plans. The transition date is determined for each employee based upon age and years of service or proximity to retirement. Pension benefit accruals will freeze on either December 31, 2010 or December 31, 2019 at which time the employees will move to the new retirement benefit. This benefit will provide employees with a frozen pension benefit and a 401(k) plan that will include a matching contribution and a new annual employer contribution. The plan change required a re-measurement as of August 31, 2010, which resulted in an increase in our Liability for postretirement benefits of $1.32 billion and a decrease in Accumulated other comprehensive income (loss) of $831 million, net of tax. The increase in the liability was due to a decline in the discount rate and lower than expected asset returns at the re-measurement date. Curtailment expense of $28 million was also recognized in 2010 as a result of the plan change.

In March 2010, the Patient Protection and Affordable Care Act (the PPACA) and the Health Care and Education Reconciliation Act of 2010 (H.R. 4872) which amends certain provisions of the PPACA were signed into law. As discussed in Note 5, the Medicare Part D retiree drug subsidies effectively become taxable beginning in 2013.

## A. Benefit Obligations

| | U.S. Pension Benefits | | | Non-U.S. Pension Benefits | | | Other Postretirement Benefits | | |
|---|---|---|---|---|---|---|---|---|---|
| (Millions of dollars) | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 |
| **Change in benefit obligation:** | | | | | | | | | |
| Benefit obligation, beginning of year | **$12,064** | $11,493 | $11,132 | **$3,542** | $3,219 | $3,012 | **$4,537** | $5,017 | $5,455 |
| Effect of eliminating early measurement date[1] | **N/A** | N/A | 11 | **N/A** | N/A | 26 | **N/A** | N/A | — |
| Service cost | **210** | 176 | 199 | **92** | 86 | 92 | **68** | 70 | 87 |
| Interest cost | **652** | 688 | 629 | **162** | 146 | 156 | **245** | 280 | 307 |
| Plan amendments | **4** | — | 13 | **35** | — | — | **—** | (549) | — |
| Actuarial losses (gains) | **1,140** | 380 | 222 | **153** | 45 | (18) | **602** | (58) | (522) |
| Foreign currency exchange rates | **—** | — | — | **34** | 322 | (534) | **14** | 29 | (19) |
| Participant contributions | **—** | — | — | **9** | 10 | 14 | **45** | 51 | 41 |
| Benefits paid - gross | **(820)** | (796) | (713) | **(168)** | (212) | (155) | **(379)** | (390) | (351) |
| Less: federal subsidy on benefits paid | **—** | — | — | **—** | — | — | **15** | 21 | 19 |
| Curtailments, settlements and special termination benefits | **(235)** | 123 | — | **(52)** | (74) | — | **—** | 66 | — |
| Acquisitions / other[2] | **9** | — | — | **60** | — | 626 | **37** | — | — |
| Benefit obligation, end of year | **$13,024** | $12,064 | $11,493 | **$3,867** | $3,542 | $3,219 | **$5,184** | $4,537 | $5,017 |
| Accumulated benefit obligation, end of year | **$12,558** | $11,357 | $10,681 | **$3,504** | $3,082 | $2,938 | | | |
| **Weighted-average assumptions used to determine benefit obligation:** | | | | | | | | | |
| Discount rate[3] | **5.1%** | 5.7% | 6.1% | **4.6%** | 4.8% | 4.5% | **5.0%** | 5.6% | 6.0% |
| Rate of compensation increase[3] | **4.5%** | 4.5% | 4.5% | **4.2%** | 4.2% | 3.8% | **4.4%** | 4.4% | 4.4% |

1 Change in benefit obligation during the period from the early measurement date to December 31, 2007.
2 See Note 23 regarding the 2008 Cat Japan share redemption and the 2010 Electro-Motive Diesel acquisition.
3 End of year rates are used to determine net periodic cost for the subsequent year. See Note 12E.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

| (Millions of dollars) | One-percentage-point increase | One-percentage-point decrease |
|---|---|---|
| Effect on 2010 service and interest cost components of other postretirement benefit cost.... | $19 | $(15) |
| Effect on accumulated postretirement benefit obligation ..................................................... | $311 | $(266) |

## B. Plan Assets

| | U.S. Pension Benefits | | | Non-U.S. Pension Benefits | | | Other Postretirement Benefits | | |
|---|---|---|---|---|---|---|---|---|---|
| (Millions of dollars) | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 |
| **Change in plan assets:** | | | | | | | | | |
| Fair value of plan assets, beginning of year .......................................................... | **$9,029** | $6,745 | $10,441 | **$2,797** | $2,175 | $2,773 | **$1,063** | $1,042 | $1,584 |
| Effect of eliminating early measurement date[1] ......................................................... | **N/A** | N/A | 17 | **N/A** | N/A | 23 | **N/A** | N/A | 15 |
| Actual return on plan assets ....................... | **1,628** | 2,194 | (3,288) | **193** | 390 | (751) | **129** | 266 | (587) |
| Foreign currency exchange rates................ | **—** | — | — | **17** | 243 | (407) | **—** | — | — |
| Company contributions[2]............................. | **919** | 886 | 288 | **58** | 263 | 134 | **138** | 94 | 340 |
| Participant contributions ............................ | **—** | — | — | **9** | 10 | 14 | **45** | 51 | 41 |
| Benefits paid .............................................. | **(820)** | (796) | (713) | **(168)** | (212) | (155) | **(379)** | (390) | (351) |
| Settlements and special termination benefits..................................................... | **—** | — | — | **(51)** | (72) | — | **—** | — | — |
| Acquisitions / other[3]................................... | **4** | — | — | **25** | — | 544 | **—** | — | — |
| Fair value of plan assets, end of year ......... | **$10,760** | $9,029 | $6,745 | **$2,880** | $2,797 | $2,175 | **$996** | $1,063 | $1,042 |

1 Change in plan assets during the period from the early measurement date to December 31, 2007.
2 Includes $650 million of Caterpillar stock contributed to U.S. pension plans in 2009.
3 See Note 23 regarding the 2008 Cat Japan share redemption and the 2010 Electro-Motive Diesel acquisition.

As discussed in Note 1K, we adopted the accounting guidance on employers' disclosures about postretirement benefit plan assets for the annual period ending December 31, 2009. The guidance expands the disclosure set forth in the previous guidance by adding required disclosures about (1) how investment allocation decisions are made by management, (2) major categories of plan assets, and (3) significant concentrations of risk. Additionally, this guidance requires an employer to disclose information about the valuation of plan assets similar to that required under the accounting guidance on fair value measurements.

Our U.S. pension target asset allocations reflect our investment strategy of maximizing the long-term rate of return on plan assets and the resulting funded status, within an appropriate level of risk. Our target allocations for the U.S. pension plans are 70% equities and 30% debt securities. Within equity securities, approximately 60% includes investments in U.S. large and small-cap companies. The remaining portion is invested in international companies, including emerging markets, and private equity. Fixed income securities primarily include corporate bonds, mortgage backed securities and U.S. Treasuries.

In general, our non-U.S. pension target asset allocations reflect our investment strategy of maximizing the long-term rate of return on plan assets and the resulting funded status, within an appropriate level of risk. The weighted-average target allocations for the non-U.S. pension plans are 62% equities, 31% debt securities, 6% real estate and 1% other. The target allocations for each plan vary based upon local statutory requirements, demographics of plan participants and funded status. Plan assets are primarily invested in non-U.S. securities.

Our target allocations for the other postretirement benefit plans are 80% equities and 20% debt securities. Within equity securities, approximately two-thirds include investments in U.S. large and small-cap companies. The remaining portion is invested in international companies, including emerging markets. Fixed income securities primarily include corporate bonds, mortgage backed securities and U.S. Treasuries.

The U.S. plans are rebalanced to plus or minus five percentage points of the target asset allocation ranges on a monthly basis. The frequency of rebalancing for the non-U.S. plans varies depending on the plan. As a result of our diversification strategies, there are no significant concentrations of risk within the portfolio of investments except for the holdings in Caterpillar stock as discussed below.

The use of certain derivative instruments is permitted where appropriate and necessary for achieving overall investment policy objectives. The U.S. plans utilize futures contracts to offset current equity positions in order to rebalance the total portfolio to the target asset allocation. During 2008, approximately 5% of the U.S. pension plans' assets were rebalanced from equity to fixed income positions through the use of futures contracts. The plans do not engage in futures contracts for speculative purposes.

The accounting guidance on fair value measurements specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques (Level 1, 2 and 3). See Note 17 for a discussion of the fair value hierarchy.

Fair values are determined as follows:

- Equity securities are primarily based on valuations for identical instruments in active markets.
- Fixed income securities are primarily based upon models that take into consideration such market-based factors as recent sales, risk-free yield curves and prices of similarly rated bonds.
- Real estate is stated at the fund's net asset value or at appraised value.
- Cash, short-term instruments and other are based on the carrying amount, which approximated fair value, or at the fund's net asset value.

The fair value of the pension and other postretirement benefit plan assets by category is summarized below:

| (Millions of dollars) | **December 31, 2010** | | | |
|---|---|---|---|---|
| **U.S. Pension** | **Level 1** | **Level 2** | **Level 3** | **Total Assets, at Fair Value** |
| Equity securities: | | | | |
| U.S. equities | **$4,975** | **$1** | **$46** | **$5,022** |
| Non-U.S. equities | **2,884** | **—** | **4** | **2,888** |
| Fixed income securities: | | | | |
| U.S. corporate bonds | **—** | **1,412** | **38** | **1,450** |
| Non-U.S. corporate bonds | **—** | **92** | **1** | **93** |
| U.S. government bonds | **—** | **299** | **5** | **304** |
| U.S. governmental agency mortgage-backed securities | **—** | **634** | **4** | **638** |
| Non-U.S. government bonds | **—** | **22** | **—** | **22** |
| Real estate | **—** | **—** | **10** | **10** |
| Cash, short-term instruments and other | **70** | **263** | **—** | **333** |
| Total U.S. pension assets | **$7,929** | **$2,723** | **$108** | **$10,760** |

| | December 31, 2009 | | | |
|---|---|---|---|---|
| **U.S. Pension** | Level 1 | Level 2 | Level 3 | Total Assets, at Fair Value |
| Equity securities: | | | | |
| U.S. equities | $4,634 | $2 | $17 | $4,653 |
| Non-U.S. equities | 1,803 | — | 34 | 1,837 |
| Fixed income securities: | | | | |
| U.S. corporate bonds | — | 1,179 | 56 | 1,235 |
| Non-U.S. corporate bonds | — | 70 | 1 | 71 |
| U.S. government bonds | — | 323 | — | 323 |
| U.S. governmental agency mortgage-backed securities | — | 562 | — | 562 |
| Non-U.S. government bonds | — | 9 | — | 9 |
| Real estate | — | — | 10 | 10 |
| Cash, short-term instruments and other | 113 | 216 | — | 329 |
| Total U.S. pension assets | $6,550 | $2,361 | $118 | $9,029 |

| (Millions of dollars) | December 31, 2010 | | | |
|---|---|---|---|---|
| **Non-U.S. Pension** | **Level 1** | **Level 2** | **Level 3** | **Total Assets, at Fair Value** |
| Equity securities: | | | | |
| U.S. equities | **$359** | **$—** | **$—** | **$359** |
| Non-U.S. equities | **916** | **90** | **1** | **1,007** |
| Global equities[1] | **153** | **37** | **—** | **190** |
| Fixed income securities: | | | | |
| U.S. corporate bonds | **—** | **18** | **2** | **20** |
| Non-U.S. corporate bonds | **—** | **374** | **5** | **379** |
| U.S. government bonds | **—** | **5** | **—** | **5** |
| Non-U.S. government bonds | **—** | **163** | **1** | **164** |
| Global fixed income[1] | **—** | **374** | **—** | **374** |
| Real estate | **—** | **89** | **90** | **179** |
| Other: | | | | |
| Cash and short-term instruments | **59** | **3** | **—** | **62** |
| Other[2] | **2** | **104** | **35** | **141** |
| Total non-U.S. pension assets | **$1,489** | **$1,257** | **$134** | **$2,880** |

| | December 31, 2009 | | | |
|---|---|---|---|---|
| **Non-U.S. Pension** | Level 1 | Level 2 | Level 3 | Total Assets, at Fair Value |
| Equity securities: | | | | |
| U.S. equities | $330 | $— | $— | $330 |
| Non-U.S. equities | 863 | 84 | 5 | 952 |
| Global equities[1] | 144 | 14 | — | 158 |
| Fixed income securities: | | | | |
| U.S. corporate bonds | — | 22 | 1 | 23 |
| Non-U.S. corporate bonds | — | 355 | 11 | 366 |
| U.S. government bonds | — | 1 | — | 1 |
| Non-U.S. government bonds | — | 156 | 2 | 158 |
| Global fixed income[1] | — | 361 | — | 361 |
| Real estate | — | 80 | 71 | 151 |
| Other: | | | | |
| Cash and short-term instruments | 104 | 4 | — | 108 |
| Other[2] | 3 | 135 | 51 | 189 |
| Total non-U.S. pension assets | $1,444 | $1,212 | $141 | $2,797 |

[1] Includes funds that invest in both U.S. and non-U.S. securities.
[2] Includes funds that invest in multiple asset classes, hedge funds and other.

| (Millions of dollars) | December 31, 2010 | | | |
|---|---|---|---|---|
| **<u>Other Postretirement Benefits</u>** | **Level 1** | **Level 2** | **Level 3** | **Total Assets, at Fair Value** |
| Equity securities: | | | | |
| U.S. equities | **$512** | **$—** | **$—** | **$512** |
| Non-U.S. equities | **289** | **—** | **—** | **289** |
| Fixed income securities: | | | | |
| U.S. corporate bonds | **—** | **79** | **—** | **79** |
| Non-U.S. corporate bonds | **—** | **6** | **—** | **6** |
| U.S. government bonds | **—** | **14** | **—** | **14** |
| U.S. governmental agency mortgage-backed securities | **—** | **43** | **—** | **43** |
| Non-U.S. government bonds | **—** | **1** | **—** | **1** |
| Cash, short-term instruments and other | **19** | **33** | **—** | **52** |
| Total other postretirement benefit assets | **$820** | **$176** | **$—** | **$996** |

| | December 31, 2009 | | | |
|---|---|---|---|---|
| **<u>Other Postretirement Benefits</u>** | Level 1 | Level 2 | Level 3 | Total Assets, at Fair Value |
| Equity securities: | | | | |
| U.S. equities | $531 | $— | $— | $531 |
| Non-U.S. equities | 273 | 6 | — | 279 |
| Fixed income securities: | | | | |
| U.S. corporate bonds | — | 95 | — | 95 |
| Non-U.S. corporate bonds | — | 8 | — | 8 |
| U.S. government bonds | — | 24 | — | 24 |
| U.S. governmental agency mortgage-backed securities | — | 54 | — | 54 |
| Non-U.S. government bonds | — | 1 | — | 1 |
| Cash, short-term instruments and other | 19 | 52 | — | 71 |
| Total other postretirement benefit assets | $823 | $240 | $— | $1,063 |

Below are roll-forwards of assets measured at fair value using Level 3 inputs for the years ended December 31, 2010 and 2009. These instruments were valued using pricing models that, in management's judgment, reflect the assumptions a marketplace participant would use.

| (Millions of dollars) | Equities | Fixed Income | Real Estate | Other |
|---|---|---|---|---|
| **U.S. Pension** | | | | |
| Balance at December 31, 2008 | $16 | $73 | $9 | $— |
| Unrealized gains (losses) | 3 | 34 | 1 | — |
| Realized gains (losses) | — | (2) | — | — |
| Purchases, issuances and settlements | 31 | (12) | — | — |
| Transfers in and/or out of Level 3 | 1 | (36) | — | — |
| Balance at December 31, 2009 | $51 | $57 | $10 | $— |
| **Unrealized gains (losses)** | **11** | **1** | **—** | **—** |
| **Realized gains (losses)** | **(1)** | **3** | **—** | **—** |
| **Purchases, issuances and settlements** | **32** | **(9)** | **—** | **—** |
| **Transfers in and/or out of Level 3** | **(43)** | **(4)** | **—** | **—** |
| **Balance at December 31, 2010** | **$50** | **$48** | **$10** | **$—** |
| | | | | |
| **Non-U.S. Pension** | | | | |
| Balance at December 31, 2008 | $— | $5 | $61 | $67 |
| Unrealized gains (losses) | 2 | 1 | 10 | 63 |
| Realized gains (losses) | — | — | — | (41) |
| Purchases, issuances and settlements | 3 | 6 | — | (38) |
| Transfers in and/or out of Level 3 | — | 2 | — | — |
| Balance at December 31, 2009 | $5 | $14 | $71 | $51 |
| **Unrealized gains (losses)** | **(1)** | **—** | **7** | **1** |
| **Realized gains (losses)** | **1** | **—** | **—** | **5** |
| **Purchases, issuances and settlements** | **(2)** | **(3)** | **12** | **(22)** |
| **Transfers in and/or out of Level 3** | **(2)** | **(3)** | **—** | **—** |
| **Balance at December 31, 2010** | **$1** | **$8** | **$90** | **$35** |

Equity securities within plan assets include Caterpillar Inc. common stock in the amounts of:

| | U.S. Pension Benefits[1] | | | Non-U.S. Pension Benefits | | | Other Postretirement Benefits | | |
|---|---|---|---|---|---|---|---|---|---|
| (Millions of dollars) | **2010** | 2009[2] | 2008 | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 |
| Caterpillar Inc. common stock | **$779** | $1,016 | $11 | **$2** | $1 | $1 | **$3** | $1 | $2 |

[1] Amounts represent 7% of total plan assets for 2010, 11% for 2009 and less than 1% of total plan assets for 2008.
[2] Includes $650 million of Caterpillar stock contributed to U.S. pension plans in 2009.

## C. Funded status

The funded status of the plans, reconciled to the amount reported on Statement 2, is as follows:

| | U.S. Pension Benefits | | | Non-U.S. Pension Benefits | | | Other Postretirement Benefits | | |
|---|---|---|---|---|---|---|---|---|---|
| (Millions of dollars) | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 |
| **End of Year** | | | | | | | | | |
| Fair value of plan assets | **$10,760** | $9,029 | $6,745 | **$2,880** | $2,797 | $2,175 | **$996** | $1,063 | $1,042 |
| Benefit obligations | **13,024** | 12,064 | 11,493 | **3,867** | 3,542 | 3,219 | **5,184** | 4,537 | 5,017 |
| Over (under) funded status recognized in financial position | **$(2,264)** | $(3,035) | $(4,748) | **$(987)** | $(745) | $(1,044) | **$(4,188)** | $(3,474) | $(3,975) |
| **Components of net amount recognized in financial position:** | | | | | | | | | |
| Other assets (non-current asset) | **$—** | $— | $— | **$4** | $22 | $— | **$—** | $— | $— |
| Accrued wages, salaries and employee benefits (current liability) | **(18)** | (17) | (14) | **(18)** | (18) | (2) | **(171)** | (113) | (29) |
| Liability for postemployment benefits (non-current liability) | **(2,246)** | (3,018) | (4,734) | **(973)** | (749) | (1,042) | **(4,017)** | (3,361) | (3,946) |
| Net liability recognized | **$(2,264)** | $(3,035) | $(4,748) | **$(987)** | $(745) | $(1,044) | **$(4,188)** | $(3,474) | $(3,975) |
| **Amounts recognized in Accumulated other comprehensive income (pre-tax) consist of:** | | | | | | | | | |
| Net actuarial loss (gain) | **$4,795** | $5,132 | $6,419 | **$1,273** | $1,200 | $1,319 | **$1,195** | $659 | $881 |
| Prior service cost (credit) | **83** | 132 | 170 | **43** | 8 | 13 | **(122)** | (177) | 320 |
| Transition obligation (asset) | **—** | — | — | **—** | — | — | **7** | 9 | 10 |
| Total | **$4,878** | $5,264 | $6,589 | **$1,316** | $1,208 | $1,332 | **$1,080** | $491 | $1,211 |

The estimated amounts that will be amortized from Accumulated other comprehensive income (loss) at December 31, 2010 into net periodic benefit cost (pre-tax) in 2011 are as follows:

| (Millions of dollars) | U.S. Pension Benefits | Non-U.S. Pension Benefits | Other Postretirement Benefits |
|---|---|---|---|
| Actuarial loss (gain) | **$451** | **$71** | **$108** |
| Prior service cost (credit) | **20** | **3** | **(55)** |
| Transition obligation (asset) | **—** | **—** | **2** |
| Total | **$471** | **$74** | **$55** |

The following amounts relate to our pension plans with projected benefit obligations in excess of plan assets:

| | U.S. Pension Benefits at Year-end | | | Non-U.S. Pension Benefits at Year-end | | |
|---|---|---|---|---|---|---|
| (Millions of dollars) | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 |
| Projected benefit obligation | **$(13,024)** | $(12,064) | $(11,493) | **$(3,846)** | $(3,350) | $(3,194) |
| Accumulated benefit obligation | **$(12,558)** | $(11,357) | $(10,681) | **$(3,485)** | $(2,933) | $(2,917) |
| Fair value of plan assets | **$10,760** | $9,029 | $6,745 | **$2,855** | $2,584 | $2,151 |

The following amounts relate to our pension plans with accumulated benefit obligations in excess of plan assets:

| | U.S. Pension Benefits at Year-end | | | Non-U.S. Pension Benefits at Year-end | | |
|---|---|---|---|---|---|---|
| (Millions of dollars) | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 |
| Projected benefit obligation | **$(13,024)** | $(12,064) | $(11,493) | **$(3,452)** | $(1,594) | $(3,040) |
| Accumulated benefit obligation | **$(12,558)** | $(11,357) | $(10,681) | **$(3,179)** | $(1,503) | $(2,796) |
| Fair value of plan assets | **$10,760** | $9,029 | $6,745 | **$2,514** | $1,145 | $2,022 |

The accumulated postretirement benefit obligation exceeds plan assets for all of our other postretirement benefit plans.

## D. Expected cash flow

Information about the expected cash flow for the pension and other postretirement benefit plans is as follows:

| (**Millions of dollars)** | U.S. Pension Benefits | Non-U.S. Pension Benefits | Other Postretirement Benefits |
|---|---|---|---|
| **Employer contributions:** | | | |
| 2011 (expected) | $790 | $210 | $180 |
| **Expected benefit payments:** | | | |
| 2011 | $820 | $180 | $380 |
| 2012 | 830 | 230 | 390 |
| 2013 | 840 | 230 | 400 |
| 2014 | 860 | 240 | 410 |
| 2015 | 870 | 250 | 410 |
| 2016-2020 | 4,480 | 1,210 | 2,110 |
| Total | $8,700 | $2,340 | $4,100 |

The above table reflects the total employer contributions and benefits expected to be paid from the plan or from company assets and does not include the participants' share of the cost. The expected benefit payments for our other postretirement benefits include payments for prescription drug benefits. Medicare Part D subsidy amounts expected to be received by the company which will offset other postretirement benefit payments are as follows:

| (Millions of dollars) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016-2020 | Total |
|---|---|---|---|---|---|---|---|
| Other postretirement benefits | $15 | $20 | $20 | $20 | $25 | $130 | $230 |

## E. Net periodic cost

| (Millions of dollars) | U.S. Pension Benefits 2010 | 2009 | 2008 | Non-U.S. Pension Benefits 2010 | 2009 | 2008 | Other Postretirement Benefits 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|---|---|---|
| **Components of net periodic benefit cost:** | | | | | | | | | |
| Service cost | **$210** | $176 | $199 | **$92** | $86 | $92 | **$68** | $70 | $87 |
| Interest cost | **652** | 688 | 629 | **162** | 146 | 156 | **245** | 280 | 307 |
| Expected return on plan assets | **(773)** | (777) | (882) | **(192)** | (181) | (201) | **(93)** | (111) | (138) |
| Curtailments, settlements and special termination benefits[1] | **28** | 133 | — | **22** | 36 | 1 | **—** | 56 | — |
| Amortization of: | | | | | | | | | |
| Transition obligation (asset) | **—** | — | — | **—** | — | 1 | **2** | 2 | 2 |
| Prior service cost (credit)[2] | **25** | 29 | 32 | **1** | 1 | 3 | **(55)** | (40) | (35) |
| Net actuarial loss (gain) | **385** | 248 | 134 | **65** | 35 | 36 | **33** | 20 | 64 |
| Total cost included in operating profit | **$527** | $497 | $112 | **$150** | $123 | $88 | **$200** | $277 | $287 |
| **Other changes in plan assets and benefit obligations recognized in other comprehensive income (pre-tax):** | | | | | | | | | |
| Effect of eliminating early measurement date[3] | **N/A** | N/A | $(14) | **N/A** | N/A | $(9) | **N/A** | N/A | $(3) |
| Current year actuarial loss (gain) | **$47** | $(1,037) | 4,401 | **$136** | $(88) | 696 | **$570** | $(200) | 172 |
| Amortization of actuarial (loss) gain | **(385)** | (248) | (134) | **(62)** | (32) | (36) | **(33)** | (20) | (64) |
| Current year prior service cost (credit) | **(24)** | (10) | 16 | **35** | (2) | 1 | **—** | (537) | (3) |
| Amortization of prior service (cost) credit | **(25)** | (29) | (32) | **(1)** | (1) | (3) | **55** | 40 | 35 |
| Amortization of transition (obligation) asset | **—** | — | — | **—** | — | (1) | **(2)** | (2) | (2) |
| Total recognized in other comprehensive income | **(387)** | (1,324) | 4,237 | **108** | (123) | 648 | **590** | (719) | 135 |
| Total recognized in net periodic cost and other comprehensive income | **$140** | $(827) | $4,349 | **$258** | $— | $736 | **$790** | $(442) | $422 |
| **Weighted-average assumptions used to determine net cost:** | | | | | | | | | |
| Discount rate | **5.4%** | 6.3% | 5.8% | **4.8%** | 4.7% | 5.3% | **5.6%** | 6.3% | 5.8% |
| Expected return on plan assets[4] | **8.5%** | 8.5% | 9.0% | **7.0%** | 6.6% | 7.6% | **8.5%** | 8.5% | 9.0% |
| Rate of compensation increase | **4.5%** | 4.5% | 4.5% | **4.2%** | 3.8% | 4.0% | **4.4%** | 4.4% | 4.4% |

[1] 2010 and 2009 curtailments, settlements and special termination benefits were recognized in Other operating (income) expenses in Statement 1.

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

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

[4] The weighted-average rates for 2011 are 8.5% and 7.1% for U.S. and non-U.S. plans, respectively.

The assumed discount rate is used to discount future benefit obligations back to today's dollars. The U.S. discount rate is based on a benefit cash flow-matching approach and represents the rate at which our benefit obligations could effectively be settled as of our measurement date, December 31. The benefit cash flow-matching approach involves analyzing Caterpillar's projected cash flows against a high quality bond yield curve, calculated using a wide population of corporate Aa bonds available on the measurement date. The very highest and lowest yielding bonds (top and bottom 10%) are excluded from the analysis. A similar process is used to determine the assumed discount rate for our most significant non-U.S. plans. This rate is sensitive to changes in interest rates. A decrease in the discount rate would increase our obligation and future expense.

Our U.S. expected long-term rate of return on plan assets is based on our estimate of long-term passive returns for equities and fixed income securities weighted by the allocation of our pension assets. Based on historical performance, we increase the passive returns due to our active management of the plan assets. To arrive at our expected long-term return, the amount added for active management was 1% for 2010, 2009 and 2008. A similar process is used to determine this rate for our non-U.S. plans.

The assumed health care trend rate represents the rate at which health care costs are assumed to increase. To calculate the 2010 benefit expense, we assumed a weighted-average increase of 7.0% for 2010. We expect a weighted-average increase of 7.9% during 2011. The 2011 rates are assumed to decrease gradually to the ultimate health care trend rate of 5.0% in 2019. This rate represents 3.0% general inflation plus 2.0% additional health care inflation.

### F. Other postemployment benefit plans

We offer long-term disability benefits, continued health care for disabled employees, survivor income benefit insurance and supplemental unemployment benefits to substantially all eligible U.S. employees.

### G. Defined contribution plans

We have both U.S. and non-U.S. employee defined contribution plans to help employees save for retirement. Our U.S. 401(k) plan allows eligible employees to contribute a portion of their salary to the plan on a tax-deferred basis, and we provide a matching contribution equal to 100% of employee contributions to the plan up to 6% of their compensation. Various other U.S. and non-U.S. defined contribution plans allow eligible employees to contribute a portion of their salary to the plans, and in some cases, we provide a matching contribution to the funds.

Beginning January 1, 2011, matching contributions to our U.S. 401(k) plan will change for certain employees that are still accruing benefits under a defined benefit pension plan. Matching contributions will be equal to 50% of employee contributions to the plan up to 6% of their compensation. For employees whose defined benefit pension accruals were frozen as of December 31, 2010, we will begin providing a new annual employer contribution in 2011.

From June 2009 to October 2010, we funded our employer matching contribution for certain U.S. defined contribution plans in Caterpillar stock, held as treasury stock. In 2010 and 2009, we made $94 million (1.5 million shares) and $68 million (1.4 million shares) of matching contributions in Caterpillar stock, respectively.

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

| (Millions of dollars) | **2010** | 2009 | 2008 |
|---|---|---|---|
| U.S. plans | **$231** | $206 | $107 |
| Non-U.S. plans | **39** | 29 | 34 |
| | **$270** | $235 | $141 |

## H. Summary of long-term liability:

| (Millions of dollars) | December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| Pensions: | | | |
| U.S. pensions | **$2,246** | $3,018 | $4,734 |
| Non-U.S. pensions | **973** | 749 | 1,042 |
| Total pensions | **3,219** | 3,767 | 5,776 |
| Postretirement benefits other than pensions | **4,017** | 3,361 | 3,946 |
| Other postemployment benefits | **69** | 63 | 73 |
| Defined contribution | **279** | 229 | 180 |
| | **$7,584** | $7,420 | $9,975 |

## 13. Short-term borrowings

| **(Millions of dollars)** | December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| Machinery and Engines: | | | |
| Notes payable to banks | **$204** | $260 | $668 |
| Commercial paper | **—** | 173 | 964 |
| | **204** | 433 | 1,632 |
| Financial Products: | | | |
| Notes payable to banks | **479** | 793 | 817 |
| Commercial paper | **2,710** | 2,162 | 4,217 |
| Demand notes | **663** | 695 | 543 |
| | **3,852** | 3,650 | 5,577 |
| Total short-term borrowings | **$4,056** | $4,083 | $7,209 |

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

| | December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| Notes payable to banks | **4.1%** | 4.6% | 5.5% |
| Commercial paper | **1.5%** | 1.2% | 2.0% |
| Demand notes | **1.1%** | 2.0% | 3.6% |

Please refer to Note 17 and Table III for fair value information on short-term borrowings.

## 14. Long-term debt

| (Millions of dollars) | December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| Machinery and Engines: | | | |
| Notes—6.550% due 2011 | **$—** | $251 | $250 |
| Notes—5.700% due 2016 | **512** | 515 | 517 |
| Debentures—9.375% due 2011 | **—** | 123 | 123 |
| Debentures—7.000% due 2013 | **350** | 350 | 350 |
| Debentures—7.900% due 2018 | **899** | 899 | 898 |
| Debentures—9.375% due 2021 | **120** | 120 | 120 |
| Debentures—8.000% due 2023 | **82** | 82 | 82 |
| Debentures—6.625% due 2028 | **299** | 299 | 299 |
| Debentures—7.300% due 2031 | **349** | 349 | 349 |
| Debentures—5.300% due 2035 [1] | **205** | 204 | 203 |
| Debentures—6.050% due 2036 | **748** | 748 | 748 |
| Debentures—8.250% due 2038 | **248** | 248 | 248 |
| Debentures—6.950% due 2042 | **249** | 249 | 249 |
| Debentures—7.375% due 2097 | **297** | 297 | 297 |
| Capital lease obligations | **81** | 211 | 293 |
| Other | **66** | 707 | 710 |
| Total Machinery and Engines | **4,505** | 5,652 | 5,736 |
| Financial Products: | | | |
| Commercial paper | **—** | 71 | 1,500 |
| Medium-term notes | **14,993** | 15,363 | 15,073 |
| Other | **939** | 761 | 525 |
| Total Financial Products | **15,932** | 16,195 | 17,098 |
| Total long-term debt due after one year | **$20,437** | $21,847 | $22,834 |

[1] Debentures due in 2035 have a face value of $307 million and an effective yield to maturity of 8.55%.

All outstanding notes and debentures are unsecured.

On December 3, 2008, Caterpillar issued $350 million of 7.00% debentures due in 2013, $900 million of 7.90% debentures due in 2018 and $250 million of 8.25% debentures due in 2038.

We may redeem the 6.55% and 5.70% notes and the 6.625%, 7.30%, 5.30%, 6.05%, 6.95% and 7.375% debentures in whole or in part at our option at any time at a redemption price equal to the greater of 100% of the principal amount of the debentures to be redeemed or the sum of the present value of the remaining scheduled payments. The terms of other notes and debentures do not specify a redemption option prior to maturity.

Based on Cat Financial's medium-term note issuances subsequent to year-end, $71 million and $1,500 million of Financial Products' commercial paper outstanding at December 31, 2009 and 2008, respectively, was classified as long-term debt due after one year. Medium-term notes are offered by prospectus and are issued through agents at fixed and floating rates. These notes have a weighted average interest rate of 4.6% with remaining maturities up to 18 years at December 31, 2010.

The aggregate amounts of maturities of long-term debt during each of the years 2011 through 2015, including amounts due within one year and classified as current, are:

| (Millions of dollars) | December 31, 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Machinery and Engines | $495 | $81 | $366 | $8 | $5 |
| Financial Products | 3,430 | 4,825 | 4,243 | 2,015 | 887 |
| | $3,925 | $4,906 | $4,609 | $2,023 | $892 |

The above table includes $684 million of medium-term notes that can be called at par.

Interest paid on short-term and long-term borrowings for 2010, 2009 and 2008 was $1,247 million, $1,411 million and $1,451 million, respectively.

Please refer to Note 17 and Table III for fair value information on long-term debt.

## 15. Credit commitments

| (Millions of dollars) | December 31, 2010 Consolidated | Machinery and Engines | Financial Products |
|---|---|---|---|
| Credit lines available: | | | |
| Global credit facilities | **$7,230** | **$1,500** | **$5,730** |
| Other external | **4,658** | **853** | **3,805** |
| Total credit lines available | **11,888** | **2,353** | **9,535** |
| Less: Global credit facilities supporting commercial paper | **(2,710)** | **—** | **(2,710)** |
| Less: Utilized credit | **(2,217)** | **(135)** | **(2,082)** |
| Available credit | **$6,961** | **$2,218** | **$4,743** |

We have three global credit facilities with a syndicate of banks totaling $7.23 billion (Credit Facility) available in the aggregate to both Caterpillar and Cat Financial to support their commercial paper programs in the event those programs become unavailable and for general liquidity purposes. Based on management's allocation decision, which can be revised from time to time, the portion of the Credit Facility available to Cat Financial as of December 31, 2010 was $5.73 billion.

- The 364-day facility of $3.52 billion expires in September 2011.
- The five-year facility of $1.62 billion expires in September 2012.
- The four-year facility of $2.09 billion expires in September 2014.

Other consolidated credit lines with banks as of December 31, 2010 totaled $4.66 billion. These committed and uncommitted credit lines, which may be eligible for renewal at various future dates or have no specified expiration date, are used primarily by our subsidiaries for local funding requirements. Caterpillar or Cat Financial may guarantee subsidiary borrowings under these lines.

At December 31, 2010, Caterpillar's consolidated net worth was $15.56 billion, which was above the $9.00 billion required under the Credit Facility. The consolidated net worth is defined as the consolidated stockholder's equity including preferred stock but excluding the pension and other postretirement benefits balance within Accumulated other comprehensive income (loss).

At December 31, 2010, Cat Financial's covenant interest coverage ratio was 1.34 to 1. This is above the 1.15 to 1 minimum ratio of (1) profit excluding income taxes, interest expense and net gain/(loss) from interest rate derivatives to (2) interest expense calculated at the end of each calendar quarter for the rolling four quarter period then most recently ended.

In addition, at December 31, 2010, Cat Financial's covenant leverage ratio was 7.02 to 1. This is below the maximum ratio of debt to net worth of 10 to 1, calculated (1) on a monthly basis as the average of the leverage ratios determined on the last day of each of the six preceding calendar months and (2) at each December 31 required by the Credit Facility.

In the event Caterpillar or Cat Financial does not meet one or more of their respective financial covenants under the Credit Facility in the future (and are unable to obtain a consent or waiver), the bank group may terminate the commitments allocated to the party that does not meet its covenants. Additionally, in such event, certain of Cat Financial's other lenders under other loan agreements where similar financial covenants or cross default provisions are applicable, may, at their election, choose to pursue remedies under those loan agreements, including accelerating the repayment of outstanding borrowings. At December 31, 2010, there were no borrowings under the Credit Facility.

On November 14, 2010, Caterpillar entered into a bridge facility commitment letter related to the planned acquisition of Bucyrus International, Inc. The commitment letter provided for an aggregate principal amount of $8.6 billion under a one-year unsecured term loan credit facility (Bridge Facility). On December 3, 2010, Caterpillar entered into a Bridge Loan Agreement that contains the negotiated terms and conditions originally contemplated in the commitment letter. The principal amount available to Caterpillar under the Bridge Loan Agreement is not included in the credit commitments table shown above. Caterpillar paid certain customary fees and expenses in connection with the Bridge Facility, and pays certain customary fees and expenses in connection with the Bridge Loan Agreement. In 2010, Caterpillar paid $46 million in fees related to the Bridge Facility and the Bridge Loan Agreement. We estimate payments of approximately $20 million in additional fees related to the Bridge Loan Agreement in 2011. These fees will be amortized over the term of the Bridge Loan Agreement. At December 31, 2010, there were no borrowings under the Bridge Loan Agreement.

## 16. Profit per share

**Computations of profit per share:**

| (Dollars in millions except per share data) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Profit for the period (A) [1] | **$2,700** | $895 | $3,557 |
| Determination of shares (in millions): | | | |
| Weighted average number of common shares outstanding (B) | **631.5** | 615.2 | 610.5 |
| Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price | **18.9** | 10.8 | 17.4 |
| Average common shares outstanding for fully diluted computation (C) | **650.4** | 626.0 | 627.9 |
| Profit per share of common stock: | | | |
| Assuming no dilution (A/B) | **$4.28** | $1.45 | $5.83 |
| Assuming full dilution (A/C) | **$4.15** | $1.43 | $5.66 |
| Shares outstanding as of December 31 (in millions) | **638.8** | 624.7 | 601.5 |

[1] Profit attributable to common stockholders.

SARs and stock options to purchase 5,228,763, 18,577,553 and 5,468,512 common shares were outstanding in 2010, 2009 and 2008, respectively, but were not included in the computation of diluted earnings per share because the effect would have been antidilutive.

## 17. Fair value disclosures

### A. Fair value measurements

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

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

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

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

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

Available-for-sale securities
Our available-for-sale securities, primarily at Cat Insurance, include a mix of equity and debt instruments (see Note 11 for additional information). Fair values for our U.S. treasury bonds and equity securities are based upon valuations for identical instruments in active markets. Fair values for other government bonds, corporate bonds and mortgage-backed debt securities are based upon models that take into consideration such market-based factors as recent sales, risk-free yield curves and prices of similarly rated bonds.

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

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

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

Assets and liabilities measured at fair value, primarily related to Financial Products, included in Statement 2 as of December 31, 2010, 2009 and 2008 are summarized below:

| **(Millions of dollars)** | **December 31, 2010** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total Assets / Liabilities, at Fair Value** |
| **Assets** | | | | |
| Available-for-sale securities | | | | |
| Government debt | | | | |
| U.S. treasury bonds | **$12** | **$—** | **$—** | **$12** |
| Other U.S. and non-U.S. government bonds | **—** | **77** | **—** | **77** |
| Corporate bonds | | | | |
| Corporate bonds | **—** | **511** | **—** | **511** |
| Asset-backed securities | **—** | **136** | **—** | **136** |
| Mortgage-backed debt securities | | | | |
| U.S. governmental agency mortgage-backed securities | **—** | **273** | **—** | **273** |
| Residential mortgage-backed securities | **—** | **40** | **—** | **40** |
| Commercial mortgage-backed securities | **—** | **168** | **—** | **168** |
| Equity securities | | | | |
| Large capitalization value | **122** | **—** | **—** | **122** |
| Smaller company growth | **31** | **—** | **—** | **31** |
| Total available-for-sale securities | **165** | **1,205** | **—** | **1,370** |
| Derivative financial instruments, net | **—** | **267** | **—** | **267** |
| Total Assets | **$165** | **$1,472** | **$—** | **$1,637** |
| **Liabilities** | | | | |
| Guarantees | **$—** | **$—** | **$10** | **$10** |
| Total Liabilities | **$—** | **$—** | **$10** | **$10** |

| (Millions of dollars) | December 31, 2009 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Assets / Liabilities, at Fair Value |
| **Assets** | | | | |
| Available-for-sale securities | | | | |
| Government debt | | | | |
| U.S. treasury bonds | $14 | $— | $— | $14 |
| Other U.S. and non-U.S. government bonds | — | 65 | — | 65 |
| Corporate bonds | | | | |
| Corporate bonds | — | 475 | — | 475 |
| Asset-backed securities | — | 134 | — | 134 |
| Mortgage-backed debt securities | | | | |
| U.S. governmental agency mortgage-backed securities | — | 308 | — | 308 |
| Residential mortgage-backed securities | — | 51 | — | 51 |
| Commercial mortgage-backed securities | — | 162 | — | 162 |
| Equity securities | | | | |
| Large capitalization value | 89 | — | — | 89 |
| Smaller company growth | 24 | — | — | 24 |
| Total available-for-sale securities | 127 | 1,195 | — | 1,322 |
| Derivative financial instruments, net | — | 236 | — | 236 |
| Securitized retained interests | — | — | 102 | 102 |
| Total Assets | $127 | $1,431 | $102 | $1,660 |
| **Liabilities** | | | | |
| Guarantees | $— | $— | $17 | $17 |
| Total Liabilities | $— | $— | $17 | $17 |

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

Below are roll-forwards of assets and liabilities measured at fair value using Level 3 inputs for the years ended December 31, 2010, 2009 and 2008. These instruments, primarily related to Cat Financial, were valued using pricing models that, in management's judgment, reflect the assumptions a marketplace participant would use.

| (Millions of dollars) | Securitized Retained Interests | Guarantees |
|---|---|---|
| Balance at December 31, 2007 | $49 | $12 |
| Gains or losses included in earnings (realized and unrealized) | (21) | 7 |
| Changes in Accumulated other comprehensive income (loss) | (13) | — |
| Purchases, issuances and settlements | 37 | (5) |
| Balance at December 31, 2008 | $52 | $14 |
| Gains or losses included in earnings (realized and unrealized) | (31) | — |
| Changes in Accumulated other comprehensive income (loss) | 6 | — |
| Purchases, issuances and settlements | 75 | 3 |
| Balance at December 31, 2009 | $102 | $17 |
| Adjustment to adopt accounting for variable-interest entities | **(102)** | **—** |
| Valuation adjustment | **—** | **(6)** |
| Issuance of guarantees | **—** | **7** |
| Expiration of guarantees | **—** | **(8)** |
| Balance at December 31, 2010 | **$—** | **$10** |

The amount of unrealized losses on securitized retained interests recognized in earnings for the years ended December 31, 2009 and 2008 related to assets still held at December 31, 2009 and 2008 were $28 million and $23 million, respectively. These losses were reported in Revenues of Financial Products in Statement 1. There were no unrealized losses on guarantees recognized in earnings for the years ended December 31, 2010 or 2009 related to liabilities still held at December 31, 2010 or 2009, respectively. The amount of unrealized losses on guarantees recognized in earnings for the year ended December 31, 2008 related to liabilities still held at December 31, 2008 were $8 million. These losses were reported in Selling, general and administrative expenses in Statement 1.

In addition to the amounts above, we had impaired loans of $171 million, $208 million and $108 million for the years ended December 31, 2010, 2009 and 2008, respectively. A loan is considered impaired when management determines that collection of contractual amounts due is not probable. In these cases, an allowance for loan losses is established based primarily on the fair value of associated collateral. As the collateral's fair value is based on observable market prices and/or current appraised values, the impaired loans are classified as Level 2 measurements.

## B. Fair values of financial instruments

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

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

Restricted cash and short-term investments
Carrying amount approximated fair value. Restricted cash and short-term investments are included in Prepaid expenses and other current assets in Statement 2.

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

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

Short-term borrowings
Carrying amount approximated fair value.

Long-term debt
Fair value for Machinery and Engines and Financial Products fixed rate debt was estimated based on quoted market prices. For Financial Products, floating rate notes and commercial paper carrying amounts approximated fair value. For deposit obligations, carrying value approximated fair value.

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

**TABLE III—Fair Values of Financial Instruments**

| (Millions of dollars) | **2010** Carrying Amount | **2010** Fair Value | 2009 Carrying Amount | 2009 Fair Value | 2008 Carrying Amount | 2008 Fair Value | Reference |
|---|---|---|---|---|---|---|---|
| **Assets at December 31,** | | | | | | | |
| Cash and short-term investments | **$3,592** | **$3,592** | $4,867 | $4,867 | $2,736 | $2,736 | Statement 2 |
| Restricted cash and short-term investments | **91** | **91** | 37 | 37 | 12 | 12 | Statement 2 |
| Available-for-sale securities | **1,370** | **1,370** | 1,322 | 1,322 | 1,132 | 1,132 | Notes 11 & 18 |
| Finance receivables—net (excluding finance leases[1]) | **12,568** | **12,480** | 13,077 | 13,234 | 14,367 | 13,483 | Note 6 |
| Wholesale inventory receivables—net (excluding finance leases[1]) | **1,062** | **1,017** | 660 | 646 | 1,232 | 1,154 | Note 6 |
| Foreign currency contracts—net | **63** | **63** | 192 | 192 | 254 | 254 | Notes 3 & 18 |
| Interest rate swaps—net | **187** | **187** | 34 | 34 | 371 | 371 | Note 3 |
| Commodity contracts—net | **17** | **17** | 10 | 10 | — | — | Note 3 |
| Securitized retained interests | **—** | **—** | 102 | 102 | 52 | 52 | Notes 6 |
| **Liabilities at December 31,** | | | | | | | |
| Short-term borrowings | **4,056** | **4,056** | 4,083 | 4,083 | 7,209 | 7,209 | Note 13 |
| Long-term debt (including amounts due within one year): | | | | | | | |
| Machinery and Engines | **5,000** | **5,968** | 5,954 | 6,674 | 6,192 | 6,290 | Note 14 |
| Financial Products | **19,362** | **20,364** | 21,594 | 22,367 | 22,134 | 21,259 | Note 14 |
| Guarantees | **10** | **10** | 17 | 17 | 14 | 14 | Notes 20 |

1 Total excluded items have a net carrying value at December 31, 2010, 2009 and 2008 of $7,292 million, $7,780 million and $8,951 million, respectively.

## 18. Concentration of credit risk

Financial instruments with potential credit risk consist primarily of trade and finance receivables and short-term and long-term investments. Additionally, to a lesser extent, we have a potential credit risk associated with counterparties to derivative contracts.

Trade receivables are primarily short-term receivables from independently owned and operated dealers and customers which arise in the normal course of business. We perform regular credit evaluations of our dealers and customers. Collateral generally is not required, and the majority of our trade receivables are unsecured. We do, however, when deemed necessary, make use of various devices such as security agreements and letters of credit to protect our interests. No single dealer or customer represents a significant concentration of credit risk.

Finance receivables and wholesale inventory receivables primarily represent receivables under installment sales contracts, receivables arising from leasing transactions and notes receivable. We generally maintain a secured interest in the equipment financed. No single customer or dealer represents a significant concentration of credit risk.

Short-term and long-term investments are held with high quality institutions and, by policy, the amount of credit exposure to any one institution is limited. Long-term investments, primarily included in Other assets in Statement 2, are comprised primarily of available for sale securities at Cat Insurance.

For derivative contracts, collateral is generally not required of the counterparties or of our company. The company generally enters into International Swaps and Derivatives Association (ISDA) master netting agreements which permit the net settlement of amounts owed. Our exposure to credit loss in the event of nonperformance by the counterparties is limited to only those gains that we have recorded, but for which we have not yet received cash payment. The master netting agreements reduce the amount of loss the company would incur should the counterparties fail to meet their obligations. At December 31, 2010, 2009 and 2008, the maximum exposure to credit loss was $576 million, $514 million and $1,051 million, respectively, before the application of any master netting agreements. Please refer to Note 17 and Table III above for fair value information.

## 19. Operating leases

We lease certain computer and communications equipment, transportation equipment and other property through operating leases. Total rental expense for operating leases was $359 million, $381 million, and $402 million for 2010, 2009 and 2008, respectively.

Minimum payments for operating leases having initial or remaining non-cancelable terms in excess of one year are:

| Years ended December 31, (Millions of dollars) | | | | | | |
|---|---|---|---|---|---|---|
| 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter | Total |
| $284 | $228 | $177 | $156 | $124 | $379 | $1,348 |

## 20. Guarantees and product warranty

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

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

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

No loss has been experienced or is anticipated under any of these guarantees. At December 31, 2010, 2009 and 2008, the related liability was $10 million, $17 million and $14 million, respectively. The maximum potential amount of future payments (undiscounted and without reduction for any amounts that may possibly be recovered under recourse or collateralized provisions) we could be required to make under the guarantees at December 31 are as follows:

| **(Millions of dollars)** | **2010** | 2009 | 2008 |
|---|---|---|---|
| Caterpillar dealer guarantees | **$185** | $313 | $375 |
| Customer guarantees | **170** | 226 | 136 |
| Limited indemnity | **17** | 20 | 25 |
| Other guarantees | **48** | 64 | 43 |
| Total guarantees | **$420** | $623 | $579 |

We provide guarantees to repurchase certain loans of Caterpillar dealers from a special purpose corporation (SPC) that qualifies as a VIE. The purpose of the SPC is to provide short-term working capital loans to Caterpillar dealers. This SPC issues commercial paper and uses the proceeds to fund its loan program. We have a loan purchase agreement with the SPC that obligates us to purchase certain loans that are not paid at maturity. We receive a fee for providing this guarantee, which provides a source of liquidity for the SPC. We are the primary beneficiary of the SPC as our guarantees result in us having both the power to direct the activities that most significantly impact the SPC's economic performance and the obligation to absorb losses, and therefore we have consolidated the financial statements of the SPC. As of December 31, 2010, 2009 and 2008, the SPC's assets of $365 million, $231 million and $477 million, respectively, are primarily comprised of loans to dealers, and the SPC's liabilities of $365 million, $231 million and $477 million, respectively, are primarily comprised of commercial paper. No loss has been experienced or is anticipated under this loan purchase agreement. Our assets are not available to pay creditors of the SPC, except to the extent we may be obligated to perform under the guarantee, and assets of the SPC are not available to pay our creditors.

Cat Financial is party to agreements in the normal course of business with selected customers and Caterpillar dealers in which we commit to provide a set dollar amount of financing on a pre-approved basis. We also provide lines of credit to selected customers and Caterpillar dealers, of which a portion remains unused as of the end of the period. Commitments and lines of credit generally have fixed expiration dates or other termination clauses. It has been our experience that not all commitments and lines of credit will be used. Management applies the same credit policies when making commitments and granting lines of credit as it does for any other financing.

Cat Financial does not require collateral for these commitments/lines, but if credit is extended, collateral may be required upon funding. The amount of the unused commitments and lines of credit for dealers as of December 31, 2010, 2009 and 2008 was $6,408 million, $7,312 million and $8,918 million, respectively. The amount of the unused commitments and lines of credit for customers as of December 31, 2010, 2009 and 2008 was $2,613 million, $2,089 million and $3,085 million, respectively.

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

| **(Millions of dollars)** | **2010** | 2009 | 2008 |
|---|---|---|---|
| Warranty liability, January 1 | **$1,049** | $1,201 | $1,045 |
| Reduction in liability (payments) | **(855)** | (1,032) | (1,074) |
| Increase in liability (new warranties) | **841** | 880 | 1,230 |
| Warranty liability, December 31 | **$1,035** | $1,049 | $1,201 |

The 2009 provision includes approximately $181 million for changes in estimates for pre-existing warranties due to higher than expected actual warranty claim experience. These amounts for 2010 and 2008 were not significant.

## 21. Environmental and legal matters

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

We are engaged in remedial activities at a number of locations, often with other companies, pursuant to federal and state laws. When it is reasonably probable we will pay remedial costs at a site, and those costs can be reasonably estimated, the costs are charged against our earnings. In formulating that estimate, we do not consider amounts expected to be recovered from insurance companies or others. The amount recorded for environmental remediation is not material and is included in the line item Accrued expenses in Statement 2.

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

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

On May 14, 2007, the U.S. Environmental Protection Agency (EPA) issued a Notice of Violation to Caterpillar Inc., alleging various violations of Clean Air Act Sections 203, 206 and 207. EPA claims that Caterpillar violated such sections by shipping engines and catalytic converter after-treatment devices separately, introducing into commerce a number of uncertified and/or misbuilt engines, and failing to timely report emissions-related defects. Caterpillar is currently engaged in negotiations with EPA and the U.S. Department of Justice to resolve these issues. On July 9, 2010, the Department of Justice issued a penalty demand to Caterpillar seeking a civil penalty of $3.2 million and implementation of injunctive relief involving expanded use of certain technologies. Caterpillar continues to cooperate with EPA and the Department of Justice and, while penalties will likely exceed $100,000, management does not believe that this issue will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

On February 8, 2009, an incident at Caterpillar's Joliet, Illinois facility resulted in the release of approximately 3,000 gallons of wastewater into the Des Plaines River. In coordination with state and federal authorities, appropriate remediation measures have been taken. On February 23, 2009, the Illinois Attorney General filed a Complaint in Will County Circuit Court containing seven counts of violations of state environmental laws and regulations. Caterpillar recently settled this matter with the State of Illinois, resolving all allegations in the Complaint. This settlement does not have a material adverse impact on our consolidated results of operations, financial position, or liquidity. In addition, on March 5, 2009, the EPA served Caterpillar with a Notice of Intent to file a Civil Administrative Action (notice), indicating the EPA's intent to seek civil penalties for alleged violations of the Clean Water Act and Oil Pollution Act. On January 25, 2010, the EPA issued a revised notice seeking civil penalties in the amount of $167,800, and Caterpillar responded to the revised notice and is engaged in follow up discussions with the EPA. At this time, we do not believe this remaining proceeding will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

In May 2010, an incident at Caterpillar's Gosselies, Belgium facility resulted in the release of wastewater into the Perupont River. In coordination with local authorities, appropriate remediation measures have been taken. In January 2011, Caterpillar learned that the public prosecutor for the Belgian administrative district of Charleroi had referred the matter to an examining magistrate of the civil court of Charleroi for further investigation. Caterpillar is cooperating with the Belgian authorities on this investigation. At this time, it is uncertain whether penalties will be assessed, and any penalties could potentially exceed $100,000. Management does not believe this matter will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

## 22. Segment information

### A. Basis for segment information

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

Our divisional reporting structure and responsibilities are as follows:

- Machine business divisions are profit centers primarily responsible for product management, development, marketing, sales and product support. Machine business divisions also have select manufacturing responsibilities. Inter-segment sales of components are a source of revenue for some of these divisions.
- Engine business divisions are profit centers primarily responsible for product management, development, manufacturing, marketing, sales and product support. Inter-segment sales of engines and/or components are a source of revenue for some of these divisions.
- Component business divisions are profit centers primarily responsible for product management, development, manufacturing, marketing, sales and product support for internal and external customers. Inter-segment sales of components are a source of revenue for these divisions.
- Service business divisions are profit centers primarily responsible for various services and service-related products to customers including financial, logistics, remanufacturing and rail services. Inter-segment sales of services and service-related products are a source of revenue for some of these divisions.
- Manufacturing services divisions are cost centers primarily responsible for the manufacture of products and/or components within the geographic regions of the Americas and EAME.
- Corporate services divisions are cost centers primarily responsible for the performance of certain support functions globally (e.g., Finance, Human Resources, Information Technology, Legal and Purchasing) and to provide centralized services.
- Regional distribution services divisions are cost centers primarily responsible for the total portfolio of business with each dealer, the dealer relationship, dealer development and ensuring the most efficient and effective distribution of machines, engines and parts.
- Centers of excellence divisions are cost centers primarily responsible for Caterpillar's most critical/differentiating processes in the areas of Marketing and Product Support, Production and Product Development.

The segment information for 2008 and 2009 has been retrospectively adjusted to conform to the 2010 presentation. Core Components, formerly included in the all other category, is now a reportable segment. The portion of postretirement benefit expense ($356 million and $105 million for the years ended December 31, 2009 and 2008, respectively) that was allocated to Machinery and Engines business divisions based on budgeted external and inter-segment sales, is now a methodology difference between segment and external reporting.

Our measurement system is complex and is designed to evaluate performance and to drive continuous improvement. We have chosen to disclose financial results by our three principal lines of business (Machinery, Engines and Financial Products) in our Management's Discussion and Analysis rather than by reportable segment based on the following:

- Our Machinery and Engines businesses are vertically integrated and there are a significant amount of inter-segment transactions that make information for individual segments less meaningful.
- A significant amount of corporate and other costs ($839 million, $988 million and $1,229 million for the years ended December 31, 2010, 2009 and 2008, respectively) are allocated to Machinery and Engines business divisions based on budgeted external and inter-segment sales. It would be difficult to provide meaningful information by reportable segment for these costs as the allocation method does not directly reflect the benefited segment and the allocation is done in total, not by financial statement line item. In addition, the budgeted amount is allocated to segments; any differences from budget are treated as a reconciling item between reportable segment and consolidated results.
- As discussed below, there are various methodology differences between our segment reporting and U.S. GAAP. This results in numerous reconciling items between reportable segment and consolidated results.
- We have twenty-five operating segments, of which twelve are reportable segments. Reporting financial information for this number of businesses, especially considering our level of vertical integration, would not be meaningful to our financial statement users.

In summary, due to Caterpillar's high level of integration and our concern that segment disclosures have limited value for our external readers, we are continuing to disclose financial results for our three principal lines of business (Machinery, Engines and Financial Products) in our Management's Discussion and Analysis beginning on page A-80.

Effective January 1, 2011, we implemented revised internal financial measurements in line with changes to our organizational structure that were announced during 2010. Our segments will be modified to reflect this reporting structure in the first quarter of 2011.

**B. Description of segments**

Profit center divisions meet the definition of "operating segments" specified in the accounting guidance on segment reporting; however, the cost center divisions do not. Following is a brief description of our twelve reportable segments and the business activities included in all other operating segments:

**Building Construction Products**: A machine business division primarily responsible for the product management, development, manufacture, marketing, sales and product support of light construction machines and select work tools.

**Cat Japan**: A business division primarily responsible for the development of small, medium and large hydraulic excavators, manufacturing of select machinery and components, marketing, sales and product support of machinery, engines and components in Japan. Inter-segment sales of machinery and components are a source of revenue for this division.

**Core Components**: A component business division primarily responsible for the product management, development, manufacture, marketing and product support of undercarriage, specialty products, hardened barstock components and ground engaging tools. Inter-segment sales of components are a source of revenue for this division.

**Earthmoving**: A machine business division primarily responsible for the product management, development, marketing, sales and product support of medium wheel loaders, medium track-type tractors, track-type loaders, motor graders and pipelayers. Also responsible for manufacturing of select machines in Asia.

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

**Excavation**: A machine business division primarily responsible for the product management, development, marketing, sales and product support of small, medium and large excavators, wheel excavators and articulated trucks. Also responsible for manufacturing of select machines in Asia and articulated trucks.

**Large Power Systems**: An engine business division primarily responsible for the product management, development, manufacture and product support of reciprocating engines supplied to Caterpillar machinery and the electric power, petroleum, marine and industrial industries. Also responsible for engine component manufacturing. Inter-segment sales of engines and components are a source of revenue for this division.

**Logistics**: A service business division primarily responsible for logistics services for Caterpillar and other companies.

**Marine & Petroleum Power**: An engine business division primarily responsible for the product management, development, marketing, sales and product support of reciprocating engines supplied to the marine and petroleum industries. Also responsible for manufacturing of certain reciprocating engines for marine, petroleum and electric power applications.

**Mining**: A machine business division primarily responsible for the product management, development, marketing, sales and product support of large track-type tractors, large mining trucks, underground mining equipment and tunnel boring equipment. Also responsible for manufacturing of underground mining equipment and tunnel boring equipment. Inter-segment sales of components are a source of revenue for this division.

**Turbines**: An engine business division primarily responsible for the product management, development, manufacture, marketing, sales and product support of turbines and turbine-related services.

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

**All Other**: Primarily includes activities such as: the product management, development, marketing, sales and product support of large wheel loaders, quarry and construction trucks, wheel tractor scrapers, wheel dozers, compactors and select work tools. Also responsible for manufacturing of select machines in Asia; the product management, development, manufacture, marketing, sales and product support of forestry products; the product management, development, manufacture, marketing, sales and product support of reciprocating engines used in industrial applications; the product management, development, manufacture, marketing, sales and product support of machinery and engine components, electronics and control systems; the product management, development, manufacture, remanufacture, maintenance, leasing and service of rail-related products and services; remanufacturing of Caterpillar engines and components and remanufacturing services for other companies; the product management, development, manufacture, marketing, sales and product support of paving products. Inter-segment sales are a source of revenue for some of these divisions. Results for All Other operating segments are included as reconciling items between reportable segments and consolidated external reporting.

## C. Segment measurement and reconciliations

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

- Generally, liabilities are managed at the corporate level and are not included in segment operations. Segment accountable assets generally include inventories, receivables and property, plant and equipment.
- Segment inventories and cost of sales are valued using a current cost methodology.
- Currency exposures are generally managed at the corporate level and the effects of changes in exchange rates on results of operations within the year are not included in segment results. The net difference created in the translation of revenues and costs between exchange rates used for U.S. GAAP reporting and exchange rates used for segment reporting are recorded as a methodology difference.
- Postretirement benefit expenses are split; segments are generally responsible for service and prior service costs, with the remaining elements of net periodic benefit cost included as a methodology difference.
- Interest expense is not included in Machinery and Engines segment results.
- Accountable profit is determined on a pretax basis.

Reconciling items are created based on accounting differences between segment reporting and our consolidated external reporting. Please refer to pages A-67 to A-72 for financial information regarding significant reconciling items. Most of our reconciling items are self-explanatory given the above explanations. For the reconciliation of profit (loss), we have grouped the reconciling items as follows:

- **Corporate costs:** Certain corporate costs are allocated and included in the business division's accountable profit at budgeted levels. Any differences are treated as reconciling items. These costs are related to corporate requirements and strategies that are considered to be for the benefit of the entire organization.

- **Redundancy costs:** Redundancy costs include pension and other postretirement benefit plan curtailments, settlements and special termination benefits as well as employee separation charges. Most of these costs are reconciling items between accountable profit and consolidated profit before tax. A table, Reconciliation of Redundancy Costs on page A-69, has been included to illustrate how segment accountable profit would have been impacted by the redundancy costs. See Notes 12 and 25 for more information.

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

- **Timing:** Timing differences in the recognition of costs and capital expenditures between segment reporting and consolidated external reporting.

## Table IV – Segment Information
## (Millions of dollars)

### Reportable Segments

| | External sales and revenues | Inter-segment sales & revenues | Total sales and revenues | Depreciation and amortization | Accountable profit (loss) | Accountable assets at December 31 | Capital expenditures |
|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | |
| Building Construction Products | **$2,217** | **$33** | **$2,250** | **$27** | **$84** | **$885** | **$72** |
| Cat Japan | **1,225** | **2,352** | **3,577** | **200** | **59** | **2,533** | **85** |
| Core Components | **1,234** | **1,618** | **2,852** | **81** | **589** | **1,140** | **73** |
| Earthmoving | **5,045** | **113** | **5,158** | **107** | **63** | **2,886** | **189** |
| Electric Power | **2,847** | **16** | **2,863** | **24** | **236** | **840** | **28** |
| Excavation | **4,562** | **98** | **4,660** | **69** | **26** | **1,806** | **134** |
| Large Power Systems | **2,885** | **3,911** | **6,796** | **215** | **527** | **3,148** | **215** |
| Logistics | **659** | **1,566** | **2,225** | **104** | **462** | **854** | **135** |
| Marine & Petroleum Power | **2,132** | **82** | **2,214** | **24** | **202** | **687** | **21** |
| Mining | **3,975** | **275** | **4,250** | **53** | **786** | **1,518** | **69** |
| Turbines | **3,321** | **5** | **3,326** | **61** | **726** | **850** | **92** |
| Total Machinery & Engines | **$30,102** | **$10,069** | **$40,171** | **$965** | **$3,760** | **$17,147** | **$1,113** |
| Financing & Insurance Services | **2,946** | **—** | **2,946** | **715** | **429** | **30,346** | **960** |
| Total | **$33,048** | **$10,069** | **$43,117** | **$1,680** | **$4,189** | **$47,493** | **$2,073** |
| **2009** | | | | | | | |
| Building Construction Products | $1,136 | $18 | $1,154 | $29 | $(193) | $615 | $17 |
| Cat Japan | 1,219 | 873 | 2,092 | 272 | (303) | 2,440 | 109 |
| Core Components | 919 | 954 | 1,873 | 76 | 222 | 955 | 50 |
| Earthmoving | 3,154 | 74 | 3,228 | 96 | (324) | 2,197 | 130 |
| Electric Power | 2,268 | 18 | 2,286 | 26 | 154 | 702 | 23 |
| Excavation | 2,265 | 54 | 2,319 | 63 | (348) | 1,325 | 69 |
| Large Power Systems | 2,227 | 3,073 | 5,300 | 193 | 109 | 2,703 | 207 |
| Logistics | 695 | 1,256 | 1,951 | 107 | 412 | 828 | 51 |
| Marine & Petroleum Power | 2,664 | 64 | 2,728 | 19 | 248 | 747 | 56 |
| Mining | 2,905 | 119 | 3,024 | 73 | 352 | 1,141 | 40 |
| Turbines | 3,490 | 9 | 3,499 | 60 | 807 | 734 | 78 |
| Total Machinery & Engines | $22,942 | $6,512 | $29,454 | $1,014 | $1,136 | $14,387 | $830 |
| Financing & Insurance Services | 3,139 | — | 3,139 | 742 | 399 | 32,230 | 976 |
| Total | $26,081 | $6,512 | $32,593 | $1,756 | $1,535 | $46,617 | $1,806 |
| **2008** | | | | | | | |
| Building Construction Products | $3,043 | $44 | $3,087 | $28 | $(55) | $706 | $51 |
| Cat Japan | 345 | 774 | 1,119 | 55 | (28) | 3,165 | 99 |
| Core Components | 1,129 | 1,757 | 2,886 | 69 | 357 | 1,079 | 145 |
| Earthmoving | 7,467 | 144 | 7,611 | 85 | 450 | 2,477 | 315 |
| Electric Power | 3,634 | 24 | 3,658 | 24 | 258 | 1,068 | 75 |
| Excavation | 5,918 | 115 | 6,033 | 54 | 31 | 1,646 | 132 |
| Large Power Systems | 3,220 | 5,469 | 8,689 | 194 | 595 | 3,055 | 375 |
| Logistics | 850 | 1,570 | 2,420 | 111 | 391 | 971 | 125 |
| Marine & Petroleum Power | 4,066 | 85 | 4,151 | 15 | 429 | 758 | 80 |
| Mining | 4,270 | 226 | 4,496 | 63 | 598 | 1,338 | 71 |
| Turbines | 3,413 | 17 | 3,430 | 55 | 628 | 943 | 94 |
| Total Machinery & Engines | $37,355 | $10,225 | $47,580 | $753 | $3,654 | $17,206 | $1,562 |
| Financing & Insurance Services | 3,561 | — | 3,561 | 755 | 548 | 34,578 | 1,608 |
| Total | $40,916 | $10,225 | $51,141 | $1,508 | $4,202 | $51,784 | $3,170 |

## Reconciliation of Sales and Revenues:

| (Millions of dollars) | Machinery and Engines | Financial Products | Consolidating Adjustments | Consolidated Total |
|---|---|---|---|---|
| **2010** | | | | |
| Total external sales and revenues from reportable segments | **$30,102** | **$2,946** | **$—** | **$33,048** |
| All other operating segments | **9,786** | **15** | **—** | **9,801** |
| Other | **(21)** | **25** | **(265)** [1] | **(261)** |
| Total sales and revenues | **$39,867** | **$2,986** | **$(265)** | **$42,588** |
| **2009** | | | | |
| Total external sales and revenues from reportable segments | $22,942 | $3,139 | $— | $26,081 |
| All other operating segments | 6,594 | — | — | 6,594 |
| Other | 4 | 29 | (312) [1] | (279) |
| Total sales and revenues | $29,540 | $3,168 | $(312) | $32,396 |
| **2008** | | | | |
| Total external sales and revenues from reportable segments | $37,355 | $3,561 | $— | $40,916 |
| All other operating segments | 10,738 | — | — | 10,738 |
| Other | (49) | 27 | (308) [1] | (330) |
| Total sales and revenues | $48,044 | $3,588 | $(308) | $51,324 |

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

## Reconciliation of Profit Before Taxes:

| (Millions of dollars) | Machinery and Engines | Financial Products | Consolidated Total |
|---|---|---|---|
| **2010** | | | |
| Total accountable profit from reportable segments | **$3,760** | **$429** | **$4,189** |
| All other operating segments | **1,384** | **1** | **1,385** |
| Cost centers | **(91)** | **—** | **(91)** |
| Corporate costs | **(581)** | **—** | **(581)** |
| Timing | **(87)** | **—** | **(87)** |
| Redundancy charges | **(33)** | **—** | **(33)** |
| Methodology differences: | | | |
| Inventory/cost of sales | **(114)** | **—** | **(114)** |
| Postretirement benefit expense | **(584)** | **—** | **(584)** |
| Financing costs | **(342)** | **—** | **(342)** |
| Equity in profit of unconsolidated affiliated companies | **24** | **—** | **24** |
| Currency | **(3)** | **—** | **(3)** |
| Other methodology differences | **(30)** | **17** | **(13)** |
| Total profit before taxes | **$3,303** | **$447** | **$3,750** |
| **2009** | | | |
| Total accountable profit from reportable segments | $1,136 | $399 | $1,535 |
| All other operating segments | (207) | — | (207) |
| Cost centers | (2) | | (2) |
| Corporate costs | (4) | — | (4) |
| Timing | 188 | — | 188 |
| Redundancy charges | (654) | (10) | (664) |
| Methodology differences: | | | |
| Inventory/cost of sales | 161 | — | 161 |
| Postretirement benefit expense | (318) | — | (318) |
| Financing costs | (389) | — | (389) |
| Equity in profit of unconsolidated affiliated companies | 12 | — | 12 |
| Currency | 256 | — | 256 |
| Other methodology differences | (5) | 6 | 1 |
| Total profit before taxes | $174 | $395 | $569 |
| **2008** | | | |
| Total accountable profit from reportable segments | $3,654 | $548 | $4,202 |
| All other operating segments | 887 | — | 887 |
| Cost centers | 65 | — | 65 |
| Corporate costs | (195) | — | (195) |
| Timing | (30) | — | (30) |
| Redundancy charges | (30) | — | (30) |
| Methodology differences: | | | |
| Inventory/cost of sales | (30) | — | (30) |
| Postretirement benefit expense | (52) | — | (52) |
| Financing costs | (268) | — | (268) |
| Equity in profit of unconsolidated affiliated companies | (38) | 1 | (37) |
| Currency | (48) | — | (48) |
| Other methodology differences | 32 | 5 | 37 |
| Total profit before taxes | $3,947 | $554 | $4,501 |

**Reconciliation of Redundancy costs:**

As noted above, redundancy costs are a reconciling item between Accountable profit (loss) and Consolidated profit (loss) before tax. For the year ended December 31, 2009, redundancy costs of $42 million were charged to operating segments. Had we included the remaining amounts in the segments' results, the Accountable profit (loss) would have been as shown below:

| (Millions of dollars) | Accountable profit (loss) | Redundancy costs | Accountable profit (loss) with redundancy costs |
|---|---|---|---|
| **2009** | | | |
| Building Construction Products | $(193) | $(40) | $(233) |
| Cat Japan | (303) | (26) | (329) |
| Core Components | 222 | (6) | 216 |
| Earthmoving | (324) | (85) | (409) |
| Electric Power | 154 | (22) | 132 |
| Excavation | (348) | (61) | (409) |
| Large Power Systems | 109 | (90) | 19 |
| Logistics | 412 | (29) | 383 |
| Marine & Petroleum Power | 248 | (13) | 235 |
| Mining | 352 | (54) | 298 |
| Turbines | 807 | — | 807 |
| Financing & Insurance Services | 399 | (10) | 389 |
| All other operating segments | (207) | (228) | (435) |
| Consolidated Total | $1,328 | $(664) | $664 |

**Reconciliation of Assets:**

| (Millions of dollars) | Machinery and Engines | Financial Products | Consolidating Adjustments | Consolidated Total |
|---|---|---|---|---|
| **2010** | | | | |
| Total accountable assets from reportable segments | **$17,147** | **$30,346** | **$—** | **$47,493** |
| All other operating segments | **9,977** | **139** | **—** | **10,116** |
| Items not included in segment assets: | | | | |
| Cash and short-term investments | **1,825** | **—** | **—** | **1,825** |
| Intercompany receivables | **618** | **—** | **(618)** | **—** |
| Investment in Financial Products | **4,275** | **—** | **(4,275)** | **—** |
| Deferred income taxes and prepaids | **3,687** | **—** | **(532)** | **3,155** |
| Goodwill, intangibles and other assets | **1,172** | **—** | — | **1,172** |
| Liabilities included in segment assets | **3,187** | **—** | — | **3,187** |
| Inventory methodology differences | **(2,940)** | **—** | — | **(2,940)** |
| Other | **543** | **(372)** | **(159)** | **12** |
| Total assets | **$39,491** | **$30,113** | **$(5,584)** | **$64,020** |
| **2009** | | | | |
| Total accountable assets from reportable segments | $14,387 | $32,230 | $— | $46,617 |
| All other operating segments | 7,356 | — | — | 7,356 |
| Items not included in segment assets: | | | | |
| Cash and short-term investments | 2,239 | — | — | 2,239 |
| Intercompany receivables | 106 | — | (106) | — |
| Investment in Financial Products | 4,514 | — | (4,514) | — |
| Deferred income taxes and prepaids | 4,131 | — | (460) | 3,671 |
| Goodwill, intangibles and other assets | 1,364 | — | — | 1,364 |
| Liabilities included in segment assets | 2,270 | — | — | 2,270 |
| Inventory methodology differences | (2,735) | — | — | (2,735) |
| Other | 564 | (255) | (1,053) | (744) |
| Total assets | $34,196 | $31,975 | $(6,133) | $60,038 |
| **2008** | | | | |
| Total accountable assets from reportable segments | $17,206 | $34,578 | $— | $51,784 |
| All other operating segments | 8,335 | — | — | 8,335 |
| Items not included in segment assets: | | | | |
| Cash and short-term investments | 1,517 | — | — | 1,517 |
| Intercompany receivables | 540 | — | (540) | — |
| Investment in Financial Products | 3,788 | — | (3,788) | — |
| Deferred income taxes and prepaids | 4,739 | — | (474) | 4,265 |
| Goodwill, intangibles and other assets | 1,197 | — | — | 1,197 |
| Liabilities included in segment assets | 2,968 | — | — | 2,968 |
| Inventory methodology differences | (2,746) | — | — | (2,746) |
| Other | 735 | (197) | (76) | 462 |
| Total assets | $38,279 | $34,381 | $(4,878) | $67,782 |

**Reconciliation of Depreciation and amortization**

| (Millions of dollars) | Machinery and Engines | Financial Products | Consolidating Adjustments | Consolidated Total |
|---|---|---|---|---|
| **2010** | | | | |
| Total accountable depreciation and amortization from reportable segments | **$965** | **$715** | **$—** | **$1,680** |
| Items not included in segment depreciation and amortization: | | | | |
| All other operating segments | **456** | **8** | **—** | **464** |
| Cost centers | **151** | **—** | **—** | **151** |
| Other | **1** | **—** | **—** | **1** |
| Total depreciation and amortization | **$1,573** | **$723** | **$—** | **$2,296** |
| **2009** | | | | |
| Total accountable depreciation and amortization from reportable segments | $1,014 | $742 | $— | $1,756 |
| Items not included in segment depreciation and amortization: | | | | |
| All other operating segments | 417 | — | — | 417 |
| Cost centers | 173 | — | — | 173 |
| Other | (10) | — | — | (10) |
| Total depreciation and amortization | $1,594 | $742 | $— | $2,336 |
| **2008** | | | | |
| Total accountable depreciation and amortization from reportable segments | $753 | $755 | $— | $1,508 |
| Items not included in segment depreciation and amortization: | | | | |
| All other operating segments | 363 | — | — | 363 |
| Cost centers | 168 | — | — | 168 |
| Other | (59) | — | — | (59) |
| Total depreciation and amortization | $1,225 | $755 | $— | $1,980 |

## Reconciliation of Capital expenditures

| (Millions of dollars) | Machinery and Engines | Financial Products | Consolidating Adjustments | Consolidated Total |
|---|---|---|---|---|
| **2010** | | | | |
| Total accountable capital expenditures from reportable segments | **$1,113** | **$960** | **$—** | **$2,073** |
| Items not included in segment capital expenditures: | | | | |
| All other operating segments | **546** | **32** | **—** | **578** |
| Cost centers | **141** | **—** | **—** | **141** |
| Timing | **(180)** | **—** | **—** | **(180)** |
| Other | **43** | **—** | **(69)** | **(26)** |
| Total capital expenditures | **$1,663** | **$992** | **$(69)** | **$2,586** |
| **2009** | | | | |
| Total accountable capital expenditures from reportable segments | $830 | $976 | $— | $1,806 |
| Items not included in segment capital expenditures: | | | | |
| All other operating segments | 380 | — | — | 380 |
| Cost centers | 119 | — | — | 119 |
| Timing | 156 | — | — | 156 |
| Other | 15 | — | (4) | 11 |
| Total capital expenditures | $1,500 | $976 | $(4) | $2,472 |
| **2008** | | | | |
| Total accountable capital expenditures from reportable segments | $1,562 | $1,608 | $— | $3,170 |
| Items not included in segment capital expenditures: | | | | |
| All other operating segments | 616 | — | — | 616 |
| Cost centers | 242 | — | — | 242 |
| Timing | (125) | — | — | (125) |
| Other | 1 | 4 | (22) | (17) |
| Total capital expenditures | $2,296 | $1,612 | $(22) | $3,886 |

**Enterprise-wide Disclosures:**

**External sales and revenues from products and services:**

| (Millions of dollars) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Machinery | **$27,767** | $18,148 | $31,804 |
| Engines | **12,100** | 11,392 | 16,240 |
| Financial Products | **2,721** | 2,856 | 3,280 |
| Total consolidated | **$42,588** | $32,396 | $51,324 |

**Information about Geographic Areas:**

| (Millions of dollars) | External Sales & Revenues[1] | | | Net property, plant and equipment December 31, | | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 |
| Inside United States | **$13,674** | $10,560 | $17,291 | **$6,427** | $6,260 | $6,473 |
| Outside United States | **28,914** | 21,836 | 34,033 | **6,112**[2] | 6,126[2] | 6,051[2] |
| Total | **$42,588** | $32,396 | $51,324 | **$12,539** | $12,386 | $12,524 |

[1]Sales of machinery and engines are based on dealer or customer location. Revenues from services provided are based on where service is rendered.

[2]Amount includes $1,266 million, $1,432 million and $1,533 million of net property, plant and equipment located in Japan as of December 31, 2010, 2009 and 2008, respectively. Additionally, amount includes $893 million, $943 million and $882 million of net property, plant and equipment located in Canada as of December 31, 2010, 2009 and 2008, respectively. Also, amount includes $745 million, $731 million and $725 million of net property, plant and equipment located in the United Kingdom as of December 31, 2010, 2009 and 2008, respectively.

## 23. Business combinations and alliances

### Electro-Motive Diesel, Inc.

In August 2010, we acquired 100 percent of the equity in privately held Electro-Motive Diesel, Inc. (EMD) for approximately $901 million, consisting of $928 million paid at closing less a final net working capital adjustment of $27 million received in the fourth quarter of 2010. Headquartered in LaGrange, Illinois with additional manufacturing facilities in Canada and Mexico, EMD designs, manufactures and sells diesel-electric locomotives for commercial railroad applications and sells its products to customers throughout the world. EMD has a significant field population in North America and throughout the world supported by an aftermarket business offering customers replacement parts, maintenance solutions, and a range of value-added services. EMD is also a global provider of diesel engines for marine propulsion, offshore and land-based oil well drilling rigs, and stationary power generation. The acquisition supports our strategic plan to grow our presence in the global rail industry. The EMD acquisition will enable us to provide rail and transit customers a range of locomotive, engine and emissions solutions, as well as aftermarket product and parts support and a full line of rail-related services and solutions.

The transaction was financed with available cash. Tangible assets acquired of $890 million, recorded at their fair values, primarily were receivables of $186 million, inventories of $549 million and property, plant and equipment of $131 million. Finite-lived intangible assets acquired of $329 million were primarily related to customer relationships and also included intellectual property and trade names. The finite-lived intangible assets are being amortized on a straight-line basis over a weighted-average amortization period of approximately 15 years. An additional intangible asset acquired of $18 million, related to in-process research and development, is considered indefinite-lived until the completion or abandonment of the development activities. Liabilities assumed of $518 million, recorded at their fair values, primarily included accounts payable of $124 million and accrued expenses of $161 million. Additionally, net deferred tax liabilities were $104 million. Goodwill of $286 million, substantially all of which is non-deductible for income tax purposes, represents the excess of cost over the fair value of the net tangible and intangible assets acquired. Factors that contributed to a purchase price resulting in the recognition of goodwill include EMD's strategic fit into our product and services portfolio, aftermarket support opportunities and the acquired assembled workforce. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and are reported in the "All Other" category in Note 22. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

**FCM Rail Ltd.**

In May 2010, we acquired 100 percent of the equity in privately held FCM Rail Ltd. (FCM) for approximately $97 million, including the assumption of $59 million in debt. We paid $32 million at closing and an additional $1 million post-closing adjustment paid in October 2010. There is also an additional $5 million to be paid by May 2012. FCM is one of the largest lessors of maintenance-of-way (MOW) equipment in the United States, and is located in Fenton, Michigan. This acquisition strengthens Progress Rail's position in the MOW industry by expanding its service offerings.

The transaction was financed with available cash. Tangible assets acquired of $93 million, primarily consisting of property, plant and equipment, were recorded at their fair values. Finite-lived intangible assets acquired of $10 million related to customer relationships are being amortized on a straight-line basis over 15 years. Liabilities assumed of $82 million, including $59 million of assumed debt, were recorded at their fair values. Goodwill of $17 million, non-deductible for income tax purposes, represents the excess of cost over the fair value of net tangible and finite-lived intangible assets acquired. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and reported in the "All Other" category in Note 22. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

**GE Transportation's Inspection Products Business**

In March 2010, we acquired the Inspection Products business from GE Transportation's Intelligent Control Systems division for approximately $46 million, which includes $1 million paid for post-closing adjustments. The acquired business has operations located primarily in the United States, Germany and Italy that design, manufacture and sell hot wheel and hot box detectors, data acquisition systems, draggers and other related inspection products for the global freight and passenger rail industries. The acquisition supports our strategic initiative to expand the scope and product range of our rail signaling business and will provide a foundation for further global expansion of this business.

The transaction was financed with available cash. Tangible assets acquired of $12 million and liabilities assumed of $9 million were recorded at their fair values. Finite-lived intangible assets acquired of $28 million related to customer relationships and intellectual property are being amortized on a straight-line basis over a weighted-average amortization period of approximately 13 years. Goodwill of $15 million, approximately $8 million of which is deductible for income tax purposes, represents the excess of cost over the fair value of the net tangible and finite-lived intangible assets acquired. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and are reported in the "All Other" category in Note 22. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

**JCS Company, Ltd.**

In March 2010, we acquired 100 percent of the equity in privately held JCS Company Ltd. (JCS) for approximately $34 million, consisting of $32 million paid at closing and an additional $2 million post-closing adjustment paid in June 2010. Based in Pyongtaek, South Korea, JCS is a leading manufacturer of centrifugally cast metal face seals used in many of the idlers and rollers contained in our undercarriage components. JCS is also a large supplier of seals to external customers in Asia and presents the opportunity to expand our customer base. The purchase of this business provides Caterpillar access to proprietary technology and expertise, which we will be able to replicate across our own seal production processes.

The transaction was financed with available cash. Tangible assets acquired of $22 million and liabilities assumed of $8 million were recorded at their fair values. Finite-lived intangible assets acquired of $12 million related to intellectual property and customer relationships are being amortized on a straight-line basis over a weighted-average amortization period of approximately 9 years. Goodwill of $8 million, non-deductible for income tax purposes, represents the excess of cost over the fair value of net tangible and finite-lived intangible assets acquired. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and reported in the "Core Components" segment in Note 22. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

**$NC^2$ Joint Venture**

In September 2009, we entered into a joint venture with Navistar International Corporation (Navistar), resulting in a new company, $NC^2$ Global LLC ($NC^2$). $NC^2$ will develop, manufacture, market, distribute and provide product support for heavy and medium duty trucks outside of North America, the Indian subcontinent, Myanmar (Burma) and Malaysia. Initially, $NC^2$ will focus its activities in Australia, Brazil, and South Africa. $NC^2$'s product line will feature both conventional and cab-over truck designs and will be sold under both the Caterpillar and International brands.

Under the joint venture operating agreement, Caterpillar and Navistar each contributed $19 million during 2009 and $80 million during 2010. Our investment in $NC^2$, accounted for by the equity method, is included in Investments in unconsolidated affiliated companies in Statement 2.

**Lovat Inc.**

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

The transaction was financed with available cash and commercial paper borrowings. Net tangible assets acquired and liabilities assumed of $10 million were recorded at their fair values. Finite-lived intangible assets acquired of $17 million related to customer relationships, intellectual property and trade names are being amortized on a straight-line basis over a weighted-average amortization period of approximately 6 years. Goodwill of $22 million, non-deductible for income tax purposes, represents the excess of cost over the fair value of net tangible and finite-lived intangible assets acquired. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and reported in the "Mining" segment in Note 22. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

**Gremada Industries Inc.**

In July 2008, we acquired certain assets and assumed certain liabilities of Gremada Industries, Inc. (Gremada), a supplier to our remanufacturing business. The cost of the acquisition was $62 million, consisting of $60 million paid at closing and an additional $2 million post-closing adjustment paid in August 2008. Gremada is a remanufacturer of transmissions, torque converters, final drives and related components. This acquisition increases our product and service offerings for our existing customers, while providing a platform for further growth opportunities.

This transaction was financed with available cash and commercial paper borrowings. Net tangible assets acquired and liabilities assumed of $21 million were recorded at their fair values. Goodwill of $41 million, deductible for income tax purposes, represents the excess of cost over the fair value of net tangible assets acquired. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and are reported in the "All Other" category in Note 22. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

**Shin Caterpillar Mitsubishi Ltd. (SCM)**

On August 1, 2008, SCM completed the first phase of a share redemption plan whereby SCM redeemed half of MHI's shares in SCM for $464 million. This resulted in Caterpillar owning 67 percent of the outstanding shares of SCM and MHI owning the remaining 33 percent. As part of the share redemption, SCM was renamed Caterpillar Japan Ltd. (Cat Japan). Both Cat Japan and MHI have options, exercisable beginning August 1, 2013, to require the redemption of the remaining shares owned by MHI, which if exercised, would make Caterpillar the sole owner of Cat Japan. The share redemption plan is part of our comprehensive business strategy for expansion in the emerging markets of Asia and the Commonwealth of Independent States and will allow Cat Japan's manufacturing, design and process expertise to be fully leveraged across the global Caterpillar enterprise.

The change in Caterpillar's ownership interest from 50 percent to 67 percent was accounted for as a business combination. The $464 million redemption price was assigned to 17 percent of Cat Japan's assets and liabilities based upon their respective fair values as of the transaction date. The revaluation resulted in an increase in property, plant and equipment of $78 million and an increase in inventory of $8 million over the book value of these assets. Finite-lived intangible assets of $54 million were recognized and related primarily to customer relationships, intellectual property and trade names. These intangibles are being amortized on a straight-line basis over a weighted-average amortization period of approximately 9 years. Deferred tax liabilities of $57 million were also recognized as part of the business combination. Goodwill of $206 million, non-deductible for income tax purposes, represents the excess of the redemption price over the 17 percent of Cat Japan's net tangible and finite-lived intangible assets that were reported at their fair values.

Because Cat Japan is accounted for on a lag, we consolidated Cat Japan's August 1, 2008 financial position on September 30, 2008. We began consolidating Cat Japan's results of operations in the fourth quarter of 2008. Including the amounts assigned as part of the business combination, the initial consolidation of Cat Japan's financial position resulted in a net increase in assets of $2,396 million (primarily property, plant and equipment of $1,279 million, inventory of $640 million, receivables of $612 million, and goodwill and intangibles of $260 million partially offset by a

$528 million reduction in investment in unconsolidated affiliates) and a net increase in liabilities of $2,045 million (including $1,388 million in debt). Cat Japan's functional currency is the Japanese yen.

The remaining 33 percent of Cat Japan owned by MHI has been reported as redeemable noncontrolling interest and classified as mezzanine equity (temporary equity) in Statement 2. On September 30, 2008, the redeemable noncontrolling interest was reported at its estimated future redemption value of $464 million with the difference between the $351 million book value of the 33 percent interest and the redemption value reported as a $113 million reduction of Profit employed in the business. See Note 24 for information on the subsequent reporting of the redeemable noncontrolling interest.

Cat Japan is included in the "Cat Japan" segment in Note 22. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

## 24. Redeemable Noncontrolling Interest – Caterpillar Japan Ltd.

On August 1, 2008, Shin Caterpillar Mitsubishi Ltd. (SCM) completed the first phase of a share redemption plan whereby SCM redeemed half of Mitsubishi Heavy Industries (MHI's) shares in SCM. This resulted in Caterpillar owning 67 percent of the outstanding shares of SCM and MHI owning the remaining 33 percent. As part of the share redemption, SCM was renamed Caterpillar Japan Ltd. (Cat Japan). Both Cat Japan and MHI have options, exercisable beginning August 1, 2013, to require the redemption of the remaining shares owned by MHI, which if exercised, would make Caterpillar the sole owner of Cat Japan. See Note 23 for additional information.

The remaining 33 percent of Cat Japan owned by MHI has been reported as redeemable noncontrolling interest and classified as mezzanine equity (temporary equity) in Statement 2. The redeemable noncontrolling interest is reported at its estimated redemption value. Any adjustment to the redemption value impacts Profit employed in the business, but does not impact Profit. If the fair value of the redeemable noncontrolling interest falls below the redemption value, profit available to common stockholders would be reduced by the difference between the redemption value and the fair value. This would result in lower profit in the profit per common share computation in that period. Reductions impacting the profit per common share computation may be partially or fully reversed in subsequent periods if the fair value of the redeemable noncontrolling interest increases relative to the redemption value. Such increases in profit per common share would be limited to cumulative prior reductions. During 2010, the estimated redemption value decreased, resulting in adjustments to the carrying value of the redeemable noncontrolling interest. Profit employed in the business increased by $27 million due to these adjustments. During 2009, the estimated redemption value decreased, resulting in adjustments to the carrying value of the redeemable noncontrolling interest. Profit employed in the business increased by $81 million due to these adjustments. There was no change to the estimated redemption value in 2008. As of December 31, 2010, 2009 and 2008, the fair value of the redeemable noncontrolling interest remained greater than the estimated redemption value.

We estimate the fair value of the redeemable noncontrolling interest using a discounted five year forecasted cash flow with a year-five residual value. Based on our current expectations for Cat Japan, we expect the fair value of the redeemable noncontrolling interest to remain greater than the redemption value. However, if economic conditions deteriorate and Cat Japan's business forecast is negatively impacted, it is possible that the fair value of the redeemable noncontrolling interest may fall below the estimated redemption value. Should this occur, profit would be reduced in the profit per common share computation by the difference between the redemption value and the fair value. Lower long-term growth rates, reduced long-term profitability as well as changes in interest rates, costs, pricing, capital expenditures and general market conditions may reduce the fair value of the redeemable noncontrolling interest.

With the consolidation of Cat Japan's results of operations, 33 percent of Cat Japan's comprehensive income or loss is attributed to the redeemable noncontrolling interest, impacting its carrying value. Because the redeemable noncontrolling interest must be reported at its estimated future redemption value, the impact from attributing the comprehensive income or loss is offset by adjusting the carrying value to the redemption value. This adjustment impacts Profit employed in the business, but not Profit. In 2010, the carrying value had increased by $55 million due to Cat Japan's comprehensive income. This resulted in an offsetting adjustment of $55 million to decrease the carrying value to the redemption value and a corresponding increase to Profit employed in the business. In 2009 and 2008, the carrying value had decreased by $53 million and $2 million, respectively, due to Cat Japan's comprehensive loss. This resulted in an offsetting adjustment of $53 million in 2009 and $2 million in 2008 to increase the carrying value to the redemption value and a corresponding reduction to Profit employed in the business. As Cat Japan's functional currency is the Japanese yen, changes in exchange rates affect the reported amount of the redeemable noncontrolling interest. At December 31, 2010, 2009 and 2008, the redeemable noncontrolling interest was $461 million, $477 million and $524 million, respectively.

## 25. Employee separation charges

In 2008, we recognized employee separation charges of $30 million in Other operating (income) expenses in Statement 1 related to various voluntary and involuntary separation programs. These programs, impacting 3,085 employees worldwide, were in response to a sharp decline in sales volume due to the global recession.

In 2009, continued cost reduction efforts worldwide resulted in additional separation charges of $481 million, recognized in Other operating (income) expenses in Statement 1. These efforts related to the following separation programs:

*U.S. Voluntary Separation Program* - During December 2008, we announced a voluntary separation program for certain support and management employees based in the United States. Eligible employees had until January 12, 2009 to sign up for the program, and generally until January 31, 2009 to make a final decision. Participating employees received severance pay based on current salary level and years of service. During 2009, 2,182 employees accepted the program, all of which were separated from Caterpillar by the end of 2009.

*Other U.S. Separation Programs* – During 2009, we initiated plans to reduce U.S. based positions through a variety of programs. These programs represent both voluntary and involuntary separation plans. During 2009, 6,611 employees accepted or were subject to these programs.

*Non-U.S. Separation Programs* - During 2009, we initiated several other separation programs outside the U.S. These programs, designed specific to the laws and regulations of the individual countries, represent voluntary and involuntary plans. During 2009, 7,075 employees accepted or were subject to the various programs.

In 2010, we recognized employee separation charges of $33 million in Other operating (income) expenses in Statement 1 primarily related to involuntary separations due to the streamlining of our corporate structure as announced in the second quarter. In addition, see Note 2 for information regarding stock-based compensation cost associated with the modification of equity awards for employees affected by the separations.

Our accounting for separations is dependent upon how the particular program is designed. For voluntary programs, eligible separation costs are recognized at the time of employee acceptance. For involuntary programs, eligible costs are recognized when management has approved the program, the affected employees have been properly identified and the costs are estimable.

The following table summarizes the 2008, 2009 and 2010 separation activity by geographic region:

| | Machinery and Engines | | | | | |
|---|---|---|---|---|---|---|
| **(Millions of dollars)** | **North America** | **Latin America** | **EAME** | **Asia Pacific** | **Financial Products[1]** | **Total** |
| Increase in liability (separation charges) | $4 | $9 | $17 | $— | $— | $30 |
| Reduction in liability (payments and other adjustments) | — | (7) | (12) | — | — | (19) |
| Liability balance at December 31, 2008 | $4 | $2 | $5 | $— | $— | $11 |
| Increase in liability (separation charges) | $323 | $15 | $102 | $31 | $10 | $481 |
| Reduction in liability (payments and other adjustments) | (313) | (17) | (78) | (25) | (10) | (443) |
| Liability balance at December 31, 2009 | $14 | $— | $29 | $6 | $— | $49 |
| Increase in liability (separation charges) | **$17** | **$—** | **$8** | **$7** | **$1** | **$33** |
| Reduction in liability (payments and other adjustments) | **(26)** | **—** | **(23)** | **(11)** | **—** | **(60)** |
| Liability balance at December 31, 2010 | **$5** | **$—** | **$14** | **$2** | **$1** | **$22** |

[1]Includes $8 million for North America and $2 million for EAME in 2009 and $1 million for EAME in 2010.

The remaining liability balances as of December 31, 2010 represent costs for employees that have either not yet separated from the Company or their full severance has not yet been paid. The majority of these remaining costs are expected to be paid in 2011.

The number of employees affected by the separations in 2010 was not significant. The following table summarizes the number of employees that accepted or were subject to the 2008 and 2009 programs:

| | 2009 | 2008 |
|---|---|---|
| Impacted employees at beginning of period | 1,505 | — |
| Impacted employees during the period | 15,868 | 3,085 |
| Employee separations during the period | (16,970) | (1,580) |
| Impacted employees remaining at the end of period | 403 | 1,505 |

In addition to the 2009 separation charges noted above, we reported $225 million of costs associated with certain pension and other postretirement benefit plans, which were also recognized in Other operating (income) expenses in Statement 1. See Note 12 for additional information.

The majority of the separation charges, made up primarily of cash severance payments, pension and other postretirement benefit costs, and stock-based compensation costs noted above were not assigned to operating segments. They are included in the reconciliation of total accountable profit from reportable segments to total profit before taxes. See Note 22 for additional details surrounding this reconciliation.

## 26. Selected quarterly financial results (unaudited)

| | **2010 Quarter** | | | |
|---|---|---|---|---|
| **(Dollars in millions except per share data)** | **1st** | **2nd** | **3rd** | **4th** |
| Sales and revenues | **$8,238** | **$10,409** | **$11,134** | **$12,807** |
| Less: Revenues | **(687)** | **(686)** | **(682)** | **(666)** |
| Sales | **7,551** | **9,723** | **10,452** | **12,141** |
| Cost of goods sold | **5,894** | **7,372** | **7,752** | **9,349** |
| Gross margin | **1,657** | **2,351** | **2,700** | **2,792** |
| Profit (loss) [1] | **$233** | **$707** | **$792** | **$968** |
| Profit (loss) per common share | **$0.37** | **$1.12** | **$1.25** | **$1.52** |
| Profit (loss) per common share—diluted [2] | **$0.36** | **$1.09** | **$1.22** | **$1.47** |
| | 2009 Quarter | | | |
| | 1st | 2nd | 3rd | 4th |
| Sales and revenues | $9,225 | $7,975 | $7,298 | $7,898 |
| Less: Revenues | (715) | (721) | (715) | (705) |
| Sales | 8,510 | 7,254 | 6,583 | 7,193 |
| Cost of goods sold | 7,027 | 5,752 | 5,255 | 5,852 |
| Gross margin | 1,483 | 1,502 | 1,328 | 1,341 |
| Profit (loss) [1] | $(112) | $371 | $404 | $232 |
| Profit (loss) per common share | $(0.19) | $0.61 | $0.65 | $0.37 |
| Profit (loss) per common share—diluted [2,3] | $(0.19) | $0.60 | $0.64 | $0.36 |

[1] Profit (loss) attributable to common stockholders.
[2] Diluted by assumed exercise of stock-based compensation awards using the treasury stock method.
[3] In the first quarter 2009, the assumed exercise of stock-based compensation awards was not considered because the impact would be anti-dilutive.

## Five-year Financial Summary
## (Dollars in millions except per share data)

| | **2010** | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| **Years ended December 31,** | | | | | |
| Sales and revenues | **$42,588** | $32,396 | $51,324 | $44,958 | $41,517 |
| Sales | **$39,867** | $29,540 | $48,044 | $41,962 | $38,869 |
| Percent inside the United States | **32%** | 31% | 33% | 37% | 46% |
| Percent outside the United States | **68%** | 69% | 67% | 63% | 54% |
| Revenues | **$2,721** | $2,856 | $3,280 | $2,996 | $2,648 |
| Profit[4, 6] | **$2,700** | $895 | $3,557 | $3,541 | $3,537 |
| Profit per common share[1, 6] | **$4.28** | $1.45 | $5.83 | $5.55 | $5.37 |
| Profit per common share—diluted[2, 6] | **$4.15** | $1.43 | $5.66 | $5.37 | $5.17 |
| Dividends declared per share of common stock | **$1.740** | $1.680 | $1.620 | $1.380 | $1.150 |
| Return on average common stockholders' equity[3, 5, 6] | **27.4%** | 11.9% | 46.8% | 44.4% | 45.9% |
| Capital expenditures: | | | | | |
| Property, plant and equipment | **$1,575** | $1,504 | $2,320 | $1,682 | $1,531 |
| Equipment leased to others | **$1,011** | $968 | $1,566 | $1,340 | $1,082 |
| Depreciation and amortization | **$2,296** | $2,336 | $1,980 | $1,797 | $1,602 |
| Research and development expenses | **$1,905** | $1,421 | $1,728 | $1,404 | $1,347 |
| As a percent of sales and revenues | **4.5%** | 4.4% | 3.4% | 3.1% | 3.2% |
| Wages, salaries and employee benefits | **$9,187** | $7,416 | $9,076 | $8,331 | $7,512 |
| Average number of employees | **98,504** | 99,359 | 106,518 | 97,444 | 90,160 |
| **December 31,** | | | | | |
| Total assets[6] | **$64,020** | $60,038 | $67,782 | $56,132 | $51,449 |
| Long-term debt due after one year: | | | | | |
| Consolidated | **$20,437** | $21,847 | $22,834 | $17,829 | $17,680 |
| Machinery and Engines | **$4,505** | $5,652 | $5,736 | $3,639 | $3,694 |
| Financial Products | **$15,932** | $16,195 | $17,098 | $14,190 | $13,986 |
| Total debt: | | | | | |
| Consolidated | **$28,418** | $31,631 | $35,535 | $28,429 | $27,296 |
| Machinery and Engines | **$5,204** | $6,387 | $7,824 | $4,006 | $4,277 |
| Financial Products | **$23,214** | $25,244 | $27,711 | $24,423 | $23,019 |

1 Computed on weighted-average number of shares outstanding.
2 Computed on weighted-average number of shares outstanding diluted by assumed exercise of stock-based compensation awards, using the treasury stock method.
3 Represents profit divided by average stockholders' equity (beginning of year stockholders' equity plus end of year stockholders' equity divided by two).
4 Profit attributable to common stockholders.
5 Effective January 1, 2009, we changed the manner in which we accounted for noncontrolling interests. Prior periods have been revised, as applicable.
6 In 2007 we changed the manner in which we accounted for uncertain tax positions.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### OVERVIEW

We reported sales and revenues of $42.588 billion for 2010, an increase of 31 percent from $32.396 billion in 2009. Profit in 2010 was $2.700 billion, an increase of 202 percent from 2009 profit of $895 million. Profit per share of $4.15 was up from $1.43 in 2009. Excluding ***redundancy costs***, profit per share in 2009 was $2.18.

Fourth-quarter sales and revenues were $12.807 billion, an increase of 62 percent compared with $7.898 billion in the fourth quarter of 2009. Fourth-quarter profit of $968 million was 317 percent higher than profit of $232 million in the fourth quarter of 2009. Profit per share of $1.47 was up from $0.36 per share in the fourth quarter of 2009. Excluding redundancy costs, profit for the fourth quarter of 2009 was $0.41 per share.

As the global economy continued to improve, the demand for Caterpillar products increased with fourth-quarter sales and revenues up 62 percent. During 2010, we substantially ramped up production, improved factory efficiency, drove ***Machinery and Engines (M&E)*** operating cash flow to an all-time record, launched a number of capacity additions and new product programs to prepare us for the future and announced several acquisitions.

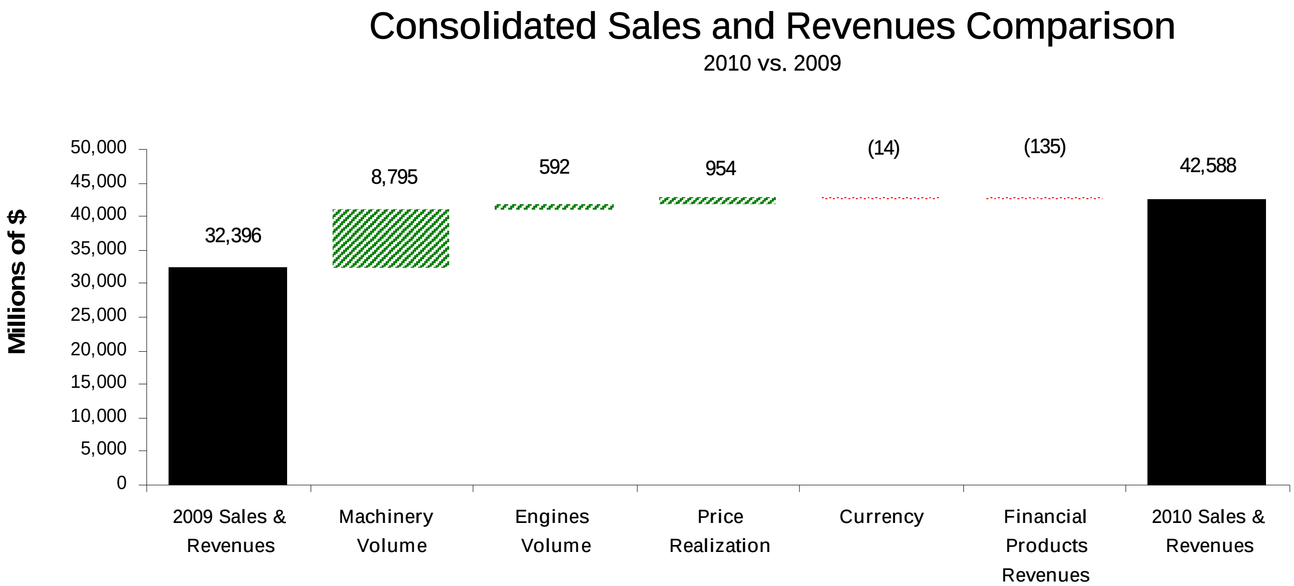
Highlights for 2010 include:

- 2010 sales and revenues of $42.588 billion were 31 percent higher than 2009. The improvement is a result of economic growth in the developing world and improvement from low levels of machine demand in 2009 in developed countries. ***Machinery*** sales increased 53 percent from 2009, ***Engines*** sales were up 6 percent and ***Financial Products*** revenues declined 5 percent.
- In 2010, dealers increased new machine inventories about $800 million, while new engine inventories were about flat. In 2009, dealers reduced new machine inventories $3.4 billion and new engine inventories $600 million.
- Profit per share was $4.15 in 2010, an increase from $1.43 per share or $2.18 per share excluding redundancy costs in 2009.
- ***Manufacturing costs*** improved $909 million from 2009. Excluding pre-tax ***LIFO inventory decrement benefits*** of $300 million in 2009, manufacturing costs improved $1.209 billion.
- Machinery and Engines operating cash flow was a record $5.638 billion in 2010, compared with $3.147 billion in 2009.
- Machinery and Engines ***debt-to-capital ratio*** was 34.8 percent at the end of 2010, compared to 47.2 percent at year-end 2009.
- Portfolio performance metrics at Cat Financial continued to improve. For example, past dues declined to 3.87 percent at the end of 2010 from 5.54 percent at the end of 2009.

*Glossary of terms included on pages A-102 to A-104; first occurrence of terms shown in bold italics.

## 2010 COMPARED WITH 2009

### SALES AND REVENUES




The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between 2009 (at left) and 2010 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting sales and revenues appear as downward stair steps with dollar amounts reflected in parentheses above each bar. The bar entitled Machinery Volume includes EMD sales. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Sales and revenues for 2010 were $42.588 billion, up $10.192 billion, or 31 percent, from 2009. Machinery ***sales volume*** was up $8.795 billion primarily due to higher end-user demand and the absence of dealer inventory reductions that occurred in 2009. Engines sales volume increased $592 million, primarily because of higher sales of engines for electric power and industrial applications partially offset by lower sales of engines for marine and petroleum applications. ***Price realization*** improved $954 million, and ***currency*** had a negative impact on sales of $14 million. Financial Products revenues decreased $135 million primarily due to lower average ***earning assets***.

Our ***integrated service businesses*** tend to be more stable through the business cycle than new machines and engines. Sales and revenues for these businesses in 2010 were higher compared to 2009. However, with the increase in sales of new machines and engines, integrated service businesses represented a lower percent of total company sales and revenues than the prior year. These businesses represented about 40 percent of total company sales and revenues in 2010, down from about 46 percent in 2009.

**Sales and Revenues by Geographic Region**

| (Millions of dollars) | Total | % Change | North America | % Change | Latin America | % Change | EAME | % Change | Asia/Pacific | % Change |
|---|---|---|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | | | | |
| Machinery | **$27,767** | **53%** | **$10,419** | **49%** | **$4,292** | **68%** | **$5,574** | **36%** | **$7,482** | **67%** |
| Engines[1] | **12,100** | **6%** | **4,103** | **12%** | **1,565** | **45%** | **4,021** | **(6)%** | **2,411** | **2%** |
| Financial Products[2] | **2,721** | **(5)%** | **1,571** | **(8)%** | **297** | **11%** | **427** | **(14)%** | **426** | **12%** |
| | **$42,588** | **31%** | **$16,093** | **30%** | **$6,154** | **58%** | **$10,022** | **13%** | **$10,319** | **43%** |
| 2009 | | | | | | | | | | |
| Machinery | $18,148 | | $6,993 | | $2,555 | | $4,112 | | $4,488 | |
| Engines[1] | 11,392 | | 3,652 | | 1,080 | | 4,295 | | 2,365 | |
| Financial Products[2] | 2,856 | | 1,714 | | 268 | | 495 | | 379 | |
| | $32,396 | | $12,359 | | $3,903 | | $8,902 | | $7,232 | |

[1] Does not include internal engines transfers of $2.523 billion and $1.560 billion in 2010 and 2009, respectively. Internal engines transfers are valued at prices comparable to those for unrelated parties.

[2] Does not include internal revenues earned from Machinery and Engines of $265 million and $312 million in 2010 and 2009, respectively.

**Machinery Sales**

Sales were $27.767 billion, an increase of $9.619 billion, or 53 percent, from 2009.

- Excluding EMD sales of $573 million, sales volume increased $8.222 billion.
- Price realization improved $756 million, including $20 million of favorable geographic mix between regions.
- Currency increased sales by $68 million.
- The improvement in volume required our factories to increase machine shipments in 2010 by the largest amount, in both dollars and percent, in more than 30 years. Shipping volume late in 2010 was more than double what it was early in the year.
- Dealers added about $800 million to inventories in 2010. In 2009 dealers reduced new machine inventories about $3.4 billion. However, in months of supply, dealer inventories were lower than both year-end 2009 and the historical average.
- Economic recoveries in most countries encouraged users to increase machine purchases, either to expand fleets or slow their deterioration.
- Recovery in machine sales is further along in developing economies where recessions were less severe and governments acted aggressively to promote growth. In particular, dealer deliveries in Asia/Pacific hit a record high in 2010, and those in ***Latin America*** were near record highs.
- Developed economies responded slowly to economic downturns, and high unemployment remains a problem for the United States, Europe and Japan. Weak labor markets have impeded recoveries in housing, office and retail construction.
- Growth in developing economies drove demand for metals and energy at a time when supplies were limited. As a result, prices increased substantially in 2010. For example, Australian thermal coal prices increased 38 percent, and copper, gold and tin prices reached record highs. Higher prices lifted mining output in many countries, which increased demand for our equipment.

**North America** – Sales increased $3.426 billion, or 49 percent.

- Excluding EMD sales of $260 million, sales volume increased $2.791 billion.
- Price realization improved $373 million.
- Sales volume improved as a result of higher end-user demand and the absence of 2009 dealer inventory reductions. In 2009 dealers reduced inventories about $900 million and in 2010 they added about $100 million. Dealer-reported inventories in months of supply at year-end 2010 were lower than both the end of 2009 and the historical average.
- Low interest rates and modest economic recoveries in both Canada and the United States encouraged customers to increase purchases for the first time since 2006. Most industries improved with the largest gains in infrastructure-related construction and mining.
- As output in key industries either recovered weakly or declined further, we believe increased deliveries represented an effort by users to slow the extended deterioration in their fleets.
- Dealers increased the volume of machines they added to their rental fleets in 2010. However, despite higher additions than in 2009 the size of rental fleets declined in 2010, and the average fleet age increased.
- U.S. housing starts increased 6 percent, resulting in the second worst year for housing since 1945. The weak job market held household formations at approximately half the long-term average. As a result, new home sales declined 15 percent. Canadian housing starts increased 29 percent and are almost back to prerecession levels.
- Orders for U.S. nonresidential building construction dropped 15 percent, the third year of declines. Both office and industrial vacancy rates increased further, and selling prices for commercial properties declined. However, in Canada, nonresidential construction permits increased 11 percent.
- Orders for U.S. highway construction increased 1 percent. Budget difficulties caused state governments to reduce overall investment spending about 4 percent, but the U.S. Federal government offset that decline with a 14-percent increase in investment spending.
- The increase in metal prices, a result of demand from developing countries, encouraged mines to increase both production and investment. U.S. production increased 10 percent, and Canadian production increased 2 percent.

- The Central Appalachian coal price rose 23 percent, and U.S. coal production increased 1 percent. Utilities increased usage at a faster rate, causing their stocks to decline. Coal exports through September were up 47 percent. Canadian producers increased output 23 percent.

**Latin America** – Sales increased $1.737 billion, or 68 percent.

- Excluding EMD sales of $8 million, sales volume increased $1.497 billion.
- Price realization increased $137 million, and currency increased sales by $95 million.
- Dealers added about $200 million in inventory in 2010, compared to a reduction of about $600 million in 2009. Inventories in months of supply at year-end 2010 were slightly lower than year-end 2009 but lagged the historical average considerably.
- Nearly all countries lowered interest rates, and financial conditions improved. Most economies grew, and exports recovered. Construction rebounded in several countries. Higher commodity prices benefited both mining and energy sectors.
- Brazil raised interest rates, and its currency strengthened. However, industrial production increased 11 percent, construction employment was up 27 percent, and higher iron ore prices triggered a 33-percent increase in ore production. Brazil was the largest contributor to higher machinery volume in the region.
- Mexico was the second largest contributor to volume growth. Positive factors were lower interest rates, higher mining production and a more than 30-percent increase in exports.
- Volume more than doubled in Peru, the third largest contributor to the region's higher sales volume. Peru benefited from a 200 basis point reduction in interest rates, increased exports and a 14-percent increase in manufacturing production.
- Lower interest rates and higher copper prices contributed to sales volume growth in Chile.

***EAME*** – Sales increased $1.462 billion, or 36 percent.

- Excluding EMD sales of $160 million, sales volume increased $1.428 billion.
- Price realization decreased $12 million, and currency decreased sales by $114 million.
- Dealer inventories at the end of 2010 were about the same as year-end 2009. During 2009, dealers reduced inventories by about $1.2 billion. Dealer-reported inventories in months of supply at year-end 2010 were lower than year-end 2009 and also trailed the historical average.
- Despite modest economic growth and government debt problems in the Euro-zone, Europe was the biggest contributor to volume growth in the region.
- Interest rates declined in both the Euro-zone and the United Kingdom, and liquidity improved. Loans for home purchases increased.
- Euro-zone housing permits were at low levels early in 2010, but the subsequent slow recovery left permits down for the full year. In the United Kingdom, housing orders were up 39 percent. Nonresidential construction declined in both the Euro-zone and the United Kingdom.
- Oil-producing countries accounted for the largest part of the volume gain in Africa/Middle East. Oil prices rose 29 percent, production increased 1 percent, and the number of operating drill rigs expanded by 11 percent.
- Sales volume also increased in the larger economies of Turkey and South Africa. Both countries reduced interest rates, and economic recoveries strengthened. Sales in Turkey benefited from an 18-percent increase in construction, and South African mining was up 6 percent.
- Russia and Kazakhstan were major contributors to volume growth in the CIS. Both countries cut interest rates by more than 350 basis points, and monetary growth exceeded 30 percent. Governments also increased spending on construction. In response to higher commodity prices, both mining and energy production increased more than 2 percent.

**Asia/Pacific** – Sales increased $2.994 billion, or 67 percent.

- Excluding EMD sales of $145 million, sales volume increased $2.526 billion.
- Price realization improved $238 million, and currency benefited sales by $85 million.
- Dealers added about $500 million to inventories in 2010, compared to a reduction of more than $700 million in 2009. Dealer-reported inventories in months of supply at year-end 2010 were slightly below the historical average.

- Most governments maintained accommodative interest rate and budget policies implemented in response to the financial crisis. As a result, economic recoveries were among the strongest in the world, which raised demand for construction. Continued economic growth drove demand for metals, which benefited the region's large mining industry.
- China, the world's largest user of construction equipment, accounted for roughly half of the region's volume growth. While the Chinese government took actions to slow the economy, industrial production still increased 16 percent. Housing spending increased 33 percent. Nonresidential spending was up 19 percent, and coal mining expanded 21 percent.
- Australia raised interest rates 100 basis points, and some construction indicators softened. However, higher coal and metals prices easily offset construction difficulties, resulting in higher machinery sales compared with 2009. Mining production increased more than 7 percent, and capital spending rose nearly 10 percent.
- Indonesia held interest rates at a record low, allowing 6-percent growth in the economy. Increased construction and mining production led to higher sales volume.
- India raised interest rates, but industrial production increased nearly 11 percent. Both construction and mining production increased nearly 10 percent leading to an increase in sales volume.
- We believe that the Japanese economy grew more than 4 percent in 2010, the best growth since 1990. Housing construction improved, but nonresidential construction deteriorated further.

**Engines Sales**

Sales were $12.100 billion, an increase of $708 million, or 6 percent, from 2009.

- Sales volume increased $592 million.
- Price realization increased $198 million.
- Currency decreased sales by $82 million.
- Geographic mix between regions (included in price realization) was $19 million favorable.
- Dealer-reported inventories were about flat, and months of supply were down from 2009.

**North America** – Sales increased $451 million, or 12 percent.

- Sales volume increased $418 million.
- Price realization increased $34 million.
- Currency decreased sales by $1 million.
- Sales for industrial applications increased 24 percent due to higher sales to Original Equipment Manufacturers (OEMs) and higher demand in construction.
- Sales for electric power applications increased 27 percent primarily due to increased sales into dealer rental fleets and dealer inventory replenishment.
- Sales for petroleum applications decreased 4 percent primarily due to lower turbine sales and a decrease in sales of engines used for gas compression and drilling.

**Latin America** – Sales increased $485 million, or 45 percent.

- Sales volume increased $448 million.
- Price realization increased $25 million.
- Currency increased sales by $12 million.
- Sales of electric power applications increased 101 percent due to higher turbine sales from one large order and improvements in industry demand.
- Sales for petroleum applications increased 35 percent due to higher turbine sales from one large order.

**EAME** – Sales decreased $274 million, or 6 percent.

- Sales volume decreased $278 million.
- Price realization increased $80 million.
- Currency decreased sales by $76 million.

- Sales for petroleum applications decreased 29 percent primarily due to lower turbine sales as well as a slowdown in demand for engines used in production applications and land-based drilling.
- Sales for marine applications decreased 31 percent due to weak industry demand and a declining order backlog.
- Sales for industrial applications increased 34 percent due to higher demand in construction and agricultural applications.
- Sales for electric power applications were about flat with 2009, with declines in sales of turbines about offset by higher demand throughout the region for reciprocating generator sets.

**Asia/Pacific** – Sales increased $46 million, or 2 percent.

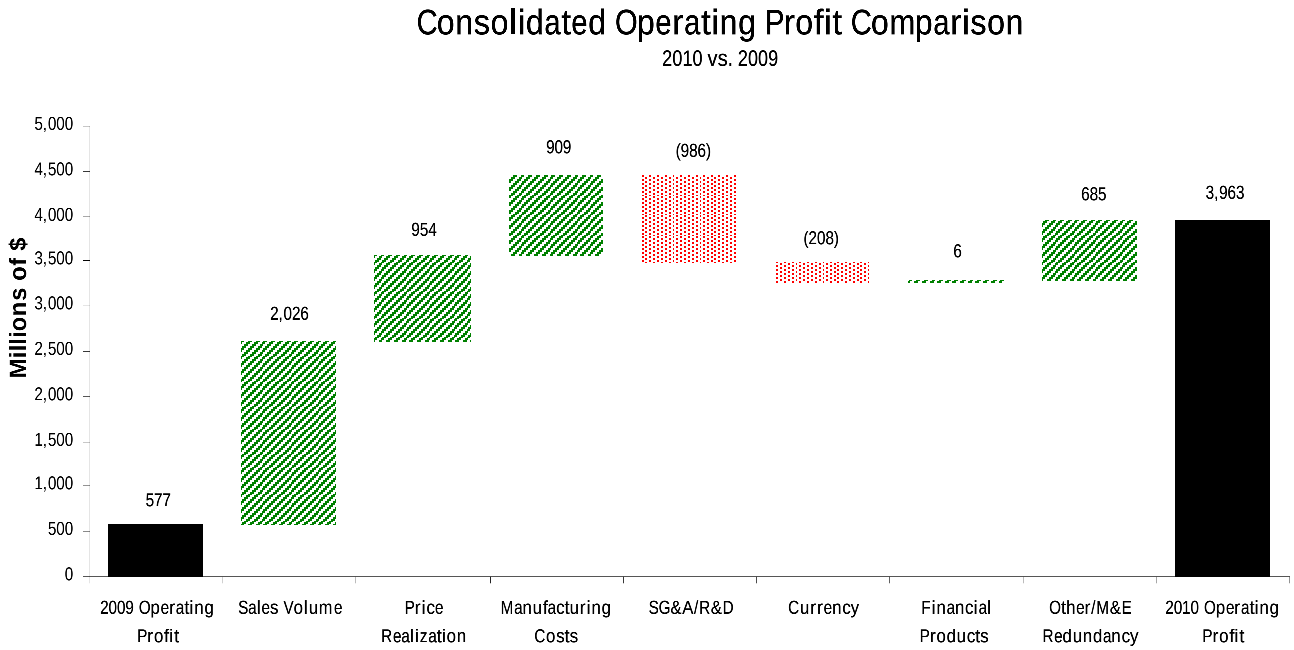
- Sales volume increased $23 million.
- Price realization increased $40 million.
- Currency decreased sales by $17 million.
- Sales for electric power applications increased 22 percent primarily due to higher demand throughout the region.
- Sales for industrial applications increased 47 percent primarily due to increased demand from OEMs.
- Sales for petroleum applications decreased 8 percent due to lower turbine sales, partially offset by an increase in sales associated with Chinese land-based drill activity.
- Sales for marine applications decreased 18 percent due to weak industry demand, partially offset by higher sales for workboat and general cargo vessels.

**Financial Products Revenues**

Revenues were $2.721 billion, a decrease of $135 million, or 5 percent, from 2009.

- Revenues decreased $189 million due to a decrease in average earning assets.
- Other revenues at Cat Financial increased $62 million, driven by a $53 million favorable change from returned and repossessed equipment and the absence of $34 million in write-downs on retained interests related to the securitized asset portfolio in 2009, partially offset by the unfavorable impact from various other revenue items.

**OPERATING PROFIT**




The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between 2009 (at left) and 2010 (at right). Items favorably impacting operating profit appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting operating profit appear as downward stair steps with dollar amounts reflected in parentheses above each bar. The bar entitled Other/M&E Redundancy includes the operating profit impact of EMD and ***consolidating adjustments*** and ***Machinery and Engines other operating (income) expenses***, which include Machinery and Engines redundancy costs. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Operating profit in 2010 was $3.963 billion compared to $577 million in 2009. The improvement was primarily the result of higher sales volume, which included the impact of an unfavorable change in product mix of more than $1 billion. In addition, price realization improved, and manufacturing costs were lower. The improvements were partially offset by higher selling, general and administrative (SG&A) and research and development (R&D) expenses and a $208 million unfavorable impact from currency.

The negative change in product mix in 2010 compared to 2009 was primarily due to three key factors. First, product mix within Machinery and Engines were both negative as sales growth was higher in lower margin machines and engines than higher margin products. Second, Engines have a higher operating margin than Machinery, and Machinery sales grew 53 percent compared to 6 percent for Engines. Lastly, integrated service businesses sales were a lower percent of total sales in 2010 compared to 2009 which negatively impacted product mix as integrated service businesses have higher operating margins than new equipment.

Manufacturing costs improved $909 million primarily due to variable labor and burden efficiencies and lower warranty and material costs, partially offset by the absence of $300 million of LIFO inventory decrement benefits.

SG&A and R&D expenses increased by $986 million primarily due to provisions for incentive pay and increased costs to support new product development programs, including those related to emissions requirements.

Redundancy costs were $706 million in 2009.

A key measure of performance is the amount of incremental operating profit we earn on incremental sales and revenues. Excluding EMD, sales and revenues increased $9.619 billion from 2009 to 2010. Excluding redundancy costs and LIFO decrement benefits in 2009 and EMD operating profit of $62 million in 2010, operating profit increased $2.918 billion. The resulting incremental operating profit rate is 30 percent.

**Operating Profit (Loss) by Principal Line of Business**

| (Millions of dollars) | 2010 | 2009 | $ Change | % Change |
|---|---|---|---|---|
| Machinery[1] | **$1,991** | $(1,007) | $2,998 | —[2] |
| Engines[1] | **1,796** | 1,464 | 332 | 23% |
| Financial Products | **387** | 381 | 6 | 2% |
| Consolidating Adjustments | **(211)** | (261) | 50 | |
| Consolidated Operating Profit | **$3,963** | $577 | $3,386 | 587% |

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

[2] Because 2009 was a loss for Machinery, the percent change is not meaningful.

- **Machinery** operating profit was $1.991 billion compared to an operating loss of $1.007 billion in 2009. Positive factors included higher sales volume, which included the impact of an unfavorable change in product mix, improved price realization, lower manufacturing costs (despite the absence of LIFO decrement benefits) and the absence of 2009 redundancy costs. These improvements were partially offset by higher SG&A and R&D expenses and the negative impact of currency.
- **Engines** operating profit of $1.796 billion was up $332 million from 2009. Improved manufacturing costs, absence of 2009 redundancy costs, improved price realization and higher sales volume, which included the impact of an unfavorable change in product mix, were partially offset by higher SG&A and R&D expenses and the negative impact of currency.
- **Financial Products** operating profit of $387 million was up $6 million, or 2 percent, from 2009. The increase was attributable to a $53 million favorable change from returned and repossessed equipment, the absence of $34 million in write-downs on retained interests related to the securitized asset portfolio in 2009, a $25 million favorable impact due to lower claims experience at Cat Insurance and a $20 million decrease in the provision for credit losses at Cat Financial, partially offset by an $82 million unfavorable impact from lower average earning assets and a $44 million increase in SG&A expenses (excluding the provision for credit losses).

## OTHER PROFIT/LOSS ITEMS

- **Interest expense excluding Financial Products** decreased $46 million from 2009 primarily due to a reduction in debt.
- **Other income/expense** was income of $130 million compared with income of $381 million in 2009. The decrease was primarily driven by an unfavorable impact from currency gains and losses. Machinery and Engines currency derivative losses were near $50 million in 2010 compared with gains of more than $200 million in 2009.
- **The provision for income taxes** of $968 million for 2010 reflects a tax rate of 25 percent, excluding the discrete items discussed below, which is less than the U.S. corporate tax rate of 35 percent primarily due to profits in tax jurisdictions with rates lower than the U.S. rate.

  The provision for income taxes for 2010 also includes a deferred tax charge of $90 million due to the enactment of U.S. health care legislation, effectively making government subsidies received for Medicare equivalent prescription drug coverage taxable. This deferred tax charge was partially offset by a $34 million benefit related to the recognition of refund claims for prior tax years and a $26 million benefit for the release of a valuation allowance against the deferred tax assets of certain non-U.S. entities due to tax planning actions implemented in 2010.

  In 2009, income taxes were a benefit of $270 million, driven primarily by a favorable geographic mix of profits and losses from a tax perspective along with tax benefits related to prior-year tax returns of $133 million.
- **Equity in profit/loss of unconsolidated affiliated companies** negatively impacted profit by $12 million compared to 2009. The change is primarily related to start-up expenses from $NC^2$ Global LLC, our joint venture with Navistar.
- **Profit/loss attributable to noncontrolling interests** negatively impacted profit by $126 million compared to 2009, primarily due to improved financial performance of ***Caterpillar Japan Ltd*. *(Cat Japan).*** Caterpillar owns two-thirds of Cat Japan, meaning one-third of its profits or losses are attributable to our partner, Mitsubishi Heavy Industries.

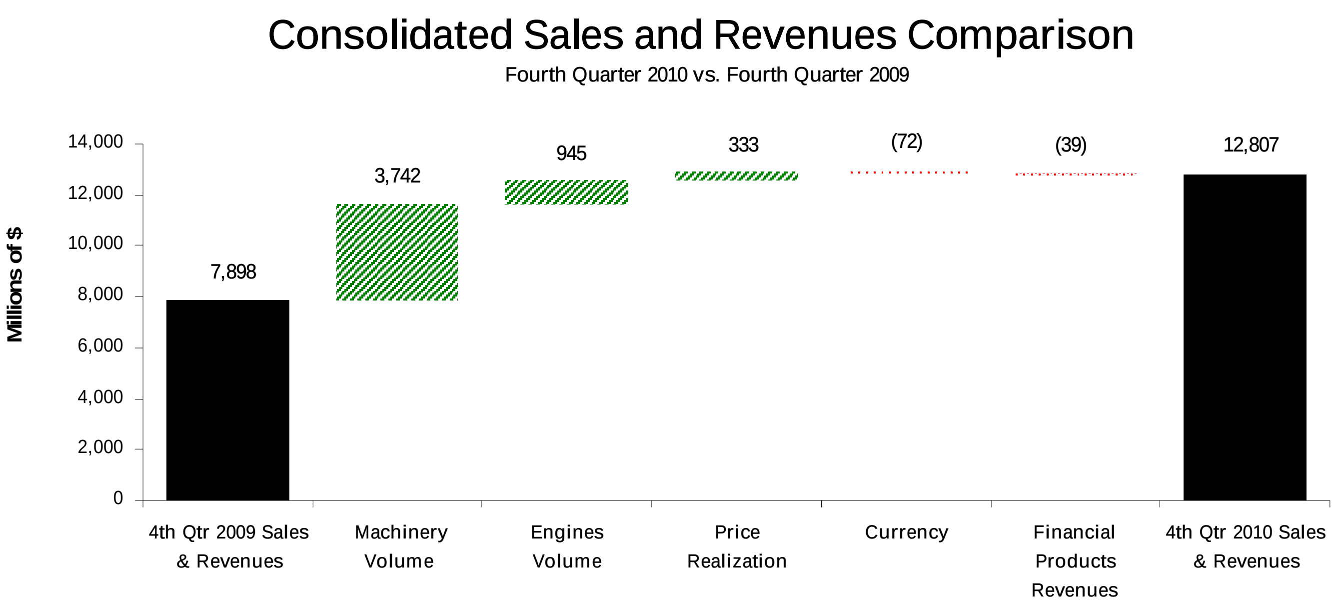
## Supplemental Information

| (Millions of dollars) | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Assets:** | | | |
| Machinery | **$26,329** | $22,037 | $24,607 |
| Engines | **13,162** | 12,159 | 13,672 |
| Financial Products | **30,113** | 31,975 | 34,381 |
| Consolidating Adjustments | **(5,584)** | (6,133) | (4,878) |
| Total | **$64,020** | $60,038 | $67,782 |
| **Capital Expenditures:** | | | |
| Machinery | **$1,111** | $910 | $1,559 |
| Engines | **552** | 590 | 737 |
| Financial Products | **992** | 976 | 1,612 |
| Consolidating Adjustments | **(69)** | (4) | (22) |
| Total | **$2,586** | $2,472 | $3,886 |
| **Depreciation and Amortization:** | | | |
| Machinery | **$1,062** | $1,120 | $839 |
| Engines | **511** | 474 | 386 |
| Financial Products | **723** | 742 | 755 |
| Total | **$2,296** | $2,336 | $1,980 |

Caterpillar operations are highly integrated; therefore, the company uses a number of allocations to determine lines of business financial data.

## FOURTH QUARTER 2010 COMPARED WITH FOURTH QUARTER 2009

### SALES AND REVENUES




The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between the fourth quarter of 2009 (at left) and the fourth quarter of 2010 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting sales and revenues appear as downward stair steps with dollar amounts reflected in parentheses above each bar. The bar entitled Machinery Volume includes EMD sales. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Sales and revenues for the fourth quarter of 2010 were $12.807 billion, up $4.909 billion, or 62 percent, from the fourth quarter of 2009. Machinery sales volume was up $3.742 billion due to higher end-user demand and changes in dealer inventory. Dealer inventory increased in the fourth quarter of 2010 and decreased in the fourth quarter of 2009. Engines sales volume increased $945 million primarily because of higher sales of engines for electric power, petroleum and industrial applications. Price realization improved $333 million, and currency had a negative impact on sales of $72 million. Financial Products revenues decreased $39 million primarily due to lower average earning assets.

Our integrated service businesses tend to be more stable through the business cycle than new machines and engines. Sales and revenues for these businesses in the fourth quarter of 2010 were higher compared to the fourth quarter of 2009. However, with the increase in sales of new machines and engines, integrated service businesses represented a lower percent of total company sales and revenues than the prior year. These businesses represented about 36 percent of total company sales and revenues in the fourth quarter of 2010, down from approximately 48 percent in the fourth quarter of 2009.

## Sales and Revenues by Geographic Region

| (Millions of dollars) | Total | % Change | North America | % Change | Latin America | % Change | EAME | % Change | Asia/Pacific | % Change |
|---|---|---|---|---|---|---|---|---|---|---|
| **Fourth Quarter 2010** | | | | | | | | | | |
| Machinery | **$8,571** | **88%** | **$3,240** | **108%** | **$1,228** | **53%** | **$1,807** | **88%** | **$2,296** | **85%** |
| Engines[1] | **3,570** | **36%** | **1,245** | **66%** | **489** | **91%** | **1,220** | **20%** | **616** | **1%** |
| Financial Products[2] | **666** | **(6)%** | **374** | **(10)%** | **78** | **7%** | **103** | **(15)%** | **111** | **17%** |
| | **$12,807** | **62%** | **$4,859** | **78%** | **$1,795** | **59%** | **$3,130** | **49%** | **$3,023** | **55%** |
| **Fourth Quarter 2009** | | | | | | | | | | |
| Machinery | $4,564 | | $1,557 | | $801 | | $962 | | $1,244 | |
| Engines[1] | 2,629 | | 751 | | 256 | | 1,013 | | 609 | |
| Financial Products[2] | 705 | | 416 | | 73 | | 121 | | 95 | |
| | $7,898 | | $2,724 | | $1,130 | | $2,096 | | $1,948 | |

1 Does not include internal engines transfers of $751 million and $434 million in fourth quarter 2010 and 2009, respectively. Internal engines transfers are valued at prices comparable to those for unrelated parties.

2 Does not include internal revenues earned from Machinery and Engines of $72 million and $65 million in fourth quarter 2010 and 2009, respectively.

## Machinery Sales

Sales were $8.571 billion, an increase of $4.007 billion, or 88 percent, from the fourth quarter of 2009.

- Excluding EMD sales of $357 million, sales volume increased $3.385 billion.
- Price realization increased $281 million and included a favorable geographic mix between regions of $30 million.
- Currency decreased sales by $16 million.
- During the quarter dealers added about $700 million to inventories. In the fourth quarter of 2009 dealers reduced inventories about $800 million.
- Low interest rates and better economic growth encouraged users to increase purchases and dealers to begin to rebuild some inventory. Economic recoveries were uneven, with developing countries recovering better than the developed economies.
- Strong recoveries in the developing economies led to increased demand for metals and energy. This drove metals and coal prices higher. Mining production and deliveries into mining increased in all regions.
- Economic growth in the developing countries also led to increased construction, with Asia/Pacific and Latin America being the strongest performing regions. Dealer sales in Asia/Pacific were a record high, and Latin America was near the previous record high.
- Recoveries in the major developed economies remained weak given the severity of the prior recessions. Credit conditions remained constrained, and unemployment rates remained high. As a result, construction remained weak.

- Users in North America started reducing purchases of machines as far back as 2006, and we believe this extended decline caused aging and shrinking of machine fleets. Higher sales to end-users in the quarter reflected a slowing of user fleet deterioration.

**North America** – Sales increased $1.683 billion, or 108 percent.

- Excluding EMD sales of $183 million, sales volume increased $1.322 billion.
- Price realization increased $178 million.
- Dealer inventories rose about $300 million in the quarter. In the fourth quarter of 2009 dealers reduced inventories by about $400 million. In months of supply, inventories were lower than both year-end 2009 and the historical average.
- While sales improved in almost all industries, mining was stronger than construction.
- Mining benefited from higher prices. Central Appalachian coal prices strengthened further during the quarter and averaged 29 percent higher than in the fourth quarter of 2009. Metals prices also increased. As a result, U.S. coal mines increased production more than 6 percent, and metals mines increased output 20 percent.
- Overall, construction remained depressed. Higher deliveries reflected improved financial conditions and user decisions to slow fleet deteriorations. Housing starts declined in the United States and were up only 1 percent in Canada. Nonresidential construction activity declined in the United States.

**Latin America** – Sales increased $427 million, or 53 percent.

- Excluding EMD sales of $6 million, sales volume increased $402 million.
- Price realization increased $13 million, and currency benefited sales by $6 million.
- Dealers reported slightly higher inventories during the quarter. In the fourth quarter of 2009 dealer inventories were about flat. In months of supply, inventories were lower than both year-end 2009 and the historical average.
- Dealer-reported deliveries improved in most industries and in most of the larger economies.
- Higher metals prices, particularly for copper, gold and iron ore, encouraged producers to increase production and machine purchases. Brazil increased iron ore production almost 26 percent. Recent data indicates that Chile has been increasing copper production, and Mexico raised mine output 1 percent.
- Low interest rates and economic growth increased construction activity. Gains ranged from 1 percent in Argentina to 20 percent in Colombia.

**EAME** – Sales increased $845 million, or 88 percent.

- Excluding EMD sales of $63 million, sales volume increased $827 million.
- Price realization increased $19 million, while currency decreased sales by $64 million.
- Dealers reported modestly higher inventories. In the fourth quarter of 2009 dealers reduced inventories about $300 million. In months of supply, inventories were much lower than year-end 2009 and also trailed the historical average.
- Sales to end-users increased in most industries and in all regions. Positive factors included low interest rates, some improvements in construction and higher commodity prices.
- Volume increased in most European countries. Both nonresidential and housing construction activity were generally down; but housing improved in a few countries, including France, Germany and the United Kingdom. Machinery volume growth was largely a result of end-users increasing machine purchases to slow the deterioration in their fleets.
- Volume increased in many countries in Africa/Middle East. Positives for the region included higher oil prices and increased oil production, lower interest rates, recoveries in the large economies of Turkey and South Africa and higher metals prices.
- Russia accounted for the largest share of the volume gain in the CIS as interest rates declined 250 basis points. Oil and mining production in Russia both increased.

**Asia/Pacific** – Sales increased $1.052 billion, or 85 percent.

- Excluding EMD sales of $105 million, sales volume increased $864 million.
- Price realization increased $41 million, and currency benefited sales by $42 million.

- Dealer inventories increased about $300 million during the fourth quarter.  During the fourth quarter of 2009 inventories were about flat.  In months of supply, dealer inventories were slightly below the historical average.
- The majority of volume growth came from an increase in sales to end-users.  Increases occurred in most industries and most countries.  Low interest rates and strong economic growth increased both demand for commodities and the need for construction.
- Australia had the largest gain in sales volume.  Higher interest rates caused both housing and nonresidential building approvals to decline; however, coal and metals production increased in response to higher commodity prices.
- China, with the next largest gain in sales volume, continued to benefit from strong economic growth. Credit expanded 20 percent, and the economy grew 9.8 percent.  Construction spending increased more than 20 percent.
- Volume gains in Indonesia resulted from record low interest rates, and construction growth estimated at more than 6 percent.  Coal prices rose 49 percent, which encouraged increased production.

**Engines Sales**

Sales were $3.570 billion, an increase of $941 million, or 36 percent, from the fourth quarter of 2009.

- Sales volume increased $945 million.
- Price realization increased $52 million.
- Currency decreased sales by $56 million.
- Geographic mix between regions (included in price realization) was $8 million favorable.
- Dealer-reported inventories were about flat, and months of supply declined compared with year-end 2009.

**North America** – Sales increased $494 million, or 66 percent.

- Sales volume increased $478 million.
- Price realization increased $18 million.
- Currency decreased sales by $2 million.
- Sales for electric power applications increased 118 percent primarily due to increased sales into dealer rental fleets and dealer inventory replenishment.
- Sales for petroleum applications increased 109 percent due to increased sales into well service and higher turbine sales.
- Sales for industrial applications decreased 5 percent due to lower demand from OEMs, partially offset by higher demand in construction.

**Latin America** – Sales increased $233 million, or 91 percent.

- Sales volume increased $218 million.
- Price realization increased $14 million.
- Currency increased sales by $1 million.
- Sales for petroleum applications increased 81 percent due to higher turbine sales from one large order.
- Sales of electric power applications increased 216 percent due to improvements in industry demand and higher turbine sales from one large order.

**EAME** – Sales increased $207 million, or 20 percent.

- Sales volume increased $244 million.
- Price realization increased $11 million.
- Currency decreased sales by $48 million.
- Sales for electric power applications increased 11 percent primarily due to higher demand throughout the region, partially offset by lower turbine sales.
- Sales for industrial applications increased 98 percent due to higher demand in construction and agricultural applications.

- Sales for petroleum applications decreased 8 percent primarily due to lower turbine sales partially offset by slightly higher demand for engines used in production applications and land-based drilling.
- Sales for marine applications were flat as higher sales of engines into workboat applications were offset by lower sales of engines used in general cargo vessels.

**Asia/Pacific** – Sales increased $7 million, or 1 percent.

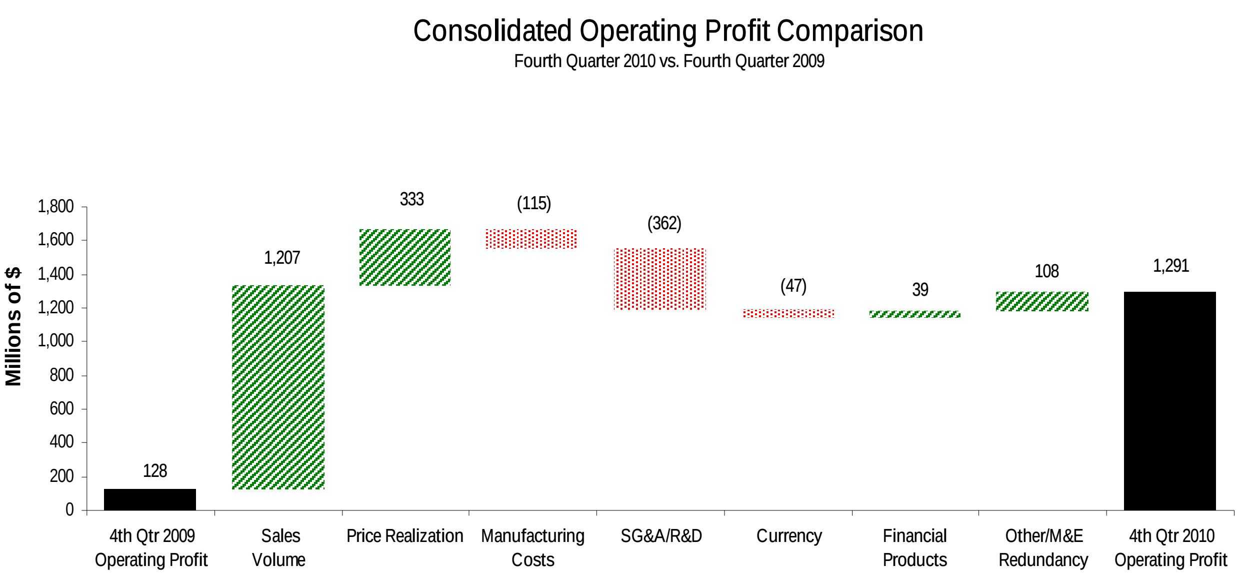
- Sales volume increased $13 million.
- Price realization increased $1 million.
- Currency decreased sales by $7 million.
- Sales for electric power applications increased 39 percent primarily due to higher demand throughout the region, partially offset by lower turbine sales.
- Sales for industrial applications increased 45 percent primarily due to higher demand from OEMs.
- Sales for petroleum applications decreased 27 percent due to lower turbine sales and lower sales into China land-based drilling.
- Sales for marine applications decreased 17 percent due to weak industry demand.

## Financial Products Revenues

Revenues were $666 million, a decrease of $39 million, or 6 percent, from the fourth quarter of 2009.

- Revenues decreased $33 million due to a decrease in average earning assets and $17 million due to the unfavorable impact of lower interest rates on new and existing finance receivables.
- Other revenues at Cat Financial increased $23 million, driven by a favorable change from returned and repossessed equipment.

## OPERATING PROFIT




The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between the fourth quarter of 2009 (at left) and the fourth quarter of 2010 (at right). Items favorably impacting operating profit appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting operating profit appear as downward stair steps with dollar amounts reflected in parentheses above each bar. The bar entitled Other/M&E Redundancy includes the operating profit impact of EMD and consolidating adjustments and Machinery and Engines other operating (income) expenses, which include Machinery and Engines redundancy costs. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Operating profit in the fourth quarter of 2010 was $1.291 billion compared with $128 million in the fourth quarter of 2009. The improvement was primarily the result of higher sales volume, which included the impact of an unfavorable change in product mix of more than $400 million and better price realization. The improvements were partially offset by higher selling, general and administrative (SG&A) and research and development (R&D) expenses and unfavorable manufacturing costs.

The negative change in product mix in the fourth quarter of 2010 compared to the fourth quarter of 2009 was primarily due to three key factors. First, integrated service businesses sales were a lower percent of total sales in fourth-quarter 2010 compared to fourth-quarter 2009 which negatively impacted product mix as integrated service businesses have higher operating margins than new equipment. Second, product mix within Machinery and Engines were both negative as sales growth was higher in lower margin machines and engines than higher margin products. Lastly, Engines have a higher operating margin than Machinery, and Machinery sales grew 88 percent compared to 36 percent for Engines.

Manufacturing costs were up $115 million primarily due to higher period manufacturing costs related to increased volume, provisions for incentive pay and the absence of $70 million of LIFO inventory decrement benefits. Continued improvements in variable labor efficiency partially offset these factors.

SG&A and R&D expenses increased by $362 million primarily due to increased costs to support new product development programs, including those related to emissions requirements, and due to provisions for incentive pay.

Currency had a $47 million negative impact on operating profit as the negative impact on sales more than offset the benefit to costs. Redundancy costs were $65 million in the fourth quarter of 2009.

**Operating Profit (Loss) by Principal Line of Business**

| **(Millions of dollars)** | **Fourth Quarter 2010** | Fourth Quarter 2009 | $ Change | % Change |
|---|---|---|---|---|
| Machinery[1] | **$705** | $(123) | $828 | —[2] |
| Engines[1] | **539** | 242 | 297 | 123% |
| Financial Products | **102** | 63 | 39 | 62% |
| Consolidating Adjustments | **(55)** | (54) | (1) | |
| Consolidated Operating Profit | **$1,291** | $128 | $1,163 | 909% |

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

[2]Because the fourth quarter of 2009 was a loss for Machinery, the percent change is not meaningful.

- **Machinery** operating profit was $705 million compared to an operating loss of $123 million in the fourth quarter of 2009. Higher sales volume, which included the impact of an unfavorable mix of products, and improved price realization were partially offset by higher SG&A and R&D expenses and higher manufacturing costs.
- **Engines** operating profit of $539 million was up $297 million from the fourth quarter of 2009. Higher sales volume, which included the impact of an unfavorable mix of products, and improved price realization were partially offset by higher SG&A and R&D expenses.
- **Financial Products** operating profit of $102 million was up $39 million, or 62 percent, from the fourth quarter of 2009. The increase was primarily attributable to a $26 million decrease in the provision for credit losses at Cat Financial, a $23 million favorable change from returned or repossessed equipment and a $13 million favorable impact due to lower claims experience at Cat Insurance, partially offset by a $14 million unfavorable impact from lower average earning assets and $11 million due to incentive pay.

## OTHER PROFIT/LOSS ITEMS

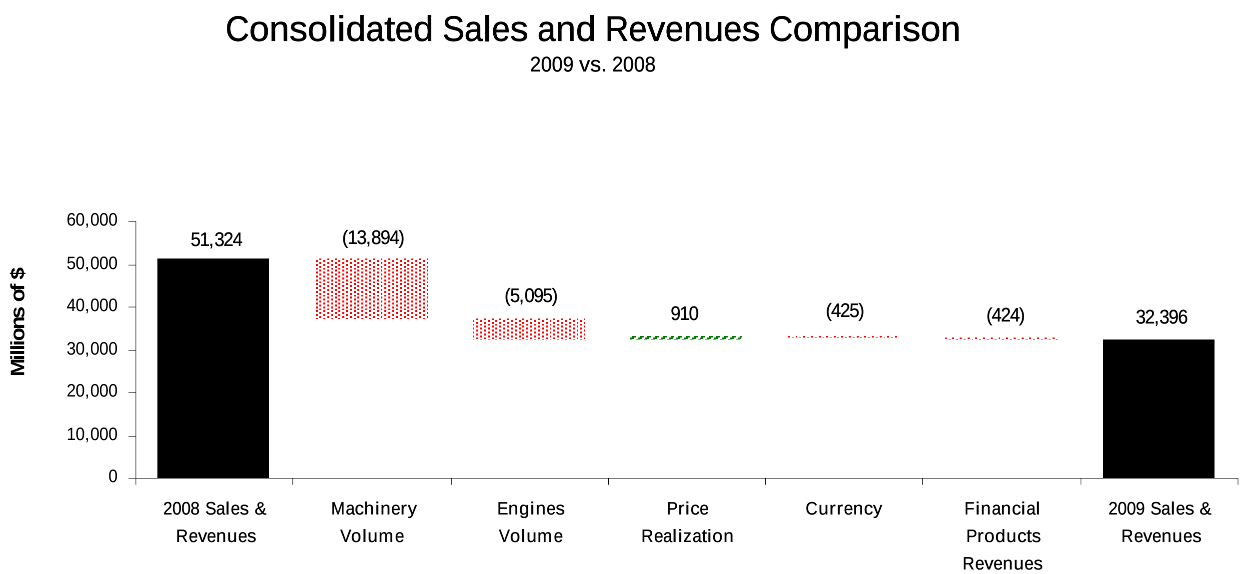
- **Interest expense excluding Financial Products** decreased $13 million from the fourth quarter of 2009 due to lower line of credit fees resulting from a reduction of global credit facilities and a reduction in debt.
- **Other income/expense** was income of $16 million compared with income of $88 million in the fourth quarter of 2009. The decrease was primarily driven by an unfavorable impact from currency gains and losses. Machinery and Engines currency derivative losses were about $25 million in the fourth quarter of 2010 compared with gains of about $65 million in the fourth quarter of 2009.
- **The provision for income taxes** of $233 million in the fourth quarter of 2010 reflects a tax rate of 25 percent, which is less than the U.S. corporate tax rate of 35 percent primarily due to profits in tax jurisdictions with rates lower than the U.S. rate. The provision for income taxes in the fourth quarter of 2010 also includes a $75 million benefit related to the decrease from the third quarter estimated annual tax rate of 28 percent. The decrease is primarily due to renewal of U.S. tax benefits, including the research and development tax credit, in the fourth

quarter along with a more favorable than expected geographic mix of profits from a tax perspective. In 2009, income taxes were a benefit of $91 million, driven primarily by a favorable geographic mix of profits and losses from a tax perspective.

- **Profit/loss attributable to noncontrolling interests** negatively impacted profit by $46 million compared to 2009, primarily due to improved financial performance of Caterpillar Japan Ltd. (Cat Japan). Caterpillar owns two-thirds of Cat Japan, meaning one-third of its profits or losses are attributable to our partner, Mitsubishi Heavy Industries.

## 2009 COMPARED WITH 2008

### SALES AND REVENUES




The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between 2008 (at left) and 2009 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting sales and revenues appear as downward stair steps with dollar amounts reflected in parentheses above each bar. The bar entitled Machinery Volume includes the impact of consolidation of Caterpillar Japan Ltd. (Cat Japan) sales. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Sales and revenues for 2009 were $32.396 billion, down $18.928 billion, or 37 percent, from 2008. Machinery sales volume was down $13.894 billion, and Engines volume declined $5.095 billion. Price realization improved $910 million, and currency had a negative impact on sales of $425 million, primarily due to a weaker euro and British pound. In addition, Financial Products revenues decreased $424 million.

Our integrated service businesses tend to be more stable through the business cycle than new machines and engines. Although sales and revenues for these businesses declined by about 15 percent during 2009, this was much less than the decline in sales and revenues for the company in total. Integrated service businesses represented about 46 percent of total company sales and revenues in 2009, up from about 34 percent in 2008.

**Sales and Revenues by Geographic Region**

| (**Millions of dollars**) | Total | % Change | North America | % Change | Latin America | % Change | EAME | % Change | Asia/Pacific | % Change |
|---|---|---|---|---|---|---|---|---|---|---|
| **2009** | | | | | | | | | | |
| Machinery | **$18,148** | **(43)%** | **$6,993** | **(45)%** | **$2,555** | **(38)%** | **$4,112** | **(55)%** | **$4,488** | **(21)%** |
| Engines[1] | **11,392** | **(30)%** | **3,652** | **(33)%** | **1,080** | **(31)%** | **4,295** | **(32)%** | **2,365** | **(19)%** |
| Financial Products[2] | **2,856** | **(13)%** | **1,714** | **(14)%** | **268** | **(18)%** | **495** | **(16)%** | **379** | **5%** |
| | **$32,396** | **(37)%** | **$12,359** | **(39)%** | **$3,903** | **(35)%** | **$8,902** | **(45)%** | **$7,232** | **(19)%** |
| 2008 | | | | | | | | | | |
| Machinery | $31,804 | | $12,769 | | $4,106 | | $9,220 | | $5,709 | |
| Engines[1] | 16,240 | | 5,445 | | 1,574 | | 6,311 | | 2,910 | |
| Financial Products[2] | 3,280 | | 2,001 | | 328 | | 590 | | 361 | |
| | $51,324 | | $20,215 | | $6,008 | | $16,121 | | $8,980 | |

1 Does not include internal engine transfers of $1.56 billion and $2.822 billion in 2009 and 2008, respectively. Internal engine transfers are valued at prices comparable to those for unrelated parties.

2 Does not include revenues earned from ***Machinery and Engines*** of $312 million and $308 million in 2009 and 2008, respectively.

## Machinery Sales

Sales were $18.148 billion, a decrease of $13.656 billion, or 43 percent, from 2008.

- Excluding the consolidation of Cat Japan, sales volume decreased $14.769 billion.
- Price realization increased $388 million.
- Currency decreased sales by $150 million.
- Geographic mix between regions (included in price realization) was $25 million unfavorable.
- The consolidation of Cat Japan added $875 million to sales.
- The severe worldwide recession caused construction spending to decline in many countries, and mining companies reduced output. As a result, end users significantly reduced purchases of equipment.
- Year-over-year declines in dealer-reported deliveries to end users were most severe in the second and third quarters of 2009. By year end, month-to-month trends in dealer deliveries were improving in all regions.
- Dealers reacted to the decline in end-user demand by reducing reported inventories more than $3.3 billion, contributing further to lower sales volume. Dealer inventories were well below last year in both dollars and months of supply. Months of supply were near the historical average.
- Declines in sales volume were most severe in the developed economies of North America, Europe and Japan. Most of these economies were in recession throughout 2008, and credit market pressures in late 2008 caused output to drop sharply in early 2009.
- When the financial crisis worsened in late 2008, economic conditions in many developing countries were better than previous recessions. Most reacted quickly by cutting interest rates and increasing infrastructure spending.

**North America** – Sales decreased $5.776 billion, or 45 percent.

- Sales volume decreased $5.941 billion.
- Price realization increased $166 million.
- Currency decreased sales by $1 million.
- Severe recessions in both Canada and the United States caused the decline in sales volume. Machinery sales volume was the lowest since 1982.
- Economic activity in nearly all key industries dropped sharply in 2009. Deliveries of machines, as reported by dealers, were the lowest since 1992.
- Dealers responded to lower demand by reducing reported inventories to a 14-year low. Inventories were also well below a year earlier in months of supply.
- The U.S. housing industry had its worst year in decades. Starts of 554,000 units were down 39 percent from 2008 and were the lowest since 1945. Home prices declined 14 percent in 2009, resulting in an even larger peak-to-

trough decline than occurred in the early 1930s. Canadian housing starts declined 31 percent, and new home prices declined 2 percent.

- U.S. nonresidential building construction orders dropped 38 percent. Office vacancy rates increased to more than 16 percent, and selling prices for office properties declined 24 percent. Retail property prices fell 17 percent. In Canada, nonresidential construction permits dropped 11 percent.
- U.S. highway construction orders increased 5 percent, with the gain occurring in the last half of the year. The American Recovery and Reinvestment Act provided additional funding for highways, which benefited resurfacing projects.
- The decline in construction activity caused U.S. quarry production to drop 16 percent, the third consecutive annual decline. Record-low operating rates prompted producers to reduce capacity 6 percent. Canadian producers cut production by 27 percent.
- Metals prices dropped sharply in late 2008, prompting mines to reduce production and curtail new investments. Subsequent price recoveries led to some improvements later in the year, but not enough to offset a poor first half. U.S. metal mining output declined 10 percent, and Canadian production was down 20 percent.
- Coal prices declined significantly, particularly in the first half of 2009. As a result, U.S. coal production dropped 7 percent, and Canadian production was off 17 percent. Contributing factors included reduced utility burn, higher utility stocks and a 29-percent decline in U.S. coal exports.

**EAME –** Sales decreased $5.108 billion, or 55 percent.

- Sales volume decreased $4.984 billion.
- Price realization increased $50 million.
- Currency decreased sales by $174 million.
- Dealers reduced reported inventories sharply, which reversed inventory increases that occurred in 2008. Inventories in months of supply fell to about half the year-earlier level.
- The worldwide credit crisis and recession impacted all regions, causing construction spending to weaken and commodity producers to reduce output. As a result, dealers in all regions reported lower deliveries to end users. Commonwealth of Independent States (CIS) dealers reported the largest decline; Africa/Middle East dealers reported the smallest decline.
- Europe experienced its worst postwar recession, with the economy declining an estimated 4 percent in 2009. Industrial production declined 15 percent in the euro-zone and 11 percent in the United Kingdom.
- Housing construction declined in response to tight credit standards and lower home prices in many countries. Construction permits fell 25 percent in the euro-zone and orders in the United Kingdom fell 23 percent.
- Lower sales volume in Africa/Middle East resulted mostly from dealer inventory reductions, recessions in Turkey and South Africa and the financial crisis in Dubai. Industrial production dropped 10 percent in Turkey and 12 percent in South Africa.
- The recession caused building permits in Turkey to fall 17 percent. South African housing permits were down 39 percent, and nonresidential permits were off 12 percent; mining production dropped 7 percent.
- The Organization of Petroleum Exporting Countries (OPEC) crude oil price dropped to $60 per barrel, prompting producers to cut oil production by 8 percent.
- Sales volume declined significantly in the CIS region due to severe recessions and financial turmoil. Russia was one of the few countries to maintain higher average interest rates than in 2008, contributing to a 10-percent decline in its economy.

**Asia/Pacific** – Sales decreased $1.221 billion, or 21 percent.

- Excluding the consolidation of Cat Japan, sales volume declined $2.270 billion.
- Price realization increased $118 million.
- Currency increased sales by $56 million.
- The consolidation of Cat Japan added $875 million to 2009 sales.
- Dealers reported large inventory reductions, more than offsetting additions made in 2008. Inventories in months of supply were less than half the year-earlier level and were below the historical average.

- Asian governments and central banks reacted aggressively to the worldwide economic downturn. Most economies started recovering in the second quarter, which helped limit declines in end-user demand, as reported by dealers. Dealers in China reported a slight increase in deliveries.
- China's recovery program included a 31-percent increase in lending and massive infrastructure spending. The economy responded quickly and industrial production increased more than 10 percent. Housing construction increased 16 percent, and nonresidential construction was up 30 percent.
- India cut interest rates sharply and, as a result, industrial production increased 6 percent. Construction increased 7 percent.
- A sluggish economy reduced sales volume in Australia. Permits for housing construction declined 7 percent, but those for nonresidential construction were up 4 percent. Mining profits declined, and expenditures for exploration dropped 26 percent.
- A return to deflation and a significant decline in exports further weakened the Japanese economy. Orders for private construction fell 33 percent, and those for public construction declined 11 percent. Machine sales volume was the lowest in at least 30 years.

**Latin America** – Sales decreased $1.551 billion, or 38 percent.

- Sales volume decreased $1.599 billion.
- Price realization increased $79 million.
- Currency decreased sales by $31 million.
- Dealers reduced reported inventories, more than offsetting amounts added in 2008. Inventories in months of supply were half the year-earlier level and were lower than the historical average.
- The worldwide recession caused exports to decline in most countries. That, along with interest rate increases in 2008, caused lower industrial production in most countries. Construction and mining also declined, causing dealers to report lower deliveries to end users.
- The sales volume decline was most severe in Mexico. Close ties to the U.S. economy and relatively slow interest rate reductions caused industrial production to decline 8 percent and construction 7 percent.
- High interest rates in late 2008 caused Brazil's industrial production to drop 7 percent in 2009, with losses concentrated in the first half. Reduced worldwide steel production caused a 22-percent decline in iron ore mining. The decline in sales volume ended in the fourth quarter as interest rate reductions helped improve the economy.
- A large decline in sales volume occurred in Chile. Interest rate increases taken in 2008 impacted the economy in 2009, causing industrial production to decline 9 percent. Construction permits decreased 15 percent. Higher metals prices encouraged mines to increase production late in the year so that full-year production was about the same as 2008.

**Engines Sales**

Sales were $11.392 billion, a decrease of $4.848 billion, or 30 percent, from 2008.

- Sales volume decreased $5.095 billion.
- Price realization increased $522 million.
- Currency decreased sales by $275 million.
- Geographic mix between regions (included in price realization) was $13 million unfavorable.
- Dealer-reported inventories were down, but months of supply increased, as dealer deliveries declined.

**North America** – Sales decreased $1.793 billion, or 33 percent.

- Sales volume decreased $1.987 billion.
- Price realization increased $196 million.
- Currency decreased sales by $2 million.
- Sales for petroleum applications decreased 20 percent primarily due to a decrease in demand for petroleum engines used for gas compression and drilling along with lower turbine sales.
- Sales for electric power applications decreased 25 percent due to weak economic conditions and reduced availability of credit along with lower turbine sales.

- Sales for industrial applications decreased 48 percent in response to substantially lower demand in construction and agricultural applications due to economic uncertainty and tight credit conditions.

**EAME** – Sales decreased $2.016 billion, or 32 percent.

- Sales volume decreased $1.959 billion.
- Price realization increased $197 million.
- Currency decreased sales by $254 million.
- Sales for industrial applications decreased 47 percent based on significantly lower demand in construction and agricultural applications due to weak economic conditions and reduced availability of credit.
- Sales for electric power applications decreased 29 percent, as the impact of weak economic conditions and reduced availability of credit was partially offset by increased turbine sales as a result of timing of large power plant projects.
- Sales for marine applications decreased 36 percent due to weak economic conditions.
- Sales for petroleum applications decreased 15 percent primarily due to a slowdown in demand for engines used in production and drilling applications along with lower sales of turbines.

**Asia/Pacific** – Sales decreased $545 million, or 19 percent.

- Sales volume decreased $632 million.
- Price realization increased $110 million.
- Currency decreased sales by $23 million.
- Sales for petroleum applications decreased 23 percent, as a slowdown in Chinese land-based drill activity was partially offset by an increase in sales of turbines.
- Sales for electric power applications decreased 15 percent, as the impact of weak economic conditions and reduced availability of credit was partially offset by increased turbine sales as a result of timing of large power plant projects.
- Sales for industrial applications decreased 34 percent due to significantly lower demand in construction and mining support applications.
- Sales for marine applications decreased 2 percent due to weak economic conditions, partially offset by a strong order backlog for workboat and general cargo vessels.

**Latin America** – Sales decreased $494 million, or 31 percent.

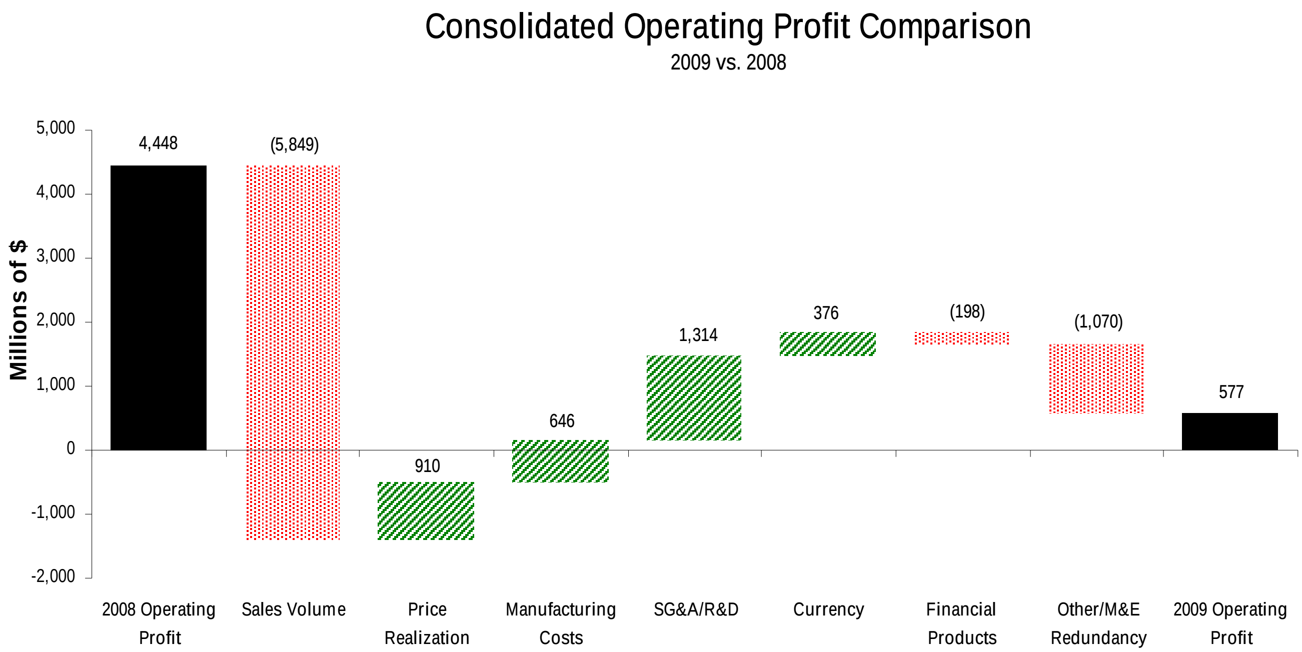
- Sales volume decreased $530 million.
- Price realization increased $32 million.
- Currency increased sales by $4 million.
- Sales for electric power applications decreased 49 percent due to worsening economic conditions and reduced availability of credit.
- Sales for petroleum applications decreased 17 percent due to a slowdown in demand for production power applications and lower turbine sales.

## Financial Products Revenues

Revenues were $2.856 billion, a decrease of $424 million, or 13 percent, from 2008.

- Revenues decreased $123 million due to the impact of lower interest rates on new and existing finance receivables and $105 million due to a decrease in average earning assets.
- Other revenues at Cat Financial decreased $120 million. The decrease was primarily due to a $77 million unfavorable impact from returned or repossessed equipment and the absence of a $12 million gain related to the sale of receivables in 2008.

## OPERATING PROFIT




The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between 2008 (at left) and 2009 (at right). Items favorably impacting operating profit appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting operating profit appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees. The bar entitled Other/M&E Redundancy includes the operating profit impact of consolidating adjustments, consolidation of Cat Japan and Machinery and Engines other operating (income) expenses, which include Machinery and Engines redundancy costs.

Operating profit in 2009 was $577 million compared to an operating profit of $4.448 billion in 2008. Lower sales volume was the primary reason for the decline. Sales volume includes the impact of a favorable mix of products for both Machinery and Engines. Price realization improved $910 million.

Manufacturing costs improved $646 million. Significant inventory reduction resulted in $300 million ($0.39 per share) of LIFO inventory decrement benefits. Excluding decrement benefits, manufacturing costs decreased $346 million. Selling, general and administrative (SG&A) and research and development (R&D) expenses declined $1.314 billion as a result of significant cost-cutting measures.

Currency had a $376 million favorable impact on operating profit as the benefit to costs more than offset the negative impact on sales.

Redundancy costs were $706 million. Cat Japan unfavorably impacted operating profit by $348 million.

**Operating Profit (Loss) by Principal Line of Business**

| **(Millions of dollars)** | **2009** | 2008 | $ Change | % Change |
|---|---|---|---|---|
| Machinery[1] | **$(1,007)** | $1,803 | $(2,810) | (156)% |
| Engines[1] | **1,464** | 2,319 | (855) | (37)% |
| Financial Products | **381** | 579 | (198) | (34)% |
| Consolidating Adjustments | **(261)** | (253) | (8) | |
| Consolidated Operating Profit | **$577** | $4,448 | $(3,871) | (87)% |

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

- **Machinery** operating loss was $1.007 billion compared to an operating profit of $1.803 billion for 2008. Sharply lower sales volume, redundancy costs and losses at Cat Japan were partially offset by lower SG&A and R&D expenses, a decline in manufacturing costs including LIFO inventory decrement benefits, improved price realization and favorable currency.

- **Engines** operating profit of $1.464 billion was down $855 million, or 37 percent, from 2008. Lower sales volume and redundancy costs were partially offset by improved price realization, lower SG&A and R&D expenses and favorable currency. Although total Engines operating profit declined during 2009, operating profit for turbines increased and represented about half of total Engines operating profit in 2009 compared with about one-quarter in 2008.

- **Financial Products** operating profit of $381 million was down $198 million, or 34 percent, from 2008. The decrease was primarily attributable to a $77 million unfavorable impact from returned or repossessed equipment, a $51 million impact from decreased net yield on average earning assets, a $47 million unfavorable impact from lower average earning assets, a $33 million increase in the provision for credit losses at Cat Financial, a $20 million increase in other operating expenses and the absence of a $12 million gain related to the sale of receivables in 2008, partially offset by a $70 million decrease in SG&A expenses (excluding the provision for credit losses).

**OTHER PROFIT/LOSS ITEMS**

- **Interest expense excluding Financial Products** increased $115 million due to higher average debt. As a result of the weak economic environment and uncertain capital markets, we have held more cash than usual.

- **Other income/expense** was income of $381 million compared with income of $327 million in 2008. The increase was primarily due to the favorable impact from net foreign exchange gains and losses.

- **The provision for income taxes** reflects a significantly more favorable effective tax rate than in 2008. The improvement was driven primarily by a more favorable geographic mix of profits and losses from a tax perspective, along with tax benefits related to prior-year tax returns of $133 million and a larger percentage benefit from U.S. permanent differences and credits including the research and development tax credit. The prior-year tax benefits primarily resulted from the U.S. settlement of tax years 1995 to 1999 and the true-up of estimated amounts used in the 2008 tax provision to the U.S. tax return as filed. The 2008 provision for income taxes included $456 million of benefits primarily related to the repatriation of non-U.S. earnings with available foreign tax credits in excess of the U.S. tax liability on the dividend.

- **Equity in profit/(loss) of unconsolidated affiliated companies** was a loss of $12 million compared with income of $37 million in 2008. The decrease was primarily related to the absence of equity profit in 2008 after the consolidation of Cat Japan.

- **Profit/loss attributable to noncontrolling interests** (formerly minority interest) favorably impacted profit by $96 million from 2008, primarily due to adding back 33 percent of Cat Japan's losses attributable to Mitsubishi Heavy Industries.

**Employee Separation Charges**

In 2008, we recognized employee separation charges of $30 million in Other operating (income) expenses in the Consolidated Results of Operations related to various voluntary and involuntary separation programs. These programs, impacting 3,085 employees worldwide, were in response to a sharp decline in sales volume due to the global recession.

In 2009, continued cost reduction efforts worldwide resulted in additional separation charges of $481 million, recognized in Other operating (income) expenses in the Consolidated Results of Operations. These efforts related to the following separation programs:

*U.S. Voluntary Separation Program* - During December 2008, we announced a voluntary separation program for certain support and management employees based in the United States. Eligible employees had until January 12, 2009 to sign up for the program, and generally until January 31, 2009 to make a final decision. Participating employees received severance pay based on current salary level and years of service. During 2009, 2,182 employees accepted the program, all of which were separated from Caterpillar by the end of 2009.

*Other U.S. Separation Programs* – During 2009, we initiated plans to reduce U.S. based positions through a variety of programs. These programs represent both voluntary and involuntary separation plans. During 2009, 6,611 employees accepted or were subject to these programs.

*Non-U.S. Separation Programs* - During 2009, we initiated several other separation programs outside the U.S. These programs, designed specific to the laws and regulations of the individual countries, represent voluntary and involuntary plans. During 2009, 7,075 employees accepted or were subject to the various programs.

In 2010, we recognized employee separation charges of $33 million in Other operating (income) expenses in the Consolidated Results of Operations primarily related to involuntary separations due to the streamlining of our corporate structure as announced in the second quarter.

Our accounting for separations is dependent upon how the particular program is designed. For voluntary programs, eligible separation costs are recognized at the time of employee acceptance. For involuntary programs, eligible costs are recognized when management has approved the program, the affected employees have been properly identified and the costs are estimable.

The following table summarizes the 2008, 2009 and 2010 separation activity by geographic region:

| | Machinery and Engines | | | | | |
|---|---|---|---|---|---|---|
| **(Millions of dollars)** | **North America** | **Latin America** | **EAME** | **Asia Pacific** | **Financial Products[1]** | **Total** |
| Increase in liability (separation charges) | $4 | $9 | $17 | $— | $— | $30 |
| Reduction in liability (payments and other adjustments) | — | (7) | (12) | — | — | (19) |
| Liability balance at December 31, 2008 | $4 | $2 | $5 | $— | $— | $11 |
| Increase in liability (separation charges) | $323 | $15 | $102 | $31 | $10 | $481 |
| Reduction in liability (payments and other adjustments) | (313) | (17) | (78) | (25) | (10) | (443) |
| Liability balance at December 31, 2009 | $14 | $— | $29 | $6 | $— | $49 |
| Increase in liability (separation charges) | **$17** | **$—** | **$8** | **$7** | **$1** | **$33** |
| Reduction in liability (payments and other adjustments) | **(26)** | **—** | **(23)** | **(11)** | **—** | **(60)** |
| Liability balance at December 31, 2010 | **$5** | **$—** | **$14** | **$2** | **$1** | **$22** |

[1]Includes $8 million for North America and $2 million for EAME in 2009 and $1 million for EAME in 2010.

The remaining liability balances as of December 31, 2010 represent costs for employees that have either not yet separated from the Company or their full severance has not yet been paid. The majority of these remaining costs are expected to be paid in 2011.

The number of employees affected by the separations in 2010 was not significant. The following table summarizes the number of employees that accepted or were subject to the 2008 and 2009 programs:

| | 2009 | 2008 |
|---|---|---|
| Impacted employees at beginning of period | 1,505 | — |
| Impacted employees during the period | 15,868 | 3,085 |
| Employee separations during the period | (16,970) | (1,580) |
| Impacted employees remaining at the end of period | 403 | 1,505 |

In addition to the 2009 separation charges noted above, we reported $225 million of costs associated with certain pension and other postretirement benefit plans, which were also recognized in Other operating (income) expenses in the Consolidated Results of Operations.

**Electro-Motive Diesel, Inc.**

In August 2010, we acquired 100 percent of the equity in privately held Electro-Motive Diesel, Inc. (EMD) for approximately $901 million, consisting of $928 million paid at closing less a final net working capital adjustment of $27 million received in the fourth quarter of 2010. Headquartered in LaGrange, Illinois with additional manufacturing facilities in Canada and Mexico, EMD designs, manufactures and sells diesel-electric locomotives for commercial railroad applications and sells its products to customers throughout the world. EMD has a significant field population in North America and throughout the world supported by an aftermarket business offering customers replacement parts, maintenance solutions, and a range of value-added services. EMD is also a global provider of diesel engines for marine propulsion, offshore and land-based oil well drilling rigs, and stationary power generation. The acquisition supports our strategic plan to grow our presence in the global rail industry. The EMD acquisition will enable us to provide rail and transit customers a range of locomotive, engine and emissions solutions, as well as aftermarket product and parts support and a full line of rail-related services and solutions.

The transaction was financed with available cash. Tangible assets acquired of $890 million, recorded at their fair values, primarily were receivables of $186 million, inventories of $549 million and property, plant and equipment of $131 million. Finite-lived intangible assets acquired of $329 million were primarily related to customer relationships and also included intellectual property and trade names. The finite-lived intangible assets are being amortized on a straight-line basis over a weighted-average amortization period of approximately 15 years. An additional intangible asset acquired of $18 million, related to in-process research and development, is considered indefinite-lived until the completion or abandonment of the development activities. Liabilities assumed of $518 million, recorded at their fair values, primarily included accounts payable of $124 million and accrued expenses of $161 million. Additionally, net deferred tax liabilities were $104 million. Goodwill of $286 million, substantially all of which is non-deductible for income tax purposes, represents the excess of cost over the fair value of the net tangible and intangible assets acquired. Factors that contributed to a purchase price resulting in the recognition of goodwill include EMD's strategic fit into our product and services portfolio, aftermarket support opportunities and the acquired assembled workforce. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

## GLOSSARY OF TERMS

1. **Caterpillar Japan Ltd. (Cat Japan)** – A Caterpillar subsidiary formerly known as Shin Caterpillar Mitsubishi Ltd. (SCM). SCM was a 50/50 joint venture between Caterpillar and Mitsubishi Heavy Industries Ltd. (MHI) until SCM redeemed one half of MHI's shares on August 1, 2008. Caterpillar now owns 67 percent of the renamed entity. We began consolidating Cat Japan in the fourth quarter of 2008.

2. **Caterpillar Production System** – The Caterpillar Production System is the common Order-to-Delivery process being implemented enterprise-wide to achieve our safety, quality, velocity, earnings and growth goals for 2010 and beyond.

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

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

5. **Debt-to-Capital Ratio** – A key measure of financial strength used by both management and our credit rating agencies. The metric is a ratio of Machinery and Engines debt (short-term borrowings plus long-term debt) and redeemable noncontrolling interest to the sum of Machinery and Engines debt, redeemable noncontrolling interest and stockholders' equity.

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

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

8. **Engines** – A principal line of business including the design, manufacture, marketing and sales of engines for Caterpillar machinery; electric power generation systems; marine, petroleum, construction, industrial, agricultural and other applications and related parts. Also includes remanufacturing of Caterpillar engines and a variety of Caterpillar machinery and engine components and remanufacturing services for other companies. Reciprocating engines meet power needs ranging from 10 to 21,700 horsepower (8 to over 16 000 kilowatts). Turbines range from 1,600 to 30,000 horsepower (1 200 to 22 000 kilowatts).

9. **Financial Products** – A principal line of business consisting primarily of Caterpillar Financial Services Corporation (Cat Financial), Caterpillar Insurance Holdings Inc. (Cat Insurance) and their respective subsidiaries. Cat Financial provides a wide range of financing alternatives to customers and dealers for Caterpillar machinery and engines, Solar gas turbines as well as other equipment and marine vessels. Cat Financial also extends loans to customers and

dealers. Cat Insurance provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment.

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

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

12. **LIFO Inventory Decrement Benefits** – A significant portion of Caterpillar's inventory is valued using the last-in, first-out (LIFO) method. With this method, the cost of inventory is comprised of "layers" at cost levels for years when inventory increases occurred. A LIFO decrement occurs when inventory decreases, depleting layers added in earlier, generally lower cost, years. A LIFO decrement benefit represents the impact on profit of charging cost of goods sold with prior-year cost levels rather than current period costs.

13. **Machinery** – A principal line of business which includes the design, manufacture, marketing and sales of construction, mining and forestry machinery—track and wheel tractors, track and wheel loaders, pipelayers, motor graders, wheel tractor-scrapers, track and wheel excavators, backhoe loaders, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, skid steer loaders, underground mining equipment, tunnel boring equipment and related parts. In addition, this line of business also includes Electro-Motive Diesel, Inc., (EMD), a manufacturer of diesel-electric locomotives, which we acquired in 2010. Also includes the design, manufacture, remanufacture, maintenance and services of rail-related products and logistics services for other companies.

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

15. **Machinery and Engines Other Operating (Income) Expenses** – Comprised primarily of gains/losses on disposal of long-lived assets, long-lived asset impairment charges, pension curtailment charges and employee redundancy costs.

16. **Manufacturing Costs** – Manufacturing costs exclude the impacts of currency and represent the volume-adjusted change for variable costs and the absolute dollar change for period manufacturing costs. Variable manufacturing costs are defined as having a direct relationship with the volume of production. This includes material costs, direct labor and other costs that vary directly with production volume such as freight, power to operate machines and supplies that are consumed in the manufacturing process. Period manufacturing costs support production but are defined as generally not having a direct relationship to short-term changes in volume. Examples include machinery and equipment repair, depreciation on manufacturing assets, facility support, procurement, factory scheduling, manufacturing planning and operations management.

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

18. **Redundancy Costs** – Costs related to employment reduction including employee severance charges, pension and other postretirement benefit plan curtailments and settlements and health care and supplemental unemployment benefits.

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

## LIQUIDITY AND CAPITAL RESOURCES

### Sources of funds

We generate significant capital resources from operating activities, which are the primary source of funding for our Machinery and Engines operations. Funding for these businesses is also provided by commercial paper and long-term debt issuances. Financial Products operations are funded primarily from commercial paper, term debt issuances and collections from their existing portfolio. Throughout 2010, we experienced favorable liquidity conditions in both our Machinery and Engines and Financial Products operations. On a consolidated basis, we ended 2010 with $3.6 billion of cash, a decrease of $1.3 billion from year-end 2009. Our cash balances are held in numerous locations throughout the world. We expect to meet our U.S. funding needs without repatriating non-U.S. cash and incurring incremental U.S. taxes.

Consolidated operating cash flow for 2010 was $5.01 billion, down from $6.50 billion in 2009. Improving economic conditions in 2010 compared with recessionary conditions a year ago have resulted in significant changes in the components of operating cash flow from 2009 to 2010. Operating cash flow in 2010 benefited from profit of consolidated and affiliated companies of $2.76 billion and an increase in accounts payable, reflecting higher levels of material purchases for production to meet increasing demand. Offsetting these items were higher receivables resulting from improved sales volume, and an increase in inventory, also related to higher production. Operating cash flow in 2009 benefited from significant declines in receivables and inventory, partially offset by lower accounts payable and changes in other working capital items. See further discussion of operating cash flow under Machinery and Engines and Financial Products.

Total debt as of December 31, 2010, was $28.42 billion, a decrease of $3.21 billion from year-end 2009. Debt related to Machinery and Engines decreased $1.18 billion in 2010. Debt related to Financial Products decreased $2.03 billion reflecting declining portfolio balances and a lower cash position at Cat Financial.

We have three global credit facilities with a syndicate of banks totaling $7.23 billion (Credit Facility) available in the aggregate to both Caterpillar and Cat Financial to support their commercial paper programs in the event those programs become unavailable and for general liquidity purposes. Based on management's allocation decision, which can be revised from time to time, the portion of the Credit Facility available to Cat Financial as of December 31, 2010 was $5.73 billion.

- The 364-day facility of $3.52 billion expires in September 2011.
- The five-year facility of $1.62 billion expires in September 2012.
- The four-year facility of $2.09 billion expires in September 2014.

At December 31, 2010, Caterpillar's consolidated net worth was $15.56 billion, which was above the $9.00 billion required under the Credit Facility. The consolidated net worth is defined as the consolidated stockholder's equity including preferred stock but excluding the pension and other postretirement benefits balance within Accumulated other comprehensive income (loss).

At December 31, 2010, Cat Financial's covenant interest coverage ratio was 1.34 to 1. This is above the 1.15 to 1 minimum ratio of (1) profit excluding income taxes, interest expense and net gain/(loss) from interest rate derivatives to (2) interest expense calculated at the end of each calendar quarter for the rolling four quarter period then most recently ended.

In addition, at December 31, 2010, Cat Financial's covenant leverage ratio was 7.02 to 1. This is below the maximum ratio of debt to net worth of 10 to 1, calculated (1) on a monthly basis as the average of the leverage ratios determined on the last day of each of the six preceding calendar months and (2) at each December 31 required by the Credit Facility.

In the event Caterpillar or Cat Financial does not meet one or more of their respective financial covenants under the Credit Facility in the future (and are unable to obtain a consent or waiver), the bank group may terminate the commitments allocated to the party that does not meet its covenants. Additionally, in such event, certain of Cat Financial's other lenders under other loan agreements where similar financial covenants or cross default provisions are applicable, may, at their election, choose to pursue remedies under those loan agreements, including accelerating the repayment of outstanding borrowings. At December 31, 2010, there were no borrowings under the Credit Facility.

Our total credit commitments as of December 31, 2010 were:

| | December 31, 2010 | | |
|---|---|---|---|
| **(Millions of dollars)** | Consolidated | Machinery and Engines | Financial Products |
| Credit lines available: | | | |
| Global credit facilities | **$7,230** | **$1,500** | **$5,730** |
| Other external | **4,658** | **853** | **3,805** |
| Total credit lines available | **11,888** | **2,353** | **9,535** |
| Less: Global credit facilities supporting commercial paper | **(2,710)** | **—** | **(2,710)** |
| Less: Utilized credit | **(2,217)** | **(135)** | **(2,082)** |
| Available credit | **$6,961** | **$2,218** | **$4,743** |

Other consolidated credit lines with banks as of December 31, 2010 totaled $4.66 billion. These committed and uncommitted credit lines, which may be eligible for renewal at various future dates or have no specified expiration date, are used primarily by our subsidiaries for local funding requirements. Caterpillar or Cat Financial may guarantee subsidiary borrowings under these lines.

On November 14, 2010, Caterpillar entered into a bridge facility commitment letter related to the planned acquisition of Bucyrus International, Inc. The commitment letter provided for an aggregate principal amount of $8.6 billion under a one-year unsecured term loan credit facility (Bridge Facility). On December 3, 2010, Caterpillar entered into a Bridge Loan Agreement that contains the negotiated terms and conditions originally contemplated in the commitment letter. The principal amount available to Caterpillar under the Bridge Loan Agreement is not included in the credit commitments table shown above. Caterpillar paid certain customary fees and expenses in connection with the Bridge Facility, and pays certain customary fees and expenses in connection with the Bridge Loan Agreement. In 2010, Caterpillar paid $46 million in fees related to the Bridge Facility and the Bridge Loan Agreement. We estimate payments of approximately $20 million in additional fees related to the Bridge Loan Agreement in 2011. These fees will be amortized over the term of the Bridge Loan Agreement. At December 31, 2010, there were no borrowings under the Bridge Loan Agreement.

In the event that Caterpillar or Cat Financial, or any of their debt securities, experiences a credit rating downgrade, it would likely result in an increase in our borrowing costs and make access to certain credit markets more difficult. While we expect continued growth in the global economy, in the event conditions deteriorate such that access to debt markets becomes unavailable, our Machinery and Engines operations would rely on cash flow from operations, use of existing cash balances, borrowings from Cat Financial and access to our Credit Facility. Our Financial Products operations would rely on cash flow from its existing portfolio, utilization of existing cash balances, access to our Credit Facility and other credit line facilities of Cat Financial and potential borrowings from Caterpillar. In addition, Caterpillar maintains a support agreement with Cat Financial, which requires Caterpillar to remain the sole owner of Cat Financial and may, under certain circumstances, require Caterpillar to make payments to Cat Financial should Cat Financial fail to maintain certain financial ratios.

### Machinery and Engines

Net cash provided by operating activities was $5.64 billion in 2010 compared with $3.15 billion in 2009. The change was primarily due to increased profit and a $600 million dividend from Cat Financial in the first quarter of 2010. Profit of consolidated and affiliated companies in 2010 was $2.75 billion compared with $811 million for the same period a year ago. Improving economic conditions in 2010 compared with recessionary conditions a year ago have resulted in significant changes in the components of working capital from 2009 to 2010. During 2010, we experienced increased demand and a production ramp-up, resulting in an increase in accounts payable and customer advances, which was more than offset by increases in inventory and receivables. In 2009, we were executing our strategic “trough” plans as demand and production were decreasing. This resulted in significant decreases in inventory and receivables, which were partially offset by decreases in accounts payable and accrued expenses. Net cash used for investing activities in 2010 was $3.18 billion compared with $836 million for the same period in 2009. The change was primarily due to the use of cash for the acquisition of Electro-Motive Diesel (EMD) and loans to Cat Financial in 2010, compared with net payments from Cat Financial in 2009. Net cash used for financing activities in 2010 was $2.86 billion, primarily a result of payments on long-term debt and dividend payments. During the same period in 2009, net cash used for financing activities was $1.58 billion, as proceeds from loans with Cat Financial of $963 million were more than offset by payments on short-term borrowings and dividends.

Our priorities for the use of cash are maintaining a strong financial position that helps protect our credit rating, providing capital to support growth, appropriately funding employee benefit plans, paying dividends and repurchasing common stock with excess cash.

**Strong financial position** – A key measure of Machinery and Engines financial strength used by both management and our credit rating agencies is Machinery and Engines' debt-to-capital ratio. Debt-to-capital is defined as short-term borrowings, long-term debt due within one year, redeemable noncontrolling interest and long-term debt due after one year (debt) divided by the sum of debt (including redeemable noncontrolling interest) and stockholders' equity. Debt also includes borrowings from Financial Products. The debt-to-capital ratio for Machinery and Engines was 34.8 percent at December 31, 2010, slightly below our target range of 35 to 45 percent, compared with 47.2 percent at December 31, 2009. Lower debt levels along with higher profits during 2010 have contributed to the reduction in the debt-to-capital ratio. In addition to the debt-to-capital ratios, certain rating agencies have increased their focus on the extent to which Caterpillar and Cat Financial have cash and cash equivalents and unused credit lines available to meet short-term debt requirements. Caterpillar and Cat Financial have been taking this focus into account when planning for liquidity needs. This focus has resulted in higher cash balances for Caterpillar and Cat Financial.

**Capital to support growth** – Capital expenditures during 2010 were $1.66 billion, an increase of $163 million compared with 2009. We expect capital expenditures to be about $3 billion in 2011, an increase of more than 80 percent compared with 2010. During 2010, we completed investments and acquisitions (net of cash acquired) for $1.09 billion, including the acquisition of EMD for $901 million. In 2011, we anticipate closing the acquisitions of Motoren-Werke Mannheim (MWM) for approximately euro 580 million and Bucyrus for approximately $8.6 billion. The Bucyrus transaction value consists of a payment to Bucyrus shareholders of approximately $7.6 billion and the assumption of net debt of approximately $1.0 billion. The acquisition of MWM is expected to be funded by available cash. The Bucyrus acquisition is expected to be funded by a combination of available cash, new debt issuances, and up to $2 billion in new equity issuances.

**Appropriately funded employee benefit plans** – At the end of 2010, our worldwide pension plans were 81 percent funded, up from 76 percent at the end of 2009. We contributed $977 million to our pension plans in 2010. Strong asset returns that were well above our benchmarks contributed to the increase in funded status. We expect to make about $1 billion in contributions in 2011. From June 2009 to October 2010, the company funded the 401(k) employer match with company stock. This equated to a contribution of $94 million (1.5 million shares) in 2010.

**Paying dividends** – Dividends paid totaled $1.08 billion in 2010, representing 42 cents per share paid in the first and second quarters and 44 cents per share paid in the third and fourth quarters. Each quarter, our Board of Directors reviews the company's dividend for the applicable quarter. The Board evaluates the financial condition of the company and considers the economic outlook, corporate cash flow, the company's liquidity needs, and the health and stability of global credit markets to determine whether to maintain or change the quarterly dividend. On June 9, 2010, we increased the quarterly cash dividend 5 percent to 44 cents per share.

**Common stock repurchases** – Pursuant to the February 2007 Board-authorized stock repurchase program, which expires on December 31, 2011, $3.8 billion of the $7.5 billion authorized was spent through 2008. The stock repurchase program has been suspended since the first quarter of 2009. Due to the size of acquisitions that we expect to close, particularly Bucyrus, we do not expect to buy back stock in 2011. Basic shares outstanding as of December 31, 2010 were 639 million.

### Financial Products

Financial Products operating cash flow was $878 million, compared with $1.10 billion for 2009. The decrease in operating cash flow was primarily related to the absence of cash proceeds from liquidated interest rate swaps. Net cash provided by investing activities in 2010 was $1.02 billion, compared with $3.37 billion in 2009. This change is primarily the result of higher additions to finance receivables and lower proceeds from the sale of finance receivables at Cat Financial, partially offset by higher collections and the net impact of intercompany borrowings. Net cash used for financing activities in 2010 was $2.69 billion, compared with $3.08 billion in 2009, primarily related to the net impact of intercompany borrowings, partially offset by a $600 million dividend payment to Caterpillar Inc.

During 2010, Cat Financial's overall portfolio quality reflected continued improvement in global economic conditions. At the end of 2010, past dues were 3.87 percent, down from 4.88 percent at the end of the third quarter of 2010 and 5.54 percent at the end of 2009. We expect past dues to continue to trend lower during 2011.

Bad debt write-offs, net of recoveries, were $61 million for the fourth quarter of 2010, down from $78 million in the third quarter. Write-offs, net of recoveries, were $237 million for full–year 2010, compared with $253 million for 2009. Full-year 2010 write-offs, net of recoveries, were 1.04 percent of average annual retail portfolio, compared with 1.03 percent in 2009.

At year-end 2010, the allowance for credit losses was 1.57 percent of net finance receivables, compared with 1.61 percent at the end of the third quarter of 2010 and 1.64 percent at the end of 2009. The trend reflects improving portfolio performance metrics and the write-off of accounts previously identified as potential credit losses in the allowance account. Cat Financial's allowance for credit losses totaled $363 million at December 31, 2010, compared with $377 million at December 31, 2009.

Cat Financial experienced favorable liquidity conditions in all key global funding markets during 2010. Commercial Paper (CP) market liquidity and pricing continued to be favorable, with CP outstanding totaling $2.7 billion at year-end supported by the Credit Facility. During 2010, Cat Financial issued ¥10 billion in Japanese yen, € 415 million in euro, A$250 million in Australian dollar, C$200 million in Canadian dollar, ¥1 billion in Chinese yuan and $1.9 billion in medium-term notes. Throughout 2010, Cat Financial's CP, term debt issuance and year-to-date portfolio cash receipts have provided sufficient liquidity for operations.

| **Dividends paid per common share**<br>**Quarter** | **2010** | 2009 | 2008 |
|---|---|---|---|
| First | **$.420** | $.420 | $.360 |
| Second | **.420** | .420 | .360 |
| Third | **.440** | .420 | .420 |
| Fourth | **.440** | .420 | .420 |
| | **$1.720** | $1.680 | $1.560 |

## Contractual obligations

The company has committed cash outflow related to long-term debt, operating lease agreements, postretirement obligations, purchase obligations, interest on long-term debt and other long-term contractual obligations. Minimum payments for these obligations are:

| (Millions of dollars) | 2011 | 2012 | 2013 | 2014 | 2015 | After 2015 | Total |
|---|---|---|---|---|---|---|---|
| Long-term debt: | | | | | | | |
| Machinery and Engines (excluding capital leases) | $441 | $55 | $352 | $— | $— | $4,017 | $4,865 |
| Machinery and Engines-capital leases | 54 | 26 | 14 | 8 | 5 | 28 | 135 |
| Financial Products | 3,430 | 4,825 | 4,243 | 2,015 | 887 | 3,962 | 19,362 |
| Total long-term debt | 3,925 | 4,906 | 4,609 | 2,023 | 892 | 8,007 | 24,362 |
| Operating leases | 284 | 228 | 177 | 156 | 124 | 379 | 1,348 |
| Postretirement obligations[1] | 1,165 | 870 | 900 | 1,160 | 1,110 | 3,250 | 8,455 |
| Purchase obligations: | | | | | | | |
| Accounts payable[2] | 5,856 | — | — | — | — | — | 5,856 |
| Purchase orders[3] | 9,156 | 1 | — | — | — | — | 9,157 |
| Other contractual obligations[4] | 269 | 184 | 186 | 183 | 46 | 59 | 927 |
| Total purchase obligations | 15,281 | 185 | 186 | 183 | 46 | 59 | 15,940 |
| Interest on long-term debt[5] | 1,039 | 869 | 731 | 580 | 520 | 5,950 | 9,689 |
| Other long-term obligations[6] | 198 | 135 | 96 | 55 | 34 | 13 | 531 |
| Total contractual obligations | $21,892 | $7,193 | $6,699 | $4,157 | $2,726 | $17,658 | $60,325 |

1 Amounts represent expected contributions to our pension and other postretirement benefit plans through 2020, offset by expected Medicare Part D subsidy receipts.

2 Amount represents invoices received and recorded as liabilities in 2010, but scheduled for payment in 2011. These represent short-term obligations made in the ordinary course of business.

3 Amount represents contractual obligations for material and services on order at December 31, 2010 but not yet delivered. These represent short-term obligations made in the ordinary course of business.

4 Amounts represent long-term commitments entered into with key suppliers for minimum purchases quantities.

5 Amounts represent estimated contractual interest payments on long-term debt, including capital lease interest payments.

6 Amounts represent contractual obligations primarily related to software license contracts, IT consulting contracts and outsourcing contracts for benefit plan administration and software system support.

The total amount of gross unrecognized tax benefits for uncertain tax positions, including positions impacting only the timing of tax benefits, was $789 million at December 31, 2010. Payment of these obligations would result from settlements with taxing authorities. Due to the difficulty in determining the timing of settlements, these obligations are not included in the table above. We do not expect a significant tax payment related to these obligations within the next year.

## CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts. The more significant estimates include: residual values for leased assets, fair values for goodwill impairment tests, impairment of available-for-sale securities, warranty liability, stock-based compensation, reserves for product liability and insurance losses, postretirement benefits, post-sale discounts, credit losses and income taxes. We have incorporated many years of data into the determination of each of these estimates and we have not historically experienced significant adjustments. These assumptions are reviewed at least annually with the Audit Committee of the Board of Directors. Following are the methods and assumptions used in determining our estimates and an indication of the risks inherent in each.

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

**Fair values for goodwill impairment tests** — We test goodwill for impairment annually, at the reporting unit level, and whenever events or circumstances make it likely that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell all or a portion of a reporting unit. We perform our annual goodwill impairment test as of October 1 and monitor for interim triggering events on an ongoing basis.

Goodwill is reviewed for impairment utilizing a two-step process. The first step requires us to compare the fair value of each reporting unit to the respective carrying value, which includes goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is greater than the fair value, there is an indication that an impairment may exist and the second step is required. In step two, the implied fair value of the goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss.

The impairment test process requires valuation of the respective reporting unit, which we primarily determine using an income approach based on a discounted five year forecasted cash flow with a year-five residual value. The residual value is computed using the constant growth method, which values the forecasted cash flows in perpetuity. The income approach is supported by a reconciliation of our calculated fair value for Caterpillar to the company's market capitalization. The assumptions about future cash flows and growth rates are based on each reporting unit's long-term forecast and are subject to review and approval by senior management. The discount rate is based on our weighted average cost of capital, which we believe approximates the rate from a market participant's perspective. The estimated fair value could be impacted by changes in market conditions, interest rates, growth rates, tax rates, costs, pricing and capital expenditures.

The 2010 annual impairment test, completed in the fourth quarter, indicated the fair value of each reporting unit was well above its respective carrying value, including goodwill. Additionally, Caterpillar's market capitalization has remained significantly above the net book value of the company. The 2009 annual impairment test indicated the fair value of each of our reporting units was above its respective carrying value, including goodwill, with the exception of our Forest Products reporting unit. Because the carrying value of Forest Products exceeded its fair value, step two in the impairment test process was required. We allocated the fair value to the unit's assets and liabilities and determined the implied fair value of the goodwill was insignificant. Accordingly, we recognized a $22 million non-cash goodwill impairment charge in 2009 for Forest Products' entire goodwill amount. The primary factor contributing to the impairment was the historic decline in demand for purpose built forest product machines caused by the significant reduction in U.S. housing construction, lower prices for pulp, paper and wood product commodities, and reduced capital availability in the forest products industry.

A prolonged economic downturn resulting in lower long-term growth rates and reduced long-term profitability may reduce the fair value of our reporting units. Industry specific events or circumstances that have a negative impact to the valuation assumptions may also reduce the fair value of our reporting units. Should such events occur and it becomes more likely than not that a reporting unit's fair value has fallen below its carrying value, we will perform an interim goodwill impairment test(s), in addition to the annual impairment test. Future impairment tests may result in a goodwill impairment, depending on the outcome of both step one and step two of the impairment review process. A goodwill impairment would be reported as a non-cash charge to earnings.

**Impairment of available-for-sale securities** — Available-for-sale securities, primarily at Cat Insurance, are reviewed at least quarterly to identify fair values below cost which may indicate that a security is impaired and should be written down to fair value.

For debt securities, once a security's fair value is below cost we utilize data gathered by investment managers, external sources and internal research to monitor the performance of the security to determine whether an other-than-temporary impairment has occurred. These reviews, which include an analysis of whether it is more likely than not that we will be required to sell the security before its anticipated recovery, consist of both quantitative and qualitative analysis and require a degree of management judgment. Securities in a loss position are monitored and assessed at least quarterly based on severity of loss and may be deemed other-than-temporarily impaired at any time. Once a security's fair value has been twenty percent or more below its original cost for six consecutive months, the security will be other-than-temporarily impaired unless there are sufficient facts and circumstances supporting otherwise.

For equity securities in a loss position, determining whether the security is other-than-temporarily impaired requires an analysis of the securities' historical sector returns and volatility. This information is utilized to estimate the security's future fair value to assess whether the security has the ability to recover to its original cost over a reasonable period of time as follows:

- Historical annualized sector returns over a two-year period are analyzed to estimate the security's fair value over the next two years.
- The volatility factor for the security is applied to the sector historical returns to further estimate the fair value of the security over the next two years.

In the event the estimated future fair value is less than the original cost, qualitative factors are then considered in determining whether a security is other-than-temporarily impaired, which includes reviews of the following: significant changes in the regulatory, economic or technological environment of the investee, significant changes in the general market condition of either the geographic area or the industry in which the investee operates, and length of time and the extent to which the fair value has been less than cost. These qualitative factors are subjective and require a degree of management judgment.

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

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

- Volatility is a measure of the amount by which the stock price is expected to fluctuate each year during the expected term of the award and is based on historical and current implied volatilities from traded options on Caterpillar stock. The implied volatilities from traded options are impacted by changes in market conditions. An increase in the volatility would result in an increase in our expense.
- The expected term represents the period of time that awards granted are expected to be outstanding and is an output of the lattice-based option-pricing model. In determining the expected term of the award, future exercise and forfeiture patterns are estimated from Caterpillar employee historical exercise behavior. These patterns are also affected by the vesting conditions of the award. Changes in the future exercise behavior of employees or in the vesting period of the award could result in a change in the expected term. An increase in the expected term would result in an increase to our expense.
- The weighted-average dividend yield is based on Caterpillar's historical dividend yields. As holders of stock-based awards do not receive dividend payments, this could result in employees retaining the award for a longer period of time if dividend yields decrease or exercising the award sooner if dividend yields increase. A decrease in the dividend yield would result in an increase in our expense.

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

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

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

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

**Postretirement benefits** — Primary actuarial assumptions were determined as follows:

- The U.S. expected long-term rate of return on plan assets is based on our estimate of long-term passive returns for equities and fixed income securities weighted by the allocation of our plan assets. Based on historical performance, we increase the passive returns due to our active management of the plan assets. A similar process is used to determine the rate for our non-U.S. pension plans. This rate is impacted by changes in general market conditions, but because it represents a long-term rate, it is not significantly impacted by short-term market swings. Changes in our allocation of plan assets would also impact this rate. For example, a shift to more fixed income securities would lower the rate. A decrease in the rate would increase our expense.
- The assumed discount rate is used to discount future benefit obligations back to today's dollars. The U.S. discount rate is based on a benefit cash flow-matching approach and represents the rate at which our benefit obligations could effectively be settled as of our measurement date, December 31. The benefit cash flow-matching approach involves analyzing Caterpillar's projected cash flows against a high quality bond yield curve, calculated using a wide population of corporate Aa bonds available on the measurement date. The very highest and lowest yielding bonds (top and bottom 10%) are excluded from the analysis. A similar approach is used to determine the assumed discount rate for our most significant non-U.S. plans. This rate is sensitive to changes in interest rates. A decrease in the discount rate would increase our obligation and future expense.
- The expected rate of compensation increase is used to develop benefit obligations using projected pay at retirement. It represents average long-term salary increases. This rate is influenced by our long-term compensation policies. An increase in the rate would increase our obligation and expense.
- The assumed health care trend rate represents the rate at which health care costs are assumed to increase and is based on historical and expected experience. Changes in our projections of future health care costs due to general economic conditions and those specific to health care (e.g., technology driven cost changes) will impact this trend rate. An increase in the trend rate would increase our obligation and expense.

**Post-sale discount reserve** — We provide discounts to dealers through merchandising programs. We have numerous programs that are designed to promote the sale of our products. The most common dealer programs provide a discount when the dealer sells a product to a targeted end user. The amount of accrued post-sale discounts was $779 million, $662 million and $828 million as of December 31, 2010, 2009 and 2008, respectively. The reserve represents discounts that we expect to pay on previously sold units and is reviewed at least quarterly. The reserve is adjusted if discounts paid differ from those estimated. Historically, those adjustments have not been material.

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

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

While management believes it has exercised prudent judgment and applied reasonable assumptions, there can be no assurance that in the future, changes in economic conditions or other factors would not cause changes in the financial health of our customers. If the financial health of our customer deteriorates, the timing and level of payments received could be impacted and therefore, could result in a change to our estimated losses.

**Income tax reserve** — We are subject to the income tax laws of the many jurisdictions in which we operate. These tax laws are complex, and the manner in which they apply to our facts is sometimes open to interpretation. In establishing the provision for income taxes, we must make judgments about the application of these inherently complex tax laws.

Despite our belief that our tax return positions are consistent with applicable tax laws, we believe that taxing authorities could challenge certain positions. Settlement of any challenge can result in no change, a complete disallowance, or some partial adjustment reached through negotiations or litigation. We record tax benefits for uncertain tax positions based upon management's evaluation of the information available at the reporting date. To be recognized in the financial statements, a tax benefit must be at least more likely than not of being sustained based on technical merits. The benefit for positions meeting the recognition threshold is measured as the largest benefit more likely than not of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Significant judgment is required in making these determinations and adjustments to unrecognized tax benefits may be necessary to reflect actual taxes payable upon settlement. Adjustments related to positions impacting the effective tax rate affect the provision for income taxes. Adjustments related to positions impacting the timing of deductions impact deferred tax assets and liabilities.

Our income tax positions and analysis are based on currently enacted tax law. Future changes in tax law could significantly impact the provision for income taxes, the amount of taxes payable, and the deferred tax asset and liability balances. Deferred tax assets generally represent tax benefits for tax deductions or credits available in future tax returns. Certain estimates and assumptions are required to determine whether it is more likely than not that all or some portion of the benefit of a deferred tax asset will not be realized. In making this assessment, management analyzes and estimates the impact of future taxable income, reversing temporary differences and available prudent and feasible tax planning strategies. Should a change in facts or circumstances lead to a change in judgment about the ultimate realizability of a deferred tax asset, we record or adjust the related valuation allowance in the period that the change in facts and circumstances occurs, along with a corresponding increase or decrease in the provision for income taxes.

A provision for U.S. income taxes has not been recorded on undistributed profits of our non-U.S. subsidiaries that we have determined to be indefinitely reinvested outside the U.S. If management intentions or U.S. tax law changes in the future, there may be a significant negative impact on the provision for income taxes to record an incremental tax liability in the period the change occurs. A deferred tax asset is recognized only if we have definite plans to generate a U.S. tax benefit by repatriating earnings in the foreseeable future.

## GLOBAL WORKFORCE

Caterpillar worldwide full-time employment was 104,490 at the end of 2010 compared with 93,813 at year-end 2009, an increase of 10,677 full-time employees. In addition, we increased the flexible workforce by 11,046 for a total increase in the global workforce of 21,723.

The increase was a result of higher sales, led by demand from developing economies that drove significantly higher worldwide production and exports from the United States. In addition, acquisitions, primarily EMD, added 2,715 people.

**Full-Time Employees at Year-End**

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Inside U.S. | **47,319** | 43,251 | 53,509 |
| Outside U.S. | **57,171** | 50,562 | 59,378 |
| Total | **104,490** | 93,813 | 112,887 |
| By Region: | | | |
| North America | **48,540** | 43,999 | 54,284 |
| EAME | **22,977** | 22,790 | 26,983 |
| Latin America | **15,220** | 10,776 | 14,403 |
| Asia/Pacific | **17,753** | 16,248 | 17,217 |
| Total | **104,490** | 93,813 | 112,887 |

## OTHER MATTERS

### ENVIRONMENTAL AND LEGAL MATTERS

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

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

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

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

On May 14, 2007, the U.S. Environmental Protection Agency (EPA) issued a Notice of Violation to Caterpillar Inc., alleging various violations of Clean Air Act Sections 203, 206 and 207. EPA claims that Caterpillar violated such sections by shipping engines and catalytic converter after-treatment devices separately, introducing into commerce a number of uncertified and/or misbuilt engines, and failing to timely report emissions-related defects. Caterpillar is currently engaged in negotiations with EPA and the U.S. Department of Justice to resolve these issues. On July 9, 2010, the Department of Justice issued a penalty demand to Caterpillar seeking a civil penalty of $3.2 million and implementation of injunctive relief involving expanded use of certain technologies. Caterpillar continues to cooperate with EPA and the Department of Justice and, while penalties will likely exceed $100,000, management does not believe that this issue will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

On February 8, 2009, an incident at Caterpillar's Joliet, Illinois facility resulted in the release of approximately 3,000 gallons of wastewater into the Des Plaines River. In coordination with state and federal authorities, appropriate remediation measures have been taken. On February 23, 2009, the Illinois Attorney General filed a Complaint in Will County Circuit Court containing seven counts of violations of state environmental laws and regulations. Caterpillar recently settled this matter with the State of Illinois, resolving all allegations in the Complaint. This settlement does not have a material adverse impact on our consolidated results of operations, financial position, or liquidity. In addition, on March 5, 2009, the EPA served Caterpillar with a Notice of Intent to file a Civil Administrative Action (notice), indicating the EPA's intent to seek civil penalties for alleged violations of the Clean Water Act and Oil Pollution Act. On January 25, 2010, the EPA issued a revised notice seeking civil penalties in the amount of $167,800, and Caterpillar responded to the revised notice and is engaged in follow up discussions with the EPA. At this time, we do not believe this remaining proceeding will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

In May 2010, an incident at Caterpillar’s Gosselies, Belgium facility resulted in the release of wastewater into the Perupont River. In coordination with local authorities, appropriate remediation measures have been taken. In January 2011, Caterpillar learned that the public prosecutor for the Belgian administrative district of Charleroi had referred the matter to an examining magistrate of the civil court of Charleroi for further investigation. Caterpillar is cooperating with the Belgian authorities on this investigation. At this time, it is uncertain whether penalties will be assessed, and any penalties could potentially exceed $100,000. Management does not believe this matter will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

**RETIREMENT BENEFITS**

In September 2006, the FASB issued guidance on employers' accounting for defined benefit pension and other postretirement plans, which requires the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Also, the measurement date – the date at which the benefit obligation and plan assets are measured – is required to be the company's fiscal year-end. We adopted the balance sheet recognition provisions at December 31, 2006, and adopted the year-end measurement date effective January 1, 2008 using the one measurement approach. Under the one measurement approach, net periodic benefit cost for the period between any early measurement date and the end of the fiscal year that the measurement provisions are applied is allocated proportionately between amounts to be recognized as an adjustment of Profit employed in the business and net periodic benefit cost for the fiscal year. Previously, we used a November 30th measurement date for our U.S. pension and other postretirement benefit plans and September 30th for our non-U.S. plans. The adoption of the year-end measurement date provisions of this guidance increased January 1, 2008 assets by $8 million, increased liabilities by $24 million and reduced stockholders' equity by $16 million. The adoption of this guidance did not impact our results of operations.

We recognized pension expense of $677 million in 2010 as compared to $620 million in 2009. The increase in expense was primarily the result of increased amortization of net actuarial losses due to significant asset losses in 2008, lower discount rates at the end of 2009 and $28 million of curtailment costs due a U.S. pension plan change (discussed below), partially offset by the absence of $169 million of curtailment, settlement and special termination benefit costs due to voluntary and involuntary separation programs (discussed below) recognized in 2009. Accounting guidance on retirement benefits requires companies to discount future benefit obligations back to today's dollars using a discount rate that is based on high-quality fixed-income investments. A decrease in the discount rate increases the pension benefit obligation, while an increase in the discount rate decreases the pension benefit obligation. This increase or decrease in the pension benefit obligation is recognized in Accumulated other comprehensive income (loss) and subsequently amortized into earnings as an actuarial gain or loss. The guidance also requires companies to use an expected long-term rate of return on plan assets for computing current year pension expense. Differences between the actual and expected asset returns are also recognized in Accumulated other comprehensive income (loss) and subsequently amortized into earnings as actuarial gains and losses. At the end of 2010, total actuarial losses recognized in Accumulated other comprehensive income (loss) were $6.07 billion, as compared to $6.33 billion in 2009. The majority of the actuarial losses are due to lower discount rates, losses from other demographic and economic assumptions over the past several years and plan asset losses. The $264 million decrease from 2009 to 2010 was primarily the result of better than expected asset returns and amortization into earnings of net actuarial losses during 2010, partially offset by a decrease in the discount rate.

In 2010, we recognized other postretirement benefit expense of $200 million compared to $277 million in 2009. The decrease in expense is primarily due to curtailment losses of $56 million recognized in 2009 as a result of employee separation programs and the impact of amendments to our U.S. support and management other postretirement benefit plan on 2010 expense (both discussed below). Actuarial losses recognized in Accumulated other comprehensive income (loss) for other postretirement benefit plans were $1.20 billion at the end of 2010 as compared to $659 million at the end of 2009. These losses mainly reflect changes in our health care trend assumption and several years of declining discount rates, partially offset by gains from lower than expected health care costs. The losses were $536 million higher at the end of 2010 as compared to 2009 due to a decrease in the discount rate and changes in our health care trend and other demographic assumptions.

Actuarial losses for both pensions and other postretirement benefits will be impacted in future periods by actual asset returns, actual health care inflation, discount rate changes, actual demographic experience and other factors that impact these expenses. These losses, reported in Accumulated other comprehensive income (loss), will be amortized as a component of net periodic benefit cost on a straight-line basis over the average remaining service period of active employees expected to receive benefits under the benefit plans. At the end of 2010, the average remaining service period of active employees was 11 years for our U.S. pension plans, 15 years for our non-U.S. pension plans and 7 years for other postretirement benefit plans. We expect our amortization of net actuarial losses to increase approximately $150 million in 2011 as compared to

2010, primarily due to asset losses during 2008 and a decrease in the discount rate during 2010. We expect our total pension and other postretirement benefits expense to increase approximately $100 million in 2011.

During 2009, voluntary and involuntary separation programs impacted employees participating in certain U.S. and non-U.S. pension and other postretirement benefit plans. Due to the significance of these events, certain plans were re-measured as of January 31, 2009, March 31, 2009 and December 31, 2009. Re-measurements for U.S. separation programs resulted in curtailment losses of $127 million to pension and $55 million to other postretirement benefit plans. Special termination benefits of $6 million were also recognized for a U.S. pension early retirement program. Re-measurements for non-U.S. separation programs resulted in pension settlement losses of $34 million, special termination benefits of $2 million to pension and curtailment losses of $1 million to other postretirement benefit plans.

In March 2009, we amended our U.S. support and management other postretirement benefit plan. Beginning in 2010, certain retirees age 65 and older enrolled in individual health plans that work with Medicare, such as Medicare Advantage and Medicare Supplement plans, and no longer participate in a Caterpillar-sponsored group health plan. In addition, Caterpillar began funding a tax-advantaged Health Reimbursement Arrangement (HRA) to assist the retirees with medical expenses. The plan amendment required a plan re-measurement as of March 31, 2009, which resulted in a decrease in our Liability for postretirement benefits of $432 million and an increase in Accumulated other comprehensive income (loss) of $272 million net of tax. The plan was further amended in December 2009 to define the HRA benefit that active employees will receive once they are retired and reach age 65. The plan was re-measured at year-end 2009 and the December amendment resulted in a decrease in our Liability for postretirement benefits of $101 million and an increase in Accumulated other comprehensive income (loss) of $64 million net of tax. These decreases will be amortized into earnings on a straight-line basis over approximately 7 years, the average remaining service period of active employees in the plan. The amendments reduced other postretirement benefits expense by approximately $110 million and $60 million in 2010 and 2009, respectively.

In March 2010, the Patient Protection and Affordable Care Act (the PPACA) and the Health Care and Education Reconciliation Act of 2010 (H.R. 4872) which amends certain provisions of the PPACA were signed into law. The Medicare Part D retiree drug subsidies effectively become taxable beginning in 2013.

In August 2010, we announced changes in our U.S. support and management pension plans. Beginning January 1, 2011, retirement benefits for U.S. support and management employees will transition from defined benefit pension plans to defined contribution plans. The transition date is determined for each employee based upon age and years of service or proximity to retirement. Pension benefit accruals will freeze on either December 31, 2010 or December 31, 2019 at which time the employees will move to the new retirement benefit. This benefit will provide employees with a frozen pension benefit and a 401(k) plan that will include a matching contribution and a new annual employer contribution. The plan change required a re-measurement as of August 31, 2010, which resulted in an increase in our Liability for postretirement benefits of $1.32 billion and a decrease in Accumulated other comprehensive income (loss) of $831 million net of tax. The increase in the liability was due to a decline in the discount rate and lower than expected asset returns at the re-measurement date. Curtailment expense of $28 million was also recognized in 2010 as a result of the plan change.

For our U.S. pension plans, our year-end 2010 asset allocation was 74 percent equity securities, 23 percent debt securities and 3 percent other. The target allocation for 2011 is 70 percent equity securities and 30 percent debt securities. The year-end 2010 asset allocation for our non-U.S. pension plans was 54 percent equity securities, 33 percent debt securities, 6 percent real estate and 7 percent other. The 2011 target allocation for our non-U.S. pension plans is 62 percent equity securities, 31 percent debt securities, 6 percent real estate and 1 percent other. Our target asset allocations reflect our investment strategy of maximizing the rate of return on plan assets and the resulting funded status, within an appropriate level of risk. The U.S. plans are rebalanced to plus or minus five percentage points of the target asset allocation ranges on a monthly basis. The frequency of rebalancing for the non-U.S. plans varies depending on the plan.

The use of certain derivative instruments is permitted where appropriate and necessary for achieving overall investment policy objectives. The U.S. plans utilize futures contracts to offset current equity positions in order to rebalance the total portfolio to the target asset allocation. During 2008, approximately 5% of the U.S. pension plans' assets were rebalanced from equity to fixed income positions through the use of futures contracts. The plans do not engage in futures contracts for speculative purposes.

During 2010, we made contributions of $919 million to our U.S. defined benefit pension plans and $58 million to our non-U.S. pension plans. We made contributions of $886 million to our U.S. defined benefit plans in 2009, including a voluntary contribution of 18.2 million shares ($650 million) in Caterpillar stock, held as treasury stock. Cash contributions of $263 million were made to our non-U.S. pension plans in 2009. We expect to make approximately $1 billion of contributions during 2011, most of which are voluntary. We believe we have adequate liquidity resources to fund both U.S. and non-U.S. pension plans.

Actuarial assumptions have a significant impact on both pension and other postretirement benefit expenses. The effects of a one percentage point change in our primary actuarial assumptions on 2010 benefit costs and year-end obligations are included in the table below.

**Postretirement Benefit Plan Actuarial Assumptions Sensitivity**

Following are the effects of a one percentage-point change in our primary pension and other postretirement benefit actuarial assumptions (included in the following table) on 2010 pension and other postretirement benefits costs and obligations:

| (Millions of dollars) | 2010 Benefit Cost | | Year-end Benefit Obligation | |
|---|---|---|---|---|
| | One percentage-point increase | One percentage-point decrease | One percentage-point increase | One percentage-point decrease |
| Pension benefits: | | | | |
| Assumed discount rate | **$(138)** | **$155** | **$(1,975)** | **$2,251** |
| Expected rate of compensation increase | **49** | **(48)** | **366** | **(349)** |
| Expected long-term rate of return on plan assets | **(118)** | **118** | **—** | **—** |
| Other postretirement benefits: | | | | |
| Assumed discount rate | **(18)** | **15** | **(512)** | **570** |
| Expected rate of compensation increase | **—** | **—** | **1** | **(1)** |
| Expected long-term rate of return on plan assets | **(11)** | **11** | **—** | **—** |
| Assumed health care cost trend rate | **27** | **(22)** | **304** | **(259)** |

**Primary Actuarial Assumptions**

| | U.S. Pension Benefits | | | Non-U.S. Pension Benefits | | | Other Postretirement Benefits | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 |
| **Weighted-average assumptions used to determine benefit obligations, end of year:** | | | | | | | | | |
| Discount rate | **5.1%** | 5.7% | 6.1% | **4.6%** | 4.8% | 4.5% | **5.0%** | 5.6% | 6.0% |
| Rate of compensation increase | **4.5%** | 4.5% | 4.5% | **4.2%** | 4.2% | 3.8% | **4.4%** | 4.4% | 4.4% |
| **Weighted-average assumptions used to determine net cost:** | | | | | | | | | |
| Discount rate | **5.4%** | 6.3% | 5.8% | **4.8%** | 4.7% | 5.3% | **5.6%** | 6.3% | 5.8% |
| Expected return on plan assets | **8.5%** | 8.5% | 9.0% | **7.0%** | 6.6% | 7.6% | **8.5%** | 8.5% | 9.0% |
| Rate of compensation increase | **4.5%** | 4.5% | 4.5% | **4.2%** | 3.8% | 4.0% | **4.4%** | 4.4% | 4.4% |
| **Health care cost trend rates at year-end:** | | | | | | | | | |
| Health care trend rate assumed for next year | | | | | | | **7.9%** | 7.0% | 7.4% |
| Rate that the cost trend rate gradually declines to | | | | | | | **5.0%** | 5.0% | 5.0% |
| Year that the cost trend rate reaches ultimate rate | | | | | | | **2019** | 2016 | 2016 |

## SENSITIVITY

### Foreign Exchange Rate Sensitivity

Machinery and Engines use foreign currency forward and option contracts to manage unmatched foreign currency cash inflow and outflow. Our objective is to minimize the risk of exchange rate movements that would reduce the U.S. dollar value of our foreign currency cash flow. Our policy allows for managing anticipated foreign currency cash flow for up to five years. Based on the anticipated and firmly committed cash inflow and outflow for our Machinery and Engines operations for the next 12 months and the foreign currency derivative instruments in place at year-end, a hypothetical 10 percent weakening of the U.S. dollar relative to all other currencies would adversely affect our expected 2011 cash flow for our Machinery and Engines operations by approximately $421 million. Last year similar assumptions and calculations yielded a potential $240 million adverse impact on 2010 cash flow. We determine our net exposures by calculating the difference in cash inflow and outflow by currency and adding or subtracting outstanding foreign currency derivative instruments. We multiply these net amounts by 10 percent to determine the sensitivity.

Since our policy for Financial Products operations is to hedge the foreign exchange risk when the currency of our debt portfolio does not match the currency of our receivable portfolio, a 10 percent change in the value of the U.S. dollar relative to all other currencies would not have a material effect on our consolidated financial position, results of operations or cash flow. Neither our policy nor the effect of a 10 percent change in the value of the U.S. dollar has changed from that reported at the end of last year.

The effect of the hypothetical change in exchange rates ignores the effect this movement may have on other variables, including competitive risk. If it were possible to quantify this competitive impact, the results would probably be different from the sensitivity effects shown above. In addition, it is unlikely that all currencies would uniformly strengthen or weaken relative to the U.S. dollar. In reality, some currencies may weaken while others may strengthen. Our primary exposure (excluding competitive risk) is to exchange rate movements in the Australian dollar, British pound, Japanese yen and euro.

**Interest Rate Sensitivity**
For our Machinery and Engines operations, we have the option to use interest rate swaps to lower the cost of borrowed funds by attaching fixed-to-floating interest rate swaps to fixed-rate debt, and by entering into forward rate agreements on future debt issuances. A hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would adversely affect 2011 pretax earnings of Machinery and Engines by $66 million. Last year, similar assumptions and calculations yielded a potential $13 million adverse impact on 2010 pretax earnings. This effect is caused by the interest rate fluctuations on our short-term debt and forward and fixed-to-floating interest rate swaps.

For our Financial Products operations, we use interest rate derivative instruments primarily to meet our match-funding objectives and strategies. We have a match-funding policy whereby the interest rate profile (fixed or floating rate) of our debt portfolio is matched to the interest rate profile of our earning asset portfolio (finance receivables and operating leases) within certain parameters. In connection with that policy, we use interest rate swap agreements to modify the debt structure. Match funding assists us in maintaining our interest rate spreads, regardless of the direction interest rates move.

In order to properly manage sensitivity to changes in interest rates, Financial Products measures the potential impact of different interest rate assumptions on pretax earnings. All on-balance sheet positions, including derivative financial instruments, are included in the analysis. The primary assumptions included in the analysis are that there are no new fixed rate assets or liabilities, the proportion of fixed rate debt to fixed rate assets remains unchanged and the level of floating rate assets and debt remain constant. Based on the December 31, 2010 balance sheet under these assumptions, the analysis estimates the impact of a 100 basis point immediate and sustained parallel rise in interest rates to be an $18 million annual decrease to pretax earnings. Last year, similar assumptions and calculations yielded a potential $8 million adverse impact on 2010 pretax earnings.

This analysis does not necessarily represent our current outlook of future market interest rate movement, nor does it consider any actions management could undertake in response to changes in interest rates. Accordingly, no assurance can be given that actual results would be consistent with the results of our estimate.

## NON-GAAP FINANCIAL MEASURES

The following definitions are provided for "non-GAAP financial measures" in connection with Item 10(e) of Regulation S-K issued by the Securities and Exchange Commission. These non-GAAP financial measures have no standardized meaning prescribed by U.S. GAAP and therefore are unlikely to be comparable to the calculation of similar measures for other companies. Management does not intend these items to be considered in isolation or as a substitute for the related GAAP measures.

**Profit Per Share Excluding Redundancy Costs**
During the fourth quarter of 2009, redundancy costs related to employment reductions in response to the global recession were $65 million or $0.05 per share. 2009 redundancy costs were $706 million or $0.75 per share. We believe it is important to separately quantify the profit-per-share impact of redundancy costs in order for our 2009 results to be meaningful to our readers. Reconciliation of profit per share excluding redundancy costs to the most directly comparable GAAP measure, profit per share is as follows:

| | Fourth Quarter 2009 | 2009 |
|---|---|---|
| Profit per share | $.36 | $1.43 |
| Per share redundancy costs | $.05 | $.75 |
| Profit per share excluding redundancy costs | $.41 | $2.18 |

**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-118 to A-120 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-118 to A-120 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 | | |
| | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 |
| **Sales and revenues:** | | | | | | | | | | | | |
| Sales of Machinery and Engines | **$39,867** | $29,540 | $48,044 | **$39,867** | $29,540 | $48,044 | **$—** | $— | $— | **$—** | $— | $— |
| Revenues of Financial Products | **2,721** | 2,856 | 3,280 | **—** | — | — | **2,986** | 3,168 | 3,588 | **(265)[2]** | (312)[2] | (308)[2] |
| Total sales and revenues | **42,588** | 32,396 | 51,324 | **39,867** | 29,540 | 48,044 | **2,986** | 3,168 | 3,588 | **(265)** | (312) | (308) |
| **Operating costs:** | | | | | | | | | | | | |
| Cost of goods sold | **30,367** | 23,886 | 38,415 | **30,367** | 23,886 | 38,415 | **—** | — | — | **—** | — | — |
| Selling, general and administrative expenses | **4,248** | 3,645 | 4,399 | **3,689** | 3,085 | 3,812 | **603** | 579 | 616 | **(44)[3]** | (19)[3] | (29)[3] |
| Research and development expenses | **1,905** | 1,421 | 1,728 | **1,905** | 1,421 | 1,728 | **—** | — | — | **—** | — | — |
| Interest expense of Financial Products | **914** | 1,045 | 1,153 | **—** | — | — | **916** | 1,048 | 1,162 | **(2)[4]** | (3)[4] | (9)[4] |
| Other operating (income) expenses | **1,191** | 1,822 | 1,181 | **119** | 691 | (33) | **1,080** | 1,160 | 1,231 | **(8)[3]** | (29)[3] | (17)[3] |
| Total operating costs | **38,625** | 31,819 | 46,876 | **36,080** | 29,083 | 43,922 | **2,599** | 2,787 | 3,009 | **(54)** | (51) | (55) |
| **Operating profit** | **3,963** | 577 | 4,448 | **3,787** | 457 | 4,122 | **387** | 381 | 579 | **(211)** | (261) | (253) |
| Interest expense excluding Financial Products | **343** | 389 | 274 | **407** | 475 | 270 | **—** | — | — | **(64)[4]** | (86)[4] | 4[4] |
| Other income (expense) | **130** | 381 | 327 | **(77)** | 192 | 95 | **60** | 14 | (25) | **147[5]** | 175[5] | 257[5] |
| **Consolidated profit before taxes** | **3,750** | 569 | 4,501 | **3,303** | 174 | 3,947 | **447** | 395 | 554 | **—** | — | — |
| Provision (benefit) for income taxes | **968** | (270) | 953 | **882** | (342) | 822 | **86** | 72 | 131 | **—** | — | — |
| Profit of consolidated companies | **2,782** | 839 | 3,548 | **2,421** | 516 | 3,125 | **361** | 323 | 423 | **—** | — | — |
| Equity in profit (loss) of unconsolidated affiliated companies | **(24)** | (12) | 37 | **(24)** | (12) | 38 | **—** | — | (1) | **—** | — | — |
| Equity in profit of Financial Products'subsidiaries | **—** | — | — | **350** | 307 | 409 | **—** | — | — | **(350)[6]** | (307)[6] | (409)[6] |
| **Profit of consolidated and affiliated companies** | **2,758** | 827 | 3,585 | **2,747** | 811 | 3,572 | **361** | 323 | 422 | **(350)** | (307) | (409) |
| Less: Profit (loss) attributable to noncontrolling interests | **58** | (68) | 28 | **47** | (84) | 15 | **11** | 16 | 13 | **—** | — | — |
| **Profit** [7] | **$2,700** | $895 | $3,557 | **$2,700** | $895 | $3,557 | **$350** | $307 | $409 | **$(350)** | $(307) | $(409) |

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

## Supplemental Data for Financial Position
## At December 31

| (Millions of dollars) | Consolidated | | Supplemental consolidating data: Machinery & Engines[1] | | Financial Products | | Consolidating Adjustments | |
|---|---|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| **Assets** | | | | | | | | |
| Current assets: | | | | | | | | |
| Cash and short-term investments | **$3,592** | $4,867 | **$1,825** | $2,239 | **$1,767** | $2,628 | **$—** | $— |
| Receivables - trade and other | **8,494** | 5,611 | **5,893** | 3,705 | **482** | 1,464 | **2,119**[2,3] | 442[2,3] |
| Receivables - finance | **8,298** | 8,301 | **—** | — | **11,158** | 9,872 | **(2,860)**[3] | (1,571)[3] |
| Deferred and refundable income taxes | **931** | 1,216 | **823** | 1,094 | **108** | 122 | **—** | — |
| Prepaid expenses and other current assets | **908** | 862 | **371** | 385 | **550** | 503 | **(13)**[4] | (26)[4] |
| Inventories | **9,587** | 6,360 | **9,587** | 6,360 | **—** | — | **—** | — |
| Total current assets | **31,810** | 27,217 | **18,499** | 13,783 | **14,065** | 14,589 | **(754)** | (1,155) |
| Property, plant and equipment – net | **12,539** | 12,386 | **9,662** | 9,308 | **2,877** | 3,078 | **—** | — |
| Long-term receivables - trade and other | **793** | 971 | **271** | 381 | **236** | 182 | **286**[2,3] | 408[2,3] |
| Long-term receivables - finance | **11,264** | 12,279 | **—** | — | **11,586** | 12,717 | **(322)**[3] | (438)[3] |
| Investments in unconsolidated affiliated companies | **164** | 105 | **156** | 97 | **8** | 8 | **—** | — |
| Investments in Financial Products subsidiaries | **—** | — | **4,275** | 4,514 | **—** | — | **(4,275)**[5] | (4,514)[5] |
| Noncurrent deferred and refundable income taxes | **2,493** | 2,714 | **2,922** | 3,083 | **90** | 65 | **(519)**[6] | (434)[6] |
| Intangible assets | **805** | 465 | **795** | 464 | **10** | 1 | **—** | — |
| Goodwill | **2,614** | 2,269 | **2,597** | 2,269 | **17** | — | **—** | — |
| Other assets | **1,538** | 1,632 | **314** | 297 | **1,224** | 1,335 | **—** | — |
| **Total assets** | **$64,020** | $60,038 | **$39,491** | $34,196 | **$30,113** | $31,975 | **$(5,584)** | $(6,133) |
| **Liabilities** | | | | | | | | |
| Current liabilities: | | | | | | | | |
| Short-term borrowings | **$4,056** | $4,083 | **$306** | $1,433 | **$4,452** | $3,676 | **$(702)**[7] | $(1,026)[7] |
| Accounts payable | **5,856** | 2,993 | **5,717** | 2,862 | **177** | 229 | **(38)**[8] | (98)[8] |
| Accrued expenses | **2,880** | 2,641 | **2,422** | 2,055 | **470** | 613 | **(12)**[9] | (27)[9] |
| Accrued wages, salaries and employee benefits | **1,670** | 797 | **1,642** | 790 | **28** | 7 | **—** | — |
| Customer advances | **1,831** | 1,217 | **1,831** | 1,217 | **—** | — | **—** | — |
| Dividends payable | **281** | 262 | **281** | 262 | **—** | — | **—** | — |
| Other current liabilities | **1,521** | 1,281 | **1,142** | 808 | **393** | 494 | **(14)**[6] | (21)[6] |
| Long-term debt due within one year | **3,925** | 5,701 | **495** | 302 | **3,430** | 5,399 | **—** | — |
| Total current liabilities | **22,020** | 18,975 | **13,836** | 9,729 | **8,950** | 10,418 | **(766)** | (1,172) |
| Long-term debt due after one year | **20,437** | 21,847 | **4,543** | 5,687 | **15,932** | 16,195 | **(38)**[7] | (35)[7] |
| Liability for postemployment benefits | **7,584** | 7,420 | **7,584** | 7,420 | **—** | — | **—** | — |
| Other liabilities | **2,654** | 2,496 | **2,203** | 2,060 | **956** | 848 | **(505)**[6] | (412)[6] |
| **Total liabilities** | **52,695** | 50,738 | **28,166** | 24,896 | **25,838** | 27,461 | **(1,309)** | (1,619) |
| **Commitments and contingencies** | | | | | | | | |
| **Redeemable noncontrolling interest** | **461** | 477 | **461** | 477 | **—** | — | **—** | — |
| **Stockholders' equity** | | | | | | | | |
| Common stock | **3,888** | 3,439 | **3,888** | 3,439 | **902** | 883 | **(902)**[5] | (883)[5] |
| Treasury stock | **(10,397)** | (10,646) | **(10,397)** | (10,646) | **—** | — | **—** | — |
| Profit employed in the business | **21,384** | 19,711 | **21,384** | 19,711 | **3,027** | 3,282 | **(3,027)**[5] | (3,282)[5] |
| Accumulated other comprehensive income (loss) | **(4,051)** | (3,764) | **(4,051)** | (3,764) | **263** | 279 | **(263)**[5] | (279)[5] |
| Noncontrolling interests | **40** | 83 | **40** | 83 | **83** | 70 | **(83)**[5] | (70)[5] |
| **Total stockholders' equity** | **10,864** | 8,823 | **10,864** | 8,823 | **4,275** | 4,514 | **(4,275)** | (4,514) |
| **Total liabilities, redeemable noncontrolling interest and stockholders' equity** | **$64,020** | $60,038 | **$39,491** | $34,196 | **$30,113** | $31,975 | **$(5,584)** | $(6,133) |

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

## Supplemental Data for Statement of Cash Flow
## For the Years Ended December 31

| | | | Supplemental consolidating data | | | | | |
|---|---|---|---|---|---|---|---|---|
| **(Millions of dollars)** | Consolidated | | Machinery & Engines[1] | | Financial Products | | Consolidating Adjustments | |
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| **Cash flow from operating activities:** | | | | | | | | |
| Profit of consolidated and affiliated companies | **$2,758** | $827 | **$2,747** | $811 | **$361** | $323 | **$(350)[2]** | $(307)[2] |
| Adjustments for non-cash items: | | | | | | | | |
| Depreciation and amortization | **2,296** | 2,336 | **1,573** | 1,594 | **723** | 742 | **—** | — |
| Undistributed profit of Financial Products | **—** | — | **—** | (307) | **—** | — | **—** | 307[3] |
| Other | **469** | 137 | **457** | 4 | **(120)** | (87) | **132[4]** | 220[4] |
| Financial Products' dividend in excess of profit | **—** | — | **250** | — | **—** | — | **(250)[9]** | — |
| Changes in assets and liabilities, net of acquisitions: | | | | | | | | |
| Receivables - trade and other | **(2,320)** | 4,014 | **(1,264)** | 1,929 | **44** | 67 | **(1,100)[4,5]** | 2,018[4,5] |
| Inventories | **(2,667)** | 2,501 | **(2,665)** | 2,501 | **—** | — | **(2)[4]** | — |
| Accounts payable | **2,570** | (1,878) | **2,533** | (1,748) | **(25)** | (140) | **62[4]** | 10[4] |
| Accrued expenses | **117** | (505) | **98** | (447) | **4** | (57) | **15[4]** | (1)[4] |
| Accrued wages, salaries and employee benefits | **847** | (534) | **826** | (527) | **21** | (7) | **—** | — |
| Customer advances | **604** | (646) | **604** | (646) | **—** | — | **—** | — |
| Other assets—net | **358** | 235 | **316** | 31 | **(30)** | 218 | **72[4]** | (14)[4] |
| Other liabilities—net | **(23)** | 12 | **163** | (48) | **(100)** | 44 | **(86)[4]** | 16[4] |
| Net cash provided by (used for) operating activities | **5,009** | 6,499 | **5,638** | 3,147 | **878** | 1,103 | **(1,507)** | 2,249 |
| **Cash flow from investing activities:** | | | | | | | | |
| Capital expenditures—excluding equipment leased to others | **(1,575)** | (1,504) | **(1,579)** | (1,500) | **(7)** | (4) | **11[4]** | — |
| Expenditures for equipment leased to others | **(1,011)** | (968) | **(84)** | — | **(985)** | (972) | **58[4]** | 4[4] |
| Proceeds from disposals of leased assets and property, plant and equipment | **1,469** | 1,242 | **145** | 150 | **1,376** | 1,092 | **(52)[4]** | — |
| Additions to finance receivables | **(8,498)** | (7,107) | **—** | — | **(28,320)** | (20,387) | **19,822[5]** | 13,280[5] |
| Collections of finance receivables | **8,987** | 9,288 | **—** | — | **27,919** | 23,934 | **(18,932)[5]** | (14,646)[5] |
| Proceeds from sale of finance receivables | **16** | 100 | **—** | — | **16** | 987 | **—** | (887)[5] |
| Net intercompany borrowings | **—** | — | **(574)** | 416 | **931** | (963) | **(357)[6]** | 547[6] |
| Investments and acquisitions (net of cash acquired) | **(1,126)** | (19) | **(1,093)** | (19) | **(33)** | — | **—** | — |
| Proceeds from sale of available-for-sale securities | **228** | 291 | **10** | 6 | **218** | 285 | **—** | — |
| Investments in available-for-sale securities | **(217)** | (349) | **(12)** | (5) | **(205)** | (344) | **—** | — |
| Other—net | **132** | (128) | **7** | 116 | **105** | (258) | **20[7]** | 14[7,8] |
| Net cash provided by (used for) investing activities | **(1,595)** | 846 | **(3,180)** | (836) | **1,015** | 3,370 | **570** | (1,688) |
| **Cash flow from financing activities:** | | | | | | | | |
| Dividends paid | **(1,084)** | (1,029) | **(1,084)** | (1,029) | **(600)** | — | **600[10]** | — |
| Distribution to noncontrolling interests | **—** | (10) | **—** | (10) | **—** | — | **—** | — |
| Common stock issued, including treasury shares reissued | **296** | 89 | **296** | 89 | **20** | 20 | **(20)[7]** | (20)[7] |
| Excess tax benefit from stock-based compensation | **153** | 21 | **153** | 21 | **—** | — | **—** | — |
| Acquisitions of noncontrolling interests | **(132)** | (6) | **(132)** | (6) | **—** | (6) | **—** | 6[8] |
| Net intercompany borrowings | **—** | — | **(931)** | 963 | **574** | (416) | **357[6]** | (547)[6] |
| Proceeds from debt issued (original maturities greater than three months) | **8,324** | 12,291 | **216** | 458 | **8,108** | 11,833 | **—** | — |
| Payments on debt (original maturities greater than three months) | **(12,461)** | (12,687) | **(1,298)** | (918) | **(11,163)** | (11,769) | **—** | — |
| Short-term borrowings (original maturities three months or less)—net | **291** | (3,884) | **(78)** | (1,147) | **369** | (2,737) | **—** | — |
| Net cash provided by (used for) financing activities | **(4,613)** | (5,215) | **(2,858)** | (1,579) | **(2,692)** | (3,075) | **937** | (561) |
| Effect of exchange rate changes on cash | **(76)** | 1 | **(14)** | (10) | **(62)** | 11 | **—** | — |
| **Increase (decrease) in cash and short-term investments** | **(1,275)** | 2,131 | **(414)** | 722 | **(861)** | 1,409 | **—** | — |
| Cash and short-term investments at beginning of period | **4,867** | 2,736 | **2,239** | 1,517 | **2,628** | 1,219 | **—** | — |
| Cash and short-term investments at end of period | **$3,592** | $4,867 | **$1,825** | $2,239 | **$1,767** | $2,628 | **$—** | $— |

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

## SUPPLEMENTAL STOCKHOLDER INFORMATION

### Stockholder Services

Registered stockholders should contact:

Stock Transfer Agent
BNY Mellon Shareowner Services
P.O. Box 358015
Pittsburgh, PA 15252-8015

| | |
|---|---|
| *Phone:* | (866) 203-6622 (U.S. and Canada) |
| | (201) 680-6578 (Outside U.S. and Canada) |
| *Hearing Impaired:* | (800) 231-5469 (U.S. or Canada) |
| | (201) 680-6610 (Outside U.S. or Canada) |
| *Internet:* | www.bnymellon.com/shareowner/isd |

***Caterpillar Assistant Secretary***
Laurie J. Huxtable
Assistant Secretary
Caterpillar Inc.
100 N.E. Adams Street
Peoria, IL 61629-7310

| | |
|---|---|
| *Phone:* | (309) 675-4619 |
| *Fax:* | (309) 675-6620 |
| *E-mail:* | CATshareservices@CAT.com |

***Shares held in Street Position***
Stockholders that hold shares through a street position should contact their bank or broker with questions regarding those shares.

### Stock Purchase Plan

Current stockholders and other interested investors may purchase Caterpillar Inc. common stock directly through the Investor Services Program sponsored and administered by our Transfer Agent. Current stockholders can get more information on the program from our Transfer Agent using the contact information provided above. Non-stockholders can request program materials by calling: (866) 353-7849. The Investor Services Program materials are available on-line from our Transfer Agent's website or by following a link from www.caterpillar.com/dspp.

### Investor Relations

Institutional analysts, portfolio managers, and representatives of financial institutions seeking additional information about the Company should contact:

***Director of Investor Relations***

| | | |
|---|---|---|
| Mike DeWalt | *Phone:* | (309) 675-4549 |
| Caterpillar Inc. | *Fax:* | (309) 675-4457 |
| 100 N.E. Adams Street | *E-mail:* | **CATir@CAT.com** |
| Peoria, IL 61629-5310 | *Internet:* | www.caterpillar.com/investors |

### Company Information

***Current information -***

- phone our Information Hotline - (800) 228-7717 (U.S. or Canada) or (858) 244-2080 (Outside U.S. or Canada) to request company publications by mail, listen to a summary of Caterpillar's latest financial results and current outlook, or to request a copy of results by fax or mail
- request, view, or download materials on-line or register for e-mail alerts by visiting www.caterpillar.com/materialsrequest

***Historical information -***

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

### Annual Meeting

On Wednesday, June 8, 2011, at 1:30 p.m., Central Time, the annual meeting of stockholders will be held in Little Rock, Arkansas. Proxy materials are being sent to stockholders on or about April 29, 2011.

## Internet

Visit us on the Internet at www.caterpillar.com.

Information contained on our website is not incorporated by reference into this document.

## Common Stock (NYSE: CAT)

***Listing Information:*** Caterpillar common stock is listed on the New York stock exchange in the United States, and on stock exchanges in Belgium, France, Germany, Great Britain and Switzerland.

***Price Ranges:*** Quarterly price ranges of Caterpillar common stock on the New York Stock Exchange, the principal market in which the stock is traded, were:

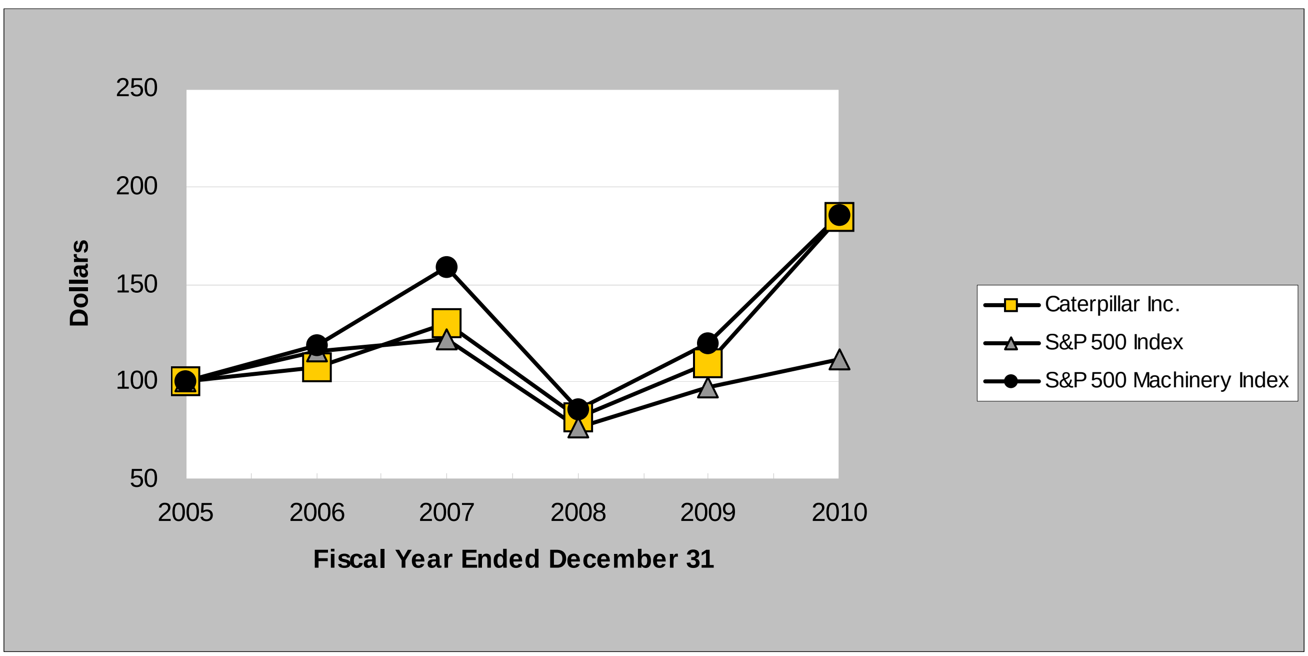
| | **2010** | | 2009 | |
|---|---|---|---|---|
| Quarter | **High** | **Low** | High | Low |
| First | **$64.42** | **$50.50** | $47.12 | $21.71 |
| Second | **$72.83** | **$54.89** | $40.96 | $27.44 |
| Third | **$80.08** | **$58.06** | $54.71 | $30.01 |
| Fourth | **$94.89** | **$76.51** | $61.28 | $47.50 |

***Number of Stockholders:*** Stockholders of record at year-end totaled 39,353, compared with 40,738 at the end of 2009. Approximately 61 percent of our issued shares are held by institutions and banks, 31 percent by individuals, and 8 percent by employees through company stock plans.

Caterpillar tax qualified defined contribution retirement plans held 38,975,310 shares at year-end, including 8,512,223 shares acquired during 2010. Non-U.S. employee stock purchase plans held an additional 4,921,529 shares at year-end, including 729,883 shares acquired during 2010.

## Performance Graph: Total Cumulative Stockholder Return for Five-Year Period Ending December 31, 2010

The graph below shows the cumulative stockholder return assuming an investment of $100 on December 31, 2005, and reinvestment of dividends issued thereafter.




| | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
|---|---|---|---|---|---|---|
| Caterpillar Inc. | $100.00 | $107.89 | $129.99 | $82.16 | $109.36 | $184.47 |
| S&P 500 | $100.00 | $115.78 | $122.14 | $76.96 | $97.33 | $112.01 |
| S&P 500 Machinery | $100.00 | $118.43 | $158.55 | $85.81 | $120.16 | $185.47 |

**Directors/Committee Membership** (as of January 1, 2011)

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

* Chairman of Committee

**Officers** (as of February 15, 2011)

| | |
|---|---|
| Douglas R. Oberhelman | Chairman and Chief Executive Officer |
| Richard P. Lavin | Group President |
| Stuart L. Levenick | Group President |
| Edward J. Rapp | Group President and Chief Financial Officer |
| Gerard R. Vittecoq | Group President |
| Steven H. Wunning | Group President |
| James B. Buda | Senior Vice President and Chief Legal Officer |
| Kent M. Adams | Vice President |
| William P. Ainsworth | Vice President |
| Ali M. Bahaj | Vice President |
| Mary H. Bell | Vice President |
| Thomas J. Bluth | Vice President |
| David P. Bozeman | Vice President |
| Richard J. Case | Vice President |
| Robert B. Charter | Vice President |
| Frank J. Crespo | Vice President |
| Christopher C. Curfman | Vice President |
| Paolo Fellin | Vice President |
| William E. Finerty | Vice President |
| Steven L. Fisher | Vice President |
| Gregory S. Folley | Vice President |
| Stephen A. Gosselin | Vice President |
| Hans A. Haefeli | Vice President |
| Bradley M. Halverson | Vice President |
| Kimberly S. Hauer | Vice President |
| John S. Heller | Vice President |
| Gwenne A. Henricks | Vice President |
| Stephen P. Larson | 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 |
| Donald J. Umpleby III | Vice President |
| Tana L. Utley | Vice President |
| Edward J. Scott | Treasurer |
| Matthew R. Jones | Chief Audit Officer |
| Christopher C. Spears | Chief Ethics and Compliance Officer |
| Jananne A. Copeland | Controller and Chief Accounting Officer |
| Christopher M. Reitz | Corporate Secretary |
| Robin D. Beran | Assistant Treasurer |
| Laurie J. Huxtable | Assistant Secretary |

EXHIBIT 21

CATERPILLAR INC.
Subsidiaries and Affiliated Companies
(as of December 31, 2010)

| Subsidiaries (51% or more ownership) | |
|---|---|
| Name of Company | Where Organized |
| 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 |
| Badger Merger Sub, Inc. | Delaware |
| Carter Machinery Company, Incorporated | Delaware |
| Carter Rental, Inc. | Virginia |
| Cat Rental Kyushu Ltd. | Japan |
| Caterpillar (Africa) (Proprietary) Limited | South Africa |
| Caterpillar (Bermuda) Holding 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 (Shanghai) Trading Co., Ltd. | China |
| Caterpillar (Suzhou) Co., Ltd. | China |
| Caterpillar (Suzhou) Logistics 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 Comercio de Maquinas e Pecas Ltda. | Brazil |
| Caterpillar Brasil Ltda. | Brazil |
| Caterpillar Brazil LLC | Delaware |
| 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 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. de R.L. de C.V. | Mexico |
| Caterpillar Distribution Services Europe B.V.B.A. | Belgium |
| Caterpillar East Real Estate Holding Ltd. | Japan |
| Caterpillar Elkader LLC | Delaware |
| Caterpillar Engine Systems Inc. | Delaware |
| Caterpillar Equipos Mexico, S. de R.L. de C.V. | Mexico |
| Caterpillar Finance Corporation | Japan |
| Caterpillar Finance France S.A. | France |
| Caterpillar Financial Acquisition Funding LLC | Delaware |
| 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 |
| 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 UK Acquisition Funding Partners | England and Wales |
| 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 Holding (France) S.A.S. | France |
| Caterpillar Holding Germany GmbH | Germany |
| Caterpillar Holding Ltd. | Bermuda |
| 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 Investments Coöperatie U.A. | Netherlands |
| Caterpillar International Ltd. | Bermuda |
| Caterpillar International Product SARL | Switzerland |
| Caterpillar International Services Corporation | Nevada |
| Caterpillar International Services del Peru S.A. | Peru |
| Caterpillar Investment GmbH & Co. KG | Germany |
| Caterpillar Investment One SARL | Switzerland |
| Caterpillar Investment Two SARL | Switzerland |
| Caterpillar Investment Verwaltungs GmbH | Germany |
| Caterpillar Investments | England and Wales |
| Caterpillar IRB LLC | Delaware |
| Caterpillar Japan Accounting Services Ltd. | Japan |
| Caterpillar Japan Akashi General Services Ltd. | Japan |
| Caterpillar Japan Ltd. | Japan |
| Caterpillar Japan Sagami General Services Ltd. | Japan |
| Caterpillar Japan System Services 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 Servces Australia Pty Ltd | Australia |
| 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 LLC | Russia |
| Caterpillar Logistics Services International N.V. | Belgium |
| Caterpillar Logistics Services Polska Sp. z o.o. | Poland |
| Caterpillar Logistics Services South Africa (Pty) Ltd. | South Africa |
| 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 Henstedt-Ulzburg GmbH | 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 Operator Training Ltd. | Japan |
| Caterpillar Overseas Credit Corporation SARL | Switzerland |
| Caterpillar Overseas Investment Holding SARL | Switzerland |
| Caterpillar Overseas SARL | Switzerland |
| Caterpillar Panama Services S.A. | 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 Precision Seals Korea | Korea |
| Caterpillar Prodotti Stradali S.r.l. | Italy |
| Caterpillar Product Development SARL | Switzerland |
| Caterpillar Product Services Corporation | Missouri |
| Caterpillar R&D Center (China) Co., Ltd. | China |
| 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 SARL | 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 Sistemas De Geracao De Energia Do Brasil Ltda. | Brazil |
| Caterpillar Skinningrove Limited | England and Wales |
| Caterpillar Solution Engineering Ltd. | Japan |
| 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 Engines Company Limited | England and Wales |
| Caterpillar UK Group Limited | England and Wales |
| Caterpillar UK Holdings Limited | England and Wales |
| Caterpillar Underground Mining Pty. Ltd. | Australia |
| Caterpillar Used Equipment Services Inc. | Delaware |
| Caterpillar Used Equipment Services International SARL | Switzerland |
| Caterpillar West Japan Ltd. | Japan |
| Caterpillar West Real Estate Holding 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 Canada Corporation | Ontario |
| Chemetron-Railway Products, Inc. | Delaware |
| CleanAIR Systems, Inc | Mexico |
| EDC European Excavator Design Center GmbH & Co. KG | Germany |

| | |
|---|---|
| EDC European Excavator Design Center Verwaltungs GmbH | Germany |
| Electro-Motive Canada Co. | Canada |
| Electro-Motive Company de Mexico S.A. de C.V. | Mexico |
| Electro-Motive Diesel and Locomotive Company (Proprietary) Limited | South Africa |
| Electro-Motive Diesel, Inc. | Delaware |
| Electro-Motive Diesel International Corp. | Delaware |
| Electro-Motive Diesel South America Participacoes Ltda. | Brazil |
| Electro-Motive Maintenance Operations Pty. Ltd. | Australia |
| Electro-Motive Services International Limited | United Kingdom |
| EMC Holding Corp. | Delaware |
| EMD Europe GmbH | Germany |
| EMD International Holdings, Inc. | Delaware |
| EMD Locomotive Technologies Private Limited | India |
| 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 (US) LLC | Delaware |
| F.G. Wilson Generators India Private Limited | India |
| F. Perkins Limited | England |
| FCM Rail, Ltd. | Michigan |
| Federal Financial Services LLC | Delaware |
| GFCM Servicios, S.A. de C.V. | Mexico |
| Inmobiliaria Conek, S.A. | Mexico |
| Kentuckiana Railcar Repair & Storage Facility, LLC | Indiana |
| Lovat Europe Limited | England and Wales |
| 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 |
| MGE Equipamentos e Servicos Ferroviarios Ltda. | Brazil |
| Motori Perkins S.P.A. | Italy |
| Necoles Investments B.V. | Netherlands |
| P. T. Caterpillar Finance Indonesia | 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 Group Limited | England and Wales |
| Perkins Holdings Limited LLC | Delaware and England and Wales |
| Perkins International Inc. | Delaware |
| Perkins Limited | England |

| | |
|---|---|
| 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 |
| Perkins Shibaura Engines LLC | Delaware |
| Perkins Technology Inc. | Delaware |
| Premier Automotive Parts Limited | England and Wales |
| Progress Metal Reclamation Company | Kentucky |
| Progress Rail Canada Corporation | Canada |
| Progress Rail Holdings Inc. | Alabama |
| Progress Rail Inspection & Information Systems GmbH | Germany |
| Progress Rail Inspection & Information Systems S.r.l. | Italy |
| Progress Rail Leasing Corporation | Delaware |
| Progress Rail Manufacturing Corporation | Delaware |
| 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 Switching Services LLC | Delaware |
| Progress Rail TransCanada Corporation | Nova Scotia |
| Progress Rail Wildwood, LLC | Florida |
| Progress Vanguard Corporation | Delaware |
| Przedsiebiorstwem Energetyki Cieplncj "Bugaj" Sp. z o.o. | Poland |
| PT. Caterpillar Indonesia | Indonesia |
| Qingzhou Aoweier Engineering Machinery Co., Ltd. | China |
| Railcar, Ltd. | Georgia |
| Rapisarda Industries Srl | Italy |
| S & L Railroad, LLC | Nebraska |
| SCM Singapore Holdings Pte. Ltd. | Singapore |
| 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 |
| Solar Turbines Canada Ltd./Ltee. | Canada |
| Solar Turbines CIS Limited Liability Company | Russia |
| Solar Turbines EAME s.r.o. | Czech Republic |
| Solar Turbines Europe S.A. | Belgium |
| Solar Turbines Incorporated | Delaware |
| Solar Turbines International Company | Delaware |
| Solar Turbines Malaysia Sdn Bhd | Malaysia |
| Solar Turbines Services Company | California |
| Solar Turbines Services Nigeria Limited | Nigeria |
| Solar Turbines Services of Argentina S.R.L. | Argentina |
| Solar Turbines Trinidad & Tobago Limited | Trinidad and Tobago |
| Southern California Matrial Handling Inc. | Delaware |
| SPL Software Alliance LLC | Delaware |
| Tecnologia Modificada, S.A. de C.V. | Mexico |
| Tokyo Rental Ltd. | Japan |
| Turbinas Solar de Venezuela, C.A. | Venezuela |

| | |
|---|---|
| Turbinas Solar S.A. de C.V. | Mexico |
| Turbo Tecnologia de Reparaciones S.A. de C.V. | Mexico |
| Turbomach (India) Private Limited | India |
| Turbomach Asia Ltd. | Thailand |
| Turbomach Endustriyel Gaz Turbinleri Sanayi Ve Ticaret Limited | Turkey |
| Turbomach France S.A.R.L. | France |
| Turbomach GmbH | Germany |
| Turbomach Netherlands B.V. | Netherlands |
| Turbomach Pakistan (Private) Limited | Pakistan |
| Turbomach S.A., Unipersonal | Spain |
| Turbomach S.r.L. | Italy |
| Turbomach SA | Switzerland |
| Turbomach-Solar de Colombia S.A. | Columbia |
| Turbomach Sp. Z o.o. | Poland |
| Turner Powertrain Systems Limited | England and Wales |
| UK Hose Assembly Limited | England and Wales |
| Underground Imaging Technologies LLC | Delaware |
| 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 |
| Zeit Comercia e Montagem de Equipamentos Ltda. | Brazil |

| Affiliated Companies (50% and less ownership) | |
|---|---|
| Name of Company | Where Organized |
| 10G LLC | Delaware |
| Advanced Filtration Services, Inc. | 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 |
| 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 |
| Nagano Kouki Co., Ltd. | Japan |
| Navistar International Trucks Southern Africa (Proprietary) Limited | South Africa |
| NC2 BRASIL INDUSTRIA E COMERCIO DE CAMINHOES | Brazil |
| NC2 Global (Gilbraltar) Limited | Gilbraltar |
| NC2 Global Australia Proprietary Limited | Australia |
| NC2 Global LLC | Delaware |
| NC2 Luxembourg Development S.a.r.l. | Luxembourg |
| NC2 Luxembourg Holding S.a.r.l. | Luxembourg |
| NC2 Luxembourg Property S.a.r.l. | Luxembourg |
| NC2 Luxembourg S.a.r.l. | Luxembourg |
| Nihon Kenki Lease Co., Ltd. | Japan |
| Polyhose India (Rubber) Private Limited | India |
| Rapidparts Inc. | Delaware |
| Rensel Co. | Japan |
| Servicios Indistriales Technocast, S.A. de C.V. | Mexico |
| Societe de Electricite d'el Bibane | Tunisia |
| Southern California Material Handling Inc. | Malaysia |
| 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 |
| Yuchai Remanufacturing Services (Suzhou) Co., Ltd. | China |

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, 333-136265, 333-71468, 333-135465, 33-40393, 33-39120, 333-159262, 333-162837, 333-135123), 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, 333-170405, 333-170403, 333-170399, 333-168894, 333-168868, 333-168867) and Form S-4 (No. 333-121003) of Caterpillar Inc. of our report dated February 22, 2011 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 22, 2011

**EXHIBIT 31.1**

**SECTION 302 CERTIFICATION**

I, Douglas R. Oberhelman, 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 22, 2011 | */s/Douglas R. Oberhelman* | Chairman of the Board and Chief Executive Officer |
| | (Douglas R. Oberhelman) | |

**EXHIBIT 31.2**

## SECTION 302 CERTIFICATION

I, Edward J. Rapp, 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 22, 2011 | */s/Edward J. Rapp* | Group President and<br>Chief Financial Officer |
| | (Edward J. Rapp) | |

**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, 2010 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 22, 2011 | */s/Douglas R. Oberhelman*<br>(Douglas R. Oberhelman) | Chairman of the Board and Chief Executive Officer |
| February 22, 2011 | */s/Edward J. Rapp*<br>(Edward J. Rapp) | Group 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.