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

CATERPILLAR®

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, 2009

OR

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

Commission File No. 1-768

CATERPILLAR INC.

(Exact name of Registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:	
Title of each class	Name of each exchange on which registered
Common Stock ($1.00 par value)[1]	Chicago Stock Exchange New York Stock Exchange
9 3/8% Debentures due August 15, 2011	New York Stock Exchange
9 3/8% Debentures due March 15, 2021	New York Stock Exchange
8% Debentures due February 15, 2023	New York Stock Exchange
5.3% Debentures due September 15, 2035	New York Stock Exchange

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

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

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

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

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

Indicate by 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, 2009, there were 621,293,542 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 $20.3 billion.

As of December 31, 2009, there were 624,722,719 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 $35.2 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	2010 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 2009 containing the information required by SEC Rule 14a-3 for an annual report to security holders filed as Exhibit 13 to this Form 10-K (Exhibit 13).

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PART I

Item 1. Business.

General

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

Principal Lines of Business / Nature of Operations

We operate in three principal lines of business:

1. Machinery— A principal line of business which includes the design, manufacture, marketing and sales of construction, mining and forestry machinery—track and wheel tractors, track and wheel loaders, pipelayers, motor graders, wheel tractor-scrapers, track and wheel excavators, backhoe loaders, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, skid steer loaders, underground mining equipment, tunnel boring equipment and related parts. Also includes logistics services for other companies and the design, manufacture, remanufacture, maintenance and services of rail-related products.
2. Engines— A principal line of business including the design, manufacture, marketing and sales of engines for Caterpillar machinery, electric power generation systems, locomotives, marine, petroleum, construction, industrial, agricultural and other applications, and related parts. Also includes remanufacturing of Caterpillar engines and a variety of Caterpillar machine and engine components and remanufacturing services for other companies. Reciprocating engines meet power needs ranging from 10 to 21,800 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 11 reportable segments for financial reporting purposes. Information about our reportable segments, including geographic information, appears in Note 24 – "Segment information" of Exhibit 13.

Other information about our operations in 2009 and our outlook for 2010, including certain risks associated with foreign operations, is incorporated by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Exhibit 13.

Company Strengths

Caterpillar is the leader in construction and mining equipment, and diesel and natural gas engines and industrial gas turbines in our size range. The company is also a leading services provider through Cat Financial, Caterpillar Logistics Services Inc. (Cat Logistics), Caterpillar Remanufacturing Services and Progress Rail Services Corporation (Progress Rail). Annual sales and revenues were $32.396 billion in 2009, making Caterpillar the largest manufacturer in its industry. Caterpillar is also a leading U.S. exporter. Through direct sales of certain products and a global network of independent dealers, Caterpillar builds long-term relationships with customers around the world. For almost 85 years, the Caterpillar name has been associated with the highest level of quality products and services. More information is available at www.CAT.com.

Competitive Environment

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

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

Machinery

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

The world economy experienced its worst postwar recession in 2009, causing construction spending to decline in many countries and mining companies to reduce production. End users significantly reduced purchases of equipment and dealers reduced their reported inventories by over $3.3 billion. As a result, machinery sales volume declined at an unprecedented rate. Governments responded with large infrastructure programs and central banks reduced interest rates to record lows. As a result, the world economy began recovering in the third quarter of 2009 and the year-on-year decline in sales volume in the fourth quarter was less than in the prior two quarters.

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

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

Engines

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

The competitive environment for reciprocating engines in marine, petroleum, construction, industrial, agriculture and electric power generation systems along with turbines consists of a few global competitors who compete in a variety of markets that Caterpillar serves, and a larger set of companies who compete in a limited size range and/or application. Principal global competitors include, but are not limited to, Cummins Inc., MTU Friedrichshafen and MTU Detroit Diesel (both are Tognum Group companies), GE Energy Infrastructure, Siemens Energy and Wartsila Corp. Other competitors, such as John Deere Power Systems, MAN Diesel SE, MAN Turbo, Mitsubishi Heavy Industries Ltd., Volvo Penta (part of Volvo Group AB), Kawasaki Heavy Industries 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 to truck and other on-highway original equipment manufacturers (OEMs). 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 will add several new technologies to our portfolio of ACERT Technologies to meet upcoming 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 and services to Caterpillar and other external clients. The remanufacturing business competes on a regional basis with similarly sized or smaller companies. The company launched the remanufacturing business in the 1970s with engines/turbines and is now one of the world's largest remanufacturers, processing more than two million units annually and recycling more than 140 million pounds of remanufactured products each year. The business continues to grow at rates well above that of the global economy as a whole.

Financial Products

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

For over 25 years, Cat Financial has been providing financing in the various markets in which it participates, contributing to its knowledge of asset values, industry trends, 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 60 percent*) include:

- Tax leases that are classified as either operating or finance leases for financial accounting purposes, depending on the characteristics of the lease. For tax purposes, Cat Financial is considered the owner of the equipment (18 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 (22 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 (19 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 8 percent*) include:

- Inventory/rental programs, which provide assistance to dealers by financing their new Caterpillar inventory and rental fleets (4 percent*).
- Short-term dealer receivables we purchase from Caterpillar at a discount (4 percent*).

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

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

The retail financing business is highly competitive, with financing for users of Caterpillar equipment available through a variety of sources, principally commercial banks and finance and leasing companies. Cat Financial's competitors include Wells Fargo Equipment Finance Inc., General Electric Capital Corporation and various local banks and finance companies. In addition, many of our manufacturing competitors own financial subsidiaries such as Volvo Financial Services, Komatsu Financial L.P. and John Deere Credit 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 risk 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.

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*Indicates the percentage of Cat Financial's total portfolio at December 31, 2009. We define total portfolio as total finance receivables (net of unearned income and allowance for credit losses) plus equipment on operating leases, less accumulated depreciation. For more information on the above and Cat Financial's concentration of credit risk, please refer to Note 8 – "Finance receivables" of Exhibit 13.

Cat Financial provides financing only when 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. These marketing programs provide Cat Financial with a significant competitive advantage in financing Caterpillar products. Transaction processing time and supporting technologies continue to drive Cat Financial in its efforts to respond quickly to customers and improve internal processing efficiencies. We believe Cat Financial's web-based Cat Financ*Express*SM transaction processing and information tool currently available in the United States, France, Canada and Australia provides Cat Financial a competitive advantage in those areas. Cat Financ*Express*SM is a web-based tool that provides finance quotes, credit decisions and the ability to print the appropriate financial documents for end-user signature, all within a reasonably short time frame.

Caterpillar Insurance Company, a wholly owned subsidiary of Cat Insurance, is a U.S. insurance company domiciled in Missouri and primarily regulated by the Missouri Department of Insurance. Caterpillar Insurance Company is licensed to conduct property and casualty insurance business in 49 states and the District of Columbia and, as such, is regulated in those jurisdictions as well. The State of Missouri acts as the lead regulatory authority and monitors Caterpillar Insurance Company's financial status to ensure that it is in compliance with minimum solvency requirements, as well as other financial ratios prescribed by the National Association of Insurance Commissioners. Caterpillar 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 regulated in those jurisdictions as well. The State of Missouri acts as the lead regulatory authority and it monitors the financial status to ensure that it is in compliance with minimum solvency requirements, as well as other financial ratios prescribed by the National Association of Insurance Commissioners. Caterpillar Life Insurance Company also provides stop loss insurance protection to a Missouri Voluntary Employees' Beneficiary Association (VEBA) trust used to fund medical claims of salaried retirees of Caterpillar under the VEBA.

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

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

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

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

- Contractual Liability Insurance to Caterpillar, Caterpillar S.A.R.L and affiliates, Caterpillar dealers and OEMs for extended service contracts (parts and labor) offered by third party dealers and OEMs.
- Cargo insurance for the worldwide cargo risks of Caterpillar products.
- Contractors' Equipment Physical Damage Insurance for equipment manufactured by Caterpillar or OEMs, which is leased, rented or sold by third party dealers to customers.
- General liability, employer's liability, auto liability and property insurance for Caterpillar.

- Retiree Medical Stop Loss Insurance for medical claims under the VEBA.
- Brokerage services for property and casualty and life and health business.

Business Developments in 2009

Economic and Market Conditions

Our business, results of operations and financial condition were materially affected by the conditions in the global economy during 2009. The continuing global economic crisis and the volatility in the credit and capital markets had a significant impact on our 2009 sales and revenues and profitability. Overall, the company's sales and revenues decreased 37 percent from 2008, and profit in 2009 was down 75 percent from 2008.

In response to the on-going recession in 2009, we continued executing our "trough" plans, which we had commenced implementing in 2008, and taking other actions to deal with the effects of the recession and to reduce costs. These actions resulted in full-year redundancy costs of $0.75 per share. In addition, we focused on maintaining solid profitability and cash flow and improving our balance sheet. These efforts contributed to our ability to maintain our credit ratings, maintain our dividend rate, make pension contributions and continue selective investment in new products and capacity.

During the second half of 2009, market conditions in developing economies showed signs of improvement; the more developed economies also showed signs of improvement but at a slower pace. Many countries responded to the recession by adopting various forms of economic stimulus packages, including allocations for infrastructure spending, a positive factor for sales of our Machinery and Engines. However, the economic recovery remained uneven at the end of 2009 and beginning of 2010.

Financial Results and Stockholder Value

Full year 2009 results marked a significant decline in sales and revenues and profit for Caterpillar. The company realized 2009 sales and revenues of $32.396 billion and profit of $895 million. Our profit per share in 2009 was $1.43 including redundancy costs of $0.75 per share. In spite of the severe economic conditions, we improved our balance sheet and maintained our dividend rate. The company has not resumed its stock repurchase program since temporarily suspending it on January 26, 2009.

Sustainability

In 2009, the company continued its efforts in sustainable development and its commitment to make sustainable development a "strategic area of improvement" in our enterprise strategy. The company was selected as a member of the Dow Jones Sustainability World Index (DJSI World) for the ninth consecutive year and has retained its Sustainable Asset Management (SAM) Gold Class position 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 have made continued progress on our safety and quality goals, reduced inventory and improved cost performance. CPS continues to be a fundamental component to help us achieve our near-term goals and our Vision 2020.

Growth Initiatives

In 2009, the company made selective investments in growth and expansion opportunities as we focused on positioning ourselves for economic recovery. In spite of the challenging economic conditions, we made progress toward our goals of expanding our business in the People's Republic of China (PRC) and other emerging markets and moving towards achieving market leadership positions. In support of our overall enterprise strategy and Vision 2020, Caterpillar took the following actions during 2009:

- In September 2009, Caterpillar and Navistar International Corporation (Navistar) finalized a joint venture transaction resulting in a new company, NC^2 Global LLC (NC^2). Plans to form the 50/50 joint venture were first announced in June 2008. NC^2 will develop, manufacture, market, distribute and provide product support for on-highway medium- and heavy-duty commercial trucks outside of North America, the Indian subcontinent, Myanmar (Burma) and Malaysia. Initially, NC^2 will focus its activities in Australia, Brazil, PRC, Russia, South Africa and Turkey. NC^2's product line will feature both conventional and cab-over truck designs and will be sold under both the Caterpillar and International (Navistar) brands.

- In September 2009, NC^2 and Anhui Jianghuai Automobile Co. Ltd. (Jianghuai) signed a framework agreement to potentially establish a joint venture in the PRC that would develop, manufacture and sell trucks and truck parts primarily in the PRC and certain export markets. Jianghuai is a manufacturer of automobiles and trucks and related parts based in Anhui Province, PRC. The framework agreement contemplates finalizing a joint venture by mid-2010.

- In November 2009, Caterpillar entered into an agreement to acquire JCS Co. Ltd. (JCS), a subsidiary of Jinsung T.E.C. Co., Ltd., a South Korea-based manufacturer that specializes in producing undercarriage components for earthmoving and other off-road machinery. The acquisition of JCS will provide Caterpillar proprietary technology to produce engineered seals for undercarriages. The JCS manufacturing facility is the first factory for Caterpillar in South Korea. The acquisition, subject to regulatory approval, is expected to be finalized in early 2010.

- In December 2009, Caterpillar opened the Wuxi multi-functional research and development center in Wuxi, located in Jiangsu Province, PRC. The facility was announced in August 2008 to increase technical support for products serving markets in the PRC and the rest of the Asia Pacific Region. The Wuxi facility also performs engine and component product and process development, validation, localization and technological training. Among its many functions, the new facility will have an engine test facility with performance and emissions development capability, an advanced materials laboratory, an electronics laboratory, a system and machine integration facility and validation capability. The Wuxi facility is strategically located near Caterpillar's component manufacturing facility and its engine campus. It is also near the medium wheel loader and motor grader manufacturing facility in Suzhou, PRC.

- In December 2009, Caterpillar signed a joint venture agreement with China Yuchai Machinery Co. Ltd. through its main operating subsidiary, Guangxi Yuchai Machinery Co. Ltd. (Yuchai) to establish a company to provide remanufacturing services for Yuchai diesel engines and components and certain Caterpillar diesel engines and components. The new company will provide remanufactured engines and components to customers worldwide. Yuchai is a key diesel engine manufacturer and the largest producer of internal combustion engines in the PRC. Its engine product line family includes mini, light, medium and heavy-duty engines for the truck, commercial bus, generator and passenger car markets. This joint venture, once approved by the applicable regulatory authority, will be the first remanufacturing joint venture for Caterpillar in the PRC.

Other 2009 Developments

- In December 2009, Caterpillar, through its wholly owned subsidiary Cat Logistics, announced plans to open a new parts distribution center in Clayton, Ohio. The new facility will extend more than 1,000,000 square feet and is part of the multi-year expansion and enhancement of the North American Cat Parts distribution network. The new facility will provide inbound receiving capability close to suppliers and align outbound shipments to improve delivery to dealers and customers. It is expected to be fully operational in 2011 and is expected to employ 500 to 600 people.

- In June 2008, Caterpillar announced a multi-year $1 billion capacity expansion for key facilities in Illinois and other areas. This included planned investments of more than $1 billion from 2008 through 2010 in five of our existing facilities in Illinois (East Peoria, Joliet, Decatur, Aurora and Mossville). Through 2009, we have invested about two-thirds of this planned $1 billion in those five facilities. In addition, during this period we have also made significant capital investments at other Illinois facilities.

Business Combinations

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

Raw Materials and Component Products

We source our raw materials and manufactured components from leading suppliers both domestically and internationally. These purchases include unformed materials, rough and finished parts. Unformed materials 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 to either Caterpillar specifications or to the supplier developed specifications. We machine and assemble some of the components used in our machines, engines and power generation units and to support our after-market dealer parts sales. We also purchase various goods and services used in production, logistics, offices and product development processes. We maintain global strategic sourcing models to meet our global facilities' production needs while building long-term supplier relationships and leveraging enterprise spend. We expect our suppliers to maintain, at all times, industry-leading levels of quality and 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

Much of our backlog is in large engines, gas turbines and mining products. The dollar amount of backlog believed to be firm was approximately $9.6 billion at December 31, 2009, $14.7 billion at December 31, 2008 and $17.8 billion at December 31, 2007. Of the total backlog, approximately $2.5 billion at December 31, 2009, $2.2 billion at December 31, 2008 and $2.5 billion at December 31, 2007, was not expected to be filled in the following year. The decrease during 2009 reflects the impact of weak global economic conditions and our decision, beginning in late 2008 and continuing through 2009, to allow dealers to cancel orders. Our backlog is generally highest in the first and second quarters because of seasonal buying trends in our industry.

Dealers

Our machines are distributed principally through a worldwide organization of dealers (dealer network), 51 located in the United States and 127 located outside the United States, serving 182 countries and operating 3,518 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 129 distributors located in 165 countries. Most of the electric power generation systems manufactured by F.G. Wilson Engineering Limited (FG Wilson) are sold through its worldwide network of 157 dealers located in 180 countries. Some of the large, medium speed reciprocating engines are also sold under the MaK brand through a worldwide network of 19 dealers 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 specifically agrees to employ adequate sales and support personnel to market, sell and promote the company's products, demonstrate and exhibit the products, perform the company's product improvement programs, inform the company concerning any features that might affect the safe operation of any of the company's products and maintain detailed books and records of the dealer's financial condition, sales and inventories and make these books and records available at the company's reasonable request.

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

Patents and Trademarks

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

Research and Development

We have always placed strong emphasis on product-oriented research and development relating to the development of new or improved machines, engines and major components. In 2009, 2008 and 2007, we spent $1,421 million, $1,728 million and $1,404 million, or 4.4 percent, 3.4 percent and 3.1 percent of our sales and revenues, respectively, on our research and development programs. R&D expense is expected to increase about 20 percent in 2010, primarily to support product development programs related to the U.S. Environmental Protection Agency (EPA) Tier 4 emissions requirements.

Employment

As of December 31, 2009, we employed 93,813 persons of whom 50,562 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 43,251 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, 2009, there were 9,728 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 7,570 Caterpillar employees under a six-year central labor agreement that will expire March 1, 2011. The International Association of Machinists represents 1,627 employees under labor agreements that expire on May 23, 2010 and April 30, 2012.

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

Sales

Sales outside the United States were 69 percent of consolidated sales for 2009, 67 percent for 2008 and 63 percent for 2007.

Environmental Matters

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

We are engaged in remedial activities at a number of locations, often with other companies, pursuant to federal and state laws. When it is reasonably probable we will pay remedial costs at a site, and those costs can be reasonably estimated, the costs are charged against our earnings. In formulating that estimate, we do not consider amounts expected to be recovered from insurance companies or others. The amount recorded for environmental remediation is not material and is included in the line item “Accrued expenses” in Statement 2 – “Consolidated Financial Position at December 31” of Exhibit 13.

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

Available Information

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

Historical information -

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

Item 1A. Risk Factors.

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

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

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

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

Economic Volatility, Global Economic Conditions and the Economic Conditions of Industries or Markets We Serve
Our results of operations are materially affected by the conditions in the global economy generally and various capital markets. Global economic conditions may cause volatility and disruptions in the capital and credit markets. In some cases, the markets have decreased availability of liquidity, credit and credit capacity for certain issuers, 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 will require substantial liquidity and access to sources of funds, including capital and credit markets. Changes in global economic conditions, including material cost increases and decreases in economic activity in many of the markets that we serve, and the success of plans to manage cost increases, inventory and other important elements of our business may significantly impact our ability to generate funds from operations. Market volatility, changes in counterparty credit risk, the impact of government intervention in financial markets and general economic conditions may also adversely impact the ability of the company to access capital and credit markets to fund operating needs. Inability to access capital and credit markets may have an adverse effect on our business, results of operations, financial condition and competitive position.

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

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

After declining for three years, U.S. residential housing starts began a modest recovery in the second quarter of 2009, but remain at historic lows. Housing permits in the euro-zone have continued to decline since late 2006, although U.K. housing orders increased in the fourth quarter of 2009. The situation has been compounded by a deterioration of mortgage and financial markets and has negatively impacted our sales in North America and Europe. Historically, housing starts have been volatile, and these downturns could continue or become more severe. Although the U.S. Government, and governments of many other countries, including countries in Europe, Japan and Australia, has adopted initiatives to help restore and stabilize mortgage and real estate markets and the economy generally, there is no assurance that these measures will achieve the intended effect.

We expect that the developing markets (i.e. Africa, Asia/Pacific, Latin America, the Middle East and Russia), which accounted for a significant portion of our 2009 sales and revenues will experience growth during 2010. However, a slower rate of economic growth in developing markets than anticipated in our outlooks could adversely impact our business, results of operations and financial condition.

Changes in Government Monetary and Fiscal Policies
Most countries have established central banks to regulate monetary systems and influence economic activities, generally by adjusting interest rates. Interest rate changes affect overall economic growth, which alter demand for residential and nonresidential structures, energy and mined products, which in turn affect sales of our products that serve these activities. Also, interest rates affect customers' abilities to finance machine purchases, 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 a material impact on the customers and markets we serve and our business, results of operations and financial condition.

Government policies on taxes and spending affect our 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 can retain, both of which influence investment decisions. Developments more unfavorable than anticipated, such as declines in government revenues, decisions to reduce public spending or increases in taxes, could negatively impact our results.

Changes in Price and Significant Shortages of Component Products
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. We anticipate significant volume increases in 2010 and are currently reviewing the ability of key suppliers to ramp up production. 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 components products will be generally sufficient for our needs in the foreseeable future. However, our business, results of operations or financial condition could be negatively impacted should supply turn out to be insufficient for our operations.

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

Environmental Regulations

Regulatory Compliance in General
Our facilities, operations and products are subject to increasingly stringent environmental laws and regulations, including laws and regulations governing emissions to air, discharges to water and the generation, handling, storage, transportation, treatment and disposal of general, non-hazardous and hazardous waste materials. While we believe we are in compliance in all material respects with these environmental laws and regulations, we cannot 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 U.S. 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.

Tier 4 Emissions Requirements

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 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.

Regulation of Carbon Emissions

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 U.S., 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 have a material impact upon the company's capital expenditures, results of operations and competitive position.

Failure to Maintain Credit Ratings

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 credit metrics such as interest coverage and leverage ratios, as well as transparency with rating agencies and timeliness of financial reporting. On January 26, 2009, Moody's Investment Services (Moody's) changed its outlook for the long-term ratings of the company and Cat Financial to negative from stable. Moody's did not alter the 'A2' long-term ratings or the 'Prime-1' short-term ratings of the two companies. On April 21, 2009, Standard & Poor's Ratings Services (S&P) revised its outlook for the company and Cat Financial to negative from stable, while affirming the 'A' long-term corporate credit rating and 'A-1' short-term ratings on the company and its related entities. On April 22, 2009, Fitch Ratings, which had previously rated Caterpillar and Cat Financial slightly higher than Moody's and S&P, downgraded the company and Cat Financial to 'A' from 'A+' and assigned a stable rating outlook. On May 6, 2009, DBRS, which had similarly rated Caterpillar and Cat Financial slightly higher than Moody's and S&P, downgraded the company and Cat Financial to 'A' from 'A (high)' and stated that the trend for the rating was stable.

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 a further 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 business, results of operations and financial condition.

Risks to Financial Products Line of Business

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

Changes in interest rates, foreign currency exchange rates and market liquidity conditions could have a material adverse effect on Cat Financial's and our earnings and cash flows. Because a significant amount 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, since Cat Financial makes a significant amount of loans in currencies other than the U.S. dollar, fluctuations in foreign currency exchange rates could also reduce its and our earnings and cash flows. Cat Financial also relies on a number of diversified global debt markets and funding programs to provide liquidity for its global operations, including commercial paper, medium term notes, retail notes, variable denomination floating rate demand notes, asset-backed securitizations and bank loans. Significant changes in market liquidity conditions could impact Cat Financial's access to funding, increase the associated funding costs and 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 Financial's insurance and investment management operations, changes in the equity and bond markets could cause an impairment of the value of its investment portfolio, thus requiring a negative adjustment to earnings.

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

Cat Financial's liquidity and ongoing profitability are, in large part, dependent upon its timely access to capital and the costs associated with raising funds in different segments of the capital markets. Cat Financial depends and will continue to depend on its ability to access diversified funding alternatives to meet future cash flows requirements and to continue to fund its operations. A large portion of Cat Financial's borrowings have been issued in the medium term note and commercial paper markets. 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 will 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.

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

- Market developments that may affect customer confidence levels and may cause declines in credit applications and adverse changes in payment patterns, causing increases in delinquencies and default rates, which could impact 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. Ongoing financial market disruption and volatility may impact the accuracy of these judgments.
- Cat Financial's ability to engage in routine funding transactions or borrow from other financial institutions on acceptable terms or at all could be adversely affected by further disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations.
- Since 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 the equity and credit markets.

Market Acceptance of Products

Our business relies on continued global demand for our brands and products. To achieve business goals, we must develop and sell products that appeal to our dealers, OEMs and customers. This is dependent on a number of factors, including our ability to manage and maintain key dealer relationships, 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 supply products that meet applicable regulatory requirements or to predict market demands for, or gain market acceptance of, our products, could have a material impact on our business, results of operations and financial condition.

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

Competition

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 these other companies. Thus, our share of industry sales could be reduced due to aggressive pricing or product strategies pursued by competitors, unanticipated product or manufacturing difficulties, our failure to price our products competitively, 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 a material impact on the company's business, results of operations and financial condition.

In addition, our results and ability to compete may be impacted positively or negatively by changes in 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.

Caterpillar Production System

In 2006, we launched a significant productivity initiative, CPS to improve our order-to-delivery processes and factory efficiency. CPS aims to reduce waste and maximize value for our customers. Inability or failure to implement and utilize CPS or other productivity initiatives would have an adverse impact on our business and our results of operations. There can be no assurance that this initiative will be completed or beneficial to the company, or that any estimated cost savings from CPS will be realized.

International Trade Policy

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.

Risks Due to Debt Covenants

We maintain a number of credit facilities to support (i) our commercial paper program and (ii) general corporate purposes (facilities) and have issued debt securities to manage liquidity and fund operations (debt securities). The agreements relating to a number of the facilities and the debt securities contain certain restrictive covenants 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 material 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.

Dealer/Original Equipment Manufacturers Sourcing Practices

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

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

Additional Tax Expense or 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, but not limited to, 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.

Risks to Global Operations

Our global operations are dependent upon products manufactured, purchased and sold in the U.S. and internationally and in countries with political and economic instability including, without limitation, Brazil, PRC and India, which exposes our business operations to certain political and economic risks inherent in operating globally. These risks include:

- changes in local government laws, regulations and policies;
- 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 may severely disrupt economic activity in affected countries.

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

Currency Fluctuations

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

Risk Due to Funding Obligations Under Pension Plans

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. 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.

Impact of Acquisitions

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

- The business culture of the acquired business may not match well with our culture;
- Technological and product synergies, economies of scale and cost reductions may not occur as expected;
- The company may acquire or assume unexpected liabilities;
- Unforeseen difficulties may arise in integrating operations and systems;

- The company may fail to retain and assimilate employees of the acquired business;
- Higher than expected finance costs may arise due to unforeseen changes in tax, trade, environmental, labor, safety, payroll or pension policies in any jurisdiction in which the acquired business conducts its operations; and
- The company may experience problems in retaining customers and integrating customer bases.

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

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

Litigation and Contingency

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

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

Healthcare Reform Legislation

Healthcare reform is currently a high priority for the U.S. Presidential Administration and U.S. Congress. Both the U.S. House and the U.S. Senate have passed healthcare reform bills. However, this legislation remains subject to modification during the process of harmonizing the House and Senate bills and its content and potential impact remain uncertain. Should any final legislation impose significant costs on the company, including, without limitation, by making government subsidies received for Medicare-equivalent prescription drug coverage taxable, this could have a material impact upon the company's results of operations and competitive position.

Changes in Accounting Standards

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

Natural Disasters

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

Item 1B. Unresolved Staff Comments as of December 31, 2009.

Not applicable.

Item 1C. Executive Officers of the Registrant as of December 31, 2009.

Name	Present Caterpillar Inc. position and date of initial election	Principal positions held during the past five years if other than Caterpillar Inc. position currently held
James W. Owens[1] (63)	Chairman and Chief Executive Officer (2004)	
Douglas R. Oberhelman (56)	Vice Chairman and Chief Executive Officer-Elect (2010) [2] Group President (2001)	
Richard P. Lavin (57)	Group President (2007)	• Vice President (2004-2007)
Stuart L. Levenick (56)	Group President (2004)	
Edward J. Rapp (52)	Group President (2007)	• Vice President (2000-2007)
Gérard R. Vittecoq (61)	Group President (2004)	
Steven H. Wunning (58)	Group President (2004)	
James B. Buda (62)	Vice President, General Counsel and Secretary (2001)	
David B. Burritt (54)	Vice President and Chief Financial Officer (2004)	
Bradley M. Halverson (49)	Controller (2004)	
Jananne A. Copeland (47)	Chief Accounting Officer (2007)	• Corporate Financial Reporting Manager, Corporate Services Division (2004–2006) • Corporate Financial Reporting Manager, Global Finance & Strategic Support Division (2006–2007)

1 Will retire as CEO effective July 1, 2010 and as Chairman effective October 31, 2010.

2 Effective January 1, 2010. Will become CEO effective July 1, 2010 and Chairman effective October 31, 2010.

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 involve both machines and engines.

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

Headquarters and Other Key Offices

Our corporate headquarters are in Peoria, Illinois. Additional marketing and operating headquarters are located both inside and outside the United States including Miami, Florida, San Diego, California, Geneva, Switzerland, Beijing, PRC, 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.

Inside the U.S.

Alabama
- Albertville
- Montgomery

Arkansas
- Little Rock

California
- Gardena
- Mohave
- Rocklin
- San Diego

Colorado
- Pueblo

Florida
- Jacksonville
- Miami Lakes
- Wildwood

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

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

Indiana
- Charlestown
- East Chicago
- Franklin
- Lafayette

Kansas
- Fort Scott
- Lawrence
- Wamego

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

Michigan
- Menominee

Minnesota
- Minneapolis
- Owatonna

Mississippi
- Corinth
- Oxford
- Prentiss County

Missouri
- Boonville
- Kansas City
- West Plains

Montana
- Laurel

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

Nevada
- Sparks

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

North Dakota
- West Fargo

Ohio
- Dayton[1]

Pennsylvania
- Chambersburg
- Steelton

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

Tennessee
- Dyersburg
- Knoxville

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

Virginia
- Petersburg
- Roanoke

Wisconsin
- Hudson
- Prentice

Wyoming
- Bill
- Laramie
- Rock Springs

Outside the U.S.

Australia
- Burnie
- Melbourne
- Wivenhoe

Belgium
- Gosselies

Brazil
- Curitiba
- Diadema
- Hortolandia
- Piracicaba

Canada
- Edmonton
- Montreal
- Surrey
- Toronto
- Winnipeg

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

France
- Arras
- Chaumont
- Echirolles
- Grenoble
- Rantigny

Germany
- Kiel
- Rostock

Hungary
- Gödöllö

India
- Hosur
- Pondicherry
- Thiruvallur

Indonesia
- Bandung[2]
- Jakarta

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

Japan
- Akashi
- Sagamihara

Malaysia
- Kuala Lumpur[1]

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

The Netherlands
- Almere
- s'-Hertogenbosch

Nigeria
- Port Harcourt[2]

Northern Ireland
- Belfast
- Larne

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

Poland
- Janow Lubelski
- Radom[1]
- Sosnowiec

Russia
- Tosno

Scotland
- Aberdeen

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 EPA issued a Notice of Violation to Caterpillar Inc. alleging various violations of Clean Air Act Sections 203, 206 and 207. The EPA claims that Caterpillar violated such sections by shipping engines and catalytic converter after-treatment devices separately, introducing into commerce a number of uncertified and/or misbuilt engines, and failing to timely report emissions-related defects. Caterpillar is currently engaging in negotiations with the EPA to resolve these issues, but it is too early in the process to place precise estimates on the potential exposure to penalties. However, Caterpillar is cooperating with the EPA and, based upon initial discussions, and although penalties could potentially exceed $100,000, management does not believe that this issue will have a material adverse impact on our 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. Each count seeks injunctive relief, as well as statutory penalties of $50,000 per violation and $10,000 per day of violation. 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 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 is preparing a response to the revised notice. At this time, we do not believe these proceedings will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

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

Not applicable.

PART II

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

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, 2009" 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, 2009, those plans had approximately 10,700 active participants in the aggregate. During the fourth quarter of 2009, approximately 151,000 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 2009.

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, 2009	6,042	$ 49.95	N/A	N/A
November 1-30, 2009	10,145	54.71	N/A	N/A
December 1-31, 2009	5,719	59.39	N/A	N/A
Total	21,906	$ 54.62		

(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 19 – "Fair values disclosures" and Note 20 – "Concentration of credit risk" of Exhibit 13. Other information required by Item 7A is incorporated by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Exhibit 13.

Item 8. Financial Statements and Supplementary Data.

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

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

Not Applicable.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

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

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

Management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2009. 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, 2009, the company's internal control over financial reporting was effective based on those criteria.

The effectiveness of the company's internal control over financial reporting as of December 31, 2009 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 2010 Proxy Statement.

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

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

Legal Proceedings Involving Officers and Directors
Information required by this Item is incorporated by reference from the 2010 Proxy Statement.

Audit Committee Financial Expert
Information required by this Item is incorporated by reference from the 2010 Proxy Statement.

Identification of Audit Committee
Information required by this Item is incorporated by reference from the 2010 Proxy Statement.

Stockholder Recommendation of Board Nominees
Information required by this Item is incorporated by reference from the 2010 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 2010 Proxy Statement.

Code of Ethics
Our Worldwide Code of Conduct (Code), first published in 1974 and most recently amended in 2005, sets a high standard for honesty and ethical behavior by every employee, including the principal executive officer, principal financial officer, controller and principal accounting officer. The Code is posted on our website at www.CAT.com/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 2010 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 2010 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, 2009)

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	68,021,668	$44.2440	16,229,601
Equity compensation plans not approved by security holders	n/a	n/a	n/a
Total..	68,021,668	$44.2440	16,229,601

[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 2010 Proxy Statement.

Item 14. Principal Accountant Fees and Services.

Information required by this Item is incorporated by reference from the 2010 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:

3.1	Restated Certificate of Incorporation (incorporated by reference from Exhibit 3(i) to the Form 10-Q filed for the quarter ended March 31, 1998).
3.2	Bylaws amended and restated as of December 9, 2009 (incorporated by reference from Exhibit 3.2 to Form 8-K filed December 15, 2009).
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 fifth amendment (incorporated by reference from Exhibit 10.2 to the 2008 Form 10-K).*
10.3	Supplemental Pension Benefit Plan, as amended and restated January 2003 (incorporated by reference from Exhibit 10.3 to the 2004 Form 10-K).*
10.4	Supplemental Employees' Investment Plan, as amended and restated through June 1, 2009.*
10.5	Caterpillar Inc. Executive Short-Term Incentive Plan, as amended and restated through first amendment effective as of February 14, 2007.*
10.6	Directors' Deferred Compensation Plan, as amended and restated through January 1, 2005 (incorporated by reference from Exhibit 10.6 to the 2006 Form 10-K).*
10.7	Directors' Charitable Award Program, as amended and restated through April 1, 2008 (incorporated by reference from Exhibit 10.7 to the 2008 Form 10-K).*
10.8	Deferred Employees' Investment Plan, as amended and restated through June 1, 2009.*
10.9	Solar Turbines Incorporated Managerial Retirement Objective Plan, as amended and restated through first amendment effective July 16, 2009.*
10.10	Solar Turbines Incorporated Pension Plan for European Foreign Service Employees, as amended and restated effective January 1, 2005.*
10.11	Five-Year Credit Agreement dated September 21, 2006 (2006 Five-Year Credit Agreement) among Caterpillar Inc., Caterpillar Financial Services Corporation, Caterpillar International Finance p.l.c. and Caterpillar Finance Corporation, the Banks named therein, Citibank, N.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Citibank International plc, ABN AMRO Bank N.V., Bank of America, N.A., Barclays Bank PLC, J.P. Morgan Securities, Inc., Société Générale and Citigroup Global Markets Inc. (incorporated by reference from Exhibit 99.1 to Form 8-K filed September 26, 2006).
10.12	Amendment No. 1 to the 2006 Five-Year Credit Agreement (incorporated by reference from Exhibit 10.12 to Form 10-Q filed October 31, 2008).
10.13	Omnibus Amendment and Waiver Agreement (Amendment No. 2) to the 2006 Five-Year Credit Agreement (incorporated by reference from Exhibit 10.13 to Form 10-Q filed October 31, 2008).
10.14	Amendment No. 3 to the 2006 Five-Year Credit Agreement (incorporated by reference from Exhibit 99.4 to Form 8-K filed September 23, 2008).
10.15	Amendment No. 4 to the 2006 Five-Year Credit Agreement (incorporated by reference from Exhibit 99.3 to Form 8-K filed January 26, 2009).
10.16	Amendment No. 5 to the 2006 Five-Year Credit Agreement (incorporated by reference from Exhibit 99.5 to the Form 8-K filed September 23, 2009).

10.17	Japan Local Currency Addendum to the 2006 Five-Year Credit Agreement (2006 Japan Local Currency Addendum) (incorporated by reference from Exhibit 99.2 to Form 8-K filed September 26, 2006).
10.18	Amendment No. 1 to 2006 Japan Local Currency Addendum among Caterpillar Financial Services Corporation, Caterpillar Finance Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Citibank, N.A. (incorporated by reference from Exhibit 99.5 to Form 8-K filed January 26, 2009).
10.19	Local Currency Addendum to the 2006 Five-Year Credit Agreement (2006 Local Currency Addendum) (incorporated by reference from Exhibit 99.3 to Form 8-K filed September 26, 2006).
10.20	Amendment No. 1 to 2006 Local Currency Addendum among Caterpillar Financial Services Corporation, Caterpillar Finance Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Citibank, N.A. (incorporated by reference from Exhibit 99.6 to Form 8-K filed January 26, 2009).
10.21	Five-Year Credit Agreement dated September 20, 2007 (2007 Five-Year Credit Agreement) among Caterpillar Inc., Caterpillar Financial Services Corporation and Caterpillar Finance Corporation, certain financial institutions named therein, Citibank, N.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., ABN AMRO Bank N.V., Bank of America, N.A., Barclays Bank PLC, J.P. Morgan Securities, Inc., Société Générale and Citigroup Global Markets Inc. (incorporated by reference from Exhibit 99.1 to Form 8-K filed September 25, 2007).
10.22	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).
10.23	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).
10.24	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).
10.25	Japan Local Currency Addendum to the 2007 Five-Year Credit Agreement (2007 Japan Local Currency Addendum) (incorporated by reference from Exhibit 99.2 to Form 8-K filed September 25, 2007).
10.26	Amendment No. 1 to 2007 Japan Local Currency Addendum (incorporated by reference from Exhibit 99.4 to Form 8-K filed January 26, 2009).
10.27	364-Day Credit Agreement dated March 31, 2009 (2009 364-Day Backup Facility) among Caterpillar Inc., Caterpillar Financial Services Corporation, the Banks named therein and Citibank, N.A. (incorporated by reference from Exhibit 99.1 to Form 8-K/A filed April 8, 2009) and Notice of Bank Addition and Assumption and Acceptance dated April 7, 2009 (incorporated by reference from Exhibit 99.2 to Form 8-K/A filed April 8, 2009).
10.28	Amendment No. 1 to the 2009 364-Day Backup Facility (incorporated by reference from Exhibit 99.3 to the Form 8-K filed September 23, 2009).
10.29	364-Day Credit Agreement dated September 17, 2009 (2009 364-Day Credit Agreement) among Caterpillar Inc., Caterpillar Financial Services Corporation, Caterpillar Finance Corporation, the Banks named therein, Citibank, N.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., The Royal Bank of Scotland PLC, 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 the Form 8-K filed September 23, 2009).
10.30	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 2009 containing the information required by SEC Rule 14a-3 for an annual report to security holders.
14	Caterpillar Worldwide Code of Conduct (incorporated by reference from Exhibit 14 to the 2005 Form 10-K).
21	Subsidiaries and Affiliates of the Registrant.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of James W. Owens, Chairman and Chief Executive Officer of Caterpillar Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of David B. Burritt, Vice President and Chief Financial Officer of Caterpillar Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of James W. Owens, Chairman and Chief Executive Officer of Caterpillar Inc. and David B. Burritt, Vice President and Chief Financial Officer of Caterpillar Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*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 19, 2010	By:	*/s/James B. Buda*
		James B. Buda, *Secretary*

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

February 19, 2010	*/s/James W. Owens* (James W. Owens)	Chairman of the Board, Director and Chief Executive Officer
February 19, 2010	*/s/Douglas R. Oberhelman* (Douglas R. Oberhelman)	Vice Chairman and Chief Executive Officer- Elect/ Group President
February 19, 2010	*/s/ Richard P. Lavin* (Richard P. Lavin)	Group President
February 19, 2010	*/s/Stuart L. Levenick* (Stuart L. Levenick)	Group President
February 19, 2010	*/s/Edward J. Rapp* (Edward J. Rapp)	Group President
February 19, 2010	*/s/Gerard R. Vittecoq* (Gerard R. Vittecoq)	Group President
February 19, 2010	*/s/Steven H. Wunning* (Steven H. Wunning)	Group President
February 19, 2010	*/s/David B. Burritt* (David B. Burritt)	Vice President and Chief Financial Officer
February 19, 2010	*/s/Bradley M. Halverson* (Bradley M. Halverson)	Controller
February 19, 2010	*/s/Jananne A. Copeland* (Jananne A. Copeland)	Chief Accounting Officer

February 19, 2010	*/s/W. Frank Blount* (W. Frank Blount)	Director
February 19, 2010	*/s/John R. Brazil* (John R. Brazil)	Director
February 19, 2010	*/s/Daniel M. Dickinson* (Daniel M. Dickinson)	Director
February 19, 2010	*/s/John T.Dillon* (John T. Dillon)	Director
February 19, 2010	*/s/Eugene V. Fife* (Eugene V. Fife)	Director
February 19, 2010	*/s/Gail D. Fosler* (Gail D. Fosler)	Director
February 19, 2010	*/s/Juan Gallardo* (Juan Gallardo)	Director
February 19, 2010	*/s/David R. Goode* (David R. Goode)	Director
February 19, 2010	*/s/Peter A. Magowan* (Peter A. Magowan)	Director
February 19, 2010	*/s/William A. Osborn* (William A. Osborn)	Director
February 19, 2010	*/s/Charles D. Powell* (Charles D. Powell)	Director
February 19, 2010	*/s/Edward B. Rust, Jr.* (Edward B. Rust, Jr.)	Director
February 19, 2010	*/s/Susan C. Schwab* (Susan C. Schwab)	Director
February 19, 2010	*Joshua I. Smith* (Joshua I. Smith)	Director

EXHIBIT 10.4

CATERPILLAR INC.
SUPPLEMENTAL EMPLOYEES' INVESTMENT PLAN

(Amended and Restated as of June 1, 2009)

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(continued)

CATERPILLAR INC.
SUPPLEMENTAL EMPLOYEES' INVESTMENT PLAN

PREAMBLE

Effective October 14, 1987, Caterpillar Inc. (the "Company") established the Caterpillar Inc. Supplemental Employees' Investment Plan (the "Plan"). The Plan has been amended and/or restated on a number of occasions. By the execution of this document, the Company hereby amends and restates the Plan in its entirety, effective as of June 1, 2009.

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 be a term defined 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 the Caterpillar 401(k) Plan, as amended or any successor to such plan.

(b) "Adopting Affiliate" means any Affiliate that has been authorized by the Company to adopt the Plan and which has adopted the Plan. 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 but no Affiliate that was not an Adopting Affiliate as of the Effective Date shall be permitted to adopt the Plan.

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

(d) "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.

(e) "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.

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

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

(h) "Company" means Caterpillar Inc., and, to the extent provided in Section 10.8 (Successors) 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.

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

(j) "Company Stock Fund" means the Investment Fund described in Section 5.3 (Special Company Stock Fund Provisions).

(k) "Deferral Credits" means the deferral credits allocated to a Participant in accordance with Section 3.2 (Deferral Credits).

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

(m) "Disability" or "Disabled" means that a Participant is "totally and permanently disabled" and eligible to receive long-term disability benefits pursuant to the terms and provisions of the long-term disability plan sponsored by the Company or an Affiliate in which the Participant participates.

(n) "Effective Date" means March 25, 2007.

(o) "Eligible Pay" means Base Pay minus any deferral credits made pursuant to the Caterpillar Inc. Deferred Employees' Investment Plan.

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

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

(r) "Matching Credits" means the matching credits allocated to a Participant in accordance with Section 3.3 (Matching Credits).

(s) "Participant" means an employee of the Company or any Adopting Affiliate who had satisfied the eligibility requirements for participation in the Plan as of the Effective Date and who, as of such date, has amounts credited to his accounts under this Plan.

(t) "Plan" means the Caterpillar Inc. Supplemental Employees' Investment Plan, as set forth herein and as it may be amended from time to time.

(u) "Plan Administrator" means the Director.

(v) "Plan Year" means the calendar year.

(w) "Post-1996 Deferrals" means the Deferral Credits made by a Participant on and after January 1, 1997 and before January 1, 2005 (including the earnings/losses thereon).

(x) "Post-2004 Deferrals" means the Deferral Credits and Matching Credits made by a Participant on and after January 1, 2005 determined pursuant to Section 7.2 (Amounts Spun-Off).

(y) "SDCP" means the Caterpillar Inc. Supplemental Deferred Compensation Plan, as amended.

(z) "Valuation Date" means each day of the Plan Year on which the New York Stock Exchange is open for trading.

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 AND PARTICIPATION

2.1 Existing Participants. Each individual who was a Participant in the Plan as of the Effective Date shall continue as such, subject to the provisions hereof.

2.2 New Participants. No individual shall become eligible to participate in the Plan after the Effective Date.

ARTICLE III
DEFERRAL CREDITS AND MATCHING CREDITS

3.1 Credits Ceased. Effective as of March 26, 2007, all credits (other than credits associated with the adjustment of accounts pursuant to Section 5.1 (Adjustment of Accounts) to the Plan shall cease. Participants shall not be permitted to make Deferral Credits and the Plan Administrator shall no longer allocate Matching Credits to Participants' accounts.

3.2 Deferral Credits. Immediately prior to March 26, 2007, Participants were permitted to defer the receipt of 6% of the Eligible Pay otherwise payable to the Participant by the Company or an Adopting Affiliate in any Plan Year. A Participant's election to make Deferral Credits only applied to the Eligible Pay that was in excess of the dollar limit imposed by Section 401(a)(17) of the Code during that Plan Year. The deferrals made prior to March 26, 2007 were subject to the provisions of the Plan as in effect at the time the deferral election was made and such uniform and non-discriminatory rules as were adopted by the Plan Administrator in that regard.

3.3 Matching Credits. For periods ending on or before the Effective Date, the Plan Administrator allocated matching credits to the Participant's accounts in an amount equal to 100% of the Participant's Deferral Credits.

ARTICLE IV
VESTING

4.1 Vesting. Subject to Section 10.1 (Participant's Rights Unsecured), each Participant shall at all times be fully vested in all amounts credited to or allocable to his accounts hereunder and his rights and interest therein shall not be forfeitable.

ARTICLE V
INVESTMENT OF ACCOUNTS

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

5.2 Investment Direction.

(a) Investment Funds. 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) Plan and made available to 401(k) Plan participants. In addition, the Investment Funds shall, at all times, include a Company Stock Fund as described in Section 5.3 (Special Company Stock Fund Provisions). 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 this Section 5.2(a).

(b) Participant Directions. 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) Plan for participant investment direction.

(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 any 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) Plan investment fund that is designated by the BFC as the "default" investment fund for purposes of the 401(k) 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 (Adjustment of

Accounts) 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 5.2 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.

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) Plan's company stock fund. Accordingly, the value of a 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) 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 (Deferral Credits and Matching Credits) and VI (Distributions), 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 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 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 6.5 (Payment Upon Death).

ARTICLE VI
DISTRIBUTIONS

6.1 General Right to Receive Distribution. Following termination of employment with the Company, death or Disability, the Participant's accounts will be distributed in the manner and at the time provided in Sections 6.3 (Form of Distribution) and 6.4 (Timing of Distribution) or Section 6.5 (Payment Upon Death), 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 with the Company for purposes of this Article VI.

6.2 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 procedures established by the Plan Administrator.

6.3 Form of Distribution.

(a) Default Form of Distribution. Accounts shall be distributed in cash in a single lump-sum payment.

(b) Optional Form of Distribution. A Participant may elect to receive his distribution in the form of quarterly, semi-annual or annual cash installments for a period of up to fifteen years by filing an election with the Plan Administrator before the last Company business day of November of the second year that precedes the year the distribution is scheduled to commence pursuant to Section 6.4 (Timing of Distribution). If an election pursuant to this paragraph (b) of this Section 6.3 cannot be honored because it was not timely filed, distributions shall be made in accordance with the most recent valid election made by the Participant that precedes the invalid election. If no such election exists, distributions shall be made in a single Lump-Sum in accordance with paragraph (a) of this Section 6.3.

(c) Change of Election. A Participant may change an installment distribution election by filing a new installment distribution election with the Plan Administrator before the last Company business day of November of the second year that precedes the year the distribution is scheduled to commence pursuant to Section 6.4 (Timing of Distribution). There shall be no limitation on the number of times that a Participant may change his election in accordance with this paragraph (c).

6.4 Timing of Distribution.

(a) Default Timing of Distribution. Accounts shall be distributed within an administratively reasonable period of time following the Participant's termination of employment, death or Disability.

(b) Deferral of Distribution. A Participant may elect to defer the distribution of his accounts beyond his termination of employment, death or Disability by filing an election with the Plan Administrator: (1) while the Participant is employed by the Company or an Affiliate and (2) before the last Company business day of November in the year prior to the year during which the Participant's termination of employment, death or Disability occurs. If an election pursuant to this paragraph (b) cannot be honored because it was not timely filed, distributions shall be made in accordance with the most recent valid election made by the Participant that precedes the invalid election. If no such election exists, distributions shall be made within an administratively reasonable period of time following the Participant's termination of employment, death or Disability in accordance with paragraph (a) of this Section 6.4.

(c) Change of Election. An election made pursuant to paragraph (b) of this Section 6.4 or election made effective as a result of paragraph (e)(1) of this Section 6.4 may be changed by the Participant by filing a new election with the Plan Administrator: (1) while the Participant is employed by the Company or an Adopting Affiliate and (2) before the last Company business day of November in the year prior to the year during which the Participant's termination of employment, death or Disability occurs. There shall be no limitation on the number of times that a Participant may change his election in accordance with this paragraph (c).

(d) Date Elected By Participant. The date elected by a Participant pursuant to paragraphs (b) or (c) of this Section 6.4 must be the first day of any calendar quarter. Notwithstanding the foregoing, if as of the Effective Date, a Participant had made an election whereby the date of distribution elected is not the first day of a calendar quarter, such election shall be honored unless and until the Participant initiates a change to the timing of distribution pursuant to this Section 6.4 or the form of distribution pursuant to Section 6.3 (Form of Distribution).

(e) Revocation of Election.

(1) Automatic Revocation. If, as of the distribution date elected by the Participant pursuant to paragraphs (b) or (c) of this Section 6.4 the Participant, is: (i) employed by the Company or an Affiliate and (ii) not Disabled, such election shall be automatically revoked and distributions shall be made within an administratively reasonable period of time following the Participant's termination of employment, death or Disability in accordance with paragraph (a) of this Section 6.4. Notwithstanding the foregoing, if the distribution date is automatically revoked pursuant to this paragraph (e)(1) and the distribution was to be made in the form of cash installments pursuant to Section 6.3 (Form of Distribution), the date of distribution shall be the first day of the next calendar quarter that is within an administratively feasible period of time following the Participant's termination of employment, death or Disability in accordance with paragraph (a) of this Section 6.4. Nothing contained in this paragraph (e)(1) shall prevent a Participant from changing his election pursuant to paragraph (c) of this Section 6.4.

(2) Election Irrevocable Following Termination of Employment. At all times following the Participant's termination of employment with the Company or an Affiliate, the Participant's elections made pursuant to this Section 6.4 shall be irrevocable.

6.5 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.

(2) Payments Not Commenced at Time of Death.

(i) Default. If, at the time of the Participant's death, payments of the Participant's accounts have not commenced pursuant to this Article VI, the distributions made pursuant to this Section 6.5 shall be made to the Participant's beneficiary in accordance with the then current and valid distribution elections (as to timing and form) made by the Participant (or, in the absence of such distribution elections, in accordance with the "default" provisions of this Article VI).

(ii) Separate Election. Notwithstanding the foregoing or anything herein to the contrary, a Participant may make separate elections regarding the timing and form of payments to his beneficiary upon his death. Such separate beneficiary elections shall be valid only if they meet the requirements of Section 6.3 (Form of Distribution) and Section 6.4 (Timing of Distribution). In addition, such separate beneficiary elections may be changed or revoked in accordance with Section 6.3 (Form of Distribution) and Section 6.4 (Timing of Distribution).

(3) No Changes Permitted by Beneficiary. In no event shall a beneficiary be permitted to change the time and/or form of payment relating to a Participant's accounts following such Participant's death either prior to or following such Participant's death.

6.6 Scheduled Distributions. The Plan as in effect prior to the Effective Date permitted a Participant to elect, at the time the Participant elected to make Deferral Credits, to schedule a distribution date for all or a portion of such Deferral Credits provided: (a) the distribution date scheduled by the Participant was the first day of any calendar quarter and (b) the distribution date scheduled by the Participant was at least four years later than the last day of the Plan Year that includes the Deferral Credits to which the election relates. As of the Effective Date, no Participant had such a scheduled distribution election on file with the Plan Administrator. Because Deferral Credits have ceased pursuant to Section 3.1 (Credits Ceased) and because there are no scheduled distribution elections on file, the scheduled distribution provisions of the Plan as in effect prior to the Effective Date are now without effect.

6.7 Unscheduled Distributions. Notwithstanding anything herein to the contrary, a Participant may elect to receive a lump-sum cash distribution of his Plan accounts at any time while employed by the Company or an Affiliate in accordance with this Section 6.7 and the uniform and non-discriminatory procedures adopted by the Plan Administrator.

(a) Amount of Distribution. A Participant may elect to receive five percent to one hundred percent (designated in whole percentages by the Participant) of his Post-1996 Deferrals. Notwithstanding the foregoing, in no event shall the amount of the distribution made pursuant to this Section 6.7 be less than $10,000.00 (determined prior to the application of the forfeiture described in paragraph (b) below).

(b) Forfeiture. Any distribution made pursuant to this Section 6.7 shall be subject to a forfeiture equal to 10% of the amount elected.

(c) Election Applies to DEIP. An election for an unscheduled distribution pursuant to this Section 6.7 shall also apply as an election for an unscheduled distribution pursuant to the terms and provisions of the Caterpillar Inc. Deferred Employees' Investment Plan.

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

ARTICLE VII
SPIN-OFF TO SDCP

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 Credits and Matching Credits have been frozen and all amounts deferred and vested on and before December 31, 2004 are "grandfathered" and thus are not subject to the requirements of Section 409A. The Deferral Credits and Matching Credits made pursuant to the Plan from January 1, 2005 through the Effective Date (including the earnings/losses thereon) will be spun-off to SDCP as provided in this Article VII.

7.2 Amounts Spun-Off. All amounts credited to participant accounts pursuant to this Plan on or after January 1, 2005 and through the Effective Date and not fully distributed on or before April 1, 2007 shall be spun-off and allocated to Plan accounts as provided in Section 7.3 (Allocation of Amounts). The amounts deferred prior to January 1, 2005 shall be determined in accordance with Q&A-17 of I.R.S. Notice 2005-1 and any other applicable guidance issued by the Internal Revenue Service or the Department of Treasury.

7.3 Allocation of Amounts. A Participant's Post-2004 Deferrals shall be allocated to the Participant's accounts in SDCP as provided therein.

7.4 Deferral Elections. Deferral elections made by participants pursuant to the Plan for amounts to be deferred in 2007 following the Effective Date shall apply to SDCP as provided therein.

7.5 Effective Date of Spin-Off. The spin-off described in this Article VII shall be effective as of 11:59:59 P.M. on the Effective Date.

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 Certain Exercise of Discretion Prohibited. Notwithstanding anything herein to the contrary, the Plan Administrator (or any other individual or entity to whom the power to exercise discretion hereunder is granted) shall not exercise the discretion granted in a manner that would create a "material modification" (as determined pursuant to Notice 2005-1 and any other applicable guidance issued by the Internal Revenue Service or the Department of Treasury) to the Plan as it was in effect on October 3, 2004.

8.3 Claims Procedures. Benefit claims under the Plan shall be resolved in accordance with 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. Notwithstanding the foregoing or anything in this Plan to the contrary, any amendment to the Plan effective on or after October 3, 2004 that creates a "material modification" (as determined pursuant to Notice 2005-1 and any other applicable guidance issued by the Internal Revenue Service or the Department of Treasury) shall only be effective if such amendment expressly states an intent by the Company to materially modify the Plan (and thus subject it to Section 409A of the Code).

9.3 Termination. To the extent permitted by applicable law, the Company expressly reserves the right to terminate the Plan at any time.

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.

(a) Material Modification. Notwithstanding anything contained herein to the contrary, this amendment and restatement of the Plan does not, and is not intended to, create a "material modification" (as determined pursuant to Notice 2005-1 and any other applicable guidance issued by the Internal Revenue Service or the Department of Treasury) to the Plan as it was in effect on October 3, 2004 which would subject the Plan to the requirements of Section 409A of the Code. This document shall be construed and interpreted in a manner consistent with that intention.

(b) Good Faith Compliance. The Deferral Credits and Matching Credits made from January 1, 2005 through the Effective Date (including the earnings/losses thereon) have been administered pursuant to the Plan in "good faith" compliance with Section 409A of the Code pursuant to transitional guidance issued by the Internal Revenue Service and the Department of Treasury.

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, the 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.

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 therefore.

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 Company, nor any individual acting as the Plan Administrator'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.

EXHIBIT 10.5

CATERPILLAR INC.
EXECUTIVE SHORT-TERM INCENTIVE PLAN
(Amended and Restated as of 02/14/2007)

Section 1. Purpose

Effective as of January 1, 2002, Caterpillar Inc. (the "Company") established the Caterpillar Inc. Executive Incentive Compensation Plan to advance the interests of the Company and its subsidiaries by providing an annual incentive bonus to be paid to certain executive officers of the Company based on the achievement of pre-established quantitative performance goals. The plan was amended and restated January 1, 2007, in its entirety and renamed the "Caterpillar Inc. Executive Short-Term Incentive Plan" (the "Plan"). By the execution of this document, the Company hereby amends and restates such plan in its entirety, effective as of February 14, 2007.

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

Section 2. Administration

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

Section 3. Performance Awards

3.1. Eligible Participants

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

3.2. Award Criteria

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

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

3.3. Payment of Awards

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

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

Performance Awards shall be paid in cash within two and one-half months after the end of the Performance Period, or as soon as practicable thereafter, to the extent that the delay does not cause payments to fail to be short-term deferrals for purposes of Section 409A of the Code. Federal, state and local taxes will be withheld as appropriate.

3.4. Termination of Employment

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

3.5. Clawback Provisions

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

Section 4. Change of Control

4.1. Effect on Awards

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

4.2. Change of Control Defined

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

(a) Any person becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934 ("Exchange Act")), directly or indirectly, of securities of the Company representing 15 percent or more of the combined voting power of the Company's then outstanding common stock, unless the Board by resolution negates the effect of this provision in a particular circumstance, deeming that resolution to be in the best interests of Company stockholders;

(b) During any period of two consecutive Performance Periods, there shall cease to be a majority of the Board comprised of individuals who at the beginning of such period constituted the Board;

(c) The stockholders of the Company approve a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) less than fifty percent of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or

(d) Company stockholders approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of its assets.

Section 5. Amendment and Termination

The Committee may amend, suspend or terminate the Plan at any time in its sole and absolute discretion. Any amendment or termination of the Plan, however shall not affect the right of an Eligible Participant to receive any earned but unpaid Performance Award. The Committee may amend the Plan without stockholder approval, unless such approval is necessary to comply with applicable laws, including provisions of the Exchange Act or the Code. However, termination shall not affect any awards previously granted under the Plan.

Section 6. Section 162(m) Compliance

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

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

Section 7. Employment Rights

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

Section 8. Term

This amendment and restatement of the Plan applies to each of the four fiscal years of the Company in the period commencing January 1, 2007 and ending December 31, 2010, subject to the approval of the Plan by the Company’s stockholders.

EXHIBIT 10.8

CATERPILLAR INC.
DEFERRED EMPLOYEES' INVESTMENT PLAN

(Amended and Restated as of June 1, 2009)

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CATERPILLAR INC.
DEFERRED EMPLOYEES' INVESTMENT PLAN

PREAMBLE

Effective June 30, 1995, Caterpillar Inc. (the "Company") established the Caterpillar Inc. Deferred Employees' Investment Plan (the "Plan"). The Plan has been amended and/or restated on a number of occasions. By the execution of this document, the Company hereby amends and restates the Plan in its entirety, effective as of June 1, 2009.

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 be a term defined 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 the Caterpillar 401(k) Plan, as amended or any successor to such plan.

(b) "Adopting Affiliate" means any Affiliate that has been authorized by the Company to adopt the Plan and which has adopted the Plan. 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 but no Affiliate that was not an Adopting Affiliate as of the Effective Date shall be permitted to adopt the Plan.

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

(d) "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.

(e) "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 proper operation and management of the financial aspects of the 401(k) Plan.

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

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

(h) "Company" means Caterpillar Inc., and, to the extent provided in Section 10.8 (Successors) 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.

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

(j) "Company Stock Fund" means the Investment Fund described in Section 5.3 (Special Company Stock Fund Provisions).

(k) "Deferral Credits" means the deferral credits allocated to a Participant in accordance with Section 3.2 (Deferral Credits).

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

(m) "Disability" or "Disabled" means that a Participant is "totally and permanently disabled" and eligible to receive long-term disability benefits pursuant to the terms and provisions of the long-term disability plan sponsored by the Company or an Affiliate in which the Participant participates.

(n) "Effective Date" means March 25, 2007.

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

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

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

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

(s) "LTCPP Pay" means the amounts designated by the Company as the 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 predecessor to such plan).

(t) "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.

(u) "Matching Credits" means the matching credits allocated to a Participant in accordance with Section 3.3 (Matching Credits).

(v) "Participant" means an employee of the Company or any Adopting Affiliate who had satisfied the eligibility requirements for participation in the Plan as of March 31, 2007 and who, as of such date, has amounts credited to his accounts under this Plan.

(w) "Plan" means the Caterpillar Inc. Deferred Employees' Investment Plan, as set forth herein and as it may be amended from time to time.

(x) "Plan Administrator" means the Director.

(y) "Plan Year" means the calendar year.

(z) "Post-1996 Deferrals" means the Deferral Credits made by a Participant on and after January 1, 1997 and before January 1, 2005 (including the earnings/losses thereon).

(aa) "Post-2004 Deferrals" means the Deferral Credits and Matching Credits made by a Participant on and after January 1, 2005 determined pursuant to Section 7.2 (Amounts Spun-Off).

(bb) "SDCP" means the Caterpillar Inc. Supplemental Deferred Compensation Plan, as amended.

(cc) "STIP" means the Caterpillar Inc. Short-Term Incentive Plan, as amended or any successor to such plan.

(dd) "STIP Pay" means amounts paid to employees of the Company or an Adopting Affiliate pursuant to the terms of STIP and/or ESTIP.

(ee) "Valuation Date" means each day of the Plan Year on which the New York Stock Exchange is open for trading.

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 AND PARTICIPATION

2.1 Existing Participants. Each individual who was a Participant in the Plan as of the Effective Date shall continue as such, subject to the provisions hereof.

2.2 New Participants. No individual shall become eligible to participate in the Plan after the Effective Date.

ARTICLE III
DEFERRAL CREDITS AND MATCHING CREDITS

3.1 Credits Ceased. Effective as of March 26, 2007, all credits (other than credits associated with adjustment of accounts pursuant to Section 5.1 (Adjustment of Accounts) to the Plan shall cease. Participants shall not be permitted to make Deferral Credits and the Plan Administrator shall no longer allocate Matching Credits to Participants' accounts.

3.2 Deferral Credits. Immediately prior to March 26, 2007, Participants were permitted to elect to supplement the deferrals made pursuant to the 401(k) Plan by deferring the receipt of up to 70% (designated in whole percentages) of the Base Pay and Incentive Compensation otherwise payable to the Participant by the Company or an Adopting Affiliate in any Plan Year. The deferrals made prior to March 26, 2007 were subject to the provisions of the Plan as in effect at the time the deferral election was made and such uniform and non-discriminatory rules as were adopted by the Plan Administrator in that regard.

3.3 Matching Credits. For periods ending on or before the Effective Date, the Plan Administrator allocated matching credits to the Participant's accounts in an amount equal to: (a) 6% of the Base Pay deferred by the Participant as Deferral Credits and (b) 100% of the STIP Pay and Lump-Sum Awards deferred by the Participant as Deferral Credits (up to a maximum of 6% of the Participant's STIP Pay and Lump-Sum Awards for the relevant Plan Year). LTCPP Pay deferred by the Participant as Deferral Credits was not considered when determining Matching Credits.

ARTICLE IV
VESTING

4.1 Vesting. Subject to Section 10.1 (Participant's Rights Unsecured), each Participant shall at all times be fully vested in all amounts credited to or allocable to his accounts hereunder and his rights and interest therein shall not be forfeitable.

ARTICLE V
INVESTMENT OF ACCOUNTS

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

5.2 Investment Direction.

(a) Investment Funds. 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) Plan and made available to 401(k) Plan participants. In addition, the Investment Funds shall, at all times, include a Company Stock Fund as described in Section 5.3 (Special Company Stock Fund Provisions). 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 this Section 5.2(a).

(b) Participant Directions. 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) Plan for participant investment direction.

(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 any 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) Plan investment fund that is designated by the BFC as the “default” investment fund for purposes of the 401(k) 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 (Adjustment of Accounts) 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 5.2 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.

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) Plan’s company stock fund. Accordingly, the value of a 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) 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 (Deferral Credits and Matching Credits) and VI (Distributions), 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 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 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 6.5 (Payment Upon Death).

ARTICLE VI
DISTRIBUTIONS

6.1 General Right to Receive Distribution Following termination of employment with the Company, death or Disability, the Participant's accounts will be distributed in the manner and at the time provided in Sections 6.3 (Form of Distribution) and 6.4 (Timing of Distribution) or Section 6.5 (Payment Upon Death), 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 with the Company for purposes of this Article VI.

6.2 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 procedures established by the Plan Administrator.

6.3 Form of Distribution.

(a) Default Form of Distribution. Accounts shall be distributed in cash in a single lump-sum payment.

(b) Optional Form of Distribution. A Participant may elect to receive his distribution in the form of quarterly, semi-annual or annual cash installments for a period of up to fifteen years by filing an election with the Plan Administrator before the last Company business day of November of the second year that precedes the year the distribution is scheduled to commence pursuant to Section 6.4 (Timing of Distribution). If an election pursuant to this paragraph (b) of this Section 6.3 cannot be honored because it was not timely filed, distributions shall be made in accordance with the most recent valid election made by the Participant that precedes the invalid election. If no such election exists, distributions shall be made in a single Lump-Sum in accordance with paragraph (a) of this Section 6.3.

(c) Change of Election. A Participant may change an installment distribution election by filing a new installment distribution election with the Plan Administrator before the last Company business day of November of the second year that precedes the year the distribution is scheduled to commence pursuant to Section 6.4 (Timing of Distribution). There shall be no limitation on the number of times that a Participant may change his election in accordance with this paragraph (c).

6.4 Timing of Distribution.

(a) Default Timing of Distribution. Accounts shall be distributed within an administratively reasonable period of time following the Participant's termination of employment, death or Disability.

(b) Deferral of Distribution. A Participant may elect to defer the distribution of his accounts beyond his termination of employment, death or Disability by filing an election with the Plan Administrator: (1) while the Participant is employed by the Company or an Affiliate and (2) before the last Company business day of November in the year prior to the year during which the Participant's termination of employment, death or Disability occurs. If an election pursuant to this paragraph (b) cannot be honored because it was not timely filed, distributions shall be made in accordance with the most recent valid election made by the Participant that precedes the invalid election. If no such election exists, distributions shall be made within an administratively reasonable period of time following the Participant's termination of employment, death or Disability in accordance with paragraph (a) of this Section 6.4.

(c) Change of Election. An election made pursuant to paragraph (b) of this Section 6.4 or election made effective as a result of paragraph (e)(1) of this Section 6.4 may be changed by the Participant by filing a new election with the Plan Administrator: (1) while the Participant is employed by the Company or an Adopting Affiliate and (2) before the last Company business day of November in the year prior to the year during which the Participant's termination of employment, death or Disability occurs. There shall be no limitation on the number of times that a Participant may change his election in accordance with this paragraph (c).

(d) Date Elected By Participant. The date elected by a Participant pursuant to paragraphs (b) or (c) of this Section 6.4 must be the first day of any calendar quarter. Notwithstanding the foregoing, if as of the Effective Date, a Participant had made an election whereby the date of distribution elected is not the first day of a calendar quarter, such election shall be honored unless and until the Participant initiates a change to the timing of distribution pursuant to this Section 6.4 or the form of distribution pursuant to Section 6.3 (Form of Distribution).

(e) Revocation of Election.

(1) Automatic Revocation. If, as of the distribution date elected by the Participant pursuant to paragraphs (b) or (c) of this Section 6.4 the Participant, is: (i) employed by the

Company or an Affiliate and (ii) not Disabled, such election shall be automatically revoked and distributions shall be made within an administratively reasonable period of time following the Participant's termination of employment, death or Disability in accordance with paragraph (a) of this Section 6.4. Notwithstanding the foregoing, if the distribution date is automatically revoked pursuant to this paragraph (e)(1) and the distribution was to be made in the form of cash installments pursuant to Section 6.3 (Form of Distribution), the date of distribution shall be the first day of the next calendar quarter that is within an administratively feasible period of time following the Participant's termination of employment, death or Disability in accordance with paragraph (a) of this Section 6.4. Nothing contained in this paragraph (e)(1) shall prevent a Participant from changing his election pursuant to paragraph (c) of this Section 6.4.

(2) Election Irrevocable Following Termination of Employment. At all times following the Participant's termination of employment with the Company or an Affiliate, the Participant's elections made pursuant to this Section 6.4 shall be irrevocable.

6.5 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.

(2) Payments Not Commenced at Time of Death.

(i) Default. If, at the time of the Participant's death, payments of the Participant's accounts have not commenced pursuant to this Article VI, the distributions made pursuant to this Section 6.5 shall be made to the Participant's beneficiary in accordance with the then current and valid distribution elections (as to timing and form) made by the Participant (or, in the absence of such distribution elections, in accordance with the "default" provisions of this Article VI).

(ii) Separate Election. Notwithstanding the foregoing or anything herein to the contrary, a Participant may make separate elections regarding the timing and form of payments to his beneficiary upon his death. Such separate beneficiary elections shall be valid only if they meet the requirements of Section 6.3 (Form of Distribution) and Section 6.4 (Timing of Distribution). In addition, such separate beneficiary elections may be changed or revoked in accordance with Section 6.3 (Form of Distribution) and Section 6.4 (Timing of Distribution).

(3) No Changes Permitted by Beneficiary. In no event shall a beneficiary be permitted to change the time and/or form of payment relating to a Participant's accounts following such Participant's death either prior to or following such Participant's death.

6.6 Scheduled Distributions. The Plan as in effect prior to the Effective Date permitted a Participant to elect, at the time the Participant elected to make Deferral Credits, to schedule a distribution date for all or a portion of such Deferral Credits provided: (a) the distribution date scheduled by the Participant was the first day of any calendar quarter and (b) the distribution date scheduled by the Participant was at least four years later than the last day of the Plan Year that includes the Deferral Credits to which the election relates. As of the Effective Date, no Participant had such a scheduled distribution election on file with the Plan Administrator. Because Deferral Credits have ceased pursuant to Section 3.1 (Credits Ceased) and because there are no scheduled distribution elections on file, the scheduled distribution provisions of the Plan as in effect prior to the Effective Date are now without effect.

6.7 Unscheduled Distributions. Notwithstanding anything herein to the contrary, a Participant may elect to receive a lump-sum cash distribution of his Plan accounts at any time while employed by the Company or an Affiliate in accordance with this Section 6.7 and the uniform and non-discriminatory procedures adopted by the Plan Administrator.

(a) Amount of Distribution. A Participant may elect to receive five percent to one hundred percent (designated in whole percentages by the Participant) of his Post-1996 Deferrals. Notwithstanding the foregoing, in no event shall the amount of the distribution made pursuant to this Section 6.7 be less than $10,000.00 (determined prior to the application of the forfeiture described in paragraph (b) below).

(b) Forfeiture. Any distribution made pursuant to this Section 6.7 shall be subject to a forfeiture equal to 10% of the amount elected.

(c) Election Applies to SEIP. An election for an unscheduled distribution pursuant to this Section 6.7 shall also apply as an election for an unscheduled distribution pursuant to the terms and provisions of the Caterpillar Inc. Supplemental Employees' Investment Plan.

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

ARTICLE VII
SPIN-OFF TO SDCP

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 Credits and Matching Credits have been frozen and all amounts deferred and vested on and before December 31, 2004 are "grandfathered" and thus are not subject to the requirements of Section 409A. The Deferral Credits and Matching Credits made pursuant to the Plan from January 1, 2005 through the Effective Date (including the earnings/losses thereon) will be spun-off to SDCP as provided in this Article VII.

7.2 Amounts Spun-Off. All amounts credited to participant accounts pursuant to this Plan on or after January 1, 2005 and through the Effective Date and not fully distributed on or before April 1, 2007 shall be spun-off and allocated to Plan accounts as provided in Section 7.3 (Allocation of Amounts). The amounts deferred prior to January 1, 2005 shall be determined in accordance with Q&A-17 of I.R.S. Notice 2005-1 and any other applicable guidance issued by the Internal Revenue Service or the Department of Treasury.

7.3 Allocation of Amounts. A Participant's Post-2004 Deferrals shall be allocated to the Participant's accounts in SDCP as provided therein.

7.4 Deferral Elections. Deferral elections made by participants pursuant to the Plan for amounts to be deferred in 2007 following the Effective Date shall apply to SDCP as provided therein.

7.5 Effective Date of Spin-Off. The spin-off described in this Article VII shall be effective as of 11:59:59 P.M. on the Effective Date.

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 Certain Exercise of Discretion Prohibited. Notwithstanding anything herein to the contrary, the Plan Administrator (or any other individual or entity to whom the power to exercise discretion hereunder is granted) shall not exercise the discretion granted in a manner that would create a "material modification" (as determined pursuant to Notice 2005-1 and any other applicable guidance issued by the Internal Revenue Service or the Department of Treasury) to the Plan as it was in effect on October 3, 2004.

8.3 Claims Procedures. Benefit claims under the Plan shall be resolved in accordance with 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. Notwithstanding the foregoing or anything in this Plan to the contrary, any amendment to the Plan effective on or after October 3, 2004 that creates a "material modification" (as determined pursuant to Notice 2005-1 and any other applicable guidance issued by the Internal Revenue Service or the Department of Treasury) shall only be effective if such amendment expressly states an intent by the Company to materially modify the Plan (and thus subject it to Section 409A of the Code).

9.3 Termination. To the extent permitted by applicable law, the Company expressly reserves the right to terminate the Plan at any time.

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.

(a) Material Modification. Notwithstanding anything contained herein to the contrary, this amendment and restatement of the Plan does not, and is not intended to, create a "material modification" (as determined pursuant to Notice 2005-1 and any other applicable guidance issued by the Internal Revenue Service or the Department of Treasury) to the Plan as it was in effect on October 3, 2004 which would subject the Plan to the requirements of Section 409A of the Code. This document shall be construed and interpreted in a manner consistent with that intention.

(b) Good Faith Compliance. The Deferral Credits and Matching Credits made from January 1, 2005 through the Effective Date (including the earnings/losses thereon) have been administered pursuant to the Plan in "good faith" compliance with Section 409A of the Code pursuant to transitional guidance issued by the Internal Revenue Service and the Department of Treasury.

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, the 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.

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 therefore.

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 Company, nor any individual acting as the Plan Administrator'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.

EXHIBIT 10.9

SOLAR TURBINES INCORPORATED
MANAGERIAL RETIREMENT
OBJECTIVE PLAN

(Amended and Restated Effective as of July 16, 2009)

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SOLAR TURBINES INCORPORATED
MANAGERIAL RETIREMENT OBJECTIVE PLAN

PREAMBLE

Effective May 14, 1981, Solar Turbines Incorporated (the "Company") established the Solar Turbines Incorporated Managerial (and Professional) Retirement Objective Plan for the benefit of a select group of management or highly compensated employees of the Company. As a continuation of the plan, the Company formally adopted the Solar Turbines Incorporated Managerial Retirement Objective Plan (the "Plan") effective as of January 1, 2005 to comply with the requirements of Section 409A of the Code and other applicable law. By execution of this document, the Company hereby amends and restates the Plan in its entirely, effective as of July 16, 2009.

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 SRP.

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

(1) 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 SRP.

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

(i) With respect to (x) a Participant's PEP Benefit (as defined in Section 3.2(b)) 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) or (ii) 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)) where the Participant does not satisfy the requirements under Section 5.2(d)(1)(i) or (ii) 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) or (ii).

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

(h) **"Company"** means Solar Turbines Incorporated, 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.

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

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

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

(l) **"MIP Award"** means a cash award paid pursuant to the Solar Turbines Incorporated Management Incentive Plan, as it may be amended from time to time.

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

(n) **"Plan"** means the Solar Turbines Incorporated Managerial Retirement Objective Plan, as set forth herein and as it may be amended from time to time.

(o) **"Plan Administrator"** means the Company.

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

(q) **"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.

(r) **"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.

(s) "SRP" means the Solar Turbines Incorporated Retirement Plan, as it may be amended from time to time.

(t) "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.

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 he (a) is in salary grade fifty-three (53) or higher pursuant to the Company's standard salary grades; (b) is a participant in SRP; (c) has received a MIP Award; and (d) has been notified by the Plan Administrator of the employee's eligibility to participate in the Plan.

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; provided that no payments will be made by the Plan to any Participant who terminates his or her employment with the Company prior to satisfying the requirements under Section 5.2(d)(1)(i) or (ii). 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 its 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 SRP if MIP Awards were taken into account in determining the Participant's benefits thereunder and without regard to the applicable limitations under Sections 401(a)(17) and 415 of the Code and (b) the monthly benefit amounts actually payable to the Participant under the terms of SRP.

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 under Part C of SRP, 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 SRP if MIP Awards were taken into account for the plan years used in determining the Participant's final average salary in accordance with the terms of Part C of SRP 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 benefit that would be payable to the Participant pursuant to SRP by determining the Participant's final average salary in accordance with the terms of Part C of SRP and subject to the applicable limitations under Sections 401(a)(17) and 415 of the Code.

(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) <u>"PEP Benefit"</u>. Any benefit payable by the Plan to the Participant under the "pension equity formula" provisions under Part E of SRP, as it may be amended from time to time, shall be determined as follows:

(1) <u>Step One</u>. The Plan Administrator shall determine the single sum amount that would be payable to the Participant pursuant to SRP if MIP Awards were taken into account for the plan years used in determining the Participant's final average salary in accordance with the terms of Part E of SRP and without regard to the applicable limitations under Sections 401(a)(17) and 415 of the Code.

(2) <u>Step Two</u>. The Plan Administrator shall determine the single sum amount that is payable to the Participant pursuant to SRP by determining the Participant's final average salary in accordance with the terms of Part E of SRP and subject to the applicable limitations under Sections 401(a)(17) and 415 of the Code.

(3) <u>Step Three</u>. 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").

(c) <u>Timing of MIP Awards</u>. For purposes of Section 3.2(a)(1) above, not more than three MIP Awards paid during any thirty-six consecutive month period shall be considered for such period when determining the benefit that would be payable to the Participant pursuant to SRP if MIP Awards were taken into account. The Plan Administrator shall adopt uniform and nondiscriminatory procedures for determining which MIP Award(s) will be disregarded if more than three MIP Awards are paid in a thirty-six consecutive month period.

3.3 <u>Survivor Benefits</u>. 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) <u>Traditional Benefit</u>. 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 60% (55% in the case of a Participant in benefit class code B as of the date the Participant first commenced participation under this Plan) joint and survivor annuity (as determined in accordance with the applicable assumptions in effect under SRP as of the date the Participant first commenced participation under this Plan), 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.

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 SRP.

3.5 Future Adjustments. Any benefit amounts payable under this Plan may be adjusted to take into account future amendments to SRP and increases in retirement income that are granted under SRP 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 SRP.

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 SRP.

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 SRP.

(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 monthly benefit for the Participant's life and then, if the Participant's spouse is still alive, a benefit equal to 60% (55% in the case of a Participant in benefit class code B as of the date the Participant first commenced participation under this Plan) of the Participant's monthly benefit is paid to the spouse for the remainder of his or her life (as determined in accordance with the applicable assumptions in effect under SRP as of the date the Participant first commenced participation under this Plan). 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 SRP.

In addition, if the Participant's Benefit Payment Date, as described in clauses (i) or (ii) 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.

(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 SRP; or

(ii) the Participant's attainment of age 55 after completing at least 10 years of credited service.

For purposes of (ii) above, the Plan Administrator shall determine the Participant's "years of credited service" by reference to the applicable terms under SRP 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).

For avoidance of doubt, and notwithstanding any provision of the Plan to the contrary, no payments will be made by the Plan to any Participant who terminates his or her employment with the Company prior to satisfying the requirements under subparagraphs (i) or (ii) above.

(2) PEP Benefit. Subject to the last paragraph of Section 5.2(d)(1), 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.

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

5.4 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 VI.
ADMINISTRATION OF THE PLAN

6.1 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 it in the Plan document and by applicable law and its 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 it may reasonably require in order to perform its 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 its 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 it and it 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. The Company may purchase liability insurance to cover its 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 its 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 its authority hereunder, in whole or in part, in its 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.

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 Company, nor any individual acting as the Plan Administrator'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.

Solar Turbines Incorporated Pension Plan

For

European Foreign Service Employees

Amended and Restated Effective January 1, 2005

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PREAMBLE

The Solar Turbines Incorporated Pension Plan for European Foreign Service Employees (the "Plan") was established as of January 1, 1987. The Plan has been and is intended to be an unfunded plan maintained primarily to provide retirement benefits for a select group of management employees or highly compensated employees within the meaning of Sections 201(2), 301(a)(3), and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended, and Department of Labor Regulations 29 C.F.R. §2520.104-23, and shall be so construed. This amended and restated Plan is effective as of January 1, 2005.

ARTICLE I
DEFINITIONS

1.1 "Accrued Benefit" or "Accrued Retirement Benefit" means, as of any date, the Retirement Benefit computed in accordance with Article IV, based on the Participant's Pensionable Earnings on such date, and assuming termination occurred on the Normal Retirement Date, multiplied by a fraction. The numerator of the fraction shall be the Participant's actual years of Credited Service and the denominator shall be the years of Credited Service he would have completed if he had continued in employment until his Normal Retirement Date.

1.2 "Actuarial Equivalent" means the value of the Retirement Benefit otherwise payable to a Participant determined in accordance with the actuarial equivalent factors selected by the Company and in effect at the time the computation is made.

1.3 "Annuity Commencement Date" means the first day of the month in which a Participant's Retirement Benefit is due to commence pursuant to the provisions of the Plan.

1.4 "Associate Employer" means Caterpillar Inc. its subsidiaries and divisions, excluding Solar Turbines Incorporated, its subsidiaries and divisions.

1.5 "Beneficiary" means the person designated in writing by a Participant to receive any death benefit payments hereunder.

1.6 "Code" means the U.S. Internal Revenue Code of 1986, as amended.

1.7 "Company" means Solar Turbines Incorporated and all of its subsidiaries and divisions.

1.8 "Compensation" means the amount of base salary paid to a Participant in a month during which he is an EFSE and a Participant under the provisions of this Plan; subject to the following:

For Participants who are eligible for the Company's Target Total Cash Compensation under plans in effect on and after January 1, 1985, Compensation will include a Participant's job rate, performance incentive, merit alternative if applicable, bookings, margin and/or revenue incentives. However, the cumulative total of bookings, margin and/or revenue incentives earned for the includable period cannot exceed the cumulative total of the related bookings, margin or revenue incentive target amount for the same period.

Payments for bonus, premiums, living allowance, differentials or any other additional compensation will not be included.

1.9 “Converted Pension” means the retirement benefit due a Participant or Beneficiary and converted into a currency other than U.S. Dollars. A “Converted Pension” election can be exercised only at the time a benefit is due from the Plan and must be approved by the Company. Once a “Converted Pension” payment is selected and approved it is irrevocable.

1.10 “Credited Service” means all full years and full months of continuous service, not to exceed 35 years, with the Company while an EFSE and a Participant under the provisions of this Plan. Time spent on an approved paid leave of absence shall be considered as continuous service for purposes of this Plan, provided the leave is ended by return to work, retirement, death or disability.

Time spent on approved unpaid leave of absence in excess of 30 days for other than total disability, shall be deducted from continuous service. A Participant who fails to return to work from an approved leave of absence shall be considered as having terminated his employment on the last day that he was at work.

Once an employee is designated as an EFSE, all prior credited service under a Company Sponsored Pension Plan shall be considered Credited Service for the purpose of accruing benefits under this Plan. However, for Employees who are designated as EFSEs on or after July 1, 1999, Credited Service shall only include continuous service while an EFSE.

1.11 “Disability” means total and permanent disability of a Participant due to bodily or mental injury, sickness or disease, which prevents him from engaging in any employment or occupation for remuneration or profit for more than six months. Such total disability chart be determined on the basis of a medical examination by a qualified physician selected by the Company.

The definition of Disability shall not include illness or injury resulting from:

(A) chronic alcoholism; or

(B) addiction to narcotics; or

(C) injury suffered while engaged in a felonious or criminal act or enterprise; or

(D) service in the armed forces; or

(E) participation in war or act of war.

1.12 ““European Foreign Service Employee (EFSE)” means an employee designated as such by the Company.

1.13 “Married Participant” means a Participant who is lawfully married on the date Retirement Benefits become payable pursuant to Articles IV, V or VI.

1.14 “Participant” means an Employee designated pursuant to Article II and who continues to be entitled to any benefits under the Plan.

1.15 “Pensionable Earnings” means the average Compensation which has been paid to a Participant on account of continuous service during those 36 consecutive months of EFSE employment, included within the last 60 full months of his EFSE employment prior to Normal Retirement (or actual period of employment, if less) for which he received his highest compensation during such periods.

A Participant who has ten (10) years or more of continuous service and who is over fifty-five (55) years of age, is transferred prior to retirement to a part-time status without interruption of continuity of service, his Pensionable Earnings shall be determined by the Company as if such employee has retired when placed on a part-time status.

1.16 "Plan" means the Solar Turbines Incorporated Pension Plan for European Foreign Service Employees as herein set forth and as it may thereafter be amended from time to time.

1.17 "Plan Year" means the 12 month period beginning January 1.

1.18 "Social Security Benefit" means all benefits (including the actuarial equivalent of lump sum benefits expressed as a lifetime pension) available to the Participant as of his Normal Retirement Date under the provisions of governmental, provincial or state Social Security Act(s). If a Participant terminates his employment before Normal Retirement, his Social Security Benefit will be estimated by assuming: a) that he will receive no further earnings if he then satisfies the requirements for Early Retirement or Disability Retirement under Article III; or b) that his earnings will continue at the same rate as in effect on the date of termination of employment if he does not then satisfy the requirements for Early Retirement or Disability Retirement under Article III.

The Company may adopt rules governing the computation of such amounts, and the fact that the Participant does not actually receive such amounts because or failure to apply, or continuance or work, or for any other reason, shall be disregarded.

1.19 "Retirement Benefit" means the benefits provided to Participants and their Beneficiaries in accordance with the applicable provisions of Articles IV, V and VI. The Retirement Benefit will be computed in U.S. Dollars and is normally paid in U.S. Dollars.

1.20 "Vested Percentage" means a Participant's right to an Accrued Benefit pursuant to Article X.

ARTICLE II
ELIGIBILITY AND SERVICE

2.1 Each Employee designated as a European Foreign Service Employee (EFSE) who commenced employment with the Company on or before January 1, 1987, shall become a Participant on the Effective Date.

Other Employees shall become Participants coincident with or on the first day of the month next following their designation as an EFSE.

In the event a Participant terminates his employment, he shall resume participation in the Plan as of the date he is subsequently reemployed by the Company as an EFSE.

ARTICLE III
RETIREMENT DATES

3.1 Normal Retirement Date. A Participant's Normal Retirement Date shall be the first day of the month coinciding with or next following his 65th birthday. A Participant whose employment is terminated on his Normal Retirement Date shall be considered to have retired and shall receive a Normal Retirement Benefit in accordance with Article IV.

3.2 Early Retirement Date. Each Participant whose employment is terminated prior to his Normal Retirement Date, but after he has attained age 55 and completed at least 10 years of Credited Service, may elect to retire with the approval of the Company. Such Participant's Early Retirement Date shall be the first day of the month next following the month in which such termination of employment occurs. Early Retirement benefits will be determined in accordance with Article IV.

3.3 Late Retirement Date. Each Participant may continue his service with the Company after the Normal Retirement Date with the approval of the Company. No payment of any benefit shall be made to such Participant until his actual retirement. The Participant will not earn any Credited Service after the Normal Retirement Date, and will be paid in accordance with Article IV.

3.4 Disability Retirement Date. A Participant whose employment is terminated prior to his Normal Retirement Date by reason of a Disability, as defined in Section 1.11, shall be eligible for Disability Retirement and shall receive a benefit in accordance with Article V.

ARTICLE IV
BENEFITS

4.1 Normal Retirement. A Participant retiring on his Normal Retirement Date shall be entitled, commencing on such date, to receive a monthly Retirement Benefit for life computed in accordance with the provisions of Section 4.5.

4.2 Early Retirement. A Participant retiring on his Early Retirement Date shall be entitled to receive a deferred Retirement Benefit, commencing on his Normal Retirement Date, equal to 100% of his Accrued Benefit. A reduced Retirement Benefit can be elected prior to the Normal Retirement Date, equal to 100% of the Accrued Benefit, but reduced by 1/240th for each month that the date of commencement precedes the Participant's Normal Retirement Date.

4.3 Late Retirement. A Participant retiring on his Late Retirement Date shall be entitled, commencing on such date, to receive a monthly Retirement Benefit for life. Such Late Retirement Benefit will be determined as the Actuarial Equivalent of the Normal Retirement benefit computed as of the Participant's Normal Retirement Date.

4.4 Vested Benefits. A Participant who has terminated employment after the Effective Date with a Vested Percentage, shall be entitled to receive a deferred monthly benefit commencing on his Normal Retirement Date equal to his Accrued Benefit. Alternatively, a reduced monthly benefit can be elected to commence after attainment of age 55, computed in accordance with Section 4.2.

4.5 Form of Normal Retirement Benefit. Subject to Article VIII, the primary form of Retirement Benefit payable to a Participant shall be a monthly annuity payable to the Participant for life, equal to (A) minus the aggregate of (B), (C), and (D). In no event, however, shall the monthly annuity amount calculated pursuant to this Section 4.5 exceed the amount set forth in (E).

(A) .0175 times Credited Service times Pensionable Earnings.

(B) 100% of the monthly benefits for old age pension to which the Participant is entitled as a result of service with the Company and which the Participant can collect (or has collected or could collect by proper application) under any compulsory program, i.e. Social Security Benefits, a compulsory benefit payable as a result of union or collective bargaining agreements, and governmental decrees or directives having the force of law. For purposes of this Article IV, such offsets shall exclude benefits payable to the spouse (or other family members) which are attributable to the Participant's service with the Company, and for which the Company did not make additional contributions.

Normal Retirement Benefits shall be determined assuming the Participant is eligible to receive Social Security Benefits. If the Participant is not eligible for Social Security Benefits, or receives Social Security Benefits in a lesser amount than determined under the Plan, it is the Participant's responsibility to provide proof either of ineligibility or the amount of the actual Social Security Benefit received. Proof must be submitted within 60 days following the date of retirement.

(C) 100% of the monthly benefits for old age pension (based on a straight life annuity) which the Participant is entitled to under any formal or informal private benefit plan established by the Company or Associate Company in any country, except to the extent that if the Participant was required to contribute to the program only 50% of such benefits will be considered.

(D) The actuarial equivalent of any lump sum termination indemnity as a lifetime monthly income multiplied by a fraction, the numerator of which is years of participation in this Plan and the denominator of which is the total years of service used to determine the indemnity benefit. For purposes of this Section 4.5(D), only lump sum termination indemnities which represent payment of the Participant's accrued pension liability shall be included.

(E) Notwithstanding anything provision of this Section to the contrary, the benefit payable hereunder shall be subject to the limitations on retirement income set forth in final Treasury Regulations issued under Section 415 of the Code and any other regulations, rulings or other administrative guidance issued pursuant thereto by the Internal Revenue Service, to the same extent as if such regulations, rulings and guidance applied to this Plan.

ARTICLE V
DISABILITY PENSION

5.1 Disability Pension. In the event the Participant becomes disabled in accordance with Section 1.11 when he is an EFSE and a Participant under the provisions of this Plan, he shall be entitled to a pension calculated in accordance with Section 4.5 except that:

(A) Pensionable Earnings shall mean that annual compensation being paid to the Participant on the date disability commenced, and

(B) Credited Service shall be deemed to include the years and months between the date disability commenced and the Participant's Normal Retirement Date.

ARTICLE VI
PRERETIREMENT SPOUSES AND ORPHANS PENSION

6.1 Preretirement Spouses and Orphans Pension. In the event the Participant dies prior to his Normal Retirement Date there shall be paid to his Spouse a pension equal to 50% of the pension calculated in accordance with Section 5.1. In addition there shall be paid to each eligible child a pension equal to 10% of the amount determined in Section 5.1, such amount shall be doubled if the spouse of the Participant has predeceased him. The total of all amounts paid under this Section shall not exceed 100% of the amount calculated in accordance with Section 5.1.

An Eligible Child is a child of the Participant who is the natural, adopted, step-child, or a child for whom the Participant has legal responsibility, who has not yet attained age 19, or age 25 if a full time student. Once a child is no longer an Eligible Child his pension shall cease.

Any pension being paid to the spouse of a Participant shall be paid for lifetime except such pension shall cease in the event of remarriage of such spouse.

In the event the Participant is not married and has no Eligible Children there shall be paid an amount equal to two times the Participant's annual compensation to such Beneficiaries as he may designate.

For purposes of determining the Spouse's and Orphans' benefit, the benefit determined under Section 5.1 will be reduced by the applicable amount of the spouse's or orphans' Social Security Benefit, and not the amount of the Participant's Social Security Benefit.

ARTICLE VII
MAXIMUM BENEFITS

7.1 Maximum Benefits. The maximum pension from all. Company sources may never exceed 80% of the Pensionable Earnings. The factors to be considered in this limit are:

(i) The retirement benefit as calculated in Article IV, V or VI.

(ii) Other company sponsored plans.

(iii) Social Security as defined in Section 1.18.

(iv) Social benefits provided by the Company.

(v) The monthly equivalent, on an actuarial basis, of any termination indemnity.

7.2 Reemployment. If a retired Participant returns to the employ of the Company, his monthly Retirement Benefit shall cease for as long as he continues to be employed. During the period of reemployment, the Employee will participate in the Plan provided he meets the requirements of Section 2.1.

Upon subsequent retirement, the Participant shall be eligible to recommence a monthly Retirement Benefit attributable to his Accrued Benefit. However, the amount payable will be recomputed taking into account such Compensation and Credited Years of Service as allowed under Article IV, but only to the extent the Participant was an EFSE during the period of reemployment. Credited Years of Service shall not include service during the period of retirement prior to reemployment.

Such recomputed Retirement Benefit shall be reduced by the Actuarial Equivalent of the value, at the Participant's subsequent retirement date, of the Accrued Benefit payments previously received. In no event shall the recomputed Retirement Benefit, after such Actuarial Equivalent reduction, be less than the Retirement Benefit to which the Participant was entitled prior to his date of reemployment.

7.3 No Participant shall be entitled to receive benefits under this Plan unless he meets the requirements of the Company regarding required participation in the various Government pension plans in the Participant's home country and/or country of assignment, the contributions to such plans are paid directly or indirectly by the Company.

ARTICLE VIII
MODES OF BENEFIT PAYMENT

8.1 Retirement Benefit. Subject to the other provisions of this Article, a Participant may elect to have the Retirement Benefits paid under any of the optional forms of payment described in Section 8.2.

8.2 Optional Modes of Payment. A Participant may elect to receive Retirement Benefits under any one of the following options:

(A) Joint and Survivor Annuity:

A reduced rate of Retirement Benefit during his lifetime, with income at 50%, 75% or 100%, whichever the Participant elects, of that reduced rate continuing to his Beneficiary. The Joint and Survivor Annuity will be the Actuarial Equivalent of the Retirement Benefit provided under Article IV or V.

(B) Years Certain and Life Annuity:

A Retirement Benefit which is the Actuarial Equivalent of the Retirement Benefit provided under Section 4.5, payable for his lifetime, but guaranteed for a period of ten (10) or twenty (20) years, whichever the Participant elects.

If the Participant dies before expiration of the guaranteed period, the remaining certain payments shall continue to his Beneficiary, or in the absence of a surviving Beneficiary, the commuted value of such payments shall be paid to the Participant's estate.

If the Beneficiary dies while further payments are due, and after having received at least one (1) payment, such further payments shall be made to any person designated by the Participant as an alternate Beneficiary. In the absence of an alternate surviving Beneficiary, the commuted value of such payments shall be paid to the estate of the last surviving Beneficiary.

(C) Lump Sum:

A Participant shall have the option to elect to have the actuarial equivalent of his Accrued Benefit paid to him in a lump sum.

Such lump sum payment shall satisfy the liability of the Company in full, such that if the Participant were to be subsequently reemployed by the Company, he would be treated, for purposes of determining his Credited Years of Service, as a new Employee.

8.3 Election of Other Options. The following rules and requirements must be met in order for any of the options described in Section 8.2 to be effective:

(A) The election must be made on an appropriate form no later than ninety (90) days prior to the Participant's Normal Retirement Date or earlier date of actual retirement.

(B) The effective date of the option shall be the Participant's Normal Retirement Date or earlier date of actual retirement which must be at least ninety (90) days after the date on which the election is made.

(C) The name of the Beneficiary and address and relationship to the Participant must be stated on the form unless a lump sum is elected. The percentage of the Retirement Benefit to the Participant to be continued to the Joint Annuitant after the Participant's death, as well as the Beneficiary's sex and date of birth, must also be stated on the election form. Proof of date of birth, acceptable to the Company, must be submitted within 90 days after the election is made.

(D) The consent of the Beneficiary shall not be required for the election of an option.

(E) The election of an option may be cancelled or modified, subject to the same conditions that apply to the election of an option. However, the conditions for the cancellation or modification of an option may be waived by the Company if, in its opinion, the waiver of such conditions would have no adverse actuarial effect. A Participant may not change the Contingent Annuitant under Section 8.2, paragraph (A), other than by modification of the option in accordance with the foregoing rules. The election of an option may not be cancelled or modified subsequent to the Annuity Commencement Date.

ARTICLE IX
DEATH BENEFITS

9.1 Pre-Retirement - A death benefit will be payable. This benefit will be in accordance with Article VI.

9.2 Post-Retirement - The benefit payable will be determined by the retirement benefit option selected by the participant at date of retirement.

ARTICLE X
VESTING

10.1 If a Participant's employment terminates for any reason other than Death or Disability, he shall have a non-forfeitable right to the Accrued Retirement Benefit according to the following schedule:

Years of Credited Service	Vested %
less than 5	0
5 or more	100

10.2 A Participant whose employment is terminated for any reason, other than Death, Disability, prior to the completion of 5 Years of Credited Service shall cease to be a Participant; his Accrued Retirement Benefit will be cancelled, and he shall not be entitled to any benefits under the Plan.

10.3 If the Company decides that a Participant is no longer eligible, the Participant's Accrued Benefit shall be frozen until he qualifies for a pension under any provision in Article III.

10.4 Should a Participant resign or be discharged before satisfaction of the requirements for a pension under Article III, no person shall have any vested claim to benefits under this Plan except as provided in Section 10.1. Should any Participant die after becoming eligible for retirement benefits under the Plan, no person shall have any claim to benefits under this Plan except as provided by the Participant through the selection of an optional annuity as prescribed by the Company.

10.5 Any Participant who leaves the employ of the Company and is subsequently reemployed shall be considered, for purposes of this Plan, as a new Employee from the date of his reemployment, unless otherwise determined by the Company.

10.6 For the calculation of credited service, all service as a European Foreign Service Employee or previously known as International Employees or European Employees shall be counted.

ARTICLE XI
CONTRIBUTIONS

11.1 Employer Contributions. For periods before the effective date of this amended and restated Plan, this Section is intended to clarify the Plan as in effect since it was established. Subject to Section 14.1, the Company will contribute to an insurance contract such amounts as it considers appropriate based on actuarial calculations to provide the benefits under this Plan. The Company is under no obligation to make any contributions under the Plan after the Plan is terminated, whether or not benefits accrued or vested prior to such date or termination have been fully funded.

ARTICLE XII
ADMINISTRATION OF THE PLAN

12.1 This Plan is administered by the Company.

The Company shall have the power and authority to interpret the provisions of this Plan and to devise and make effective from time to time such procedures as may, in its judgment, be advisable and necessary to carry out said provisions. Whenever, in the Company's opinion, a person entitled to receive any payment of a benefit or installment thereof hereunder is under a legal disability or is incapacitated in any way so as to be unable to manage his or her financial affairs, the Company may direct payments to such person or to his legal representative for his benefit, or to apply the payment for the benefit of such person in such manner as the Company considers advisable. Determination by the Company as to the interpretation and application of this Plan shall be conclusive on all parties and its action shall not be subject to any review.

The Company reserves the right to carefully review the situation of each employee and if necessary, to modify the provisions of this Plan to adapt the underlying philosophy and objectives to a particular employee or employment situation.

Nothing contemplated herein shall be inconsistent with any applicable provisions of Code Section 409A.

ARTICLE XIII
AMENDMENT OR TERMINATION

13.1 The Company reserves the right at any time, and from time to time, to modify or amend, in whole or in part, any or all of the provisions of the Plan. However, no amendment or modification shall make it possible to deprive any Participant of a previous Accrued Vested Retirement Benefit.

No amendment which becomes effective subsequent to the most recent retirement or other termination of employment of a Participant, shall in any way affect the amount or conditions of payment of any benefit to which such Participant is, or may become, entitled hereunder, except to the extent expressly so provided in such amendment.

13.2 While the Company intends to continue the Plan indefinitely, nevertheless it assumes no contractual obligation as to its continuance and the Company may terminate the Plan.

However, if for any unforeseen reason the Plan is terminated, the Participant retains the right to the Accrued Vested Retirement Benefit determined as of the date of termination.

ARTICLE XIV
GENERAL PROVISIONS

14.1 For periods before the effective date of this amended and restated Plan, this Section is intended to clarify the Plan as in effect since it was established. To the extent that the Company acquires or holds designated assets in connection with its obligation hereunder (including the insurance contract described in Section 11.1), the Plan at all times shall nonetheless be entirely unfunded, and the right of a Participant or his Beneficiary to receive benefits under the Plan shall be an unsecured claim against such assets. All amounts accrued by Participants hereunder, or designated assets acquired or held by the Company in connection with its obligation 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. The Company will make contributions to an insurance contract pursuant to Section 11.1, but any assets thereof shall be available to pay the claims of the Company's general creditors in the event of the Company's insolvency.

14.2 This Plan shall not be deemed to constitute a contract between the Company and any Employee or other person whether or not in the employ of the Company, nor shall anything herein contained be deemed to give any Employee or other person, whether or not in the employ of the Company, any right to be retained in the employ of the Company, or to interfere with the right of the Company to discharge any Employee at any time and to treat him without regard to the effect which such treatment might have upon him as Participant of the Plan.

14.3 Except as may otherwise be provided by law, no distribution or payment under the Plan to any Participant or Beneficiary shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, whether voluntary or involuntary, and any attempt to so anticipate, alienate, sell, transfer, assign, pledge, encumber or charge the same shall be void; nor shall any such distribution or payment be in any way liable for or subject to the debts, contracts, liabilities, engagements or torts of any person entitled to such distribution or payment, voluntarily or involuntarily.

The Company, in its discretion, may hold, or cause to be held or applied, such distribution or payment or any part thereof to or for the benefit of such Participant or Beneficiary, in such manner as the Company shall direct.

14.4 If the Company determines that any person entitled to payments under the Plan is an infant, or incompetent by reason of physical or mental disability, it may cause all payments thereafter becoming due to such person to be made to any other person for the benefit of the person entitled to payment, without responsibility to follow applications of amounts so paid.

14.5 Subject to Section 14.1, the insurance contract and other designated assets acquired and held by the Company in connection with its obligation hereunder shall be the sole source of benefits under this Plan, and each Employee, Participant, Beneficiary, or any other person who shall claim the right to any payment or benefit under this Plan shall be entitled to look only to the insurance contract and such assets for payment of benefits. The Company shall have no further liability to make or continue from its own funds the payment of any benefit under the Plan.

14.6 If it is determined that the benefits under the Plan should be 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.

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)

	2009	2008	2007
Profit for the period (A):[1]	$ 895	$ 3,557	$ 3,541
Determination of shares (in millions):			
Weighted average number of common shares outstanding (B)	615.2	610.5	638.2
Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price	10.8	17.4	21.3
Average common shares outstanding for fully diluted computation (C)	626.0	627.9	659.5
Profit per share of common stock:			
Assuming no dilution (A/B)	$ 1.45	$ 5.83	$ 5.55
Assuming full dilution (A/C)	$ 1.43	$ 5.66	$ 5.37
Shares outstanding as of December 31 (in millions)	624.7	601.5	624.0

[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,

	2009	2008	2007	2006	2005
Earnings [1]	$ 569	$ 4,501	$ 4,990	$ 4,890	$ 3,910
Plus: Interest expense	1,434	1,427	1,420	1,297	1,028
One-third of rental expense [2]	127	133	119	105	85
Adjusted Earnings	2,130	6,061	6,529	6,292	5,023
Fixed charges:					
Interest expense [3]	1,434	1,427	1,420	1,297	1,028
Capitalized interest	25	27	15	10	11
One-third of rental expense [2]	127	133	119	105	85
Total fixed charges	$ 1,586	$ 1,587	$ 1,554	$ 1,412	$ 1,124
Ratio of earnings to fixed charges	1.3	3.8	4.2	4.5	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
2009

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MANAGEMENT'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2009. 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, 2009, the company's internal control over financial reporting was effective based on those criteria.

The effectiveness of the company's internal control over financial reporting as of December 31, 2009 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Their report appears on page A-4.

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

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

February 19, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PRICEWATERHOUSECOOPERS

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

In our opinion, the accompanying consolidated financial position and the related consolidated statements of results of operations, changes in stockholders' equity, and cash flow, including pages A-5 through A-62, present fairly, in all material respects, the financial position of Caterpillar Inc. and its subsidiaries at December 31, 2009, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 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, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing on page A-3. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1K to the consolidated financial statements, the Company changed the manner in which it measures certain assets and liabilities at fair value in 2008 and the manner in which it accounts for uncertainty in income taxes in 2007.

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.

/s/ PricewaterhouseCoopers LLP

Peoria, Illinois
February 19, 2010

STATEMENT 1 — Caterpillar Inc.

Consolidated Results of Operations for the Years Ended December 31

(Dollars in millions except per share data)

	2009	2008	2007
Sales and revenues:			
Sales of Machinery and Engines	$ 29,540	$ 48,044	$ 41,962
Revenues of Financial Products	2,856	3,280	2,996
Total sales and revenues	32,396	51,324	44,958
Operating costs:			
Cost of goods sold	23,886	38,415	32,626
Selling, general and administrative expenses	3,645	4,399	3,821
Research and development expenses	1,421	1,728	1,404
Interest expense of Financial Products	1,045	1,153	1,132
Other operating (income) expenses	1,822	1,181	1,054
Total operating costs	31,819	46,876	40,037
Operating profit	577	4,448	4,921
Interest expense excluding Financial Products	389	274	288
Other income (expense)	381	327	357
Consolidated profit before taxes	569	4,501	4,990
Provision (benefit) for income taxes	(270)	953	1,485
Profit of consolidated companies	839	3,548	3,505
Equity in profit (loss) of unconsolidated affiliated companies	(12)	37	73
Profit of consolidated and affiliated companies	827	3,585	3,578
Less: Profit (loss) attributable to noncontrolling interests	(68)	28	37
Profit [1]	$ 895	$ 3,557	$ 3,541
Profit per common share	$ 1.45	$ 5.83	$ 5.55
Profit per common share – diluted [2]	$ 1.43	$ 5.66	$ 5.37
Weighted-average common shares outstanding (millions)			
- Basic	615.2	610.5	638.2
- Diluted [2]	626.0	627.9	659.5
Cash dividends declared per common share	$ 1.68	$ 1.62	$ 1.38

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)

	2009	2008	2007
Assets			
Current assets:			
Cash and short-term investments	$ 4,867	$ 2,736	$ 1,122
Receivables - trade and other	5,611	9,397	8,249
Receivables - finance	8,301	8,731	7,503
Deferred and refundable income taxes	1,216	1,223	816
Prepaid expenses and other current assets	434	765	583
Inventories	6,360	8,781	7,204
Total current assets	26,789	31,633	25,477
Property, plant and equipment - net	12,386	12,524	9,997
Long-term receivables - trade and other	971	1,479	685
Long-term receivables - finance	12,279	14,264	13,462
Investments in unconsolidated affiliated companies	105	94	598
Noncurrent deferred and refundable income taxes	2,714	3,311	1,553
Intangible assets	465	511	475
Goodwill	2,269	2,261	1,963
Other assets	2,060	1,705	1,922
Total assets	$ 60,038	$ 67,782	$ 56,132
Liabilities			
Current liabilities:			
Short-term borrowings:			
Machinery and Engines	$ 433	$ 1,632	$ 187
Financial Products	3,650	5,577	5,281
Accounts payable	2,993	4,827	4,723
Accrued expenses	3,351	4,121	3,178
Accrued wages, salaries and employee benefits	797	1,242	1,126
Customer advances	1,217	1,898	1,442
Dividends payable	262	253	225
Other current liabilities	888	1,027	951
Long-term debt due within one year:			
Machinery and Engines	302	456	180
Financial Products	5,399	5,036	4,952
Total current liabilities	19,292	26,069	22,245
Long-term debt due after one year:			
Machinery and Engines	5,652	5,736	3,639
Financial Products	16,195	17,098	14,190
Liability for postemployment benefits	7,420	9,975	5,059
Other liabilities	2,179	2,190	2,003
Total liabilities	50,738	61,068	47,136
Commitments and contingencies (Notes 22 and 23)			
Redeemable noncontrolling interest (Note 26)	477	524	—
Stockholders' equity			
Common stock of $1.00 par:			
Authorized shares: 900,000,000			
Issued shares: (2009, 2008 and 2007 - 814,894,624) at paid-in amount	3,439	3,057	2,744
Treasury stock: (2009 - 190,171,905 shares; 2008 - 213,367,983 shares and 2007 - 190,908,490 shares) at cost	(10,646)	(11,217)	(9,451)
Profit employed in the business	19,711	19,826	17,398
Accumulated other comprehensive income (loss)	(3,764)	(5,579)	(1,808)
Noncontrolling interests	83	103	113
Total stockholders' equity	8,823	6,190	8,996
Total liabilities, redeemable noncontrolling interest and stockholders' equity	$ 60,038	$ 67,782	$ 56,132

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)[1]	Noncontrolling interests	Total	Comprehensive income (loss)
Balance at December 31, 2006	$ 2,465	$ (7,352)	$ 14,593	$ (2,847)	$ 78	$ 6,937	$ 3,990
Adjustment to adopt accounting for uncertainty in income taxes	—	—	141	—	—	141	
Balance at January 1, 2007	$ 2,465	$ (7,352)	$ 14,734	$ (2,847)	$ 78	$ 7,078	
Profit of consolidated and affiliated companies	—	—	3,541	—	37	3,578	$ 3,578
Foreign currency translation	—	—	—	278	1	279	279
Pension and other postretirement benefits							
Current year actuarial gain (loss), net of tax of $271	—	—	—	537	—	537	537
Amortization of actuarial (gain) loss, net of tax of $123	—	—	—	228	—	228	228
Current year prior service cost, net of tax of $1	—	—	—	(2)	—	(2)	(2)
Amortization of prior service cost, net of tax of $10	—	—	—	17	—	17	17
Amortization of transition (asset) obligation, net of tax of $1	—	—	—	2	—	2	2
Derivative financial instruments							
Gains (losses) deferred, net of tax of $25	—	—	—	48	—	48	48
(Gains) losses reclassified to earnings, net of tax of $41	—	—	—	(74)	—	(74)	(74)
Retained interests							
Gains (losses) deferred, net of tax of $2	—	—	—	3	—	3	3
(Gains) losses reclassified to earnings, net of tax of $4	—	—	—	(6)	—	(6)	(6)
Available-for-sale securities							
Gains (losses) deferred, net of tax of $8	—	—	—	14	—	14	14
(Gains) losses reclassified to earnings, net of tax of $3	—	—	—	(6)	—	(6)	(6)
Dividends declared	—	—	(877)	—	—	(877)	—
Distributions to noncontrolling interests	—	—	—	—	(20)	(20)	—
Change in ownership for noncontrolling interests	—	—	—	—	17	17	—
Common shares issued from treasury stock for stock-based compensation: 11,710,958	22	306	—	—	—	328	—
Stock-based compensation expense	146	—	—	—	—	146	—
Excess tax benefits from stock-based compensation	167	—	—	—	—	167	—
Shares repurchased: 33,533,000	—	(2,405)	—	—	—	(2,405)	—
Shares repurchase derivative contracts	(56)	—	—	—	—	(56)	—
Balance at December 31, 2007	$ 2,744	$ (9,451)	$ 17,398	$ (1,808)	$ 113	$ 8,996	$ 4,618
Adjustment to adopt postretirement benefit measurement date provisions, net of tax[2]	—	—	(33)	17	—	(16)	
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	—
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)

(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) [1]	Noncontrolling interests	Total	Comprehensive income (loss)
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 [6]	250	468	—	—	—	718	—
Stock-based compensation expense	132	—	—	—	—	132	—
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

1 Pension and other postretirement benefits include net adjustments for Cat Japan Ltd, while they were an unconsolidated affiliate, of $(9) million in 2007. The ending balance is $(52) million as of December 31, 2007. See Notes 25 and 26 regarding the Cat Japan share redemption.

2 Adjustments were made to adopt the measurement date provision of the accounting standard on employers' accounting for defined benefits pension and other postretirement plans. Adjustments to Profit employed in the business and pension and other postemployment benefits were net of tax of $(17) million and $9 million, respectively. See Note 1K for additional information.

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

4 See Notes 25 and 26 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 8 and 19 for additional information.

6 See Note 14 regarding shares issued for benefit plans.

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)

	2009	2008	2007
Cash flow from operating activities:			
Profit of consolidated and affiliated companies	$ 827	$ 3,585	$ 3,578
Adjustments for non-cash items:			
Depreciation and amortization	2,336	1,980	1,797
Other	137	355	162
Changes in assets and liabilities:			
Receivables - trade and other	4,014	(545)	899
Inventories	2,501	(833)	(745)
Accounts payable	(2,034)	(4)	387
Accrued expenses	(505)	660	231
Customer advances	(646)	286	576
Other assets - net	235	(470)	66
Other liabilities - net	(522)	(217)	1,004
Net cash provided by (used for) operating activities	6,343	4,797	7,955
Cash flow from investing activities:			
Capital expenditures - excluding equipment leased to others	(1,348)	(2,445)	(1,700)
Expenditures for equipment leased to others	(968)	(1,566)	(1,340)
Proceeds from disposals of property, plant and equipment	1,242	982	408
Additions to finance receivables	(7,107)	(14,031)	(13,946)
Collections of finance receivables	9,288	9,717	10,985
Proceeds from sale of finance receivables	100	949	866
Investments and acquisitions (net of cash acquired)	(19)	(117)	(229)
Proceeds from release of security deposit	—	—	290
Proceeds from sale of available-for-sale securities	291	357	282
Investments in available-for-sale securities	(349)	(339)	(485)
Other - net	(128)	197	461
Net cash provided by (used for) investing activities	1,002	(6,296)	(4,408)
Cash flow from financing activities:			
Dividends paid	(1,029)	(953)	(845)
Distribution to noncontrolling interests	(10)	(10)	(20)
Common stock issued, including treasury shares reissued	89	135	328
Payment for stock repurchase derivative contracts	—	(38)	(56)
Treasury shares purchased	—	(1,800)	(2,405)
Excess tax benefit from stock-based compensation	21	56	155
Acquisitions of noncontrolling interests	(6)	—	—
Proceeds from debt issued (original maturities greater than three months):			
- Machinery and Engines	458	1,673	224
- Financial Products	11,833	16,257	10,815
Payments on debt (original maturities greater than three months):			
- Machinery and Engines	(918)	(296)	(598)
- Financial Products	(11,769)	(14,143)	(10,290)
Short-term borrowings (original maturities three months or less) - net	(3,884)	2,074	(297)
Net cash provided by (used for) financing activities	(5,215)	2,955	(2,989)
Effect of exchange rate changes on cash	1	158	34
Increase (decrease) in cash and short-term investments	2,131	1,614	592
Cash and short-term investments at beginning of period	2,736	1,122	530
Cash and short-term investments at end of period	$ 4,867	$ 2,736	$ 1,122

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 2009, we contributed 19.6 million shares of company stock with a fair value of $718 million to our U.S. benefit plans. See Note 14 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. Also includes logistics services for other companies and the design, manufacture, remanufacture, maintenance and services of rail-related products.

(2) Engines - A principal line of business including the design, manufacture, marketing and sales of engines for Caterpillar machinery, electric power generation systems, locomotives, marine, petroleum, construction, industrial, agricultural and other applications, and related parts. Also includes remanufacturing of Caterpillar engines and a variety of Caterpillar machine and engine components and remanufacturing services for other companies. Reciprocating engines meet power needs ranging from 10 to 21,800 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," "Solar Turbines," “MaK," "Perkins," "FG Wilson," "Olympian" and “Progress Rail.”

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

Machines are distributed principally through a worldwide organization of dealers (dealer network), 51 located in the United States and 127 located outside the United States. Worldwide, these dealers serve 182 countries and operate 3,518 places of business, including 1,407 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 129 distributors located in 165 countries. The FG Wilson branded electric power generation systems are sold through a worldwide network of 157 dealers located in 180 countries. Some of the large, medium speed reciprocating engines are also sold under the MaK brand through a worldwide network of 19 dealers 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 96 plants in the United States; 16 in the United Kingdom; nine in Italy; eight each in China and Mexico; five each in Canada and France; four in Brazil; three each in Australia, India, and Poland; two each in Germany, Indonesia, Japan and the Netherlands; and one each in Belgium, Hungary, Malaysia, Nigeria, Russia, 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 Asia, Australia, Canada, Europe and Latin America.

B. Basis of consolidation

The financial statements include the accounts of Caterpillar Inc. and its subsidiaries. Investments in companies that are owned 20% to 50% or are less than 20% owned and for which we have significant influence are accounted for by the equity method. See Note 11 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 absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns, or both.

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

Shipping and handling costs are included in Cost of goods sold in Statement 1. Other operating (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 16 for further discussion.

We have performed a review of subsequent events through February 19, 2010, the date the financial statements were issued, and concluded there were no events or transactions occurring during this period that required recognition or disclosure in our financial statements.

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 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. In 2007, terms were extended to not more than one year for $219 million of receivables, which represent less than 1% of consolidated sales.

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

	(Dollars in millions)					
	2009		2008		2007	
Payment Terms (months)	Sales	Percent of Sales	Sales	Percent of Sales	Sales	Percent of Sales
2	$ 3,087	10.5%	$ 4,130	8.6%	$ 2,830	6.8%
3	978	3.3%	2,786	5.8%	2,067	4.9%
4	674	2.3%	866	1.8%	526	1.3%
5	53	0.2%	1,062	2.2%	965	2.3%
6	73	0.2%	561	1.2%	4,549	10.8%
7-12	478	1.6%	4,469	9.3%	293	0.7%
	$ 5,343	18.1%	$ 13,874	28.9%	$ 11,230	26.8%

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 Notes 7 and 8 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, 2009 and 2008, and about 75% of total inventories at December 31, 2007.

If the FIFO (first-in, first-out) method had been in use, inventories would have been $3,003 million, $3,183 million and $2,617 million higher than reported at December 31, 2009, 2008 and 2007, respectively.

E. Securitized receivables

Cat Financial periodically sells finance receivables in securitization transactions. 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. The retained interests are recorded in Other assets at fair value. Cat Financial estimates fair value and cash flows using a valuation model and key assumptions for credit losses, prepayment rates and discount rates. See Note 8 and Note 19 for more information.

F. Depreciation and amortization

Depreciation of plant and equipment is computed principally using accelerated methods. Depreciation on equipment leased to others, primarily for Financial Products, is computed using the straight-line method over the term of the lease. The depreciable basis is the original cost of the equipment less the estimated residual value of the equipment at the end of the lease term. In 2009, 2008 and 2007, Cat Financial depreciation on equipment leased to others was $713 million, $724 million and $671 million, respectively, and was included in Other operating (income) expenses in Statement 1. In 2009, 2008 and 2007, consolidated depreciation expense was $2,254 million, $1,907 million and $1,725 million, respectively. Amortization of purchased intangibles is computed principally using the straight-line method, generally not to exceed a period of 20 years.

G. Foreign currency translation

The functional currency for most of our Machinery and Engines consolidated companies is the U.S. dollar. The functional currency for most of our Financial Products and 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, postemployment benefits, post-sale discounts, credit losses and income taxes.

K. New accounting guidance

Accounting for uncertainty in income taxes – In June 2006, the Financial Accounting Standards Board (FASB) issued accounting guidance to create a single model to address accounting for uncertainty in tax positions. This guidance clarifies that a tax position must be more likely than not of being sustained before being recognized in the financial statements. As required, we adopted the provisions of this guidance as of January 1, 2007. The following table summarizes the effect of the initial adoption of this guidance. See Note 5 for additional information.

Initial adoption of accounting for uncertainty in income taxes

(Millions of dollars)	January 1, 2007 Prior to adoption	Adjustment	January 1, 2007 Post adoption
Deferred and refundable income taxes	$ 733	$ 82	$ 815
Noncurrent deferred and refundable income taxes	1,949	211	2,160
Other current liabilities	1,145	(530)	615
Other liabilities	1,131	682	1,813
Profit employed in the business	14,593	141	14,734

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 19 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 14 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 25 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 ending December 31, 2009. The adoption of this guidance did not have a material impact on our financial statements. See Note 14 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 8 and 13 for additional information.

Subsequent events - In May 2009, the FASB issued accounting guidance on subsequent events that establishes standards of accounting for and disclosure of subsequent events. In addition, it requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. This new guidance was adopted for our financial statements for the quarterly period ending June 30, 2009. The adoption of this guidance did not have a material impact on our financial statements. See Note 1B 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 will adopt this new guidance effective January 1, 2010. We do not expect the adoption of this guidance will 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 will adopt this new guidance effective January 1, 2010. The adoption of this guidance will result in the consolidation of certain QSPEs related to Cat Financial's asset-backed securitization program that are currently not recorded on our consolidated financial statements. See Note 8 for additional information. We do not expect the adoption of this guidance will have a material impact on our financial statements.

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 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 12 for further details.

M. Accumulated other comprehensive income (loss)

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

(Millions of dollars)	December 31, 2009	2008	2007
Foreign currency translation	$ 603	$ 261	$ 749
Pension and other postretirement benefits	(4,439)	(5,849)	(2,594)
Derivative financial instruments	60	95	17
Retained interests	(3)	(7)	2
Available-for-sale securities	15	(79)	18
Total accumulated other comprehensive income (loss)	$ (3,764)	$ (5,579)	$ (1,808)

2. Stock-based compensation

On January 1, 2006, we adopted accounting guidance for share-based payments using the modified prospective transition method. Under the modified prospective transition method, we were required to record stock-based compensation expense for all awards granted after the date of adoption. 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 3,571,268 for 2009, 4,807,533 for 2008 and 11,710,958 for 2007.

In 2007, in order to align our stock award program with the overall market, we adjusted our 2007 grant by reducing the overall number of employee awards and utilizing RSUs in addition to the SARs and option awards. The 2009, 2008 and 2007 awards generally vest three years after the date of grant. At grant, SARs and option awards have a term life of ten years. Upon separation from service, if the participant is 55 years of age or older with more than ten years of service, the participant meets the criteria for a "Long Service Separation." If the "Long Service Separation" criteria are met, the vested options/SARs will have a life that is the lesser of 10 years from the original grant date or five years from the separation date.

Our stock-based compensation plans allow for the immediate vesting upon separation for employees who meet the criteria for a "Long Service Separation" and who have fulfilled the requisite service period of six months. With the adoption of guidance on share-based payments, 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, 2009, 2008 and 2007, respectively.

	Grant Year		
	2009	2008	2007
Weighted-average dividend yield	3.07%	1.89%	1.68%
Weighted-average volatility	36.02%	27.14%	26.04%
Range of volatilities	35.75-61.02%	27.13-28.99%	26.03-26.62%
Range of risk-free interest rates	0.17-2.99%	1.60-3.64%	4.40-5.16%
Weighted-average expected lives	8 years	8 years	8 years

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

The amount of stock-based compensation expense capitalized for the years ended December 31, 2009, 2008 and 2007 did not have a significant impact on our financial statements.

At December 31, 2009, there was $94 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 1.6 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

	2009 Shares	2009 Weighted-Average Exercise Price	2008 Shares	2008 Weighted-Average Exercise Price	2007 Shares	2007 Weighted-Average Exercise Price
Stock options/SARs activity:						
Outstanding at beginning of year	60,398,074	$ 45.68	60,855,854	$ 42.18	68,880,667	$ 38.60
Granted to officers and key employees[1]	6,823,227	$ 22.17	4,886,601	$ 73.20	4,350,974	$ 63.04
Granted to outside directors[1]	—	$ —	—	$ —	75,829	$ 63.04
Exercised	(3,906,785)	$ 28.13	(5,006,435)	$ 30.04	(12,062,847)	$ 29.41
Forfeited / expired	(231,729)	$ 38.05	(337,946)	$ 46.45	(388,769)	$ 41.64
Outstanding at end of year	63,082,787	$ 44.24	60,398,074	$ 45.68	60,855,854	$ 42.18
Exercisable at year-end	48,256,847	$ 43.14	43,083,319	$ 35.81	47,533,561	$ 34.65
RSUs activity:						
Outstanding at beginning of year	2,673,474		1,253,326		N/A[2]	
Granted to officers and key employees	2,185,674		1,490,645		1,282,020	
Granted to outside directors	—		20,878		—	
Vested	(286,413)		(61,158)		(9,715)	
Forfeited	(41,190)		(30,217)		(18,979)	
Outstanding at end of year	4,531,545		2,673,474		1,253,326	

Stock options/SARs outstanding and exercisable:

	Outstanding				Exercisable			
Exercise Prices	# Outstanding at 12/31/09	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value[3]	# Outstanding at 12/31/09	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value[3]
$ 19.20 - 22.76	7,726,819	8.09	$ 21.83	$ 275	1,110,335	1.63	$ 19.78	$ 42
$ 25.36 - 26.77	6,630,928	2.09	$ 25.89	209	6,630,928	2.09	$ 25.89	209
$ 27.14 - 29.43	7,854,606	3.43	$ 27.15	238	7,854,606	3.43	$ 27.15	238
$ 38.63 - 45.64	22,292,881	4.76	$ 41.85	348	22,292,881	4.76	$ 41.85	348
$ 63.04 - 73.20	18,577,553	6.91	$ 70.21	—	10,368,097	6.27	$ 71.53	—
	63,082,787		$ 44.24	$ 1,070	48,256,847		$ 43.14	$ 837

[1] 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. Of the 4,426,803 awards granted during the year ended December 31, 2007, 4,195,188 were SARs.

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

[3] The difference between a stock award's exercise price and the underlying stock's market price at December 31, 2009, 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, 2009, there were 4,531,545 outstanding RSUs with a weighted average remaining contractual life of 1.4 years.

TABLE II— Additional Stock-based Award Information

(Dollars in millions except per share data)	2009	2008	2007
Stock Options/SARs activity:			
Weighted-average fair value per share of stock awards granted	$ 7.10	$ 22.32	$ 20.73
Intrinsic value of stock awards exercised	$ 77	$ 232	$ 547
Fair value of stock awards vested	$ 241	$ 30	$ 14
Cash received from stock awards exercised	$ 89	$ 130	$ 322
RSUs activity:			
Weighted-average fair value per share of stock awards granted	$ 20.22	$ 69.17	$ 59.94
Fair value of stock awards vested	$ 10	$ 4	$ 1

Before tax stock-based compensation expense for 2009, 2008 and 2007 was $132 million, $194 million and $146 million, respectively, with a corresponding income tax benefit of $42 million, $62 million and $48 million, respectively.

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 that have been repurchased through our stock repurchase program to satisfy share award exercises.

The cash tax benefits realized from stock awards exercised for December 31, 2009, 2008 and 2007 were $26 million, $60 million and $167 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 $25 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 (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, Japanese yen, Mexican peso, Singapore dollar, New Zealand 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. We also designate as fair value hedges specific euro forward contracts used to hedge firm commitments.

As of December 31, 2009, $5 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, 2009, $32 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 and nickel embedded in the components we purchase from suppliers. Our suppliers pass on to us price changes in the commodity portion of the component cost. In addition, we are also subject to price changes on natural gas and diesel fuel purchased for operational use.

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

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

(Millions of dollars)	December 31, 2009 Consolidated Statement of Financial Position Location	Asset (Liability) Fair Value
Designated derivatives		
Foreign exchange contracts		
Machinery and Engines	Receivables – trade and other	$ 27
Machinery and Engines	Long-term receivables – trade and other	125
Machinery and Engines	Accrued expenses	(22)
Machinery and Engines	Other liabilities	(3)
Interest rate contracts		
Machinery and Engines	Receivables – trade and other	1
Machinery and Engines	Accrued expenses	(1)
Financial Products	Receivables – trade and other	18
Financial Products	Long-term receivables – trade and other	127
Financial Products	Accrued expenses	(100)
		$ 172
Undesignated derivatives		
Foreign exchange contracts		
Machinery and Engines	Long-term receivables – trade and other	$ 66
Machinery and Engines	Other liabilities	(3)
Financial Products	Receivables – trade and other	20
Financial Products	Accrued expenses	(18)
Interest rate contracts		
Machinery and Engines	Accrued expenses	(7)
Financial Products	Receivables – trade and other	1
Financial Products	Long-term receivables – trade and other	1
Financial Products	Accrued expenses	(6)
Commodity contracts		
Machinery and Engines	Receivables – trade and other	10
		$ 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, 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, 2009 Recognized in AOCI - Effective Portion	Recognized in Earnings: 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, 2009
Foreign exchange contracts		
Machinery and Engines	Other income (expense)	$ 35
Financial Products	Other income (expense)	(134)
Interest rate contracts		
Machinery and Engines	Other income (expense)	(3)
Financial Products	Other income (expense)	3
Commodity contracts		
Machinery and Engines	Other income (expense)	10
		$ (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. During 2007, we paid the bank premiums of $56 million for the establishment of calls for 3.5 million shares, which was accounted for as a reduction to stockholders' equity. During 2008, we paid the bank premiums of $38 million for the establishment of calls for 2.5 million shares. The floor, cap and strike prices for the calls were based upon the average purchase price paid by the bank to purchase our common stock to hedge these transactions. Each call matured and was exercised within one year after the call was established. If we exercised a call, we could elect to settle the transaction with the bank by physical settlement (paying cash and receiving shares), cash settlement (receiving a net amount of cash) or net share settlement (receiving a net amount of shares).

For the year ended December 31, 2008, $268 million of cash was used to repurchase 5.0 million shares pursuant to calls exercised under this program. Premiums previously paid associated with these exercised calls were $78 million. In December 2008, a call for 1.0 million shares matured, but was not exercised. Premiums previously paid associated with this unexercised call were $16 million. All outstanding calls under this program expired in 2008.

4. Other income (expense)

	Years ended December 31,		
(Millions of dollars)	2009	2008	2007
Investment and interest income	$ 98	$ 101	$ 99
Foreign exchange gains (losses)[1]	184	100	21
License fee income	49	73	66
Gains (losses) on sale of securities and affiliated companies	(2)	55	70
Impairment of available-for-sale securities	(12)	(37)	—
Miscellaneous income (loss)	64	35	101
	$ 381	$ 327	$ 357

[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)	2009	2008	2007
U.S.	$ (648)	$ 2,146	$ 2,155
Non-U.S.	1,217	2,355	2,835
	$ 569	$ 4,501	$ 4,990

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)	2009	2008	2007
Current tax provision (benefit):			
U.S.	$ (443)	$ 673	$ 515
Non-U.S.	350	446	464
State (U.S.)	(13)	41	92
	(106)	1,160	1,071
Deferred tax provision (benefit):			
U.S.	1	(335)	403
Non-U.S.	(149)	99	21
State (U.S.)	(16)	29	(10)
	(164)	(207)	414
Total provision (benefit) for income taxes	$ (270)	$ 953	$ 1,485

We received net income tax and related interest refunds of $136 million in 2009 compared to income taxes paid of $1,318 million and $821 million in 2008 and 2007, respectively.

Reconciliation of the U.S. federal statutory rate to effective rate:						
	Years ended December 31,					
	2009		2008		2007	
Taxes at U.S. statutory rate	$ 199	35.0 %	$ 1,575	35.0 %	$ 1,747	35.0 %
(Decreases) increases in taxes resulting from:						
Non-U.S. subsidiaries taxed at other than 35%	(261)	(46.0)%	(124)	(2.8)%	(248)	(4.9)%
State and local taxes, net of federal	(19)	(3.3)%	46	1.0 %	53	1.0 %
Interest and penalties, net of tax	20	3.5 %	11	0.2 %	24	0.5 %
U.S. tax credits	(47)	(8.2)%	(40)	(0.8)%	(37)	(0.7)%
Other—net	(29)	(5.1)%	(59)	(1.3)%	(54)	(1.1)%
	(137)	(24.1)%	1,409	31.3 %	1,485	29.8 %
Prior year tax and interest adjustments	(133)	(23.4)%	—	—	—	—
Non-U.S. earnings reinvestment changes	—	—	(456)	(10.1)%	—	—
Provision (benefit) for income taxes	$ (270)	(47.5)%	$ 953	21.2 %	$ 1,485	29.8 %

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 $9 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 in the period the change occurs.

The provision for income taxes would also be negatively impacted in the future if U.S. healthcare legislation was enacted and made government subsidies received for Medicare-equivalent prescription drug (Medicare Part D) coverage taxable.

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, 2009	2008	2007
Assets:			
Deferred and refundable income taxes	$ 802	$ 785	$ 612
Noncurrent deferred and refundable income taxes	2,704	3,298	1,539
	3,506	4,083	2,151
Liabilities:			
Other current liabilities	11	9	8
Other liabilities	138	130	107
Deferred income taxes—net	$ 3,357	$ 3,944	$ 2,036

Deferred income tax assets and liabilities:

(Millions of dollars)	December 31, 2009	2008	2007
Deferred income tax assets:			
Pension	$ 1,207	$ 1,888	$ 270
Postemployment benefits other than pensions	1,362	1,530	1,490
Tax carryforwards	1,185	712	366
Warranty reserves	243	312	266
Unrealized profit excluded from inventories	229	275	210
Stock based compensation	182	148	93
Post sale discounts	112	140	116
Allowance for credit losses	102	134	102
Deferred compensation	95	78	104
Other—net	300	294	327
	5,017	5,511	3,344
Deferred income tax liabilities:			
Capital and intangible assets	(1,185)	(1,233)	(938)
Undistributed profits of non-U.S. subs	—	—	(113)
	(1,185)	(1,233)	(1,051)
Valuation allowance for deferred tax assets	(475)	(334)	(257)
Deferred income taxes—net	$ 3,357	$ 3,944	$ 2,036

At December 31, 2009, approximately $632 million of U.S. state tax net operating losses (NOLs) and $160 million of U.S. state tax credit carryforwards were available. Of the NOLs, over three-fourths expire after 2019. The state tax credit carryforwards expire over the next ten years. We established a valuation allowance of $179 million for those NOLs and credit carryforwards likely to expire prior to utilization.

At December 31, 2009, amounts and expiration dates of net operating loss carryforwards in various non-U.S. taxing jurisdictions were:

(Millions of dollars)						
2010	2011	2012	2013	2014-2024	Unlimited	Total
$ 4	$ 3	$ 6	$ 16	$ 775	$ 817	$ 1,621

A valuation allowance of $296 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. If global recessionary conditions continue, it is reasonably possible that increases in valuation allowances against deferred tax assets of certain non-U.S. entities may be required in the next twelve months.

At December 31, 2009, we had U.S. research and development credits of approximately $25 million to carry forward for up to twenty years.

At December 31, 2009, amounts and expiration dates of U.S. foreign tax credits available to carry forward were:

(Millions of dollars)					
2010-2016	2017	2018	2019	2020	Total
$ —	$ —	$ —	$ 354	$ 69	$ 423

We adopted the guidance on accounting for uncertainty in income taxes as of January 1, 2007. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits for uncertain tax positions, including positions impacting only the timing of tax benefits, follows.

Reconciliation of unrecognized tax benefits: [1]

(Millions of dollars)	Years ended December 31, 2009	2008	2007
Balance at January 1,	$ 803	$ 703	$ 742
Additions for tax positions related to current year	37	126	62
Additions for tax positions related to prior years	43	38	24
Reductions for tax positions related to prior years	(45)	(48)	(109)
Reductions for settlements [2]	(61)	(4)	(7)
Reductions for expiration of statute of limitations	(16)	(12)	(9)
Balance at December 31,	$ 761	$ 803	$ 703
Amount that, if recognized, would impact the effective tax rate	$ 593	$ 646	$ 537

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

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

At adoption, the amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was $486 million.

We classify interest and penalties on income taxes as a component of the provision for income taxes. We recognized interest and penalties of ($13) million, $18 million and $36 million during the years ended December 31, 2009, 2008 and 2007, 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 $170 million, $116 million and $98 million as of December 31, 2009, 2008 and 2007, 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 2005 and 2006 and has completed its field examination of our tax returns for 1992 to 2004. For tax years 1992 to 1994, we expect to litigate the unagreed adjustments related to transfer pricing. In 2009, we reached a settlement with the IRS for tax years 1995 to 1999. For tax years 2000 to 2004, we are in the appeals process for unagreed adjustments primarily related to export tax benefits. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

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

6. Sales and servicing of trade receivables

Our Machinery and Engines operations generate trade receivables from the sale of inventory to dealers and customers. Certain of these receivables are sold to Cat Financial.

Cat Financial has sold interests in a certain pool of trade receivables through a revolving structure to third-party commercial paper conduits, 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% of the average outstanding principal balance. Consolidated expenses of $4 million, $10 million and $15 million related to the sale of trade receivables were recognized during 2009, 2008 and 2007, respectively, and are included in Other income (expense) in Statement 1.

As of December 31, 2009, there were no trade receivables sold to the third-party commercial paper conduits. As of December 31, 2008 and 2007, 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 and 2007 of $1,432 million and $1,233 million, respectively, is included in Receivables-trade and other in Statement 2.

The cash collections from this pool of trade receivables are first applied to satisfy any obligations of Cat Financial to the third-party commercial paper conduits. The third-party commercial paper conduits have no recourse to Cat Financial's assets, other than the remaining interest, for failure of debtors to pay when due.

Cash flows from sale of trade receivables:

(Millions of dollars)	Years ended December 31, 2009	2008	2007
Cash proceeds from sales of receivables to the conduits	$ 887	$ 1,510	$ 1,512
Servicing fees received	$ 1	$ 1	$ 1
Cash flows received on the interests that continue to be held	$ 7,548	$ 11,270	$ 13,680

7. Wholesale inventory receivables

Wholesale inventory receivables are receivables of Cat Financial that arise when Cat Financial provides financing for a dealer's purchase of inventory. These receivables are included in Receivables—trade and other and Long-term receivables—trade and other in Statement 2 and were $937 million, $1,555 million, and $1,496 million at December 31, 2009, 2008 and 2007, respectively. Please refer to Note 19 and Table IV for fair value information.

Contractual maturities of outstanding wholesale inventory receivables:

(Millions of dollars)

Amounts Due In	December 31, 2009 Wholesale Installment Contracts	Wholesale Finance Leases	Wholesale Notes	Total
2010	$ 170	$ 87	$ 236	$ 493
2011	15	52	159	226
2012	10	28	65	103
2013	8	9	5	22
2014	—	7	2	9
Thereafter	—	1	1	2
	203	184	468	855
Guaranteed residual value	—	119	—	119
Less: Unearned income	(7)	(26)	(4)	(37)
Total	$ 196	$ 277	$ 464	$ 937

8. Finance receivables

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

We consider an account past due if any portion of an installment is due and unpaid for more than 30 days. Recognition of income is suspended when management determines that collection of future income is not probable (generally after 120 days past due). Accrual is resumed, and previously suspended income is recognized, when the receivable becomes contractually current and/or collection doubts are removed. Cash receipts on impaired loans or finance leases are recorded against the receivable and then to any unrecognized income. Investment in loans/finance leases on nonaccrual status were $678 million, $422 million and $232 million and past due over 90 days and still accruing were $134 million, $119 million and $47 million as of December 31, 2009, 2008 and 2007, respectively.

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

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

Securitized Retail Installment Sale Contracts and Finance Leases

Cat Financial periodically sells 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, typically trusts, are considered to be qualifying special-purpose entities (QSPEs) and are not consolidated. The QSPEs issue debt to pay for the finance receivables they acquire from Cat Financial. The primary source for repayment of the debt is the cash flows generated from the finance receivables owned by the QSPEs. The assets of the QSPEs are legally isolated and are not available to pay the creditors of Cat Financial. For bankruptcy analysis purposes, Cat Financial has sold the finance receivables to the QSPEs in a true sale and the QSPEs are separate legal entities. The investors and the securitization trusts have no recourse to any of Cat Financial's other assets for failure of debtors to pay when due.

Cat Financial retains interests in the retail finance receivables that are sold through their asset-backed securitization program. Retained interests include subordinated certificates, an interest in future cash flows (excess) and reserve accounts. Retained interests in securitized assets are classified as available-for-sale securities and are included in Other assets in Statement 2 at fair value. Cat Financial estimates fair value and cash flows using a valuation model and key assumptions for credit losses, prepayment rates and discount rates. These assumptions are based on historical experience, market trends and anticipated performance relative to the particular assets securitized. Cat Financial periodically evaluates for impairment and recognizes 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 does not intend to sell and it is not likely that they will be required to sell prior to recovery.

During 2008 and 2007, 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 and $4 million were recorded in Revenues of Financial Products in Statement 1 in 2008 and 2007, respectively and were based on the estimated fair value of the assets sold and retained and liabilities incurred, net of transaction costs. For 2008, subordinated retained interests included certificates with an initial fair value of $27 million, an interest in certain future cash flow (excess) with an initial fair value of $8 million and a reserve account with an initial fair value of $9 million. For 2007, subordinated retained interests included certificates with an initial fair value of zero, an interest in certain future cash flow (excess) with an initial fair value of $2 million and a reserve account with an initial fair value of $9 million.

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

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

To maintain competitiveness in the capital markets and to have effective and efficient use of alternative funding sources, Cat Financial may from time to time provide additional reserve support to previously issued asset-backed securitizations. During the second quarter of 2009 and third quarter of 2008, Cat Financial deposited $80 million and $19 million, respectively, into supplemental reserve accounts for the securitization transactions to maintain the credit ratings assigned to the transactions, as loss experiences have been higher than anticipated primarily due to the adverse economic conditions in the U.S. Due to the significant value of the deposit in second quarter of 2009, written consent was obtained from the third-party beneficial interest holders of the securitization transactions. The QSPE conditions were reviewed and the trusts continue to maintain QSPE status. These deposits resulted in an increase in Cat Financial's retained interests.

As of December 31, 2009, 2008 and 2007, the fair value of the retained interests in all securitizations of retail finance receivables outstanding totaled $102 million (cost basis of $107 million), $52 million (cost basis of $62 million) and $49 million (cost basis of $46 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 and 2007, 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	December 31, 2007
Cash flow weighted average discount rates on retained interests	7.7% to 12.4%	16.7% to 23.3%	8.3% to 11.5%
Weighted-average maturity in months	22	28	30
Expected prepayment rate	18.0%	19.0%	14.0%
Expected credit losses	4.7% to 4.8%	1.7% to 3.1%	0.6% to 1.3%

To estimate the impact on income due to changes to the key economic assumptions used to estimate the fair value of residual cash flows in retained interests from retail finance receivable securitizations, Cat Financial performs a sensitivity analysis of the fair value of the retained interests by applying a 10 percent and 20 percent adverse change to the individual assumptions. This estimate does not adjust for other variations that may occur should one of the assumptions actually change. Accordingly, no assurance can be given that actual results would be consistent with the results of the estimate. The effect of a variation in a particular assumption on the fair value of residual interest in securitization transactions was calculated without changing any other assumptions and changes in one factor may result in changes in another. Cat Financial's sensitivity analysis indicated that the impact of a 20 percent adverse change in individual assumptions used to calculate the fair value of all retained interests as of December 31, 2009, 2008 and 2007 would be $11 million or less, $8 million or less and $2 million or less, respectively.

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. 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 component recorded in Accumulated other comprehensive income (loss) was primarily driven by changes in discount rates.

	Years ended December 31,			
(Millions of dollars)	2009		2008	
Total other-than-temporary impairment losses	$	46	$	27
Portion of losses recognized in Accumulated other comprehensive income (loss) before taxes [1]		(12)		—
Net impairment losses recognized in earnings [2]	$	34	$	27

[1] Balance excludes $7 million of gross gains recorded in OCI related to the securitization retained interest for the year ended December 31, 2009.

[2] Recorded in Revenues of Financial Products in Statement 1.

The following table presents a roll-forward of the balance of the credit-related impairment losses on Cat Financial's securitized retained interests for which a portion of the other-than-temporary impairment was recognized in Accumulated other comprehensive income (loss):

(Millions of dollars)	2009	
Cumulative credit loss as of January 1, 2009	$	—
Credit losses for which an other-than-temporary impairment was previously recognized		11
Cumulative credit loss as of December 31, 2009	$	11

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

See Table III for additional securitization information.

TABLE III—Finance Receivables Information (Millions of dollars)

Contractual maturities of outstanding finance receivables:

	December 31, 2009			
Amounts Due In	Retail Installment Contracts	Retail Finance Leases	Retail Notes	Total
2010	$ 2,366	$ 3,189	$ 3,180	$ 8,735
2011	1,532	2,146	1,695	5,373
2012	917	1,124	1,084	3,125
2013	412	458	967	1,837
2014	177	193	797	1,167
Thereafter	46	154	776	976
	5,450	7,264	8,499	21,213
Residual value	—	1,181	—	1,181
Less: Unearned income	(498)	(817)	(123)	(1,438)
Total	$ 4,952	$ 7,628	$ 8,376	$ 20,956

Impaired loans and leases:	2009	2008	2007
Average recorded investment	$ 425	$ 306	$ 200
At December 31:			
Recorded investment	$ 513	$ 479	$ 219
Impaired loans/finance leases for which there is a related allowance for credit losses	448[1]	258[1]	166
Related allowance for credit losses on impaired loans/finance leases	117	59	35
Impaired loans/finance leases for which there is no related allowance for credit losses	65	221	53

Allowance for credit loss activity:	2009	2008	2007
Balance at beginning of year	$ 391	$ 351	$ 315
Provision for credit losses	225	192	97
Receivables written off	(281)	(144)	(91)
Recoveries on receivables previously written off	28	23	23
Other—net	13	(31)	7
Balance at end of year	$ 376	$ 391	$ 351

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

Cat Financial's net retail finance leases:	December 31,		
	2009	2008	2007
Total minimum lease payments receivable	$ 7,264	$ 8,325	$ 7,756
Estimated residual value of leased assets:			
Guaranteed	560	658	638
Unguaranteed	621	729	746
	8,445	9,712	9,140
Less: Unearned income	(817)	(953)	(938)
Net retail finance leases	$ 7,628	$ 8,759	$ 8,202

Cash flows from retail securitizations:

	Years ended December 31,		
	2009	2008	2007
Cash proceeds from initial sales of receivables	$ —	$ 600	$ 650
Purchases of contracts through clean-up calls	95	81	64
Servicing fees received	6	12	11
Other cash flows received on retained interests	10	25	35

Characteristics of securitized retail receivables:

	Years ended December 31,		
	2009	2008	2007
Total securitized principal balance at December 31,	$ 346	$ 909	$ 1,159
Average securitized principal balance for the year ended December 31,	583	1,147	1,064
Loans > 30 days past due at year ended December 31,	62	98	65
Net credit losses during the year	36	23	9

1 Includes impaired loans of $208 million and $108 million as of December 31, 2009 and 2008, respectively, primarily reflecting the fair value of the loan's associated collateral. See Note 19 for more information.

9. Inventories

Inventories (principally using the LIFO method) are comprised of the following:

(Millions of dollars)	December 31, 2009	2008	2007
Raw materials	$ 1,979	$ 2,678	$ 2,240
Work-in-process	656	1,508	1,206
Finished goods	3,465	4,316	3,512
Supplies	260	279	246
Total inventories	$ 6,360	$ 8,781	$ 7,204

We had long-term material purchase obligations of approximately $299 million at December 31, 2009.

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.

10. Property, plant and equipment

(Millions of dollars)	Useful Lives (Years)	December 31, 2009	2008	2007
Land	—	$ 639	$ 575	$ 189
Buildings and land improvements	20-45	4,914	4,647	3,625
Machinery, equipment and other	3-10	12,917	12,173	9,756
Equipment leased to others	1-10	4,717	4,561	4,556
Construction-in-process	—	1,034	1,531	1,082
Total property, plant and equipment, at cost		24,221	23,487	19,208
Less: Accumulated depreciation		(11,835)	(10,963)	(9,211)
Property, plant and equipment—net		$ 12,386	$ 12,524	$ 9,997

We had commitments for the purchase or construction of capital assets of approximately $459 million at December 31, 2009.

Assets recorded under capital leases [1]:

(Millions of dollars)	December 31, 2009	2008	2007
Gross capital leases [2, 3]	$ 493	$ 565	$ 96
Less: Accumulated depreciation [3]	(258)	(221)	(75)
Net capital leases	$ 235	$ 344	$ 21

1 Included in Property, plant and equipment table above.
2 Consists primarily of machinery and equipment.
3 Increase in 2008 due to consolidation of Cat Japan. See Note 25 for additional details.

At December 31, 2009, scheduled minimum rental payments on assets recorded under capital leases were:

(Millions of dollars) 2010	2011	2012	2013	2014	Thereafter
$ 128	$ 94	$ 32	$ 37	$ 8	$ 40

Equipment leased to others (primarily by Cat Financial):

(Millions of dollars)	December 31, 2009	2008	2007
Equipment leased to others—at original cost	$ 4,717	$ 4,561	$ 4,556
Less: Accumulated depreciation	(1,616)	(1,416)	(1,487)
Equipment leased to others—net	$ 3,101	$ 3,145	$ 3,069

At December 31, 2009, scheduled minimum rental payments to be received for equipment leased to others were:

(Millions of dollars)

2010	2011	2012	2013	2014	Thereafter
$ 801	$ 498	$ 319	$ 172	$ 59	$ 30

11. Investments in unconsolidated affiliated companies

Our investments in affiliated companies accounted for by the equity method have historically consisted primarily of a 50 percent interest in Shin Caterpillar Mitsubishi Ltd. (SCM) located in Japan. On August 1, 2008, SCM redeemed half of Mitsubishi Heavy Industries Ltd.'s (MHI's) shares in SCM. As a result, Caterpillar now owns 67 percent of the renamed entity, Caterpillar Japan Ltd. (Cat Japan) and consolidates its financial statements. See Note 25 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 December 31, 2009 and December 31, 2008 financial position and equity investment amounts noted below do not include ASV or Cat Japan.

Combined financial information of the unconsolidated affiliated companies accounted for by the equity method (generally on a lag of 3 months or less) was as follows:

Results of Operations of unconsolidated affiliated companies:

(Millions of dollars)	Years ended December 31, 2009	2008	2007
Results of Operations:			
Sales	$ 569	$ 3,727	$ 4,007
Cost of sales	434	3,082	3,210
Gross profit	$ 135	$ 645	$ 797
Profit (loss)	$ (39)	$ 55	$ 157

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

Financial Position of unconsolidated affiliated companies:

(Millions of dollars)	December 31, 2009	2008	2007
Financial Position:			
Assets:			
Current assets	$ 223	$ 209	$ 2,062
Property, plant and equipment—net	219	227	1,286
Other assets	5	26	173
	447	462	3,521
Liabilities:			
Current liabilities	250	173	1,546
Long-term debt due after one year	41	110	269
Other liabilities	17	35	393
	308	318	2,208
Equity	$ 139	$ 144	$ 1,313

Caterpillar's investments in unconsolidated affiliated companies:			
	December 31,		
(Millions of dollars)	2009	2008	2007
Investments in equity method companies	$ 70	$ 66	$ 582
Plus: Investments in cost method companies	35	28	16
Total investments in unconsolidated affiliated companies	$ 105	$ 94	$ 598

At December 31, 2009, consolidated Profit employed in the business in Statement 2 included $6 million representing undistributed profits of the unconsolidated affiliated companies.

12. Intangible assets and goodwill

A. Intangible assets

Intangible assets are comprised of the following:

(Millions of dollars)	Weighted Amortizable Life (Years)	December 31, 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
	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
	Weighted Amortizable Life (Years)	**December 31, 2007 Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Customer relationships	19	$ 356	$ (27)	$ 329
Intellectual property	10	195	(120)	75
Other	12	92	(21)	71
Total intangible assets	16	$ 643	$ (168)	$ 475

During 2008, the Cat Japan share redemption resulted in additional finite-lived intangible assets of $54 million. In 2008, we acquired finite-lived intangible assets of $17 million due to the purchase of Lovat Inc. See Note 25 for details on these business combinations. Also in 2008, we acquired finite-lived intangible assets of $32 million from other acquisitions.

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

Amortization expense related to intangible assets was $61 million, $61 million and $52 million for 2009, 2008 and 2007, respectively.

Amortization expense related to intangible assets is expected to be:

(Millions of dollars)					
2010	2011	2012	2013	2014	Thereafter
$ 60	$ 52	$ 46	$ 40	$ 37	$ 230

B. Goodwill

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

During 2007, we acquired net assets with related goodwill of $37 million as part of the purchase of Franklin Power Products. In 2007, we also acquired net assets with related goodwill of $22 million as part of the purchase of the Forestry Division of Blount International, Inc. See Note 25 for details on the acquisition of these assets.

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 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 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 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, a component of the Building Construction Products reportable segment. 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. No goodwill was impaired or disposed of during the years ended December 31, 2008 or 2007.

The changes in carrying amount of goodwill by reportable segment for the years ended December 31, 2009, 2008 and 2007 were as follows:

(Millions of dollars)	Building Construction Products	Cat Japan	Earthmoving	Electric Power	Excavation	Large Power Systems	Marine & Petroleum Power	Mining	All Other[1]	Consolidated Total
Balance at January 1, 2007	$ 4	$ —	$ 43	$ 203	$ 39	$ 569	$ 60	$ 8	$ 978	$ 1,904
Business combinations	22	—	—	—	—	—	—	—	37	59
Balance at December 31, 2007	26	—	43	203	39	569	60	8	1,015	1,963
Business combinations	—	206	—	—	—	—	—	22	49	277
Other adjustments[2]	—	27	—	—	—	—	—	(3)	(3)	21
Balance at December 31, 2008	26	233	43	203	39	569	60	27	1,061	2,261
Impairments	(22)	—	—	—	—	—	—	—	—	(22)
Other adjustments[2]	—	23	—	—	—	—	—	3	4	30
Balance at December 31, 2009	$ 4	$ 256	$ 43	$ 203	$ 39	$ 569	$ 60	$ 30	$ 1,065	$ 2,269

1 Includes all other operating segments (See Note 24).
2 Other adjustments are comprised primarily of foreign currency translation.

As discussed in Note 24, our reportable segments were changed in the first quarter of 2009. As a result of these changes, the newly formed Earthmoving, Excavation and Mining reportable segments have been allocated goodwill of $43 million, $39 million and $30 million, respectively. The goodwill was reallocated primarily from the former reportable segments of EAME Operations, Heavy Construction & Mining and Infrastructure Development. Additionally, goodwill of $22 million was reallocated to Building Construction Products from the All Other category, while goodwill of $478 million was reallocated to the All Other category from the former Industrial Power Systems reportable segment. Goodwill associated with the newly formed Cat Japan reportable segment was previously included in the All Other category.

13. 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.

	December 31, 2009			December 31, 2008			December 31, 2007		
(Millions of dollars)	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value
Government debt									
U.S. treasury bonds	$ 14	$ —	$ 14	$ 14	$ 1	$ 15	$ 10	$ —	$ 10
Other U.S. and non-U.S. government bonds	65	—	65	15	(1)	14	37	—	37
Corporate bonds									
Corporate bonds	455	20	475	343	(22)	321	356	—	356
Asset-backed securities	141	(7)	134	165	(27)	138	177	(2)	175
Mortgage-backed debt securities									
U.S. governmental agency mortgage-backed securities	295	13	308	319	5	324	272	1	273
Residential mortgage-backed securities	61	(10)	51	79	(19)	60	92	(2)	90
Commercial mortgage-backed securities	175	(13)	162	176	(47)	129	150	—	150
Equity securities									
Large capitalization value	76	13	89	126	(13)	113	150	24	174
Smaller company growth	19	5	24	20	(2)	18	18	4	22
Total	$ 1,301	$ 21	$ 1,322	$ 1,257	$ (125)	$ 1,132	$ 1,262	$ 25	$ 1,287

During 2009 and 2008, we recognized pretax charges for other-than-temporary declines in the market values of equity securities in the Cat Insurance investment portfolios of $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. During 2007, there were no charges for other-than-temporary declines in the market value of securities.

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

	December 31, 2009					
	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						
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] Fair Value	Less than 12 months [1] Unrealized Losses	12 months or more [1] Fair Value	12 months or more [1] Unrealized Losses	Total Fair Value	Total 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.

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

(Millions of dollars)	December 31, 2007 Less than 12 months [1] Fair Value	Less than 12 months [1] Unrealized Losses	12 months or more [1] Fair Value	12 months or more [1] Unrealized Losses	Total Fair Value	Total Unrealized Losses
Government debt						
Other U.S. and non-U.S. government bonds	$ —	$ —	$ 13	$ —	$ 13	$ —
Corporate bonds						
Corporate bonds	85	1	79	1	164	2
Asset-backed securities	86	1	42	1	128	2
Mortgage-backed debt securities						
U.S. governmental agency mortgage-backed securities	22	—	83	1	105	1
Residential mortgage-backed securities	43	1	33	2	76	3
Commercial mortgage-backed securities	55	1	9	—	64	1
Equity securities						
Large capitalization value	50	5	1	—	51	5
Smaller company growth	5	—	—	—	5	—
Total	$ 346	$ 9	$ 260	$ 5	$ 606	$ 14

[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, 2009.

Corporate Bonds. The unrealized losses on our investments in corporate bonds and asset-backed securities relate primarily to an increase in credit-related yield spreads, risk aversion and heightened volatility in the financial markets since initial 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, 2009.

Mortgage-Backed Debt Securities. The unrealized losses on our investments in mortgage-backed securities relate primarily to an increase in housing delinquencies and default rates, credit-related yield spreads, risk aversion and heightened volatility in the financial markets. Continued weakness and lack of liquidity in the commercial sector continues to impact valuations. 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, 2009.

Equity Securities. Cat Insurance maintains a well-diversified equity portfolio consisting of two specific mandates: large capitalization value stocks and smaller company growth stocks. Despite continued strengthening in equity returns during the second half of 2009, the remaining unrealized losses in both the large and smaller company portfolios can be attributed to the weak economic conditions over the last 12 to 18 months. In each case where unrealized losses exist, the respective company's management is taking corrective action to increase shareholder value. We do not consider these investments to be other-than-temporarily impaired as of December 31, 2009.

The fair value of the available-for-sale debt securities at December 31, 2009, 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	$ 43
Due after one year through five years	$ 415
Due after five years through ten years	$ 222
Due after ten years	$ 529

Proceeds from sale of available-for-sale securities during 2009, 2008 and 2007 were $291 million, $357 million and $282 million, respectively. Gross gains of $9 million, $17 million and $16 million and gross losses of $10 million, $23 million and $7 million have been included in current earnings as a result of these sales for 2009, 2008 and 2007, respectively.

14. Postemployment benefit plans

We have both U.S. and non-U.S. pension plans covering substantially all of our U.S. employees and a portion of our non-U.S. employees, primarily in our European and Japanese facilities. Our defined benefit plans provide a benefit based on years of service and/or the employee's average earnings near retirement. Our defined contribution plans allow employees to contribute a portion of their salary to help save for retirement, and in certain cases, we provide a matching contribution. We also have defined-benefit retirement health care and life insurance plans covering substantially all of our U.S. employees.

As discussed in Note 1K, we adopted the balance sheet recognition provisions of 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 27, 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. Voluntary Separation Program – Plan re-measurements as of January 31, 2009 resulted in curtailment losses to the U.S. support and management pension and other postretirement benefit plans of $80 million and $45 million, respectively.

Other U.S. Separation Programs – Certain plans were re-measured as of March 31, 2009 and December 31, 2009, resulting in net curtailment losses of $47 million to pension and $10 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 will enroll in individual health plans that work with Medicare and will no longer participate in a Caterpillar-sponsored group health plan. In addition, Caterpillar will fund 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 after-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 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 after-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 March 2009 amendment reduced other postretirement benefits expense by approximately $60 million for 2009.

A. Benefit Obligations

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
(Millions of dollars)	2009	2008	2007	2009	2008	2007	2009	2008	2007
Change in benefit obligation:									
Benefit obligation, beginning of year	$ 11,493	$ 11,132	$ 11,174	$ 3,219	$ 3,012	$ 2,719	$ 5,017	$ 5,455	$ 5,661
Effect of eliminating early measurement date [1]	N/A	11	N/A	N/A	26	N/A	N/A	—	N/A
Service cost	176	199	187	86	92	80	70	87	101
Interest cost	688	629	595	146	156	139	280	307	295
Plan amendments	—	13	—	—	—	1	(549)	—	2
Actuarial losses (gains)	380	222	(146)	45	(18)	(118)	(58)	(522)	(294)
Foreign currency exchange rates	—	—	—	322	(534)	246	29	(19)	4
Participant contributions	—	—	—	10	14	14	51	41	35
Benefits paid - gross	(796)	(713)	(722)	(212)	(155)	(126)	(390)	(351)	(369)
Less: federal subsidy on benefits paid	—	—	—	—	—	—	21	19	15
Curtailments, settlements and special termination benefits	123	—	—	(74)	—	—	66	—	—
Acquisitions / other [2]	—	—	—	—	626	57	—	—	5
Adjustment for subsidiary pension plan [3]	—	—	44	—	—	—	—	—	—
Benefit obligation, end of year	$ 12,064	$ 11,493	$11,132	$ 3,542	$ 3,219	$ 3,012	$ 4,537	$ 5,017	$ 5,455
Accumulated benefit obligation, end of year	$ 11,357	$ 10,681	$10,460	$ 3,082	$ 2,938	$ 2,629			
Weighted-average assumptions used to determine benefit obligation:									
Discount rate [4]	5.7%	6.1%	5.8%	4.8%	4.5%	5.3%	5.6%	6.0%	5.8%
Rate of compensation increase [4]	4.5%	4.5%	4.5%	4.2%	3.8%	4.1%	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 25 regarding the 2008 Cat Japan share redemption.
3 2007 charge to recognize previously unrecorded liabilities related to a subsidiary pension plan.
4 End of year rates are used to determine net periodic cost for the subsequent year. See Note 14E.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(Millions of dollars)	One-percentage-point increase	One-percentage-point decrease
Effect on 2009 service and interest cost components of other postretirement benefit cost	$ 23	$ (20)
Effect on accumulated postretirement benefit obligation	$ 220	$ (186)

B. Plan Assets

(Millions of dollars)	U.S. Pension Benefits 2009	U.S. Pension Benefits 2008	U.S. Pension Benefits 2007	Non-U.S. Pension Benefits 2009	Non-U.S. Pension Benefits 2008	Non-U.S. Pension Benefits 2007	Other Postretirement Benefits 2009	Other Postretirement Benefits 2008	Other Postretirement Benefits 2007
Change in plan assets:									
Fair value of plan assets, beginning of year	$ 6,745	$ 10,441	$ 10,087	$ 2,175	$ 2,773	$ 2,304	$ 1,042	$ 1,584	$ 1,509
Effect of eliminating early measurement date [1]	N/A	17	N/A	N/A	23	N/A	N/A	15	N/A
Actual return on plan assets	2,194	(3,288)	1,064	390	(751)	290	266	(587)	158
Foreign currency exchange rates	—	—	—	243	(407)	208	—	—	—
Company contributions [2]	886	288	12	263	134	46	94	340	251
Participant contributions	—	—	—	10	14	14	51	41	35
Benefits paid	(796)	(713)	(722)	(212)	(155)	(126)	(390)	(351)	(369)
Settlements and special termination benefits	—	—	—	(72)	—	—	—	—	—
Acquisitions / other [3]	—	—	—	—	544	37	—	—	—
Fair value of plan assets, end of year	$ 9,029	$ 6,745	$ 10,441	$ 2,797	$ 2,175	$ 2,773	$ 1,063	$ 1,042	$ 1,584

[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 25 regarding the 2008 Cat Japan share redemption.

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, 25% debt securities and 5% real estate. 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, 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 55% equities, 35% debt securities, 6% real estate and 4% other. The target allocations for each plan varies 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 and 2007, approximately 5% and 10%, respectively, 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 19 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, 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, 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, 2009			
Other postretirement benefits	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 year ended December 31, 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	$ —
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

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)	2009[2]	2008	2007	2009	2008	2007	2009	2008	2007
Caterpillar Inc. common stock	$ 1,016	$ 11	$ 24	$ 1	$ 1	$ 2	$ 1	$ 2	$ 3

[1] Amounts represent 11% of total plan assets for 2009, and less than 1% of total plan assets for 2008 and 2007.

[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)	2009	2008	2007	2009	2008	2007	2009	2008	2007
End of Year									
Fair value of plan assets	$ 9,029	$ 6,745	$ 10,441	$ 2,797	$ 2,175	$ 2,773	$ 1,063	$ 1,042	$ 1,584
Benefit obligations	12,064	11,493	11,132	3,542	3,219	3,012	4,537	5,017	5,455
Over (under) funded status	(3,035)	(4,748)	(691)	(745)	(1,044)	(239)	(3,474)	(3,975)	(3,871)
Amounts not yet recognized:									
Contributions made after measurement date	N/A	N/A	1	N/A	N/A	3	N/A	N/A	37
Net amount recognized in financial position	$ (3,035)	$ (4,748)	$ (690)	$ (745)	$ (1,044)	$ (236)	$ (3,474)	$ (3,975)	$ (3,834)
Components of net amount recognized in financial position:									
Other assets (non-current asset)	$ —	$ —	$ —	$ 22	$ —	$ —	$ —	$ —	$ —
Accrued wages, salaries and employee benefits (current liability)	(17)	(14)	(2)	(18)	(2)	—	(113)	(29)	(14)
Liability for postemployment benefits (non-current liability)	(3,018)	(4,734)	(688)	(749)	(1,042)	(236)	(3,361)	(3,946)	(3,820)
Net liability recognized	$ (3,035)	$ (4,748)	$ (690)	$ (745)	$ (1,044)	$ (236)	$ (3,474)	$ (3,975)	$ (3,834)
Amounts recognized in Accumulated other comprehensive income (pre-tax) consist of:									
Net actuarial loss (gain)	$ 5,132	$ 6,419	$ 2,172	$ 1,200	$ 1,319	$ 544	$ 659	$ 881	$ 759
Prior service cost (credit)	132	170	191	8	13	22	(177)	320	282
Transition obligation (asset)	—	—	—	—	—	1	9	10	12
Total	$ 5,264	$ 6,589	$ 2,363	$ 1,208	$ 1,332	$ 567	$ 491	$ 1,211	$ 1,053

N/A (Not Applicable): The adoption of the year-end measurement date provisions of the guidance on employers' accounting for defined benefit pension and other postretirement plans (see Note 1K) eliminated contributions between the measurement date and the end of the fiscal year.

The estimated amounts that will be amortized from Accumulated other comprehensive income (loss) at December 31, 2009 into net periodic benefit cost (pre-tax) in 2010 are as follows:

(Millions of dollars)	U.S. Pension	Non-U.S. Pension	Other Postretirement Benefits
Actuarial loss (gain)	$ 350	$ 68	$ 33
Prior service cost (credit)	28	1	(55)
Transition obligation (asset)	—	—	2
Total	$ 378	$ 69	$ (20)

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)	2009	2008	2007	2009	2008	2007
Projected benefit obligation	$ (12,064)	$ (11,493)	$ (10,862)	$ (3,350)	$ (3,194)	$ (2,792)
Accumulated benefit obligation	$ (11,357)	$ (10,681)	$ (10,197)	$ (2,933)	$ (2,917)	$ (2,442)
Fair value of plan assets	$ 9,029	$ 6,745	$ 10,159	$ 2,584	$ 2,151	$ 2,548

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)	2009	2008	2007	2009	2008	2007
Projected benefit obligation	$ (12,064)	$ (11,493)	$ (3,982)	$ (1,594)	$ (3,040)	$ (146)
Accumulated benefit obligation	$ (11,357)	$ (10,681)	$ (3,967)	$ (1,503)	$ (2,796)	$ (128)
Fair value of plan assets	$ 9,029	$ 6,745	$ 3,580	$ 1,145	$ 2,022	$ 28

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:			
2010 (expected)	$ 920	$ 80	$ 120
Expected benefit payments:			
2010	$ 810	$ 190	$ 370
2011	830	200	380
2012	860	200	380
2013	880	190	390
2014	900	200	390
2015-2019	4,730	980	2,000
Total	$ 9,010	$ 1,960	$ 3,910

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)	2010	2011	2012	2013	2014	2015-2019	Total
Other postretirement benefits	$ 20	$ 20	$ 20	$ 20	$ 20	$ 140	$ 240

E. Net periodic cost

(Millions of dollars)	U.S. Pension Benefits 2009	U.S. Pension Benefits 2008	U.S. Pension Benefits 2007	Non-U.S. Pension Benefits 2009	Non-U.S. Pension Benefits 2008	Non-U.S. Pension Benefits 2007	Other Postretirement Benefits 2009	Other Postretirement Benefits 2008	Other Postretirement Benefits 2007
Components of net periodic benefit cost:									
Service cost	$ 176	$ 199	$ 187	$ 86	$ 92	$ 80	$ 70	$ 87	$ 101
Interest cost	688	629	595	146	156	139	280	307	295
Expected return on plan assets	(777)	(882)	(841)	(181)	(201)	(178)	(111)	(138)	(130)
Curtailments, settlements and special termination benefits [1]	133	—	—	36	1	1	56	—	—
Amortization of:									
Transition obligation (asset)	—	—	—	—	1	1	2	2	2
Prior service cost (credit) [2]	29	32	58	1	3	5	(40)	(35)	(36)
Net actuarial loss (gain)	248	134	214	35	36	56	20	64	79
Adjustment for subsidiary pension plan [3]	—	—	44	—	—	—	—	—	—
Total cost included in operating profit	$ 497	$ 112	$ 257	$ 123	$ 88	$ 104	$ 277	$ 287	$ 311
Other changes in plan assets and benefit obligations recognized in other comprehensive income (pre-tax):									
Effect of eliminating early measurement date [4]	$ N/A	(14)	N/A	$ N/A	(9)	N/A	$ N/A	(3)	N/A
Current year actuarial loss (gain)	(1,037)	4,401	(368)	(88)	696	(131)	(200)	172	(320)
Amortization of actuarial (loss) gain	(248)	(134)	(214)	(32)	(36)	(56)	(20)	(64)	(79)
Current year prior service cost (credit)	(10)	16	—	(2)	1	1	(537)	(3)	2
Amortization of prior service (cost) credit	(29)	(32)	(58)	(1)	(3)	(5)	40	35	36
Amortization of transition (obligation) asset	—	—	—	—	(1)	(1)	(2)	(2)	(2)
Total recognized in other comprehensive income	(1,324)	4,237	(640)	(123)	648	(192)	(719)	135	(363)
Total recognized in net periodic cost and other comprehensive income	$ (827)	$ 4,349	$ (383)	$ —	$ 736	$ (88)	$ (442)	$ 422	$ (52)
Weighted-average assumptions used to determine net cost:									
Discount rate	6.3%	5.8%	5.5%	4.7%	5.3%	4.7%	6.3%	5.8%	5.5%
Expected return on plan assets [5]	8.5%	9.0%	9.0%	6.6%	7.6%	7.7%	8.5%	9.0%	9.0%
Rate of compensation increase	4.5%	4.5%	4.0%	3.8%	4.0%	4.0%	4.4%	4.4%	4.0%

[1] 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] 2007 charge to recognize previously unrecorded liabilities related to a subsidiary pension plan.

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

[5] The weighted-average rates for 2010 are 8.5% and 7.0% for U.S. and non-U.S. plans, respectively.

The assumed discount rate is used to discount future benefit obligations back to today's dollars. For 2009 and 2008, the U.S. discount rate was based on a benefit cash flow-matching approach and represents the rate at which our benefit obligations could effectively be settled as of our measurement date, December 31. The benefit cash flow-matching approach involves analyzing Caterpillar's projected cash flows against a high quality bond yield curve, calculated using a wide population of corporate Aa bonds available on the measurement date. The very highest and lowest yielding bonds (top and bottom 10%) are excluded from the analysis. For 2007, we used the Moody's Aa bond yield as of our measurement date, November 30, and validated the discount rate using the benefit cash flow-matching approach. A similar change was made in determining the assumed discount rate for our most significant non-U.S. plans. This rate is sensitive to changes in interest rates. A decrease in the discount rate would increase our obligation and future expense.

Our U.S. expected long-term rate of return on plan assets is based on our estimate of long-term passive returns for equities and fixed income securities weighted by the allocation of our pension assets. Based on historical performance, we increase the passive returns due to our active management of the plan assets. To arrive at our expected long-term return, the amount added for active management was 1% for 2009, 2008 and 2007. 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 2009 benefit expense, we assumed an increase of 7.4% for 2009. We expect an increase of 7.0% during 2010. The 2009 and 2010 rates are assumed to decrease gradually to the ultimate health care trend rate of 5.0% in 2016. This rate represents 3.0% general inflation plus 2.0% additional health care inflation.

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

F. Other postemployment benefit plans

We offer long-term disability benefits, continued health care for disabled employees, survivor income benefit insurance and supplemental unemployment benefits to substantially all eligible U.S. employees.

G. Defined contribution plans

We have both U.S. and non-U.S. employee defined contribution plans to help employees save for retirement. Our U.S. 401(k) plan allows eligible employees to contribute a portion of their salary to the plan on a tax-deferred basis, and we provide a matching contribution equal to 100% of employee contributions to the plan up to 6% of their compensation. Various other U.S. and non-U.S. defined contribution plans allow eligible employees to contribute a portion of their salary to the plans, and in some cases, we provide a matching contribution to the funds.

Beginning in June 2009, we began funding our employer matching contribution for certain U.S. defined contribution plans in Caterpillar stock, held as treasury stock. In 2009, we made $68 million (1.4 million shares) of matching contributions in Caterpillar stock.

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

(Millions of dollars)	2009	2008	2007
U.S. plans	$ 206	$ 107	$ 172
Non-U.S. plans	29	34	30
	$ 235	$ 141	$ 202

H. Summary of long-term liability:

	December 31,		
(Millions of dollars)	2009	2008	2007
Pensions:			
U.S. pensions	$ 3,018	$ 4,734	$ 688
Non-U.S. pensions	749	1,042	236
Total pensions	3,767	5,776	924
Postretirement benefits other than pensions	3,361	3,946	3,820
Other postemployment benefits	63	73	72
Defined contribution	229	180	243
	$ 7,420	$ 9,975	$ 5,059

15. Short-term borrowings

	December 31,		
(Millions of dollars)	2009	2008	2007
Machinery and Engines:			
Notes payable to banks[1]	$ 260	$ 668	$ 187
Commercial paper	173	964	—
	433	1,632	187
Financial Products:			
Notes payable to banks	793	817	550
Commercial paper	2,162	4,217	4,032
Demand notes	695	543	699
	3,650	5,577	5,281
Total short-term borrowings	$ 4,083	$ 7,209	$ 5,468

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

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

	December 31, 2009	2008	2007
Notes payable to banks	4.6%	5.5%	7.0%
Commercial paper	1.2%	2.0%	4.3%
Demand notes	2.0%	3.6%	5.1%

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

16. Long-term debt

(Millions of dollars)	December 31, 2009	2008	2007
Machinery and Engines:			
Notes—6.550% due 2011	$ 251	$ 250	$ 250
Notes—5.700% due 2016	515	517	510
Debentures—7.250% due 2009	—	—	305
Debentures—9.375% due 2011	123	123	123
Debentures—7.000% due 2013	350	350	—
Debentures—7.900% due 2018	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	348
Debentures—5.300% due 2035 [2]	204	203	202
Debentures—6.050% due 2036	748	748	748
Debentures—8.250% due 2038	248	248	—
Debentures—6.950% due 2042	249	249	249
Debentures—7.375% due 2097	297	297	297
Capital lease obligations	211	293	68
Other[1]	707	710	38
Total Machinery and Engines	5,652	5,736	3,639
Financial Products:			
Commercial paper	71	1,500	903
Medium-term notes	15,363	15,073	12,678
Deposit obligations	—	—	232
Other	761	525	377
Total Financial Products	16,195	17,098	14,190
Total long-term debt due after one year	$ 21,847	$ 22,834	$ 17,829

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

[2] Debentures due in 2035 have an effective yield to maturity of 8.55%.

All outstanding notes and debentures are unsecured. The deposit obligations have a corresponding security deposit that relates to a finance arrangement, which provides us a return. This finance arrangement requires that we commit to certain long-term obligations and provide a security deposit, which will fulfill these obligations when they become due. In 2007, the security deposit associated with the outstanding deposit obligations for Financial Products was included in Other assets in Statement 2. In 2008, this security deposit was included in Prepaid expenses and other current assets and the deposit obligations were included in long-term debt due within one year. During 2009, the deposit obligation was fulfilled by the related security deposit.

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 7.25%, 6.625%, 7.30%, 5.30%, 6.05%, 6.95% and 7.375% debentures in whole or in part at our option at any time at a redemption price equal to the greater of 100% of the principal amount of the debentures to be redeemed or the sum of the present value of the remaining scheduled payments. The terms of other notes and debentures do not specify a redemption option prior to maturity.

Based on Cat Financial's medium-term note issuances subsequent to year-end, $71 million, $1,500 million and $903 million of Financial Products' commercial paper outstanding at December 31, 2009, 2008 and 2007, 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 19 years at December 31, 2009.

The aggregate amounts of maturities of long-term debt during each of the years 2010 through 2014, including amounts due within one year and classified as current, are:

(Millions of dollars)	December 31, 2010	2011	2012	2013	2014
Machinery and Engines	$ 302	$ 701	$ 252	$ 571	$ 47
Financial Products	5,399	3,084	3,456	2,364	1,942
	$ 5,701	$ 3,785	$ 3,708	$ 2,935	$ 1,989

The above table includes $1,612 million of medium-term notes that can be called at par.

Interest paid on short-term and long-term borrowings for 2009, 2008 and 2007 was $1,411 million, $1,451 million and $1,418 million, respectively.

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

17. Credit commitments

(Millions of dollars)	December 31, 2009 Consolidated	Machinery and Engines	Financial Products
Credit lines available:			
Global credit facilities	$ 8,363	$ 2,875[1]	$ 5,488
Other external	4,726	1,187	3,539
Total credit lines available	13,089	4,062	9,027
Less: Global credit facilities supporting commercial paper	(2,233)	—	(2,233)
Less: Utilized credit	(2,414)	(367)	(2,047)
Available credit	$ 8,442	$ 3,695	$ 4,747

[1] Includes $1.37 billion from Credit Facility 2.

We have three global credit facilities with a syndicate of banks totaling $6.99 billion (Credit Facility 1) 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 1 available to Cat Financial as of December 31, 2009 was $5.49 billion.

- The five-year facility of $1.62 billion expires in September 2012.
- The five-year facility of $2.98 billion expires in September 2011.
- In September 2009, we renewed the 364-day facility. The amount was increased from $2.25 billion to $2.39 billion and expires in September 2010.

We also have a 364-day revolving credit facility (Credit Facility 2) with a syndicate of banks totaling $1.37 billion, which expires in March 2010 and is jointly available to both Caterpillar and Cat Financial.

Consolidated credit lines with banks as of December 31, 2009 total $4.73 billion. These credit lines, which are eligible for renewal at various future dates or have no specified expiration date, are used primarily by our subsidiaries for local funding requirements. Caterpillar or Cat Financial generally guarantees subsidiary borrowings under these lines.

During 2009, certain of the covenants applicable to Caterpillar or Cat Financial under Credit Facility 1 and Credit Facility 2 (the Credit Facilities) were revised. The revisions, among other things, modified the consolidated net worth definition for Caterpillar's covenant to exclude pension and other post-retirement benefits as a part of Accumulated other comprehensive income (loss). In addition, Cat Financial's interest coverage ratio covenant was modified to exclude the impact of interest rate derivatives and to calculate the ratio over a rolling four-quarter period.

At December 31, 2009, Caterpillar's consolidated net worth was $13.26 billion, which was above the $9.00 billion required under the Credit Facilities. The consolidated net worth is 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).

At December 31, 2009, Cat Financial's interest coverage ratio was 1.26 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, 2009, Cat Financial's leverage ratio was 6.79 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 Facilities.

In the event Caterpillar or Cat Financial does not meet one or more of their respective financial covenants under the Credit Facilities in the future (and are unable to obtain a consent or waiver), the bank group may terminate the commitments allocated to the parties. Additionally, in such event, certain of Cat Financial's other lenders under other loan agreements where such financial covenants are applicable, may, at their election, choose to pursue remedies under such loan agreements, including accelerating outstanding borrowings. At December 31, 2009, there were no borrowings under the Credit Facilities.

18. Profit per share

Computations of profit per share:

(Dollars in millions except per share data)	2009	2008	2007
Profit for the period (A) [1]	$ 895	$ 3,557	$ 3,541
Determination of shares (in millions):			
Weighted average number of common shares outstanding (B)	615.2	610.5	638.2
Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price	10.8	17.4	21.3
Average common shares outstanding for fully diluted computation (C)	626.0	627.9	659.5
Profit per share of common stock:			
Assuming no dilution (A/B)	$ 1.45	$ 5.83	$ 5.55
Assuming full dilution (A/C)	$ 1.43	$ 5.66	$ 5.37
Shares outstanding as of December 31 (in millions)	624.7	601.5	624.0

[1] Profit attributable to common stockholders.

SARs and stock options to purchase 18,577,553, 5,468,512 and 543,971 and common shares were outstanding in 2009, 2008 and 2007, respectively, but were not included in the computation of diluted earnings per share because the effect would have been antidilutive.

19. Fair value disclosures

A. Fair value measurements

As discussed in Note 1K, we adopted the accounting guidance on fair value measurements as of January 1, 2008. This guidance 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 13 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, 2009 and 2008 are summarized below:

(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, 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

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, 2009 related to liabilities still held at December 31, 2009. 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 $208 million and $108 million for the years ended December 31, 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.

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 IV—Fair Values of Financial Instruments

	2009		2008		2007		
(Millions of dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Reference
Asset (liability) at December 31							
Cash and short-term investments	$ 4,867	$ 4,867	$ 2,736	$ 2,736	$ 1,122	$ 1,122	Statement 2
Available-for-sale securities	1,322	1,322	1,132	1,132	1,519	1,519	Notes 13 and 20
Finance receivables—net (excluding finance leases[1])	13,077	12,604	14,367	13,483	12,883	12,814	Note 8
Wholesale inventory receivables—net (excluding finance leases[1])	660	628	1,232	1,154	1,066	1,036	Note 7
Short-term borrowings	(4,083)	(4,083)	(7,209)	(7,209)	(5,468)	(5,468)	Note 15
Long-term debt (including amounts due within one year)							
Machinery and Engines	(5,954)	(6,674)	(6,192)	(6,290)	(3,819)	(4,118)	Note 16
Financial Products	(21,594)	(22,367)	(22,134)	(21,259)	(19,142)	(19,287)	Note 16
Foreign currency contracts—net	192	192	254	254	35	35	Notes 3 and 20
Interest rate swaps—net	34	34	371	371	57	57	Note 3
Commodity contracts—net	10	10	—	—	—	—	Note 3
Securitized retained interests	102	102	52	52	49	49	Notes 8 and 19
Guarantees	(17)	(17)	(14)	(14)	(12)	(12)	Notes 19 and 22

[1] Total excluded items have a net carrying value at December 31, 2009, 2008 and 2007 of $7,780 million, $8,951 million and $8,511 million, respectively.

20. Concentration of credit risk

Financial instruments with potential credit risk consist primarily of trade and finance receivables and short-term and long-term investments. Additionally, to a lesser extent, we have a potential credit risk associated with counterparties to derivative contracts.

Trade receivables are primarily short-term receivables from independently owned and operated dealers and customers which arise in the normal course of business. We perform regular credit evaluations of our dealers and customers. Collateral generally is not required, and the majority of our trade receivables are unsecured. We do, however, when deemed necessary, make use of various devices such as security agreements and letters of credit to protect our interests. No single dealer or customer represents a significant concentration of credit risk.

Finance receivables and wholesale inventory receivables primarily represent receivables under installment sales contracts, receivables arising from leasing transactions and notes receivable. We generally maintain a secured interest in the equipment financed. No single customer or dealer represents a significant concentration of credit risk.

Short-term and long-term investments are held with high quality institutions and, by policy, the amount of credit exposure to any one institution is limited. Long-term investments, 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, 2009, 2008 and 2007, the maximum exposure to credit loss was $514 million, $1,051 million and $204 million, respectively, before the application of any master netting agreements. Please refer to Note 19 and Table IV above for fair value information.

21. Operating leases

We lease certain computer and communications equipment, transportation equipment and other property through operating leases. Total rental expense for operating leases was $381 million, $402 million, and $362 million for 2009, 2008 and 2007, 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)						
2010	2011	2012	2013	2014	Thereafter	Total
$ 247	$ 193	$ 152	$ 120	$ 106	$ 438	$ 1,256

22. Guarantees and product warranty

We have provided an indemnity to a third-party insurance company for potential losses related to performance bonds issued on behalf of Caterpillar dealers. The bonds are issued to insure governmental agencies against nonperformance by certain 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, 2009, 2008 and 2007, the related liability was $17 million, $14 million and $12 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)	2009	2008	2007
Caterpillar dealer guarantees	$ 313	$ 375	$ 638
Customer guarantees	226	136	53
Limited indemnity	20	25	30
Other guarantees	64	43	39
Total guarantees	$ 623	$ 579	$ 760

We provide guarantees to repurchase certain loans of Caterpillar dealers from a financial trust (Trust) that qualifies as a variable interest entity. The purpose of the Trust is to provide short-term working capital loans to Caterpillar dealers. This Trust issues commercial paper and uses the proceeds to fund its loan program. We have a loan purchase agreement with the Trust that obligates us to purchase certain loans that are not paid at maturity. We receive a fee for providing this guarantee, which provides a source of liquidity for the Trust. At December 31, 2008, we determined that we were the primary beneficiary of the Trust as our guarantees would require us to absorb a majority of the entity's expected losses, and therefore consolidated the financial position of the Trust in the Consolidated Statement of Financial Position. As of December 31, 2009 and 2008, the Trust's assets of $231 million and $477 million, respectively, are primarily comprised of loans to dealers and the Trust's liabilities of $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 Trust, except to the extent we may be obligated to perform under the guarantee, and assets of the Trust are not available to pay our creditors.

Cat Financial is party to agreements in the normal course of business with selected customers and Caterpillar dealers in which we commit to provide a set dollar amount of financing on a pre-approved basis. We also provide lines of credit to selected customers and Caterpillar dealers, of which a portion remains unused as of the end of the period. Commitments and lines of credit generally have fixed expiration dates or other termination clauses. It has been our experience that not all commitments and lines of credit will be used. Management applies the same credit policies when making commitments and granting lines of credit as it does for any other financing.

We do not require collateral for these commitments/lines, but if credit is extended, collateral may be required upon funding. The amount of the unused commitments and lines of credit for dealers as of December 31, 2009, 2008 and 2007 was $7,312 million, $8,918 million and $8,249 million, respectively. The amount of the unused commitments and lines of credit for customers as of December 31, 2009, 2008 and 2007 was $2,089 million, $3,085 million and $3,001 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)	2009	2008	2007
Warranty liability, January 1	$ 1,201	$ 1,045	$ 953
Payments	(1,032)	(1,074)	(906)
Provisions	880	1,230	998
Warranty liability, December 31	$ 1,049	$ 1,201	$ 1,045

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 2008 and 2007 were not significant.

23. Environmental and legal matters

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

We are engaged in remedial activities at a number of locations, often with other companies, pursuant to federal and state laws. When it is probable we will pay remedial costs at a site and those costs can be reasonably estimated, the costs are charged against our earnings. In formulating that estimate, we do not consider amounts expected to be recovered from insurance companies or others. The amount recorded for environmental remediation is not material and is included in Accrued expenses in 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 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 engaging in negotiations with EPA to resolve these issues, but it is too early in the process to place precise estimates on the potential exposure to penalties. However, Caterpillar is cooperating with EPA and, based upon initial discussions, and although penalties could potentially exceed $100,000, management does not believe that this issue will have a material adverse impact on our 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. Each count seeks injunctive relief, as well as statutory penalties of $50,000 per violation and $10,000 per day of violation. 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 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 is preparing a response to the revised notice. At this time, we do not believe these proceedings will have a material adverse impact on our consolidated results of operations, financial position or liquidity.

24. Segment information

A. Basis for segment information

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

In the first quarter of 2009, our organizational responsibilities were changed significantly to align the machine product, manufacturing and marketing organizations. The new divisional structure and revised set of 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. These activities were previously included within product and component divisions, manufacturing divisions and machinery marketing divisions. Inter-segment sales of components may also be a source of revenue for 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 may also be a source of revenue for these divisions.
- Component business divisions are profit centers primarily responsible for product management, development, manufacturing, marketing and product support for internal and external customers. Some of these activities were previously included within product and manufacturing divisions. 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. Previously manufacturing divisions were profit centers with inter-segment sales of components, machines and/or engines to product divisions as the primary sources of revenue.
- 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. Previously these functions were primarily performed by machinery marketing divisions.
- 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. Previously these organizations were considered service divisions.

The segment information for 2008 and 2007 has been retrospectively adjusted to conform to the 2009 presentation.

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 ($1,460 million, $1,333 million and $1,192 million for the years ended December 31, 2009, 2008 and 2007, 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-two operating segments, of which eleven 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-64.

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 eleven reportable segments and the business activities included in all other operating segments:

Building Construction Products: A machine business division primarily responsible for product management, development, manufacture, marketing, sales and product support of light construction machines, forestry 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.

Earthmoving: A machine business division primarily responsible for 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 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 product management, development, marketing, sales and product support of small, medium and large excavators, wheeled 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 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.

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 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 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.

Turbines: An engine business division primarily responsible for 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 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 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. Results for All Other operating segments are included as reconciling items between reportable segments and consolidated external reporting.

C. Segment measurement and reconciliations

Effective the first quarter of 2009, we made the following changes to our segment reporting methodology:

- Machine business divisions include actual manufacturing costs and assets from manufacturing service divisions. Previously these costs were valued on a manufacturing fee or transfer price basis and manufacturing assets were included in manufacturing divisions.

- Business divisions receive actual costs and assets from corporate services divisions, regional distribution services divisions and centers of excellence. Previously these costs were either charged to or excluded from profit center accountable profit while assets were included in service divisions. Costs for regional distribution services divisions and Marketing and Product Support Center of Excellence are allocated to business divisions based on budgeted external and inter-segment sales.

- The majority of other income and expense items are excluded from segment results. Previously they had been included.

- Certain corporate costs are allocated and included in the business division's accountable profit at budgeted levels. Any differences from budget are treated as reconciling items. Previously all these costs were excluded from accountable profit. The allocation is based on budgeted external and inter-segment sales and costs are not assigned to individual financial statement line items.

- Interest expense is not included in Machinery and Engines segment results. Previously interest expense was imputed (i.e., charged) to profit centers based on their level of accountable assets.

- Certain corporate assets are allocated and included in the business division's assets. Previously they were reconciling items between segment and consolidated reporting.

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 benefits are split; service and prior service costs are included in segment results based on plan participation. The remaining elements of net periodic benefit costs (at budget levels) are allocated to business divisions based on budgeted external and inter-segment sales (as part of the corporate cost allocation). Any differences from budget for the remaining elements are treated as reconciling items.

- 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-54 to A-58 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. Previously all these costs were excluded from accountable profit. 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. Table Reconciliation of Redundancy Costs on page A-56 has been included to illustrate how segment accountable profit would have been impacted by the redundancy costs. See Notes 14 and 27 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 between segment reporting and consolidated external reporting.

Table V – Segment Information
(Millions of dollars)

Reportable Segments

2009	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
Building Construction Products	$ 1,226	$ 23	$ 1,249	$ 36	$ (275)	$ 747	$ 27
Cat Japan	1,219	873	2,092	272	(303)	2,440	109
Earthmoving	3,154	74	3,228	96	(397)	2,197	130
Electric Power	2,268	18	2,286	26	129	702	23
Excavation	2,265	54	2,319	63	(400)	1,325	69
Large Power Systems	2,227	3,073	5,300	193	49	2,703	207
Logistics	695	1,256	1,951	107	400	828	51
Marine & Petroleum Power	2,664	64	2,728	19	212	747	56
Mining	2,905	119	3,024	73	329	1,141	40
Turbines	3,490	9	3,499	60	792	734	78
Total Machinery & Engines	$ 22,113	$ 5,563	$ 27,676	$ 945	$ 536	$ 13,564	$ 790
Financing & Insurance Services	3,139	—	3,139	742	399	28,022	976
Total	$ 25,252	$ 5,563	$ 30,815	$ 1,687	$ 935	$ 41,586	$ 1,766
2008							
Building Construction Products	$ 3,229	$ 57	$ 3,286	$ 35	$ (99)	$ 878	$ 63
Cat Japan	345	774	1,119	55	(28)	3,165	99
Earthmoving	7,467	144	7,611	85	435	2,477	315
Electric Power	3,634	24	3,658	24	253	1,068	75
Excavation	5,918	115	6,033	54	19	1,646	132
Large Power Systems	3,220	5,469	8,689	194	582	3,055	375
Logistics	850	1,570	2,420	111	388	971	125
Marine & Petroleum Power	4,066	85	4,151	15	421	758	80
Mining	4,270	226	4,496	63	590	1,339	71
Turbines	3,413	17	3,430	55	625	943	94
Total Machinery & Engines	$ 36,412	$ 8,481	$ 44,893	$ 691	$ 3,186	$ 16,300	$ 1,429
Financing & Insurance Services	3,561	—	3,561	755	548	32,900	1,608
Total	$ 39,973	$ 8,481	$ 48,454	$ 1,446	$ 3,734	$ 49,200	$ 3,037
2007							
Building Construction Products	$ 2,973	$ 53	$ 3,026	$ 37	$ (128)	$ 946	$ 49
Earthmoving	6,474	124	6,598	73	694	2,034	182
Electric Power	3,129	21	3,150	23	272	1,018	34
Excavation	5,364	104	5,468	46	266	1,323	100
Large Power Systems	2,973	4,586	7,559	181	431	2,590	236
Logistics	899	1,270	2,169	96	377	912	110
Marine & Petroleum Power	2,939	62	3,001	14	132	579	36
Mining	3,294	174	3,468	29	514	1,026	57
Turbines	2,880	14	2,894	57	424	862	77
Total Machinery & Engines	$ 30,925	$ 6,408	$ 37,333	$ 556	$ 2,982	$ 11,290	$ 881
Financing & Insurance Services	3,372	—	3,372	673	778	30,401	1,367
Total	$ 34,297	$ 6,408	$ 40,705	$ 1,229	$ 3,760	$ 41,691	$ 2,248

Reconciliation of Sales and Revenues:

(Millions of dollars)	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
2009				
Total external sales and revenues from reportable segments	$ 22,113	$ 3,139	$ —	$ 25,252
All other operating segments	7,423	—	—	7,423
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	$ 36,412	$ 3,561	$ —	$ 39,973
All other operating segments	11,682	—	—	11,682
Other	(50)	27	(308) [1]	(331)
Total sales and revenues	$ 48,044	$ 3,588	$ (308)	$ 51,324
2007				
Total external sales and revenues from reportable segments	$ 30,925	$ 3,372	$ —	$ 34,297
All other operating segments	10,915	—	—	10,915
Other	122	24	(400) [1]	(254)
Total sales and revenues	$ 41,962	$ 3,396	$ (400)	$ 44,958

[1] Elimination of Financial Products revenues from Machinery and Engines.

Reconciliation of Profit Before Taxes:

(Millions of dollars)	Machinery and Engines	Financing & Insurance Services	Consolidated Total
2009			
Total accountable profit from reportable segments	$ 536	$ 399	$ 935
All other operating segments	(44)	—	(44)
Corporate costs	136	—	136
Timing	188	—	188
Redundancy costs	(654)	(10)	(664)
Methodology differences:			
Inventory/cost of sales	102	—	102
Postretirement benefit expense	38	—	38
Financing costs	(389)	—	(389)
Equity in profit of unconsolidated affiliated companies	12	—	12
Currency	256	—	256
Other methodology differences	(7)	6	(1)
Total profit before taxes	$ 174	$ 395	$ 569
2008			
Total accountable profit from reportable segments	$ 3,186	$ 548	$ 3,734
All other operating segments	1,250	—	1,250
Cost centers	65	—	65
Corporate costs	(195)	—	(195)
Timing	(30)	—	(30)
Employee separation charges	(30)	—	(30)
Methodology differences:			
Inventory/cost of sales	(30)	—	(30)
Postretirement benefit expense	53	—	53
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

(Millions of dollars)	Machinery and Engines	Financing & Insurance Services	Consolidated Total
2007			
Total accountable profit from reportable segments	$ 2,982	$ 778	$ 3,760
All other operating segments	1,798	—	1,798
Cost centers	(4)	—	(4)
Corporate costs	(225)	—	(225)
Timing	(25)	—	(25)
Methodology differences:			
Inventory/cost of sales	(44)	—	(44)
Postretirement benefit expense	62	—	62
Financing costs	(292)	—	(292)
Equity in profit of unconsolidated affiliated companies	(69)	(4)	(73)
Currency	50	—	50
Other methodology differences	(18)	1	(17)
Total profit before taxes	$ 4,215	$ 775	$ 4,990

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	$ (275)	$ (42)	$ (317)
Cat Japan	(303)	(26)	(329)
Earthmoving	(397)	(85)	(482)
Electric Power	129	(22)	107
Excavation	(400)	(61)	(461)
Large Power Systems	49	(90)	(41)
Logistics	400	(29)	371
Marine & Petroleum Power	212	(13)	199
Mining	329	(54)	275
Turbines	792	—	792
Financing & Insurance Services	399	(10)	389
All other operating segments	(44)	(232)	(276)
Consolidated Total	$ 891	$ (664)	$ 227

Reconciliation of Assets:

(Millions of dollars)	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
2009				
Total accountable assets from reportable segments	$ 13,564	$ 28,022	$ —	$ 41,586
All other operating segments	8,179	—	—	8,179
Items not included in segment assets:				
Cash and short-term investments	2,239	2,628	—	4,867
Intercompany receivables	106	1,053	(1,159)	—
Investment in Financial Products	4,514	—	(4,514)	—
Deferred income taxes and prepaids	4,131	150	(460)	3,821
Goodwill, intangibles and other assets	1,364	237	—	1,601
Liabilities included in segment assets	2,270	(6)	—	2,264
Inventory methodology differences	(2,735)	—	—	(2,735)
Other	564	(109)	—	455
Total assets	$ 34,196	$ 31,975	$ (6,133)	$ 60,038

(Millions of dollars)		Machinery and Engines		Financing & Insurance Services		Consolidating Adjustments		Consolidated Total
2008								
Total accountable assets from reportable segments	$	16,300	$	32,900	$	—	$	49,200
All other operating segments		9,245		—		—		9,245
Items not included in segment assets:								
Cash and short-term investments		1,517		1,219		—		2,736
Intercompany receivables		540		76		(616)		—
Investment in Financial Products		3,788		—		(3,788)		—
Deferred income taxes and prepaids		4,759		244		(474)		4,529
Goodwill, intangibles and other assets		1,224		29		—		1,253
Liabilities included in segment assets		2,967		—		—		2,967
Inventory methodology differences		(2,747)		—		—		(2,747)
Other		686		(87)		—		599
Total assets	$	38,279	$	34,381	$	(4,878)	$	67,782
2007								
Total accountable assets from reportable segments	$	11,290	$	30,401	$	—	$	41,691
All other operating segments		8,612		—		—		8,612
Items not included in segment assets:								
Cash and short-term investments		862		260		—		1,122
Intercompany receivables		366		113		(479)		—
Investment in Affiliates		461		—		—		461
Investment in Financial Products		3,996		—		(3,996)		—
Deferred income taxes and prepaids		2,701		138		(339)		2,500
Goodwill, intangibles and other assets		1,195		63		—		1,258
Liabilities included in segment assets		2,664		—		—		2,664
Inventory methodology differences		(2,483)		—		—		(2,483)
Other		412		(105)		—		307
Total assets	$	30,076	$	30,870	$	(4,814)	$	56,132

Reconciliation of Depreciation and amortization

(Millions of dollars)		Machinery and Engines		Financing & Insurance Services		Consolidating Adjustments		Consolidated Total
2009								
Total accountable depreciation and amortization from reportable segments	$	945	$	742	$	—	$	1,687
Items not included in segment depreciation and amortization:								
All other operating segments		486		—		—		486
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	$	691	$	755	$	—	$	1,446
Items not included in segment depreciation and amortization:								
All other operating segments		425		—		—		425
Cost centers		168		—		—		168
Other		(59)		—		—		(59)
Total depreciation and amortization	$	1,225	$	755	$	—	$	1,980
2007								
Total accountable depreciation and amortization from reportable segments	$	556	$	673	$	—	$	1,229
Items not included in segment depreciation and amortization:								
All other operating segments		383		—		—		383
Cost centers		169		—		—		169
Other		(15)		31		—		16
Total depreciation and amortization	$	1,093	$	704	$	—	$	1,797

Reconciliation of Capital expenditures (Millions of dollars)	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
2009				
Total accountable capital expenditures from reportable segments	$ 790	$ 976	$ —	$ 1,766
Items not included in segment capital expenditures:				
All other operating segments	420	—	—	420
Cost centers	119	—	—	119
Other	15	—	(4)	11
Total capital expenditures	$ 1,344	$ 976	$ (4)	$ 2,316
2008				
Total accountable capital expenditures from reportable segments	$ 1,429	$ 1,608	$ —	$ 3,037
Items not included in segment capital expenditures:				
All other operating segments	749	—	—	749
Cost centers	242	—	—	242
Other	1	4	(22)	(17)
Total capital expenditures	$ 2,421	$ 1,612	$ (22)	$ 4,011
2007				
Total accountable capital expenditures from reportable segments	$ 881	$ 1,367	$ —	$ 2,248
Items not included in segment capital expenditures:				
All other operating segments	576	—	—	576
Cost centers	221	—	—	221
Other	5	(1)	(9)	(5)
Total capital expenditures	$ 1,683	$ 1,366	$ (9)	$ 3,040

Enterprise-wide Disclosures:

External sales and revenues from products and services:

	2009	2008	2007
Machinery	$ 18,148	$ 31,804	$ 28,359
Engines	11,392	16,240	13,603
Financial Products	2,856	3,280	2,996
Total consolidated	$ 32,396	$ 51,324	$ 44,958

Information about Geographic Areas:

	External Sales & Revenues [1]			Net property, plant and equipment December 31,		
	2009	2008	2007	2009	2008	2007
Inside United States	$ 10,560	$ 17,291	$ 17,091	$ 6,260	$ 6,473	$ 5,782
Outside United States	21,836	34,033	27,867	6,126[2]	6,051[2]	4,215[2]
Total	$ 32,396	$ 51,324	$ 44,958	$ 12,386	$ 12,524	$ 9,997

[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 $1,432 million, $1,533 million and $61 million of net property, plant and equipment located in Japan as of December 31, 2009, 2008 and 2007, respectively. Additionally, amount includes $731 million, $725 million and $709 million of net property, plant and equipment located in the United Kingdom as of December 31, 2009, 2008 and 2007, respectively.

25. Business combinations and alliances

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, China, Russia, South Africa, and Turkey. 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 have each contributed $19 million during 2009. In addition, each is committed to provide the joint venture with up to an additional $113 million of required funding over the following three years. 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 24. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

Gremada Industries Inc.

In July 2008, we acquired certain assets and assumed certain liabilities of Gremada Industries, Inc. (Gremada), a supplier to our remanufacturing business. The cost of the acquisition was $62 million, consisting of $60 million paid at closing and an additional $2 million post-closing adjustment paid in August 2008. Gremada is a remanufacturer of transmissions, torque converters, final drives and related components. This acquisition increases our product and service offerings for our existing customers, while providing a platform for further growth opportunities.

This transaction was financed with available cash and commercial paper borrowings. Net tangible assets acquired and liabilities assumed of $21 million were recorded at their fair values. Goodwill of $41 million, deductible for income tax purposes, represents the excess cost over the fair value of net tangible and finite-lived intangible assets acquired. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and are reported in the "All Other" category in Note 24. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

Shin Caterpillar Mitsubishi Ltd. (SCM)

On August 1, 2008, SCM completed the first phase of a share redemption plan whereby SCM redeemed half of MHI's shares in SCM for $464 million. This resulted in Caterpillar owning 67 percent of the outstanding shares of SCM and MHI owning the remaining 33 percent. As part of the share redemption, SCM was renamed Caterpillar Japan Ltd. (Cat Japan). Both Cat Japan and MHI have options, exercisable after five years, to require the redemption of the remaining shares owned by MHI, which if exercised, would make Caterpillar the sole owner of Cat Japan. The share redemption plan is part of our comprehensive business strategy for expansion in the emerging markets of Asia and the Commonwealth of Independent States and will allow Cat Japan's manufacturing, design and process expertise to be fully leveraged across the global Caterpillar enterprise.

The change in Caterpillar's ownership interest from 50 percent to 67 percent was accounted for as a business combination. The $464 million redemption price was assigned to 17 percent of Cat Japan's assets and liabilities based upon their respective fair values as of the transaction date. The revaluation resulted in an increase in property, plant and equipment of $78 million and an increase in inventory of $8 million over the book value of these assets. Finite-lived intangible assets of $54 million were recognized and related primarily to customer relationships, intellectual property and trade names. These intangibles are being amortized on a straight-line basis over a weighted-average amortization period of approximately 9 years. Deferred tax liabilities of $57 million were also recognized as part of the business combination. Goodwill of $206 million, non-deductible for income tax purposes, represents the excess of the redemption price over the 17 percent of Cat Japan's net tangible and finite-lived intangible assets that were reported at their fair values.

Because Cat Japan is accounted for on a lag, we consolidated Cat Japan's August 1, 2008 financial position on September 30, 2008. We began consolidating Cat Japan's results of operations in the fourth quarter of 2008. Including the amounts assigned as part of the business combination, the initial consolidation of Cat Japan's financial position resulted in a net increase in assets of $2,396 million (primarily property, plant and equipment of $1,279 million, inventory of $640 million, receivables of $612 million, and goodwill and intangibles of $260 million partially offset by a $528 million reduction in investment in unconsolidated affiliates) and a net increase in liabilities of $2,045 million (including $1,388 million in debt). Cat Japan's functional currency is the Japanese yen.

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 26 for information on the subsequent reporting of the redeemable noncontrolling interest.

Cat Japan is included in the "Cat Japan" segment in Note 24. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

Forestry Division of Blount International, Inc.

In November 2007, we acquired substantially all of the assets and assumed certain liabilities of Blount International's Forestry Division. The cost of the acquisition was $82 million, consisting of $79 million in cash and a net employee benefit liability incurred of $3 million. Blount's Forestry Division manufactures, markets and supports timber harvesting and processing equipment, loaders and attachments. The acquisition supports our corporate objective to be the forestry market leader and enables us to offer the broadest product line in the industry with a full range of products and services for logging, millyard, road-building and land management.

This transaction was financed with available cash and commercial paper borrowings. Net tangible assets acquired and liabilities assumed of $36 million were recorded at their fair values. Finite-lived intangible assets acquired of $24 million related to customer relationships, intellectual property and trade names are being amortized on a straight-line basis over a weighted-average amortization period of approximately 9 years. Goodwill of $22 million, deductible for income tax purposes, represents the excess of cost over the fair value of net tangible and finite-lived intangible assets acquired. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and reported in the "Building Construction Products" segment in Note 24. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

In the fourth quarter of 2009, our annual goodwill impairment test indicated the $22 million of goodwill assigned to our Forest Products reporting unit was impaired. The implied fair value of the goodwill was determined to be zero, resulting in a goodwill impairment charge of $22 million. See Note 12 for additional information.

Franklin Power Products

In February 2007, we acquired certain assets and assumed certain liabilities of Franklin Power Products, Inc. (FPP) and International Fuel Systems, Inc. (IFS), subsidiaries of Remy International. In June 2007, pursuant to the acquisition agreement, additional assets were purchased from Remy International for $7 million which increased the total purchase price to approximately $165 million, consisting of $160 million paid at the closings and an additional $5 million post closing adjustment paid in July 2007. FPP is a remanufacturer of on-highway light and medium duty truck diesel engines and engine components. IFS provides remanufactured diesel components such as high-pressure fuel pumps, fuel injectors and turbochargers. This acquisition represents a strategic expansion of our engine and engine component remanufacturing operations.

This transaction was financed with available cash and commercial paper borrowings. Net tangible assets acquired and liabilities assumed of $39 million were recorded at their fair values. Finite-lived intangible assets acquired of $89 million related to customer relationships are primarily being amortized on a straight-line basis over 20 years. Goodwill of $37 million, deductible for income tax purposes, represents the excess of cost over the fair value of net tangible and finite-lived intangible assets acquired. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and reported in the "All Other" category in Note 24. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

26. Redeemable Noncontrolling Interest – Caterpillar Japan Ltd.

On August 1, 2008, SCM completed the first phase of a share redemption plan whereby SCM redeemed half of 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 Cat Japan. Both Cat Japan and MHI have options, exercisable after five years, to require the redemption of the remaining shares owned by MHI, which if exercised, would make Caterpillar the sole owner of Cat Japan. See Note 25 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 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, 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. If worldwide economic conditions deteriorate and Cat Japan's business forecast is negatively impacted, it is reasonably possible that the fair value of the redeemable noncontrolling interest may fall below the estimated redemption value in the near term. 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 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, 2009 and 2008, the redeemable noncontrolling interest was $477 million and $524 million, respectively.

27. 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.

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 and 2009 separation charges by geographic region:

	Machinery and Engines					
(Millions of dollars)	North America	EAME	Latin America	Asia/ Pacific	Financial Products[1]	Total
2008 Separation charges	$ 4	$ 17	$ 9	$ —	$ —	$ 30
2008 Benefit payments and other adjustments	—	(12)	(7)	—	—	(19)
Liability balance at December 31, 2008	$ 4	$ 5	$ 2	$ —	$ —	$ 11
2009 Separation charges	$ 323	$ 102	$ 15	$ 31	$ 10	$ 481
2009 Benefit payments and other adjustments	(313)	(78)	(17)	(25)	(10)	(443)
Liability balance at December 31, 2009	$ 14	$ 29	$ —	$ 6	$ —	$ 49

[1] Includes $8 million for North America and $2 million for EAME.

The remaining balances as of December 31, 2009 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 will be paid in the first half of 2010.

The following table summarizes the number of employees that accepted or were subject to the 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

The majority of the employees that accepted or were subject to the programs but were still employed as of December 31, 2009 will be separated by the end of the first quarter 2010.

In addition to the 2009 separation charges noted above, we recognized $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 14 for additional information.

The majority of the separation charges, made up primarily of cash severance payments, and pension and other postretirement benefit 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 24 for additional details surrounding this reconciliation.

28. Selected quarterly financial results (unaudited)

(Dollars in millions except per share data)	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
	2008 Quarter 1st	2nd	3rd	4th
Sales and revenues	$ 11,796	$ 13,624	$ 12,981	$ 12,923
Less: Revenues	(817)	(827)	(833)	(803)
Sales	10,979	12,797	12,148	12,120
Cost of goods sold	8,609	10,036	9,704	10,066
Gross margin	2,370	2,761	2,444	2,054
Profit (loss) [1]	$ 922	$ 1,106	$ 868	$ 661
Profit (loss) per common share	$ 1.49	$ 1.80	$ 1.43	$ 1.10
Profit (loss) per common share—diluted [2]	$ 1.45	$ 1.74	$ 1.39	$ 1.08

[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)

	2009	2008	2007	2006	2005
Years ended December 31,					
Sales and revenues	$ 32,396	$ 51,324	$ 44,958	$ 41,517	$ 36,339
Sales	$ 29,540	$ 48,044	$ 41,962	$ 38,869	$ 34,006
Percent inside the United States	31%	33%	37%	46%	47%
Percent outside the United States	69%	67%	63%	54%	53%
Revenues	$ 2,856	$ 3,280	$ 2,996	$ 2,648	$ 2,333
Profit[5, 6, 7]	$ 895	$ 3,557	$ 3,541	$ 3,537	$ 2,854
Profit per common share[1, 5, 6]	$ 1.45	$ 5.83	$ 5.55	$ 5.37	$ 4.21
Profit per common share—diluted[2, 5, 6]	$ 1.43	$ 5.66	$ 5.37	$ 5.17	$ 4.04
Dividends declared per share of common stock	$ 1.680	$ 1.620	$ 1.380	$ 1.150	$ 0.955
Return on average common stockholders' equity[3, 4, 6, 8]	11.9%	46.8%	44.4%	45.9%	35.7%
Capital expenditures:					
Property, plant and equipment	$ 1,348	$ 2,445	$ 1,700	$ 1,593	$ 1,201
Equipment leased to others	$ 968	$ 1,566	$ 1,340	$ 1,082	$ 1,214
Depreciation and amortization	$ 2,336	$ 1,980	$ 1,797	$ 1,602	$ 1,477
Research and development expenses	$ 1,421	$ 1,728	$ 1,404	$ 1,347	$ 1,084
As a percent of sales and revenues	4.4%	3.4%	3.1%	3.2%	3.0%
Wages, salaries and employee benefits	$ 7,416	$ 9,076	$ 8,331	$ 7,512	$ 6,928
Average number of employees	99,359	106,518	97,444	90,160	81,673
December 31,					
Total assets[4, 6]	$ 60,038	$ 67,782	$ 56,132	$ 51,449	$ 47,553
Long-term debt due after one year:					
Consolidated	$ 21,847	$ 22,834	$ 17,829	$ 17,680	$ 15,677
Machinery and Engines	$ 5,652	$ 5,736	$ 3,639	$ 3,694	$ 2,717
Financial Products	$ 16,195	$ 17,098	$ 14,190	$ 13,986	$ 12,960
Total debt:					
Consolidated	$ 31,631	$ 35,535	$ 28,429	$ 27,296	$ 25,745
Machinery and Engines	$ 6,387	$ 7,824	$ 4,006	$ 4,277	$ 3,928
Financial Products	$ 25,244	$ 27,711	$ 24,423	$ 23,019	$ 21,817

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 As discussed in Note 1K, effective December 31, 2006 we changed the manner in which we accounted for postemployment benefits.
5 As discussed in Note 2, in 2006 we changed the manner in which we accounted for stock-based compensation.
6 As discussed in Note 1K, in 2007 we changed the manner in which we accounted for uncertain tax positions.
7 Profit attributable to common stockholders.
8 As discussed in Note 29, effective January 1, 2009, we changed the manner in which we accounted for noncontrolling interests.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We reported sales and revenues of $32.396 billion for 2009, a decrease of 37 percent from $51.324 billion in 2008. Profit per share for 2009 was $1.43, down 75 percent from 2008. Excluding ***redundancy costs*** of $0.75, 2009 profit was $2.18 per share.

Fourth-quarter 2009 sales and revenues were $7.898 billion, down 39 percent from the fourth quarter of 2008. Profit per share for the quarter was $0.36, down 67 percent from the fourth quarter of 2008. Excluding redundancy costs, profit for the fourth quarter 2009 was $0.41 per share.

While the economy in 2009 was the worst our company has experienced since the Great Depression, we are proud to report that Team Caterpillar responded in an extraordinary way. We delivered solid profitability and cash flow and dramatically improved our balance sheet. In addition, we had continued access to debt markets, improved our liquidity position, expanded credit facilities and made a conscious decision to hold more cash. As a result, we maintained our dividend rate, made significant pension contributions and continued to invest in new products and selective new capacity. Our employees, dealers and suppliers in every region of the world pulled together to achieve these results, and we thank them for their hard work and sacrifice. As a result, we are exceptionally well positioned for continued industry leadership and growth as the global economy recovers.

Sales and revenues for 2009 decreased $18.928 billion from 2008, and profit of $895 million was down 75 percent from $3.557 billion in 2008. The decline in profit was primarily due to significantly lower ***sales volume***. The impact of lower volume was partially offset by lower costs, favorable income taxes and improved ***price realization***.

Highlights for 2009 include:

- Caterpillar's 37-percent decrease in sales and revenues in 2009 was the largest single-year percentage decline in sales and revenues since the 1940s.
- Caterpillar delivered profitability for the year at $1.43 per share, or $2.18 per share excluding redundancy costs.
- ***Manufacturing costs***, selling, general and administrative (SG&A) and research and development (R&D) expenses declined nearly $2 billion from 2008, and income taxes were favorable.
- Price realization improved by about 3 percent from 2008.
- Inventory declined $2.4 billion during 2009.
- In 2009, dealers reduced new machine inventories $3.3 billion and new engine inventories $600 million, helping them weather a very difficult year and positioning them for growth as economic conditions improve.
- Caterpillar improved its ***debt-to-capital ratio*** from 57.5 percent at year-end 2008 to 47.2 percent at year-end 2009. In addition, our consolidated cash balance increased $2.1 billion and was $4.9 billion at year-end 2009.
- Solid cash flow and profit enabled Caterpillar to maintain its dividend rate in 2009.
- Despite the impact of global economic conditions on capital markets in 2008 and 2009, Caterpillar and Cat Financial, our captive finance company, maintained access to capital—both short-term commercial paper and long-term debt. While Cat Financial's 2009 profit declined from 2008, it was profitable in every quarter of 2009.
- Caterpillar and Cat Financial maintained "mid-A" credit ratings throughout 2009.
- During 2009, Caterpillar made approximately $1.1 billion in contributions to pension plans through a combination of cash and Caterpillar stock. The funded status of plans was 61 percent at year-end 2008 and improved to 76 percent by year-end 2009. Contributions of approximately $1 billion are expected in 2010.
- Implementation of Caterpillar's "economic trough" actions, beginning in the fourth quarter of 2008 and throughout 2009, was a significant factor in delivering positive results.

2010 OUTLOOK

We expect 2010 sales and revenues to be up 10 to 25 percent from 2009, and profit is expected to be about $2.50 per share at the midpoint of the sales and revenues range.

We continue to see signs of economic improvement, particularly in China and most developing countries. We are also seeing signs of improvement in North America, Europe and Japan, but these economies remain weak and have not rebounded as quickly as developing countries.

We have seen a marked increase in demand for mining equipment—a result of continued strong commodity prices and growing confidence in economic recovery. We have also seen improvement in sales of aftermarket service parts, which is usually an early indicator of growing demand for machines and engines.

In addition to increased end-user demand, our sales are expected to improve as a result of changes in dealer inventories in 2009. Dealers reduced new machine inventories by more than $3.3 billion and new engine inventories by more than $600 million during 2009. This means our sales in 2009 were below end-user demand by nearly $4 billion. We expect relatively little change in dealer inventories in 2010 and as a result, our sales should be more in line with end-user demand.

We do not expect significant redundancy costs in 2010. Excluding redundancy, the most significant positive factors driving the profit outlook are higher sales volume, lower material costs and improved factory efficiency utilizing the *Caterpillar Production System (CPS)* with *6 Sigma*. The most significant unfavorable factors are higher taxes and an unfavorable mix of sales.

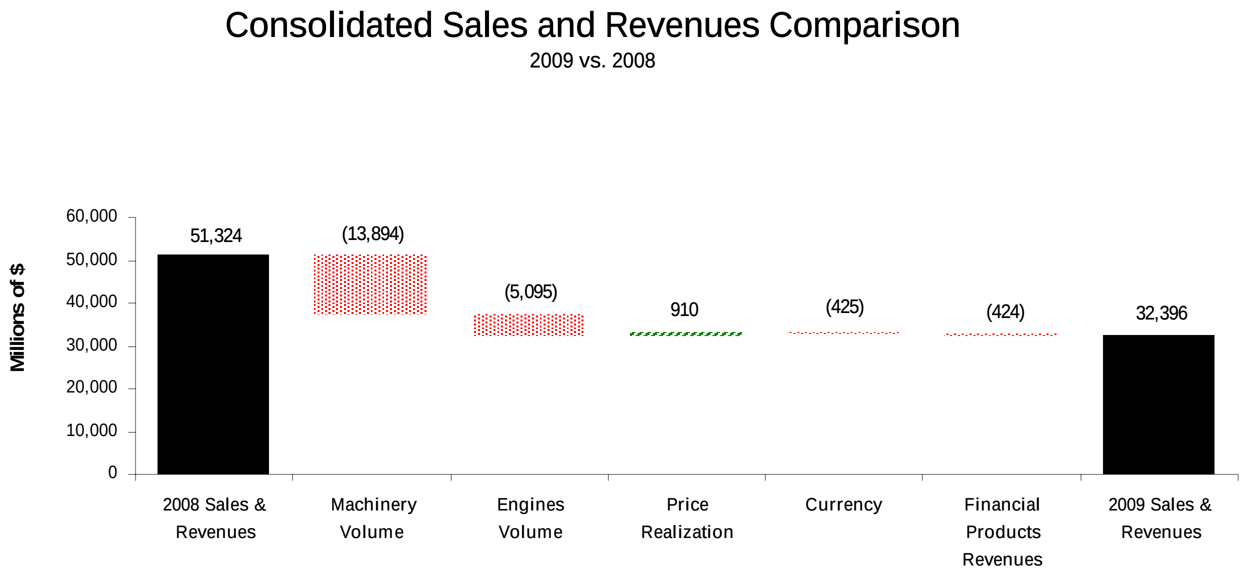
We are encouraged by signs of improving demand. Dealer sales to end users are up, order rates are up, dealer inventories came down in 2009, and we are seeing stronger service parts sales. As a result, we are focused on increasing production levels in our plants and with our suppliers. Although we expect efficiency improvements in 2010, higher production will require selective increases in employment, and we have already recalled more than 500 previously laid-off production employees.

We expect 2010 will be a better year than 2009, and we are in an excellent position to benefit from growth in the world economy.

*Glossary of terms included on pages A-87 to A-88; first occurrence of terms shown in bold italics.

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	EAME	% Change	Asia/ Pacific	% Change	Latin America	% Change
2009										
Machinery	$ 18,148	(43)%	$ 6,993	(45)%	$ 4,112	(55)%	$ 4,488	(21)%	$ 2,555	(38)%
Engines[1]	11,392	(30)%	3,652	(33)%	4,295	(32)%	2,365	(19)%	1,080	(31)%
Financial Products[2]	2,856	(13)%	1,714	(14)%	495	(16)%	379	5%	268	(18)%
	$ 32,396	(37)%	$ 12,359	(39)%	$ 8,902	(45)%	$ 7,232	(19)%	$ 3,903	(35)%
2008										
Machinery	$ 31,804		$ 12,769		$ 9,220		$ 5,709		$ 4,106	
Engines[1]	16,240		5,445		6,311		2,910		1,574	
Financial Products[2]	3,280		2,001		590		361		328	
	$ 51,324		$ 20,215		$ 16,121		$ 8,980		$ 6,008	

[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.

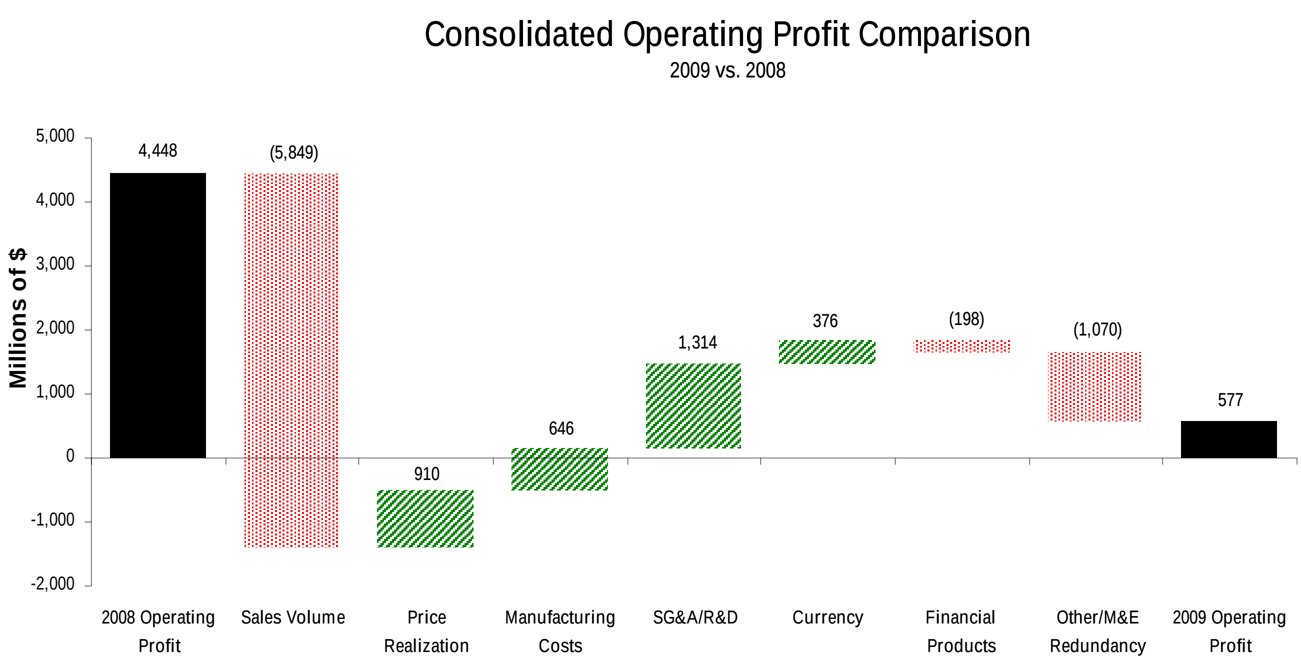
- Sales volume decreased $530 million.
- Price realization increased $32 million.
- Currency increased sales by $4 million.
- Sales for electric power applications decreased 49 percent due to worsening economic conditions and reduced availability of credit.
- Sales for petroleum applications decreased 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.

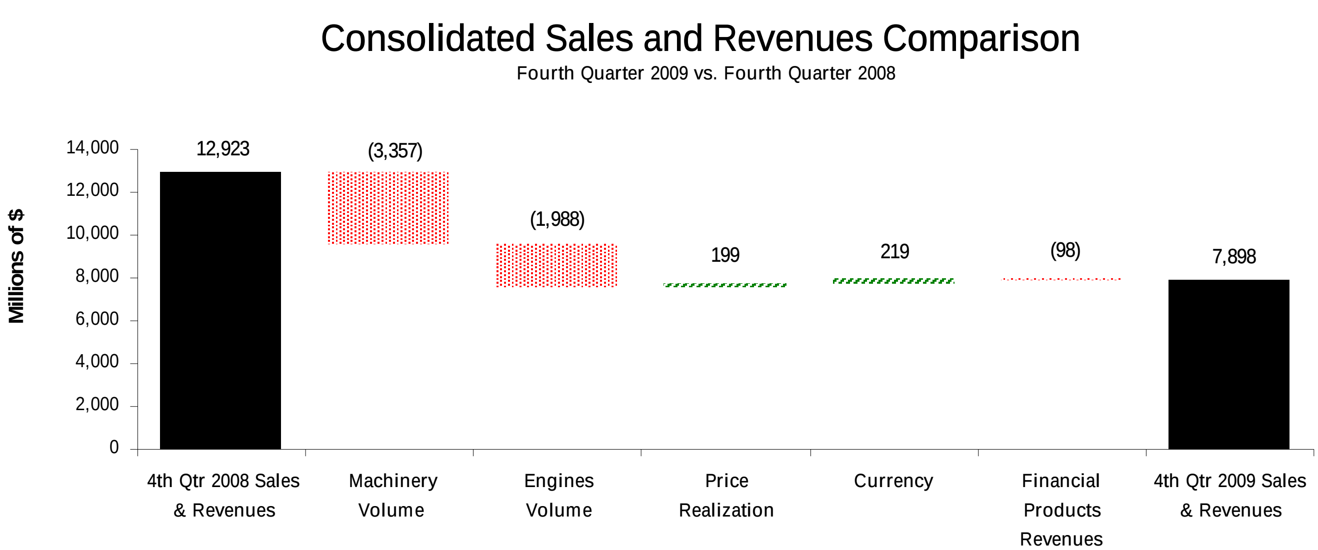
Supplemental Information

(Millions of dollars)	2009	2008	2007
Assets:			
Machinery	$ 22,037	$ 24,607	$ 18,291
Engines	12,159	13,672	11,785
Financial Products	31,975	34,381	30,870
Consolidating Adjustments	(6,133)	(4,878)	(4,814)
Total	$ 60,038	$ 67,782	$ 56,132
Capital Expenditures:			
Machinery	$ 810	$ 1,639	$ 1,099
Engines	534	782	584
Financial Products	976	1,612	1,366
Consolidating Adjustments	(4)	(22)	(9)
Total	$ 2,316	$ 4,011	$ 3,040
Depreciation and Amortization:			
Machinery	$ 1,120	$ 839	$ 655
Engines	474	386	438
Financial Products	742	755	704
Total	$ 2,336	$ 1,980	$ 1,797

Caterpillar operations are highly integrated; therefore, the company uses a number of allocations to determine lines of business financial data.

FOURTH QUARTER 2009 COMPARED WITH FOURTH QUARTER 2008

SALES AND REVENUES



The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between fourth quarter 2008 (at left) and fourth quarter 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 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 the fourth quarter of 2009 were $7.898 billion, down $5.025 billion, or 39 percent, from the fourth quarter 2008. Machinery sales volume was down $3.357 billion, and Engines volume declined $1.988 billion. Price realization improved $199 million, and currency had a positive impact on sales of $219 million, primarily due to a stronger Australian dollar and euro. In addition, Financial Products revenues decreased $98 million.

Our integrated service businesses tend to be more stable through the business cycle than new machines and engines. Although volume declined for these businesses from the fourth quarter of 2008, it was much less than the decline in sales and revenues for the company in total. Integrated service businesses represented about 48 percent of total company sales and revenues in the fourth quarter of 2009, up from about 32 percent in the fourth quarter of 2008.

Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	EAME	% Change	Asia/ Pacific	% Change	Latin America	% Change
Fourth Quarter 2009										
Machinery	$ 4,564	(41)%	$ 1,557	(45)%	$ 962	(52)%	$ 1,244	(25)%	$ 801	(32)%
Engines[1]	2,629	(41)%	751	(46)%	1,013	(39)%	609	(28)%	256	(53)%
Financial Products[2]	705	(12)%	416	(15)%	121	(16)%	95	7%	73	(9)%
	$ 7,898	(39)%	$ 2,724	(42)%	$ 2,096	(45)%	$ 1,948	(25)%	$ 1,130	(37)%
Fourth Quarter 2008										
Machinery	$ 7,675		$ 2,833		$ 2,013		$ 1,652		$ 1,177	
Engines[1]	4,445		1,379		1,670		849		547	
Financial Products[2]	803		490		144		89		80	
	$ 12,923		$ 4,702		$ 3,827		$ 2,590		$ 1,804	

[1] Does not include internal engine transfers of $434 million and $646 million in fourth quarter 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 $65 million and $66 million in fourth quarter 2009 and 2008, respectively.

Machinery Sales

Sales were $4.564 billion, a decrease of $3.111 billion, or 41 percent, from fourth quarter 2008.

- Sales volume decreased $3.357 billion.
- Price realization increased $83 million.
- Currency increased sales by $163 million.
- Geographic mix between regions (included in price realization) was $3 million unfavorable.
- Sales declined significantly from the fourth quarter of 2008 as a result of severe economic decline. While lower than 2008, sales on a seasonally adjusted basis improved as we progressed through the quarter.
- Most dealers continued to reduce reported inventories in the fourth quarter of 2009. Dealer inventories were well below last year in both dollars and months of supply. Months of supply ended the year in line with the historical average.
- Developing countries responded quickly to the economic crisis with effective infrastructure spending programs and record-low interest rates. Monthly trends in end-user demand, based on dealer reporting, showed robust improvements over the quarter, particularly in Asia and Latin America.
- Recoveries in the larger developing economies of Brazil, China and India progressed, and dealer deliveries were higher than a year earlier.
- In contrast, the developed economies of North America, Europe and Japan had longer, deeper recessions than the developing economies. These recoveries, which started in the second or third quarter of 2009, have been more subdued. As a result, declines in dealer deliveries from the fourth quarter of 2008 were much larger on a percentage basis than in developing economies.

North America – Sales decreased $1.276 billion, or 45 percent.

- Sales volume decreased $1.288 billion.
- Price realization increased $10 million.
- Currency increased sales by $2 million.
- Both the U.S. and Canadian economies started to recover in the third quarter of 2009, and activity in key industries stabilized or began to improve in the fourth quarter.
- Dealer-reported deliveries to end users improved throughout the quarter.
- Dealers reduced reported inventories further, taking them to the lowest level since 1995. Inventories in months of supply were well below last year.

- U.S. housing starts, despite a modest recovery starting in the second quarter of 2009, were 16 percent below a year earlier. Canadian permits for home construction increased 24 percent, but starts were off 1 percent.
- U.S. orders for nonresidential building construction dropped 31 percent, the smallest quarterly year-over-year decline in 2009. This sector, which normally lags the overall economy, struggled with high vacancy rates and declining commercial property prices. Nonresidential construction permits in Canada increased almost 11 percent.
- U.S. contracts for highway and street construction increased 10 percent. The U.S. government's recovery program has already committed more than $20 billion in highway funding, mostly for pavement improvements.
- With total construction spending still declining, U.S. nonmetals mining and quarry production fell 15 percent. Canadian miners also reduced output.
- Metals prices, benefiting from a recovery throughout the year, were 40 percent higher in the fourth quarter than a year earlier. U.S. metals production improved during the quarter but was still down 7 percent compared to a year earlier. Canadian production dropped 29 percent.
- U.S. coal production declined 11 percent due to lower exports, reduced utility usage and high utility stocks. In contrast, Canadian production increased 2 percent.

EAME – Sales decreased $1.051 billion, or 52 percent.

- Sales volume decreased $1.127 billion.
- Price realization increased $9 million.
- Currency increased sales by $67 million.
- The European economy has started to recover from its worst postwar recession, and higher commodity prices have begun to benefit Africa/Middle East and CIS. As a result, year-over-year volume declines were less severe in the fourth quarter than in the prior two quarters.
- Dealers reduced reported inventories considerably during the quarter, taking inventories well below last year in both dollars and months of supply.
- Africa/Middle East accounted for more than half the sales volume decline, with inventory reductions a major contributor. End-user demand, as reported by dealers, declined significantly in South Africa where both mining and construction were weak. Demand also dropped sharply in the United Arab Emirates due to the Dubai financial crisis.
- The CIS was the next largest contributor to the volume decline as a result of severe recessions in both Russia and Ukraine. Construction declined 11 percent in Russia.
- The European economy recovered slowly, with both industrial production and retail sales lower than a year earlier. Dealer reports of their deliveries indicated some improvement during the quarter; however, delivery rates remained well below a year earlier.
- Housing permits in the euro-zone declined, but U.K. housing orders surged 27 percent. Nonresidential construction indicators dropped in both the euro-zone and the U.K.

Asia/Pacific – Sales decreased $408 million, or 25 percent.

- Sales volume decreased $505 million.
- Price realization increased $39 million.
- Currency increased sales by $58 million.
- Cat Japan's sales, included in both the fourth quarter of 2008 and the fourth quarter of 2009, were about flat.
- Dealer inventories ended 2009 well below 2008 in both dollars and months of supply. Months of supply were less than half the year-earlier level and were below the historical average.
- Governments responded to the economic crisis by increasing infrastructure spending, and most central banks took interest rates to record lows. Economies responded quickly and recoveries are underway. Dealers in developing countries reported deliveries to end users slightly higher than in fourth quarter 2008.
- Dealer deliveries increased in China. Infrastructure spending and a 33-percent increase in bank lending benefited construction and our dealer deliveries.
- India's interest rate reductions led to an 11-percent increase in industrial production, and economic recovery in Indonesia increased both construction spending and mining.

- In Australia, approvals for new construction increased but low approvals in prior months continued to depress deliveries in the fourth quarter of 2009.
- The Japanese economy remained weak in the fourth quarter 2009. Private construction orders fell 22 percent; public orders fell 20 percent.

Latin America – Sales decreased $376 million, or 32 percent.

- Sales volume decreased $440 million.
- Price realization increased $28 million.
- Currency increased sales by $36 million.
- Dealer inventories were lower than a year earlier in both dollars and months of supply. Months of supply were about half the year-earlier level and below the historical average.
- The region is recovering from recession, with declines in both construction and mining moderating the last two quarters. Trends in dealer-reported deliveries improved during the quarter, and the year-over-year decline in the fourth quarter was much lower than for the two prior quarters.
- In Brazil, record-low interest rates led to slightly higher industrial production.
- In Mexico, construction spending declined 7 percent. Close ties to the U.S. economy and relatively slow interest rate reductions caused a severe recession.

Engines Sales

Sales were $2.629 billion, a decrease of $1.816 billion, or 41 percent, from fourth quarter 2008.

- Sales volume decreased $1.988 billion.
- Price realization increased $116 million.
- Currency increased sales by $56 million.
- Geographic mix between regions (included in price realization) was $5 million favorable.
- Dealer-reported inventories were down, and months of supply increased, as dealer deliveries declined.

North America – Sales decreased $628 million, or 46 percent.

- Sales volume decreased $646 million.
- Price realization increased $17 million.
- Currency increased sales by $1 million.
- Sales for petroleum applications decreased 60 percent primarily due to a decrease in sales for petroleum engines used for gas compression and drilling as well as lower turbine sales.
- Sales for electric power applications decreased 44 percent due to weak economic conditions, reduced availability of credit and lower turbine sales.
- Sales for industrial applications decreased 47 percent based on substantially lower demand in construction and agricultural applications due to economic uncertainty and tight credit conditions.

EAME – Sales decreased $657 million, or 39 percent.

- Sales volume decreased $733 million.
- Price realization increased $52 million.
- Currency increased sales by $24 million.
- Sales for electric power applications decreased 32 percent due to weak economic conditions and reduced availability of credit combined with dealer efforts to reduce inventory, partially offset by higher turbine sales.
- Sales for marine applications decreased 61 percent due to weak economic conditions.
- Sales for industrial applications decreased 46 percent based on significantly lower demand in construction and agricultural applications due to weak economic conditions and reduced availability of credit.

- Sales for petroleum applications decreased 27 percent primarily due to a slowdown in demand for engines used in production applications and land-based drilling as well as lower turbine sales.

Asia/Pacific – Sales decreased $240 million, or 28 percent.

- Sales volume decreased $299 million.
- Price realization increased $40 million.
- Currency increased sales by $19 million.
- Sales for petroleum applications decreased 38 percent primarily due to a slowdown in Chinese land-based drill activity and lower turbine sales.
- Sales of electric power applications decreased 26 percent due to cancelled and delayed projects in China and India, partially offset by higher turbine sales.
- Sales for marine applications decreased 23 percent due to weak economic conditions, partially offset by a strong order backlog for workboat and general cargo vessels.

Latin America – Sales decreased $291 million, or 53 percent.

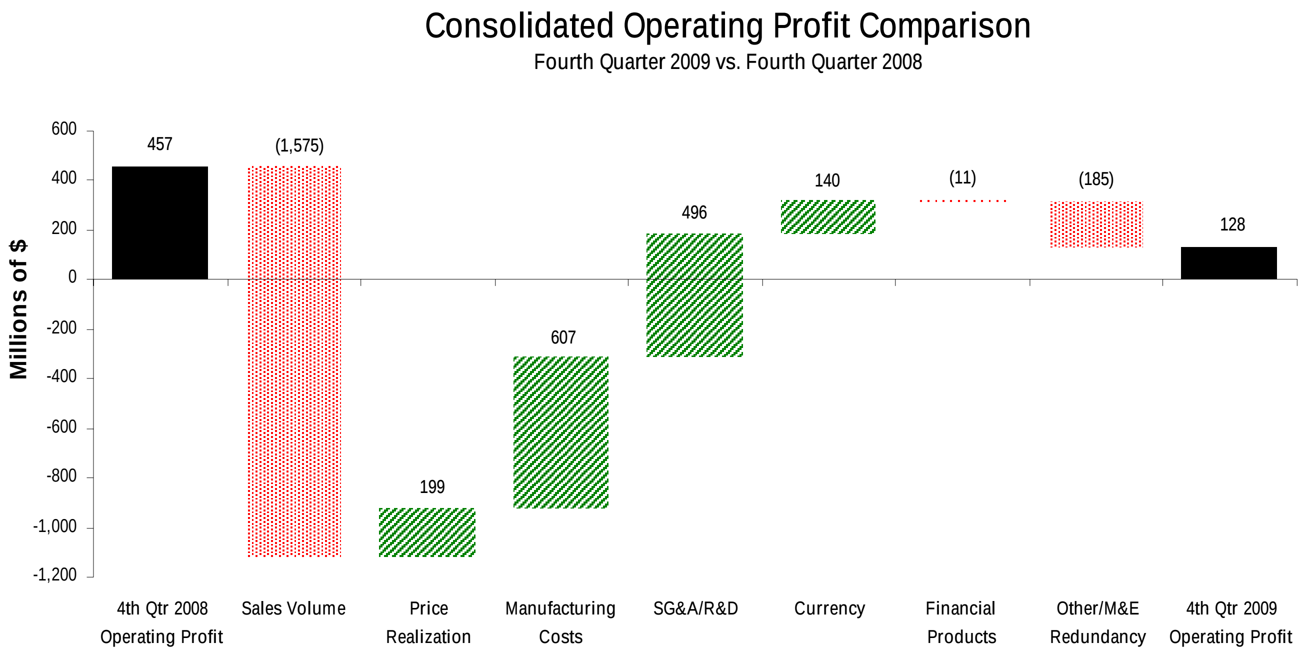
- Sales volume decreased $305 million.
- Price realization increased $2 million.
- Currency increased sales by $12 million.
- Sales of electric power applications decreased 76 percent due to weak economic conditions, reduced availability of credit and lower turbine sales.
- Sales for petroleum applications decreased 46 percent due to a slowdown in demand for production power applications, especially in Argentina, and lower turbine sales.

Financial Products Revenues

Revenues were $705 million, a decrease of $98 million, or 12 percent, from fourth quarter 2008.

- Lower average earning assets decreased revenues $49 million.
- Other revenues at Cat Financial decreased $25 million, primarily due to the unfavorable impact from returned or repossessed equipment.

OPERATING PROFIT



The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between fourth quarter 2008 (at left) and fourth quarter 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, Cat Japan and Machinery and Engines other operating (income) expenses, which include Machinery and Engines redundancy costs.

Fourth-quarter 2009 operating profit was $128 million compared to operating profit of $457 million in the fourth quarter of 2008. The sharp decline in sales volume lowered operating profit $1.575 billion. Price realization improved $199 million.

Manufacturing costs improved $607 million, of which $70 million ($0.09 per share) was related to LIFO inventory decrement benefits. Excluding decrement benefits, manufacturing costs improved $537 million. Overhead, material and labor costs were favorable. Selling, general and administrative (SG&A) and research and development (R&D) expenses declined $496 million as a result of significant cost-cutting measures.

Currency had a $140 million favorable impact on operating profit as the benefit to sales more than offset the negative impact on costs. Cat Japan unfavorably impacted operating profit by $87 million. Redundancy costs were $65 million in the fourth quarter of 2009.

Operating Profit (Loss) by Principal Line of Business

(Millions of dollars)	Fourth Quarter 2009	Fourth Quarter 2008	$ Change	% Change
Machinery[1]	$ (123)	$ (6)	$ (117)	—
Engines[1]	242	438	(196)	(45)%
Financial Products	63	74	(11)	(15)%
Consolidating Adjustments	(54)	(49)	(5)	
Consolidated Operating Profit	$ 128	$ 457	$ (329)	(72)%

[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.

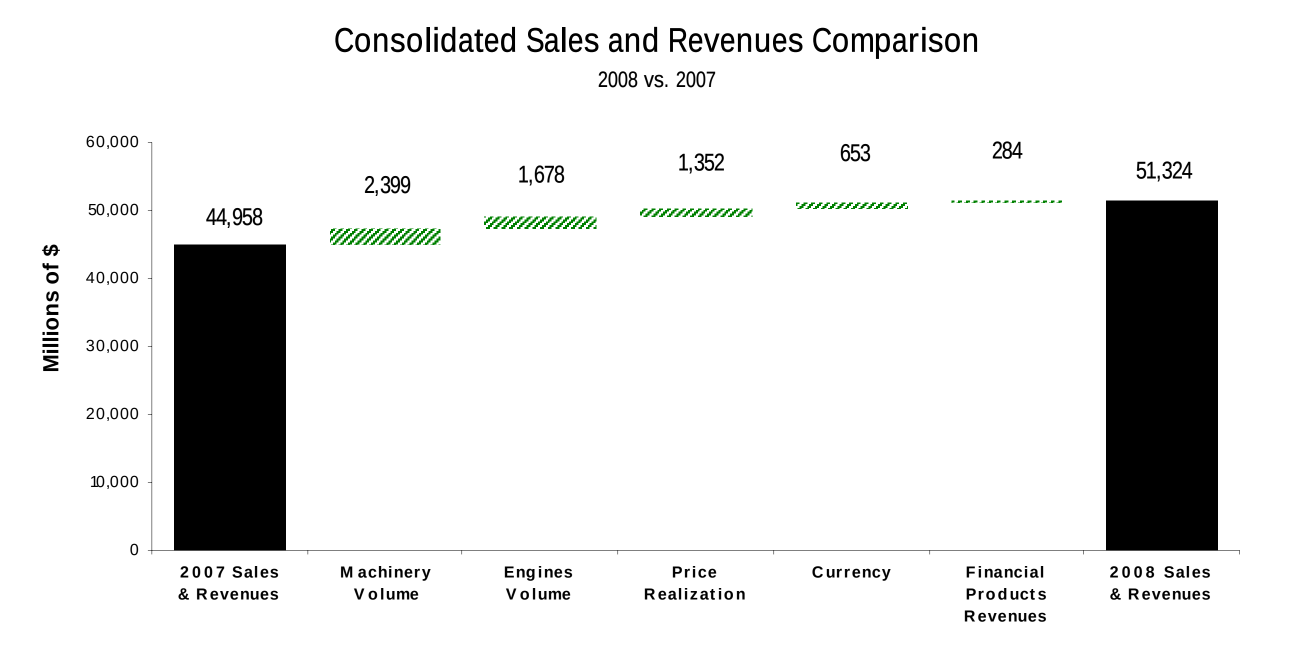
- **Machinery** operating loss was $123 million compared to an operating loss of $6 million in the fourth quarter of 2008. Sharply lower sales volume and losses at Cat Japan were partially offset by a decrease in manufacturing costs, lower SG&A and R&D expenses, improved price realization and LIFO inventory decrement benefits.
- **Engines** operating profit of $242 million was down $196 million, or 45 percent, from the fourth quarter of 2008. Sharply lower sales volume was partially offset by lower SG&A and R&D expenses, improved price realization and the favorable impact of currency. Operating profit for turbines decreased primarily due to lower sales volume, but represented about 70 percent of total Engines operating profit in the fourth quarter of 2009 compared with about half in the fourth quarter 2008.
- **Financial Products** operating profit of $63 million was down $11 million, or 15 percent, from the fourth quarter of 2008. The decrease was primarily attributable to a $23 million unfavorable impact from returned or repossessed equipment and a $21 million unfavorable impact from lower average earning assets, partially offset by a $31 million impact from increased net yield on average earning assets.

OTHER PROFIT/LOSS ITEMS

- **Interest expense excluding Financial Products** increased $17 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 $88 million compared with expense of $24 million in the fourth quarter of 2008. The increase was primarily related to the absence of unfavorable mark-to-market adjustments on interest rate derivative contracts at Cat Financial and the impairment of investments in Cat Insurance's portfolio during the fourth quarter of 2008. In addition, currency exchange gains and losses were favorable.
- **The provision/benefit for income taxes** for the fourth quarter of 2009 reflects a more favorable geographic mix of profits and losses from a tax perspective and a larger percentage benefit from U.S. permanent differences and credits including the research and development tax credit than the fourth quarter of 2008. An actual (discrete period) calculation was used to report the quarterly tax provision during 2009 as the estimated range of profit before tax produced significant variability and made it difficult to reasonably estimate the annual effective tax rate. This approach results in more volatility in the quarterly effective tax rate, particularly with the reduced overall profit levels. The fourth quarter of 2008 included a $409 million benefit due 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 expense of $13 million compared with profit of $5 million in the fourth quarter of 2008. The decrease is primarily related to start-up expenses from NC^2 Global LLC, our joint venture with Navistar.
- **Profit/loss attributable to noncontrolling interests** (formerly minority interest) favorably impacted profit by $28 million from the fourth quarter of 2008, primarily due to losses at Cat Japan in 2009. One-third of Cat Japan's losses are attributable to Mitsubishi Heavy Industries.

2008 COMPARED WITH 2007

SALES AND REVENUES



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

Sales and revenues for 2008 were $51.324 billion, up $6.366 billion, or 14 percent, from 2007. Machinery sales volume was up $2.399 billion, driven by strength in developing economies. Engines sales volume increased $1.678 billion due to growth in all major industries, with particular strength in petroleum.

In addition, price realization contributed $1.352 billion, currency had a positive impact on sales of $653 million driven primarily by the stronger euro and Financial Products revenues increased 9 percent.

Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	EAME	% Change	Asia/ Pacific	% Change	Latin America	% Change
2008										
Machinery	$ 31,804	12%	$ 12,769	1%	$ 9,220	7%	$ 5,709	42%	$ 4,106	30%
Engines[1]	16,240	19%	5,445	7%	6,311	20%	2,910	36%	1,574	39%
Financial Products[2]	3,280	9%	2,001	—	590	23%	361	50%	328	21%
	$ 51,324	14%	$ 20,215	3%	$ 16,121	13%	$ 8,980	40%	$ 6,008	32%
2007										
Machinery	$ 28,359		$ 12,596		$ 8,588		$ 4,026		$ 3,149	
Engines[1]	13,603		5,092		5,245		2,136		1,130	
Financial Products[2]	2,996		2,007		479		240		270	
	$ 44,958		$ 19,695		$ 14,312		$ 6,402		$ 4,549	

[1] Does not include internal engine transfers of $2.822 billion and $2.549 billion in 2008 and 2007, respectively. Internal engine transfers are valued at prices comparable to those for unrelated parties.

[2] Does not include revenues earned from Machinery and Engines of $308 million and $400 million in 2008 and 2007, respectively.

Machinery Sales

Sales of $31.804 billion increased $3.445 billion, or 12 percent, from 2007

- Excluding the consolidation of Cat Japan, sales volume increased $2.138 billion, with the gain occurring in the developing economies of Africa/Middle East, Commonwealth of Independent States (CIS), Asia/Pacific and Latin America.
- Price realization increased $541 million.
- Currency benefited sales by $505 million.
- Geographic mix between regions (included in price realization) was $2 million favorable.
- The consolidation of Cat Japan added $261 million to 2008 sales.
- Dealers in all regions reported higher inventories than year-end 2007 in both dollars and months of supply.
- The U.S. economy was in recession throughout 2008, which contributed to weaknesses in both construction and quarrying. Coal mining and oil sands development were about the only positives for North America.
- The euro-zone entered recession in the second quarter and the United Kingdom in the third quarter. As a result of these recessions, housing construction declined sharply, nonresidential construction weakened and sales volume declined.
- Sales improved in the developing regions of Africa/Middle East, CIS, Asia/Pacific and Latin America through the first three quarters of 2008. However, growth slowed sharply in the fourth quarter in response to weakening economies.

North America – Sales increased $173 million, or 1 percent.

- Sales volume decreased $143 million.
- Price realization increased $316 million.
- Dealers added slightly to reported inventories this year, a contrast to more than a billion-dollar reduction in 2007. Dealers reported higher inventories than a year earlier in both dollars and months of supply.
- Dealers reported significantly lower deliveries to end users, a result of the recession in the United States that persisted throughout the year. That recession led to lower sales in most key industries other than coal mining and the Canadian oil sands.
- U.S. housing starts declined to 904 thousand units, the lowest since 1945. Negatives for housing included a severe tightening in mortgage lending standards, sharp declines in home prices and more than an 11-month supply of unsold new homes. Canadian housing starts declined 6 percent.
- Spending for U.S. nonresidential construction increased in response to the surge in new orders over the past few years. However, new orders for commercial construction declined 18 percent in 2008. Problems for building construction included increased vacancy rates, declines in property prices and tighter credit conditions for businesses.
- New orders for highway construction declined almost 7 percent. Unfavorable factors included limited growth in Federal highway funding, state and local government budget difficulties and a sharp increase in material input prices.
- Nonmetals mining and quarry production dropped almost 14 percent in response to lower construction activity.
- The Central Appalachian coal price rose 90 percent, driven by a 43-percent increase in U.S. coal exports. U.S. coal production increased 2.2 percent, and Canadian production rose 1.2 percent. As a result, sales of the large tractors used in coal mining surged.
- Investment in Canadian oil sands increased 23 percent, benefiting from a 38-percent increase in crude oil prices.

EAME – Sales increased $632 million, or 7 percent.

- Sales volume increased $196 million.
- Price realization increased $66 million.
- Currency benefited sales by $370 million.
- Dealers reported year-end 2008 inventories that were significantly higher than a year earlier in both dollars and months of supply.
- Sales volume dropped in both the euro-zone and the United Kingdom, due to recessions and a slowing in construction.

- Housing permits in the euro-zone dropped 22 percent, and U.K. housing orders fell 35 percent. High interest rates and home price declines in several European countries contributed to weakness in housing.
- Mining and energy development, as well as increased construction, caused sales volume to increase in Africa/Middle East. Oil prices increased 37 percent, and production rose more than 4 percent from a year earlier, which led to an increase in drilling.
- Sales volume increased significantly in the CIS region, despite economic problems that developed in the fourth quarter. Positive factors included low interest rates, increased government spending, increased energy prices and higher production of most energy commodities.

Asia/Pacific – Sales increased $1,683 million, or 42 percent.

- Sales volume excluding the consolidation of Cat Japan increased $1,254 million.
- Price realization increased $91 million.
- Currency benefited sales by $77 million.
- The consolidation of Cat Japan added $261 million to 2008 sales.
- Dealers reported year-end 2008 inventories that were significantly higher than a year earlier in both dollars and months of supply.
- The largest gain in sales volume occurred in China, the result of higher sales of locally produced wheel loaders and increased construction activity.
- Another large gain in sales volume occurred in Indonesia, largely due to much higher coal prices. Indonesia is the world's largest exporter of thermal coal, and coal supplies in Asia were very tight for most of the year.
- Sales volume increased in Australia, primarily due to high metals and energy prices. Capital expenditures for mineral development increased 37 percent, and expenditures for coal increased 46 percent. Rapid growth in the mining industry stretched infrastructure capacity so investment in infrastructure increased 13 percent.
- In India, 11-percent growth in construction and 4 percent higher mining output contributed to an increase in sales volume.

Latin America – Sales increased $957 million, or 30 percent.

- Sales volume increased $833 million.
- Price realization increased $66 million.
- Currency benefited sales by $58 million.
- Dealers reported year-end 2008 inventories that were significantly higher than a year earlier in both dollars and months of supply.
- Brazil had the largest increase in sales volume. Economic growth continued to benefit from interest rate reductions taken in 2007, resulting in a 10-percent increase in construction. Iron ore exports increased 62 percent, due to increased production and much higher prices.
- Sales volume increased sharply in Mexico. Positives included much higher oil prices, increased natural gas production and 3-percent growth in construction.
- Sales volume growth in Colombia occurred in response to much higher coal prices. In Chile, high copper prices led to an increase in sales volume.

Engines Sales

Sales of $16.240 billion increased $2.637 billion, or 19 percent, from 2007.

- Sales volume increased $1.678 billion.
- Price realization increased $811 million.
- Currency benefited sales $148 million.
- Geographic mix between regions (included in price realization) was $36 million favorable.
- Dealer-reported inventories were up, and months of supply were up slightly, supporting strong delivery rates.

North America – Sales increased $353 million, or 7 percent.

- Sales volume increased $62 million.
- Price realization increased $291 million.
- Sales for on-highway truck applications increased 10 percent compared to a very weak 2007. Demand remained below historic norms due to the slowing U.S. economy that resulted in a reduction in freight tonnage. Also, the impact of the decision to exit the on-highway truck business was starting to be felt as Original Equipment Manufacturer (OEM) customers reduced their reliance on Caterpillar products.
- Sales for petroleum engine applications increased 5 percent, driven by a slight increase in natural gas and drilling applications.
- Sales for marine applications increased 37 percent, with strong demand early in the year for supply vessels that support offshore drilling. This more than offset a decline in engine sales for pleasure craft.
- Sales for industrial applications increased 11 percent.
- Sales for electric power applications decreased 2 percent due to economic uncertainty and tightening credit conditions.

EAME – Sales increased $1,066 million, or 20 percent.

- Sales volume increased $639 million.
- Price realization increased $293 million.
- Currency benefited sales by $134 million.
- Sales for petroleum applications increased 46 percent based on strong demand for engines used in drilling and production. Turbines and turbine-related services increased in support of gas transmission and oil and gas production applications in Africa, Europe and the Middle East.
- Sales for electric power applications increased 18 percent, with strong demand for large- and mid-sized generator sets into Africa and the Middle East. Mid-sized generator sets also benefited from successful rental development.
- Sales for marine applications increased 30 percent in workboats and commercial vessels.
- Sales for industrial applications increased 6 percent, with strong demand for small engines used in the telecom sector. In addition, demand for agricultural applications also improved as a result of high agricultural commodity prices.

Asia/Pacific – Sales increased $774 million, or 36 percent.

- Sales volume increased $603 million.
- Price realization increased $157 million.
- Currency benefited sales by $14 million.
- Sales for petroleum applications increased 54 percent to support record Chinese drill rig activity and increased demand for Asian shipyards in support of offshore drilling.
- Sales for marine applications increased 30 percent, with strong demand for workboats and offshore shipbuilding. Large diesel demand grew in the offshore and general cargo industries.
- Sales of electric power engines increased 18 percent, with increased demand from Bangladesh industrial customers, and continued success with Chinese coal mine methane customers, for large gas generator sets. Diesel demand resulted from data and telecommunication center demand in China, and utility, mining and paper mill demand from Indonesia.
- Sales for industrial applications increased 62 percent driven by sales in Australia into mining and irrigation sectors and by sales in New Zealand.

Latin America – Sales increased $444 million, or 39 percent.

- Sales volume increased $410 million.
- Price realization increased $34 million.
- Sales for petroleum applications increased 61 percent driven by the heightened demand for power to support drilling and production in Argentina, Venezuela, Mexico and Peru. Turbines and turbine-related services increased for oil and gas production and gas transmission applications in South America.
- Sales of electric power engines increased 37 percent driven by high commodity prices and infrastructure investment.

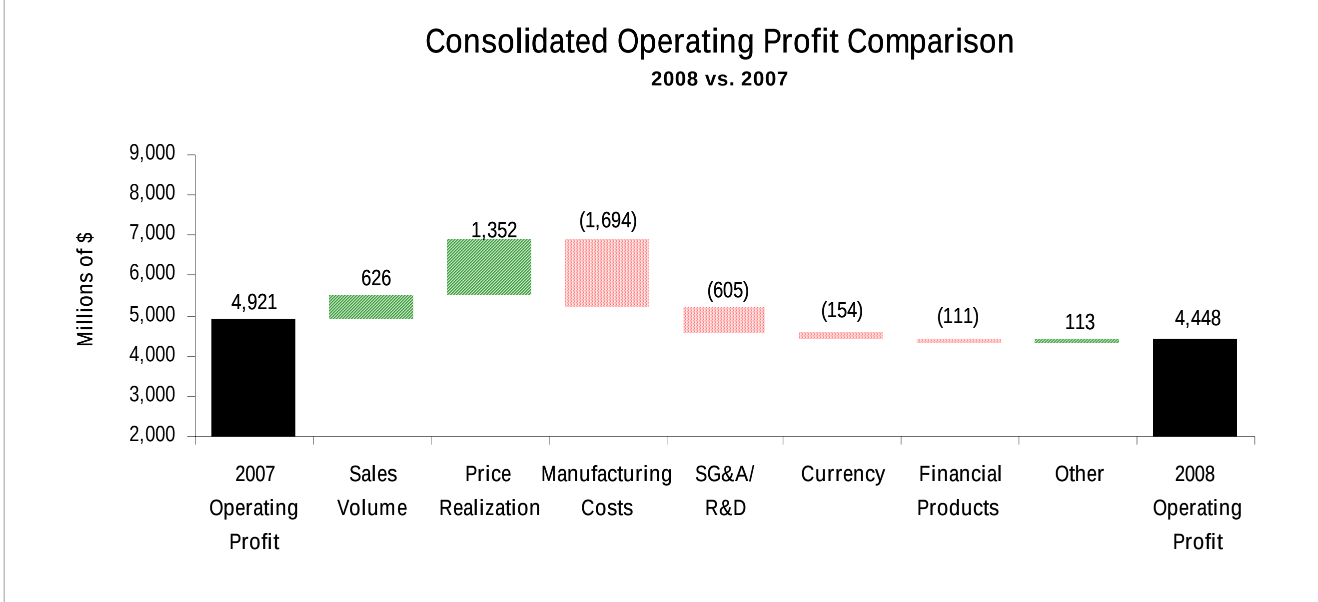
- Sales for industrial applications increased 29 percent. This demand was driven by good economic conditions and higher agricultural commodity prices.
- Sales for on-highway truck applications decreased 7 percent as a result of a loss of OEM business in this region.

Financial Products Revenues

Revenues of $3.280 billion increased $284 million, or 9 percent, from 2007.

- Growth in average earning assets increased revenues $368 million, which was partially offset by a decrease of $175 million due to lower interest rates on new and existing finance receivables.
- Revenues from earned premiums at Cat Insurance increased $84 million.

OPERATING PROFIT



The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between 2007 (at left) and 2008 (at right). Items favorably impacting operating profit appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting operating profit appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees. The bar entitled Other includes the operating profit impact of consolidating adjustments, consolidation of Cat Japan and Machinery and Engines other operating expenses.

2008 operating profit of $4.448 billion was down $473 million from 2007 as improved price realization and higher sales volume were more than offset by higher costs and the unfavorable impact of currency.

Manufacturing costs increased $1.694 billion compared with 2007. The majority of the manufacturing cost increase was driven by higher material and freight costs. Material costs increased due to higher steel and commodity prices, and freight costs increased primarily due to higher fuel prices, and expediting costs related to higher production volume. In addition, manufacturing labor and overhead costs increased to support capacity expansion and velocity initiatives.

SG&A and R&D costs were up $605 million to support significant new product programs and growth.

Currency had a $154 million unfavorable impact on operating profit as the benefit to sales was more than offset by the negative impact on costs.

Operating Profit by Principal Line of Business

(Millions of dollars)	2008	2007	$ Change	% Change
Machinery[1]	$ 1,803	$ 2,758	$ (955)	(35) %
Engines[1]	2,319	1,826	493	27 %
Financial Products	579	690	(111)	(16) %
Consolidating Adjustments	(253)	(353)	100	
Consolidated Operating Profit	$ 4,448	$ 4,921	$ (473)	(10) %

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

Machinery operating profit of $1.803 billion was down $955 million, or 35 percent, from 2007. Improved price realization and higher sales volume were more than offset by higher costs and the unfavorable impact of currency. Although machinery operating profit has declined in 2008, operating profit for the Mining segment improved primarily due to higher sales volumes and was a higher proportion of total machinery operating profit.

Engines operating profit of $2.319 billion was up $493 million, or 27 percent, from 2007. The favorable impacts of improved price realization and higher sales volume were partially offset by higher costs.

Financial Products operating profit of $579 million was down $111 million, or 16 percent, from 2007. The decrease was attributable to a $136 million increase in SG&A expenses due primarily to a $95 million increase in the provision for credit losses at Cat Financial, a $105 million impact from decreased net yield of average earning assets, partially offset by a $130 million favorable impact from higher average earning assets.

OTHER PROFIT/LOSS ITEMS

Other income/expense was income of $327 million compared with income of $357 million in 2007. The favorable currency impacts of $79 million were more than offset by a $50 million unfavorable change in mark-to-market adjustments on interest rate derivative contracts at Cat Financial and a $37 million impairment of investments in Cat Insurance's portfolio as a result of poor market performance. In addition, a 2008 gain of $60 million on the sale of our equity investment in ASV was partially offset by the absence of a $46 million gain on the sale of a cost-basis investment in 2007.

The provision for income taxes for 2008 reflects an annual tax rate of 31.3 percent, excluding the discrete items discussed below, compared to a 29.8-percent rate in 2007. The increase in the tax rate excluding discrete items over 2007 is attributable to changes in our geographic mix of profits from a tax perspective.

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

Equity in profit/(loss) of unconsolidated affiliated companies was income of $37 million compared with income of $73 million in 2007. The decrease is primarily related to lower profit at *Shin Caterpillar Mitsubishi Ltd. (SCM)* through the first nine months and the absence of profit after the consolidation of Cat Japan.

On August 1, 2008, SCM redeemed one-half of Mitsubishi Heavy Industries Ltd.'s (MHI's) shares in SCM for $464 million. Caterpillar now owns 67 percent of the renamed entity, Caterpillar Japan Ltd. We consolidated Cat Japan's balance sheet on September 30, 2008. We began consolidating Cat Japan's results of operations in the fourth quarter.

Employee Separation Charges

In 2008, we recognized employee separation charges of $30 million in Other operating (income) expenses 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. 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.

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 and 2009 separation charges by geographic region:

	Machinery and Engines					
(Millions of dollars)	North America	EAME	Latin America	Asia/ Pacific	Financial Products[1]	Total
2008 Separation charges	$ 4	$ 17	$ 9	$ —	$ —	$ 30
2008 Benefit payments and other adjustments	—	(12)	(7)	—	—	(19)
Liability balance at December 31, 2008	$ 4	$ 5	$ 2	$ —	$ —	$ 11
2009 Separation charges	$ 323	$ 102	$ 15	$ 31	$ 10	$ 481
2009 Benefit payments and other adjustments	(313)	(78)	(17)	(25)	(10)	(443)
Liability balance at December 31, 2009	$ 14	$ 29	$ —	$ 6	$ —	$ 49

[1] Includes $8 million for North America and $2 million for EAME.

The remaining balances as of December 31, 2009 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 will be paid in the first half of 2010.

The following table summarizes the number of employees that accepted or were subject to the 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

The majority of the employees that accepted or were subject to the programs but were still employed as of December 31, 2009 will be separated by the end of the first quarter 2010.

In addition to the 2009 separation charges noted above, we recognized $225 million of costs associated with certain pension and other postretirement benefit plans, which were also recognized in Other operating (income) expenses.

The majority of the separation charges, made up primarily of cash severance payments, and pension and other postretirement benefit 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.

Shin Caterpillar Mitsubishi Ltd. (SCM)

On August 1, 2008, SCM completed the first phase of a share redemption plan whereby SCM redeemed half of MHI's shares in SCM for $464 million. This resulted in Caterpillar owning 67 percent of the outstanding shares of SCM and MHI owning the remaining 33 percent. As part of the share redemption, SCM was renamed Caterpillar Japan Ltd. (Cat Japan). Both Cat Japan and MHI have options, exercisable after five years, to require the redemption of the remaining shares owned by MHI, which if exercised, would make Caterpillar the sole owner of Cat Japan. The share redemption plan is part of our comprehensive business strategy for expansion in the emerging markets of Asia and the Commonwealth of Independent States and will allow Cat Japan's manufacturing, design and process expertise to be fully leveraged across the global Caterpillar enterprise.

The change in Caterpillar's ownership interest from 50 percent to 67 percent was accounted for as a business combination. The $464 million redemption price was assigned to 17 percent of Cat Japan's assets and liabilities based upon their respective fair values as of the transaction date. The revaluation resulted in an increase in property, plant and equipment of $78 million and an increase in inventory of $8 million over the book value of these assets. Finite-lived intangible assets of $54 million were recognized and related primarily to customer relationships, intellectual property and trade names. These intangibles are being amortized on a straight-line basis over a weighted-average amortization period of approximately 9 years. Deferred tax liabilities of $57 million were also recognized as part of the business combination. Goodwill of $206 million, non-deductible for income tax purposes, represents the excess of the redemption price over the 17 percent of Cat Japan's net tangible and finite-lived intangible assets that were reported at their fair values.

Because Cat Japan is accounted for on a lag, we consolidated Cat Japan's August 1, 2008 financial position on September 30, 2008. We began consolidating Cat Japan's results of operations in the fourth quarter of 2008. Including the amounts assigned as part of the business combination, the initial consolidation of Cat Japan's financial position resulted in a net increase in assets of $2,396 million (primarily property, plant and equipment of $1,279 million, inventory of $640 million, receivables of $612 million, and goodwill and intangibles of $260 million partially offset by a $528 million reduction in investment in unconsolidated affiliates) and a net increase in liabilities of $2,045 million (including $1,388 million in debt). Cat Japan's functional currency is the Japanese yen.

The remaining 33 percent of Cat Japan owned by MHI has been reported as redeemable noncontrolling interest and classified as mezzanine equity (temporary equity) in the Consolidated Statement of Financial Position. On September 30, 2008, the redeemable noncontrolling interest was reported at its estimated future redemption value of $464 million with the difference between the $351 million book value of the 33 percent interest and the redemption value reported as a $113 million reduction of Profit employed in the business.

The redeemable noncontrolling interest will continue to be 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 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, 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. If worldwide economic conditions deteriorate and Cat Japan's business forecast is negatively impacted, it is reasonably possible that the fair value of the redeemable noncontrolling interest may fall below the estimated redemption value in the near term. 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 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, 2009 and 2008, the redeemable noncontrolling interest was $477 million and $524 million, respectively.

Cat Japan is included in the Cat Japan reportable segment. 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. Cat Japan's redundancy costs are included in total redundancy costs.

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; locomotives; marine, petroleum, construction, industrial, agricultural and other applications and related parts. Also includes remanufacturing of Caterpillar engines and a variety of Caterpillar machinery and engine components and remanufacturing services for other companies. Reciprocating engines meet power needs ranging from 10 to 21,800 horsepower (8 to more than 16 000 kilowatts). Turbines range from 1,600 to 30,000 horsepower (1 200 to 22 000 kilowatts).

9. Financial Products – A principal line of business consisting primarily of Caterpillar Financial Services Corporation (Cat Financial), Caterpillar Insurance Holdings, Inc. (Cat Insurance) 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. Also includes logistics services for other companies and the design, manufacture, remanufacture, maintenance and services of rail-related products.

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 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 healthcare 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.

20. 6 Sigma – On a technical level, 6 Sigma represents a measure of variation that achieves 3.4 defects per million opportunities. At Caterpillar, 6 Sigma represents a much broader cultural philosophy to drive continuous improvement throughout the value chain. It is a fact-based, data-driven methodology that we are using to improve processes, enhance quality, cut costs, grow our business and deliver greater value to our customers through black belt-led project teams. At Caterpillar, 6 Sigma goes beyond mere process improvement—it has become the way we work as teams to process business information, solve problems and manage our business successfully.

LIQUIDITY AND CAPITAL RESOURCES

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 2009, we continued to have access to liquidity in both our Machinery and Engines and Financial Products operations. Despite adverse business conditions during most of 2009, we remained profitable and generated strong cash flow. Execution of our strategic trough plans, such as reducing costs, capital expenditures and inventory levels and suspending Caterpillar stock repurchases, lowered our cash needs during 2009. These factors allowed the company to continue to fund strategic growth initiatives, make pension contributions and maintain the dividend and our "mid-A" credit rating. On a consolidated basis, we ended the year with $4.9 billion of cash, an increase of $2.1 billion from year-end 2008. Our cash balances are held in numerous locations throughout the world. Most of the amounts held outside the U.S. could be repatriated to the U.S. but generally would be subject to incremental U.S. income taxes.

Consolidated operating cash flow for 2009 was $6.34 billion, compared with $4.80 billion in 2008. The global recession has resulted in significant changes in the components of operating cash flow from 2008 to 2009. Operating cash flow in 2009 benefited from significant declines in both receivables and inventory. The receivables decline was a result of lower sales in 2009 and the decrease in inventory was a result of aggressive trough actions by management and declining sales volume. Offsetting these items was a significant decrease in accounts payable reflecting significantly lower rates of material purchases, capital expenditures and costs in 2009 compared with 2008. In 2008, profit of consolidated and affiliated companies of $3.59 billion had a positive impact on operating cash flow while the change in working capital was unfavorable primarily due to higher inventory and receivables. See further discussion of operating cash flow under Machinery and Engines and Financial Products.

Total debt as of December 31, 2009 was $31.63 billion, a decrease of $3.90 billion from year-end 2008. Debt related to Machinery and Engines decreased $1.44 billion in 2009, primarily due to lower short-term borrowings. Debt related to Financial Products decreased $2.47 billion reflecting declining portfolio balances at Cat Financial.

We have three global credit facilities with a syndicate of banks totaling $6.99 billion (Credit Facility 1) 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 1 available to Cat Financial as of December 31, 2009 was $5.49 billion.

- The five-year facility of $1.62 billion expires in September 2012.
- The five-year facility of $2.98 billion expires in September 2011.
- In September 2009, we renewed the 364-day facility. The amount was increased from $2.25 billion to $2.39 billion and expires in September 2010.

We also have a 364-day revolving credit facility (Credit Facility 2) with a syndicate of banks totaling $1.37 billion, which expires in March 2010 and is jointly available to both Caterpillar and Cat Financial.

During 2009, certain of the covenants applicable to Caterpillar or Cat Financial under Credit Facility 1 and Credit Facility 2 (the Credit Facilities) were revised. The revisions, among other things, modified the consolidated net worth definition for Caterpillar's covenant to exclude pension and other post-retirement benefits as a part of Accumulated other comprehensive income (loss). In addition, Cat Financial's interest coverage ratio covenant was modified to exclude the impact of interest rate derivatives and to calculate the ratio over a rolling four-quarter period.

At December 31, 2009, Caterpillar's consolidated net worth was $13.26 billion, which was above the $9.00 billion required under the Credit Facilities. The consolidated net worth is 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).

At December 31, 2009, Cat Financial's interest coverage ratio was 1.26 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, 2009, Cat Financial's leverage ratio was 6.79 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 Facilities.

In the event Caterpillar or Cat Financial does not meet one or more of their respective financial covenants under the Credit Facilities in the future (and are unable to obtain a consent or waiver), the bank group may terminate the commitments allocated to the parties. Additionally, in such event, certain of Cat Financial's other lenders under other loan agreements where such financial covenants are applicable, may, at their election, choose to pursue remedies under such loan agreements, including accelerating outstanding borrowings. At December 31, 2009, there were no borrowings under the Credit Facilities.

Our total credit commitments as of December 31, 2009 were:

(Millions of dollars)	Consolidated	Machinery and Engines	Financial Products
Credit lines available:			
Global credit facilities	$ 8,363	$ 2,875[1]	$ 5,488
Other external	4,726	1,187	3,539
Total credit lines available	13,089	4,062	9,027
Less: Global credit facilities supporting commercial paper	(2,233)	—	(2,233)
Less: Utilized credit	(2,414)	(367)	(2,047)
Available credit	$ 8,442	$ 3,695	$ 4,747

[1] Includes $1.37 billion from Credit Facility 2.

Other consolidated credit lines with banks as of December 31, 2009 total $4.73 billion. These credit lines, which are eligible for renewal at various future dates or have no specified expiration date, are used primarily by our subsidiaries for local funding requirements. Caterpillar or Cat Financial generally guarantees subsidiary borrowings under these lines.

Uncertain economic conditions present the risk that one or more of the credit rating agencies may decrease their credit rating for Caterpillar, Cat Financial or their debt securities. In the event that Caterpillar or Cat Financial, or any of their debt securities, experiences a credit rating downgrade it would likely result in an increase in our borrowing costs and make access to certain credit markets more difficult.

While we expect global economic conditions to improve in 2010, in the event they deteriorate from current levels or 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 Facilities. Our Financial Products operations would rely on cash flow from its existing portfolio, utilization of existing cash balances, access to our Credit Facilities and other credit line facilities held by 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 $2.99 billion in 2009 compared to cash provided by operating activities of $3.57 billion in 2008. The change was due to a significant decline in profit largely offset by favorable changes in working capital. Current year profit of consolidated and affiliated companies was $811 million while profit of consolidated and affiliated companies was $3.57 billion a year ago. In 2009, the significant decline in inventory and receivables more than offset a decrease in accounts payable and other working capital items resulting in a favorable impact on operating cash flow. In 2008, the benefit from profit of consolidated and affiliated companies was offset by an increase in working capital, primarily inventory. Net cash used for investing activities in 2009 was $680 million compared to $2.56 billion used for investing activities in 2008. The change was primarily due to a $1.08 billion reduction in capital expenditures and higher proceeds from intercompany loans in 2009. Net cash used for financing activities in 2009 was $1.58 billion compared with cash used for financing activities of $529 million during the same period a year ago. During 2009, proceeds from loans with Cat Financial of $963 million were offset by payments on short and long-term borrowings and dividend payments of $1.03 billion. During 2008, there were $1.8 billion of payments for Caterpillar stock repurchases and dividend payments of $953 million, partially offset by short and long-term debt issuances. Given the current economic conditions, we have suspended our stock repurchase program.

Our priorities for the use of cash are a strong financial position that helps protect our credit rating, capital to support growth, appropriately funded employee benefit plans, paying dividends and common stock repurchases with excess cash.

<u>Strong financial position</u> – 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 47.2 percent at December 31, 2009 compared to 57.5 percent at December 31, 2008, above our target range of 35 to 45 percent. A $1.0 billion after-tax benefit to Accumulated other comprehensive income (loss) to recognize the change in funded status of our pension and other postretirement benefit plans during the fourth quarter decreased the debt-to-capital ratio 3 percentage points. Profit, the company stock contribution to our pension plans (discussed below), and lower debt levels also contributed to the reduction. 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 and corresponding increases in the net cost of funds for Caterpillar and Cat Financial.

<u>Capital to support growth</u> – Capital expenditures during 2009 were $1.34 billion, a decrease of $1.08 billion compared to 2008. The expenditures were primarily used to complete in-flight projects and start only the highest priority new projects such as Tier 4 emissions, expanding our manufacturing presence in China and other strategically important investments. We expect capital expenditures to be about $1.6 billion in 2010, an increase of nearly 20 percent from 2009.

<u>Appropriately funded employee benefit plans</u> – At the end of 2009, our defined benefit pension plans were 76-percent funded, up from 61 percent at the end of 2008. We made contributions of $1.1 billion to those plans during 2009. To provide the company with greater financial flexibility, we funded a portion of the contribution with company stock. In May 2009, 18.2 million shares of company stock were contributed to U.S. pension plans. This equated to a contribution of approximately $650 million. Strong asset returns, including the appreciation of Caterpillar stock, contributed to the increase in funded status. We expect to make approximately $1 billion in contributions during 2010. In addition, beginning in June 2009, the company began funding the 401(k) match with company stock. This equated to a contribution of $68 million (1.4 million shares) for the year.

Paying dividends – Dividends paid totaled $1.03 billion in 2009, representing 42 cents per share in each quarter. 2009 marks the sixteenth consecutive year our annual dividend per share has increased. Each quarter, our Board of Directors reviews the company's dividend and determines whether to increase, maintain or decrease the 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.

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 has been spent through December 31, 2009. As a result of current economic conditions, we have suspended our stock repurchase program. Basic shares outstanding as of December 31, 2009 were 625 million.

Financial Products

Financial Products operating cash flow of $1.10 billion was about the same as 2008. Net cash provided by investing activities in 2009 was $3.37 billion, compared to a use of cash of $3.75 billion in 2008. This change is the result of lower levels of new retail financing at Cat Financial, partially offset by lower collections. Net cash used for financing activities in 2009 was $3.08 billion, compared to a source of cash of $3.62 billion in 2008, primarily due to lower funding requirements.

During the fourth quarter of 2009, overall portfolio quality continued to reflect signs of stress related to general economic conditions. At year-end 2009, past dues were slightly lower at 5.54 percent compared with 5.79 percent at the end of the third quarter. At year-end 2008, past dues were 3.88 percent. We expect there will be continued pressure on past dues during the first half of 2010, with gradual improvement as the global economy improves in the second half of the year. In 2009, Cat Financial continued its prudent portfolio management practices which include conservative underwriting, heightened collection activities and contract modifications where appropriate. Such contract modifications may involve Cat Financial receiving credit enhancements and are done to help maximize Cat Financial results as well as help customers manage through difficult economic times.

Bad debt write-offs, net of recoveries, were $86 million for the fourth quarter of 2009, up from $65 million in the third quarter of 2009 and $60 million in the fourth quarter of 2008. Total bad debt write-offs were $253 million in 2009 compared to $121 million in 2008. The $132 million year-over-year increase was driven by adverse economic conditions, primarily in North America, and to a lesser extent in Europe.

Full-year 2009 losses were 1.03 percent of the average retail portfolio compared to 0.48 percent for 2008. This result was higher in comparison to the peak of 0.69 percent reached in the most recent periods of economic weakness in 2001 and 2002.

At the end of 2009, Cat Financial's allowance for credit losses was 1.64 percent of net finance receivables, increasing from 1.44 percent on December 31, 2008. The allowance for credit losses totaled $377 million compared with $395 million on December 31, 2008. The allowance for credit losses reflected a $64 million decrease due to a reduction in the overall net finance receivable portfolio, partially offset by a $46 million increase associated with the higher allowance rate.

Cat Financial has been able to access ample liquidity to cover all maturing debt obligations utilizing a broad and diverse global funding program. Cat Financial's global funding strategy helps reduce foreign currency exchange risk by matching locally denominated funding with portfolio receivables. For the full-year 2009, Cat Financial issued $3.4 billion in U.S. medium-term notes, $690 million in U.S. retail notes, €650 million in euro medium-term notes, C$500 million in Canadian dollar medium-term notes, ¥14.4 billion in Japanese yen medium-term notes, A$250 million in Australian dollar medium-term notes and ARS 61.8 million in Argentine peso medium-term notes. Year-end 2009 commercial paper outstanding totaled $2.2 billion. Proceeds from Cat Financial's 2009 debt issuance, combined with year-to-date cash receipts, covered all 2009 debt maturities and generated a cash balance of $2.5 billion at the end of the fourth quarter of 2009. Our resulting liquidity position remains strong. Cat Financial's 2010 long-term debt maturities are approximately $5.4 billion, of which a portion will be funded by current cash balances and projected cash receipts. Cat Financial will remain selective and opportunistic in issuing new term debt in 2010.

To maintain an alternative funding source, Cat Financial periodically sells certain finance receivables relating to retail installment sale contracts and finance leases to special purpose entities (SPEs) as part of Cat Financial's securitization program. The SPEs have limited purposes and generally are only permitted to purchase the finance receivables, issue asset-backed securities and make payments on the securities. The SPEs only issue a single series of securities and generally are dissolved when those securities have been paid in full. The SPEs, typically trusts, are considered to be qualifying special-purpose entities (QSPEs) and are not consolidated. The QSPEs issue debt to pay for the finance receivables they acquire from Cat Financial. The primary source for repayment of the debt is the cash flows generated from the finance receivables owned by the QSPEs. The assets of the QSPEs are legally isolated and are not available to pay Cat Financial's creditors. Cat Financial uses QSPEs in a manner consistent with conventional practices in the securitization industry to isolate these finance receivables, which are secured by new and used equipment, for the benefit of securitization investors.

The use of the QSPEs enables Cat Financial to access the U.S. securitization market for the sale of these types of financial assets. The amounts of funding from securitizations reflect such factors as capital market accessibility, relative costs of funding sources and assets available for securitization. In 2008, Cat Financial had cash proceeds from initial sales of receivables of $600 million and recognized a pre-tax gain of $12 million. The fair value of the retained interests in all securitizations of retail finance receivables outstanding, totaling $102 million and $52 million as of December 31, 2009 and 2008, respectively, are included in Other assets. Cat Financial's sensitivity analysis indicated that the impact of a 20 percent adverse change in individual assumptions used to calculate the fair value of all retained interests as of December 31, 2009 would be $11 million or less.

Dividends paid per common share

Quarter	2009	2008	2007
First	$ .420	$ .360	$ .300
Second	.420	.360	.300
Third	.420	.420	.360
Fourth	.420	.420	.360
	$ 1.680	$ 1.560	$ 1.320

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)	2010	2011	2012	2013	2014	After 2014	Total
Long-term debt:							
Machinery and Engines (excluding capital leases)	$ 174	$ 607	$ 220	$ 534	$ 39	$ 4,041	$ 5,615
Machinery and Engines-capital leases	128	94	32	37	8	40	339
Financial Products	5,399	3,084	3,456	2,364	1,942	5,349	21,594
Total long-term debt	5,701	3,785	3,708	2,935	1,989	9,430	27,548
Operating leases	247	193	152	120	106	438	1,256
Postretirement obligations[1]	1,100	1,270	1,480	1,410	1,390	4,330	10,980
Purchase obligations:							
Accounts payable[2]	2,993	—	—	—	—	—	2,993
Purchase orders[3]	4,145	—	—	—	—	—	4,145
Other contractual obligations[4]	130	121	21	4	3	20	299
Total purchase obligations	7,268	121	21	4	3	20	7,437
Interest on long-term debt[5]	1,193	1,075	970	832	665	6,751	11,486
Other long-term obligations[6]	169	128	80	23	17	23	440
Total contractual obligations	$ 15,678	$ 6,572	$ 6,411	$ 5,324	$ 4,170	$ 20,992	$ 59,147

1 Amounts represent expected contributions to our pension and other postretirement benefit plans through 2019, offset by expected Medicare Part D subsidy receipts.

2 Amount represents invoices received and recorded as liabilities in 2009, but scheduled for payment in 2010. 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, 2009 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.

We adopted the accounting guidance on uncertainty in income taxes as of January 1, 2007. The total amount of gross unrecognized tax benefits for uncertain tax positions, including positions impacting only the timing of tax benefits, was $761 million at December 31, 2009. 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 2009 annual impairment test, completed in the fourth quarter, 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 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. The fair values for all other reporting units were well above their respective carrying values at the measurement date. Additionally, Caterpillar's market capitalization has remained significantly above the net book value of the company.

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. Prior to 2008, we used the Moody's Aa bond yield as of our measurement date, November 30, and validated the discount rate using the benefit cash flow-matching approach. A similar change was made to determine the assumed discount rate for our most significant non-U.S. plans. This rate is sensitive to changes in interest rates. A decrease in the discount rate would increase our obligation and future expense.
- The expected rate of compensation increase is used to develop benefit obligations using projected pay at retirement. It represents average long-term salary increases. This rate is influenced by our long-term compensation policies. An increase in the rate would increase our obligation and expense.
- The assumed health care trend rate represents the rate at which health care costs are assumed to increase and is based on historical and expected experience. Changes in our projections of future health care costs due to general economic conditions and those specific to health care (e.g., technology driven cost changes) will impact this trend rate. An increase in the trend rate would increase our obligation and expense.

Post-sale discount reserve — We provide discounts to dealers 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 $662 million, $828 million and $669 million as of December 31, 2009, 2008 and 2007, respectively. The reserve represents discounts that we expect to pay on previously sold units and is reviewed at least quarterly. The reserve is adjusted if discounts paid differ from those estimated. Historically, those adjustments have not been material.

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

The allowance for credit losses attributable to specific accounts is based on the most probable source of repayment, which is normally the liquidation of collateral. In determining collateral value we estimate current fair 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 in the period the change occurs.

EMPLOYMENT

Caterpillar's worldwide employment was 93,813 at the end of 2009, down 19,074 from a year ago. Since late 2008, we have taken a variety of steps to bring our workforce in line with demand. This includes full-time Caterpillar employees who have been laid off or separated and those who have taken advantage of incentive-based voluntary plans offered by the company. In addition, we have long utilized a flexible workforce made up of part-time/temporary, contract and agency workers to better respond to shifts in demand. These workers are not included in our full-time employment. Since late 2008, we have reduced this flexible workforce by about 18,000. Looking forward, we will adjust our workforce as production levels and resource requirements change. We expect the recovery and demand for jobs to vary depending on specific regions of the world, industry and product.

Full-Time Employees at Year-End

	2009	2008	2007
Inside U.S.	43,251	53,509	50,545
Outside U.S.	50,562	59,378	50,788
Total	93,813	112,887	101,333
By Region:			
North America	43,999	54,284	50,901
EAME	22,790	26,983	26,168
Latin America	10,776	14,403	13,930
Asia/Pacific	16,248	17,217	10,334
Total	93,813	112,887	101,333

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 probable we will pay remedial costs at a site and those costs can be reasonably estimated, the costs are charged against our earnings. In formulating that estimate, we do not consider amounts expected to be recovered from insurance companies or others. The amount recorded for environmental remediation is not material and is included in Accrued expenses in the Consolidated Statement of Financial Position.

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

We have disclosed certain individual legal proceedings in this filing. Additionally, we are involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance liability (including claimed asbestos and welding fumes exposure), contracts, employment issues or intellectual property rights. Although it is not possible to predict with certainty the outcome of these unresolved legal actions, 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 engaging in negotiations with EPA to resolve these issues, but it is too early in the process to place precise estimates on the potential exposure to penalties. However, Caterpillar is cooperating with EPA and, based upon initial discussions, and although penalties could potentially exceed $100,000, management does not believe that this issue will have a material adverse impact on our 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. Each count seeks injunctive relief, as well as statutory penalties of $50,000 per violation and $10,000 per day of violation. 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 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 is preparing a response to the revised notice. At this time, we do not believe these proceedings 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 $620 million in 2009 as compared to $200 million in 2008. The increase in expense was primarily the result of increased amortization of net actuarial losses due to significant asset losses in 2008 and lower expected return on plan assets in 2009. In addition, 2009 pension expense included $169 million of curtailment, settlement and special termination benefit costs due to voluntary and involuntary separation programs (discussed below). 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 2009, total actuarial losses recognized in Accumulated other comprehensive income (loss) were $6.33 billion, as compared to $7.74 billion in 2008. The majority of the actuarial losses are due to significant asset losses during 2008 in addition to losses from other demographic and economic assumptions over the past several years. The $1.41 billion decrease from 2008 to 2009 was primarily the result of asset gains during 2009, partially offset by a decrease in the discount rate.

In 2009, we recognized other postretirement benefit expense of $277 million compared to $287 million in 2008. The decrease in expense was primarily the result of amendments to our U.S. support and management other postretirement benefit plan, partially offset by $56 million of curtailment losses due to voluntary and involuntary separation programs (both discussed below). Actuarial losses recognized in Accumulated other comprehensive income (loss) for other postretirement benefit plans were $659 million at the end of 2009. These losses mainly reflect several years of declining discount rates and significant asset losses during 2008, partially offset by gains from lower than expected health care costs. The losses were $222 million lower at the end of 2009 as compared to 2008 due to asset gains and lower than expected health care costs during 2009, partially offset by a decrease in the discount rate.

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 2009, the average remaining service period of active employees was 11 years for our U.S. pension plans, 11 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 2010 as compared to 2009, primarily due to asset losses during 2008 and a decrease in the discount rate during 2009. We expect our total pension and other postretirement benefits expense to increase approximately $150 million in 2010, excluding the impact of 2009 curtailment, settlement and special termination benefit costs.

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 will enroll in individual health plans that work with Medicare and will no longer participate in a Caterpillar-sponsored group health plan. Instead, the retirees will be in individual health plans that work with Medicare, such as Medicare Advantage and Medicare Supplement plans. In addition, Caterpillar will fund 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 after-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 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 after-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 March 2009 amendment reduced other postretirement benefits expense by approximately $60 million for 2009.

For our U.S. pension plans, our year-end 2009 asset allocation was 72 percent equity securities, 24 percent debt securities and 4 percent other. The target allocation for 2010 is 70 percent equity securities, 25 percent debt securities and 5 percent real estate. The year-end 2009 asset allocation for our non-U.S. pension plans was 51 percent equity securities, 33 percent debt securities, 5 percent real estate and 11 percent other. The 2010 target allocation for our non-U.S. pension plans is 55 percent equity securities, 35 percent debt securities, 6 percent real estate and 4 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 and 2007, approximately 5% and 10% 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 2009, we made contributions of $886 million to our U.S. defined benefit pension plans, 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. We expect to make approximately $1 billion of contributions during 2010, most of which are voluntary. 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 2009 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 2009 pension and other postretirement benefits costs and obligations:

(Millions of dollars)	2009 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	$ (155)	$ 163	$ (1,712)	$ 1,942
Expected rate of compensation increase	70	(67)	388	(368)
Expected long-term rate of return on plan assets	(118)	118	—	—
Other postretirement benefits:				
Assumed discount rate	(25)	13	(432)	479
Expected rate of compensation increase	—	—	1	(1)
Expected long-term rate of return on plan assets	(13)	13	—	—
Assumed health care cost trend rate	34	(30)	220	(186)

Primary Actuarial Assumptions

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Weighted-average assumptions used to determine benefit obligations, end of year:									
Discount rate	5.7%	6.1%	5.8%	4.8%	4.5%	5.3%	5.6%	6.0%	5.8%
Rate of compensation increase	4.5%	4.5%	4.5%	4.2%	3.8%	4.1%	4.4%	4.4%	4.4%
Weighted-average assumptions used to determine net cost:									
Discount rate	6.3%	5.8%	5.5%	4.7%	5.3%	4.7%	6.3%	5.8%	5.5%
Expected return on plan assets	8.5%	9.0%	9.0%	6.6%	7.6%	7.7%	8.5%	9.0%	9.0%
Rate of compensation increase	4.5%	4.5%	4.0%	3.8%	4.0%	4.0%	4.4%	4.4%	4.0%
Health care cost trend rates at year-end:									
Health care trend rate assumed for next year							7.0%	7.4%	7.9%
Rate that the cost trend rate gradually declines to							5.0%	5.0%	5.0%
Year that the cost trend rate reaches ultimate rate							2016	2016	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 2010 cash flow for our Machinery and Engines operations by approximately $240 million. Last year similar assumptions and calculations yielded a potential $378 million adverse impact on 2009 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. A hypothetical 100 basis point adverse move (increase) in interest rates along the entire interest rate yield curve would adversely affect 2010 pretax earnings of Machinery and Engines by $13 million. Last year, similar assumptions and calculations yielded a potential $16 million adverse impact on 2009 pretax earnings. This effect is caused by the interest rate fluctuations on our short-term debt and fixed-to-floating interest rate swaps.

For our Financial Products operations, we use interest rate derivative instruments primarily to meet our match-funding objectives and strategies. We have a match-funding policy whereby the interest rate profile (fixed or floating rate) of our debt portfolio is matched to the interest rate profile of our earning asset portfolio (finance receivables and operating leases) within certain parameters. In connection with that policy, we use interest rate swap agreements to modify the debt structure. Match funding assists us in maintaining our interest rate spreads, regardless of the direction interest rates move.

In order to properly manage sensitivity to changes in interest rates, Financial Products measures the potential impact of different interest rate assumptions on pretax earnings. All on-balance sheet positions, including derivative financial instruments, are included in the analysis. The primary assumptions included in the analysis are that there are no new fixed rate assets or liabilities, the proportion of fixed rate debt to fixed rate assets remains unchanged and the level of floating rate assets and debt remain constant. Based on the December 31, 2009 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 $8 million decrease to pretax earnings for 2009. Last year, similar assumptions and calculations yielded a potential $28 million adverse impact on 2009 pretax earnings.

This analysis does not necessarily represent our current outlook of future market interest rate movement, nor does it consider any actions management could undertake in response to changes in interest rates. Accordingly, no assurance can be given that actual results would be consistent with the results of our estimate.

NON-GAAP FINANCIAL MEASURES

The following definitions are provided for "non-GAAP financial measures" in connection with Item 10(e) of Regulation S-K issued by the Securities and Exchange Commission. These non-GAAP financial measures have no standardized meaning prescribed by U.S. GAAP and therefore are unlikely to be comparable to the calculation of similar measures for other companies. Management does not intend these items to be considered in isolation or as a substitute for the related GAAP measures.

Profit Per Share Excluding Redundancy Costs

During the fourth quarter of 2009, redundancy costs related to employment reductions in response to the global recession were $65 million or $0.05 per share. 2009 redundancy costs were $706 million or $0.75 per share. We believe it is important to separately quantify the profit-per-share impact of redundancy costs in order for our 2009 results to be meaningful to our readers. Reconciliation of profit per share excluding redundancy costs to the most directly comparable GAAP measure, profit per share is as follows:

	Fourth Quarter 2009	2009
Profit per share	$ 0.36	$ 1.43
Per share redundancy costs	$ 0.05	$ 0.75
Profit per share excluding redundancy costs	$ 0.41	$ 2.18

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-102 to A-104 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-102 to A-104 reconcile Machinery and Engines with Financial Products on the equity basis to Caterpillar Inc. consolidated financial information.

Supplemental Data for Results of Operations
For The Years Ended December 31

(Millions of dollars)	Consolidated			Supplemental consolidating data: Machinery & Engines[1]			Financial Products			Consolidating Adjustments		
	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007
Sales and revenues:												
Sales of Machinery and Engines	$ 29,540	$ 48,044	$ 41,962	$ 29,540	$ 48,044	$ 41,962	$ —	$ —	$ —	$ —	$ —	$ —
Revenues of Financial Products	2,856	3,280	2,996	—	—	—	3,168	3,588	3,396	(312)[2]	(308)[2]	(400)[2]
Total sales and revenues	32,396	51,324	44,958	29,540	48,044	41,962	3,168	3,588	3,396	(312)	(308)	(400)
Operating costs:												
Cost of goods sold	23,886	38,415	32,626	23,886	38,415	32,626	—	—	—	—	—	—
Selling, general and administrative expenses	3,645	4,399	3,821	3,085	3,812	3,356	579	616	480	(19)[3]	(29)[3]	(15)[3]
Research and development expenses	1,421	1,728	1,404	1,421	1,728	1,404	—	—	—	—	—	—
Interest expense of Financial Products	1,045	1,153	1,132	—	—	—	1,048	1,162	1,137	(3)[4]	(9)[4]	(5)[4]
Other operating (income) expenses	1,822	1,181	1,054	691	(33)	(8)	1,160	1,231	1,089	(29)[3]	(17)[3]	(27)[3]
Total operating costs	31,819	46,876	40,037	29,083	43,922	37,378	2,787	3,009	2,706	(51)	(55)	(47)
Operating profit	577	4,448	4,921	457	4,122	4,584	381	579	690	(261)	(253)	(353)
Interest expense excluding Financial Products	389	274	288	475	270	294	—	—	—	(86)[4]	4[4]	(6)[4]
Other income (expense)	381	327	357	192	95	(75)	14	(25)	85	175[5]	257[5]	347[5]
Consolidated profit before taxes	569	4,501	4,990	174	3,947	4,215	395	554	775	—	—	—
Provision (benefit) for income taxes	(270)	953	1,485	(342)	822	1,220	72	131	265	—	—	—
Profit of consolidated companies	839	3,548	3,505	516	3,125	2,995	323	423	510	—	—	—
Equity in profit (loss) of unconsolidated affiliated companies	(12)	37	73	(12)	38	69	—	(1)	4	—	—	—
Equity in profit of Financial Products' subsidiaries	—	—	—	307	409	506	—	—	—	(307)[6]	(409)[6]	(506)[6]
Profit of consolidated and affiliated companies	827	3,585	3,578	811	3,572	3,570	323	422	514	(307)	(409)	(506)
Less: Profit (loss) attributable to noncontrolling interests	(68)	28	37	(84)	15	29	16	13	8	—	—	—
Profit[7]	$ 895	$ 3,557	$ 3,541	$ 895	$ 3,557	$ 3,541	$ 307	$ 409	$ 506	$ (307)	$ (409)	$ (506)

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	
	2009	2008	2009	2008	2009	2008	2009	2008
Assets								
Current assets:								
Cash and short-term investments	$ 4,867	$ 2,736	$ 2,239	$ 1,517	$ 2,628	$ 1,219	$ —	$ —
Receivables - trade and other	5,611	9,397	3,705	6,032	1,464	545	442 [2,3]	2,820 [2,3]
Receivables - finance	8,301	8,731	—	—	9,872	12,137	(1,571) [3]	(3,406) [3]
Deferred and refundable income taxes	1,216	1,223	1,094	1,014	122	209	—	—
Prepaid expenses and other current assets	434	765	385	510	75	280	(26) [4]	(25) [4]
Inventories	6,360	8,781	6,360	8,781	—	—	—	—
Total current assets	26,789	31,633	13,783	17,854	14,161	14,390	(1,155)	(611)
Property, plant and equipment – net	12,386	12,524	9,308	9,380	3,078	3,144	—	—
Long-term receivables - trade and other	971	1,479	381	357	182	549	408 [2,3]	573 [2,3]
Long-term receivables - finance	12,279	14,264	—	—	12,717	14,867	(438) [3]	(603) [3]
Investments in unconsolidated affiliated companies	105	94	97	94	8	—	—	—
Investments in Financial Products subsidiaries	—	—	4,514	3,788	—	—	(4,514) [5]	(3,788) [5]
Noncurrent deferred and refundable income taxes	2,714	3,311	3,083	3,725	65	35	(434) [6]	(449) [6]
Intangible assets	465	511	464	510	1	1	—	—
Goodwill	2,269	2,261	2,269	2,261	—	—	—	—
Other assets	2,060	1,705	297	310	1,763	1,395	—	—
Total assets	$ 60,038	$ 67,782	$ 34,196	$ 38,279	$ 31,975	$ 34,381	$ (6,133)	$ (4,878)
Liabilities								
Current liabilities:								
Short-term borrowings	$ 4,083	$ 7,209	$ 1,433	$ 1,632	$ 3,676	$ 6,012	$ (1,026) [7]	$ (435) [7]
Accounts payable	2,993	4,827	2,862	4,654	229	323	(98) [8]	(150) [8]
Accrued expenses	3,351	4,121	2,055	2,621	1,323	1,526	(27) [9]	(26) [9]
Accrued wages, salaries and employee benefits	797	1,242	790	1,228	7	14	—	—
Customer advances	1,217	1,898	1,217	1,898	—	—	—	—
Dividends payable	262	253	262	253	—	—	—	—
Other current liabilities	888	1,027	808	1,002	101	29	(21) [6]	(4) [6]
Long-term debt due within one year	5,701	5,492	302	456	5,399	5,036	—	—
Total current liabilities	19,292	26,069	9,729	13,744	10,735	12,940	(1,172)	(615)
Long-term debt due after one year	21,847	22,834	5,687	5,766	16,195	17,098	(35) [7]	(30) [7]
Liability for postemployment benefits	7,420	9,975	7,420	9,975	—	—	—	—
Other liabilities	2,179	2,190	2,060	2,080	531	555	(412) [6]	(445) [6]
Total liabilities	50,738	61,068	24,896	31,565	27,461	30,593	(1,619)	(1,090)
Commitments and contingencies								
Redeemable noncontrolling interest	477	524	477	524	—	—	—	—
Stockholders' equity								
Common stock	3,439	3,057	3,439	3,057	883	860	(883) [5]	(860) [5]
Treasury stock	(10,646)	(11,217)	(10,646)	(11,217)	—	—	—	—
Profit employed in the business	19,711	19,826	19,711	19,826	3,282	2,975	(3,282) [5]	(2,975) [5]
Accumulated other comprehensive income (loss)	(3,764)	(5,579)	(3,764)	(5,579)	279	(108)	(279) [5]	108 [5]
Noncontrolling interests	83	103	83	103	70	61	(70) [5]	(61) [5]
Total stockholders' equity	8,823	6,190	8,823	6,190	4,514	3,788	(4,514)	(3,788)
Total liabilities, redeemable noncontrolling interest and stockholders' equity	$ 60,038	$ 67,782	$ 34,196	$ 38,279	$ 31,975	$ 34,381	$ (6,133)	$ (4,878)

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

(Millions of dollars)	Consolidated		Supplemental consolidating data: Machinery & Engines[1]		Financial Products		Consolidating Adjustments	
	2009	2008	2009	2008	2009	2008	2009	2008
Cash flow from operating activities:								
Profit of consolidated and affiliated companies	$ 827	$ 3,585	$ 811	$ 3,572	$ 323	$ 422	$ (307) [2]	$ (409) [2]
Adjustments for non-cash items:								
Depreciation and amortization	2,336	1,980	1,594	1,225	742	755	—	—
Undistributed profit of Financial Products	—	—	(307)	(409)	—	—	307 [3]	409 [3]
Other	137	355	4	179	(87)	42	220 [4]	134 [4]
Changes in assets and liabilities:								
Receivables - trade and other	4,014	(545)	1,929	(471)	67	(49)	2,018 [4,5]	(25) [4,5]
Inventories	2,501	(833)	2,501	(833)	—	—	—	—
Accounts payable	(2,034)	(4)	(1,904)	47	(140)	(63)	10 [4]	12 [4]
Accrued expenses	(505)	660	(447)	527	(57)	132	(1) [4]	1 [4]
Customer advances	(646)	286	(646)	286	—	—	—	—
Other assets—net	235	(470)	31	(503)	218	(102)	(14) [4]	135 [4]
Other liabilities—net	(522)	(217)	(575)	(50)	37	(33)	16 [4]	(134) [4]
Net cash provided by (used for) operating activities	6,343	4,797	2,991	3,570	1,103	1,104	2,249	123
Cash flow from investing activities:								
Capital expenditures—excluding equipment leased to others	(1,348)	(2,445)	(1,344)	(2,421)	(4)	(24)	—	—
Expenditures for equipment leased to others	(968)	(1,566)	—	—	(972)	(1,588)	4 [4]	22 [4]
Proceeds from disposals of property, plant and equipment	1,242	982	150	30	1,092	952	—	—
Additions to finance receivables	(7,107)	(14,031)	—	—	(20,387)	(37,811)	13,280 [5]	23,780 [5]
Collections of finance receivables	9,288	9,717	—	—	23,934	32,135	(14,646) [5]	(22,418) [5]
Proceeds from sale of finance receivables	100	949	—	—	987	2,459	(887) [5]	(1,510) [5]
Net intercompany borrowings	—	—	416	(168)	(963)	33	547 [6]	135 [6]
Investments and acquisitions (net of cash acquired)	(19)	(117)	(19)	(148)	—	28	—	3 [7]
Proceeds from release of security deposit	—	—	—	—	—	—	—	—
Proceeds from sale of available-for-sale securities	291	357	6	23	285	334	—	—
Investments in available-for-sale securities	(349)	(339)	(5)	(18)	(344)	(321)	—	—
Other—net	(128)	197	116	139	(258)	58	14 [7,8]	—
Net cash provided by (used for) investing activities	1,002	(6,296)	(680)	(2,563)	3,370	(3,745)	(1,688)	12
Cash flow from financing activities:								
Dividends paid	(1,029)	(953)	(1,029)	(953)	—	—	—	—
Distribution to noncontrolling interests	(10)	(10)	(10)	(10)	—	—	—	—
Common stock issued, including treasury shares reissued	89	135	89	135	20	—	(20) [7]	—
Payment for stock repurchases derivative contracts	—	(38)	—	(38)	—	—	—	—
Treasury shares purchased	—	(1,800)	—	(1,800)	—	—	—	—
Excess tax benefit from stock-based compensation	21	56	21	56	—	—	—	—
Acquisitions of noncontrolling interests	(6)	—	(6)	—	(6)	—	6 [8]	—
Net intercompany borrowings	—	—	963	(33)	(416)	168	(547) [6]	(135) [6]
Proceeds from debt issued (original maturities greater than three months)	12,291	17,930	458	1,673	11,833	16,257	—	—
Payments on debt (original maturities greater than three months)	(12,687)	(14,439)	(918)	(296)	(11,769)	(14,143)	—	—
Short-term borrowings (original maturities three months or less)—net	(3,884)	2,074	(1,147)	737	(2,737)	1,337	—	—
Net cash provided by (used for) financing activities	(5,215)	2,955	(1,579)	(529)	(3,075)	3,619	(561)	(135)
Effect of exchange rate changes on cash	1	158	(10)	177	11	(19)	—	—
Increase (decrease) in cash and short-term investments	2,131	1,614	722	655	1,409	959	—	—
Cash and short-term investments at beginning of period	2,736	1,122	1,517	862	1,219	260	—	—
Cash and short-term investments at end of period	$ 4,867	$ 2,736	$ 2,239	$ 1,517	$ 2,628	$ 1,219	$ —	$ —

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

OUTLOOK

2010 ECONOMIC OUTLOOK

The recent economic data indicates that the world economy started growing again, ending the world's worst postwar recession. We expect this recovery to last throughout 2010, with the world economy growing more than 3 percent.

- We expect interest rates will remain low since unemployment rates are high and inflation rates are low. Even though we do not expect inflation will become a problem, we expect some central banks will eventually implement precautionary interest rate increases.
- We project the Federal Reserve will increase rates from about 0.15 to 1 percent by the end of 2010; the European Central Bank, from 1 to 2 percent. Australia has already increased rates to 3.75 percent and likely will increase rates a further 100 basis points in 2010. Several developing countries, including Brazil, China and India, likely will increase rates.
- Most key credit spreads have returned to normal and large businesses have access to credit. We expect credit standards for consumers and small businesses will ease, improving credit availability.
- Stimulus programs should have maximum impacts in the first half of 2010. Some governments may expand programs to provide additional support.
- Commodity prices improved steadily throughout 2009, and most prices are well above levels needed to encourage increased production and investment. In addition, we expect that world demand for most commodities will increase this year, further tightening supplies. Our planning assumes oil prices will average $83 per barrel, and copper prices will average $3.20 per pound.
- Developing economies are growing again, and we expect they will lead the economic recovery. Economic growth in the developing world should be about 6 percent in 2010, up from 1.5-percent growth in 2009.
- Asia/Pacific was the first region to recover, and growth should reach almost 7.5 percent in 2010. We expect more than 10-percent growth in China and 8-percent growth in India. These high growth rates should continue to improve construction spending and encourage investment in mining capacity.
- Latin American economies recovered rapidly in the last half of 2009, and we forecast regional growth of almost 4 percent in 2010. Ongoing recoveries in construction and mining should continue.
- The economies of Africa/Middle East and CIS should grow about 3.5 percent in 2010. Higher energy and metals prices should encourage producers to increase investments and production.
- Developed economies have performed poorly for several years, and recoveries have been slower to develop. We expect these economies will grow 2 percent in 2010, which will maintain significant excess capacity and keep inflation subdued.
- We forecast 3.5-percent growth in the U.S. economy, which is slower than past recoveries from severe recessions. Housing and mining production should improve from very depressed levels in 2009. However, we expect continued decline in nonresidential building construction, and delays in passing a highway bill likely will cause highway contractors to remain cautious about purchasing equipment.
- The European Central Bank appears to be reducing its liquidity support, and bank lending remains weak. We expect very modest recovery in 2010—economic growth of about 1 percent. Construction surveys indicate spending should rebound somewhat, particularly for infrastructure.
- The Bank of Japan has not been able to end deflation and the associated weak economic growth. We do not expect any policy improvements this year, and the Japanese economy should grow only 1.5 percent in 2010.
- For 2010, one of our most significant economic concerns is that central banks in the developed economies will misjudge inflation risks and begin raising interest rates too quickly. Doing so could lead to a renewed downturn that would be worse than the one just ended. However, we do not expect that rate increases will occur early enough, or be large enough, to be a major problem in 2010.

2010 SALES AND REVENUES OUTLOOK

We are forecasting 2010 sales and revenues to be up 10 to 25 percent from 2009. Key elements of the outlook for 2010 include:

- In 2009, dealers reduced inventories of new Caterpillar machines and engines by nearly $4 billion. At the midpoint of the 2010 sales range, we expect little change in dealer inventories, resulting in higher production and sales for Caterpillar.
- Growth in the world economy is driving improved demand for commodities. Higher demand coupled with favorable commodity prices should be positive for mining-related sales in 2010. Over the past few months, mining-related order activity has increased substantially, and we expect to increase production of mining-related equipment in 2010.

- Improving economic conditions, particularly in developing economies, should also improve construction spending and increase end-user demand for Machinery.
- We expect that price realization will be positive in 2010, but the improvement will likely be small, less than 1 percent.
- While Machinery sales are expected to increase in 2010, at the midpoint of the outlook range Engines sales are expected to decline. Turbine sales were a record in 2009, and large reciprocating engine sales were relatively strong through the first half of 2009.

2010 PROFIT OUTLOOK

At the midpoint of the outlook range for 2010 sales and revenues we expect that profit will be about $2.50 per share. Profit per share in 2009 was $1.43, or $2.18 excluding redundancy costs. Key positive elements of the profit outlook for 2010 include:

- Sales volume is expected to be the most significant positive profit driver in 2010.
- Absence of employee redundancy costs. In 2009, redundancy costs were $706 million, or about $0.75 per share. We do not anticipate significant redundancy costs in 2010.
- Material costs are expected to be favorable in 2010.
- Improved operating efficiency—resulting from higher production volume and continuing improvement from the Cat Production System with 6 Sigma.
- Price realization is expected to be slightly favorable.
- Financial Products' profit before tax is expected to be about flat compared with 2009, as the impact of improving economic conditions is expected to be about offset by the impact of lower earning assets.

The key positive elements of the 2010 profit outlook are expected to be partially offset by the following:

- In 2010, we are forecasting income taxes to be an expense of about 30 percent of profit before tax. The 2009 effective tax rate was significantly impacted by a favorable geographic mix of profits and losses from a tax perspective and benefits from prior-year tax returns. With higher profit, we expect the 2010 effective tax rate to be closer to historical levels. This is based on current tax law and therefore does not include the U.S. research and development tax credit and other benefits that have not been extended past 2009. In addition, the 2010 tax provision would be negatively impacted if U.S. healthcare legislation was enacted and made government subsidies received for Medicare-equivalent prescription drug (Medicare Part D) coverage taxable.
- Product mix is expected to be unfavorable. The impact of dealer inventory declines in 2009 had a more significant negative impact on smaller, lower-margin machines. As a result, production and sales of smaller machines will likely be proportionally higher in 2010. In addition, while total sales and revenues are expected to be up 10 to 25 percent in 2010, sales of relatively higher-margin turbines and large reciprocating engines are expected to decline. The impact of improving demand for mining equipment is positive, but not enough to offset the significant negative factors.
- We are not forecasting LIFO inventory decrement benefits for 2010. LIFO decrement benefits in 2009 were $300 million.
- R&D expense is expected to increase about 20 percent, primarily to support product development programs related to EPA Tier 4 emissions requirements.
- We do not expect the favorable impact of currency that was in 2009's other income/expense to recur in 2010.
- Depreciation expense is expected to increase. Machinery and Engines capital expenditures are expected to be about $1.6 billion in 2010, up from $1.3 billion in 2009.
- Pension expense is expected to increase.
- Diluted shares outstanding at the end of 2009 are about 2.5 percent higher than the full-year average. This is a result of stock contributed to the pension plan in the second quarter of 2009 and increased dilution related to the increase in the share price.

We expect sales and revenues to ramp up as we progress through 2010. As a result, we expect sales and revenues and profit for the first quarter of 2010 will likely be less than one-fourth of the 2010's outlook for sales and revenues and profit.

The information included in the Outlook section is forward looking and involves risks and uncertainties that could significantly affect expected results. A discussion of these risks and uncertainties is contained in Item 1A of this Form 10-K.

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

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Shares held in Street Position
Stockholders that hold shares through a street position should contact their bank or broker with questions regarding those shares.

Stock Purchase Plan

Current stockholders and other interested investors may purchase Caterpillar Inc. common stock directly through the Investor Services Program sponsored and administered by our Transfer Agent. Current stockholders can get more information on the program from our Transfer Agent using the contact information provided above. Non-stockholders can request program materials by calling: (866) 353-7849. The Investor Services Program materials are available on-line from our Transfer Agent's website or by following a link from www.CAT.com/dspp.

Investor Relations

Institutional analysts, portfolio managers, and representatives of financial institutions seeking additional information about the Company should contact:

Director of Investor Relations

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Caterpillar Inc.	*Fax:*	(309) 675-4457
100 N.E. Adams Street	*E-mail:*	CATir@CAT.com
Peoria, IL 61629-5310	*Internet:*	www.CAT.com/investor

Company Information

Current information -

- phone our Information Hotline - (800) 228-7717 (U.S. or Canada) or (858) 244-2080 (Outside U.S. or Canada) to request company publications by mail, listen to a summary of Caterpillar's latest financial results and current outlook, or to request a copy of results by fax or mail
- request, view, or download materials on-line or register for e-mail alerts by visiting www.CAT.com/materialsrequest

Historical information -

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

Annual Meeting

On Wednesday, June 9, 2010, at 1:30 p.m., Central Time, the annual meeting of stockholders will be held at the Northern Trust Building, Chicago, Illinois. Proxy materials are being sent to stockholders on or about April 30, 2010.

Internet

Visit us on the Internet at www.CAT.com.

Information contained on our website is not incorporated by reference into this document.

Common Stock (NYSE: CAT)

Listing Information: Caterpillar common stock is listed on the New York and Chicago stock exchanges in the United States, and on stock exchanges in Belgium, France, Germany, Great Britain and Switzerland.

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:

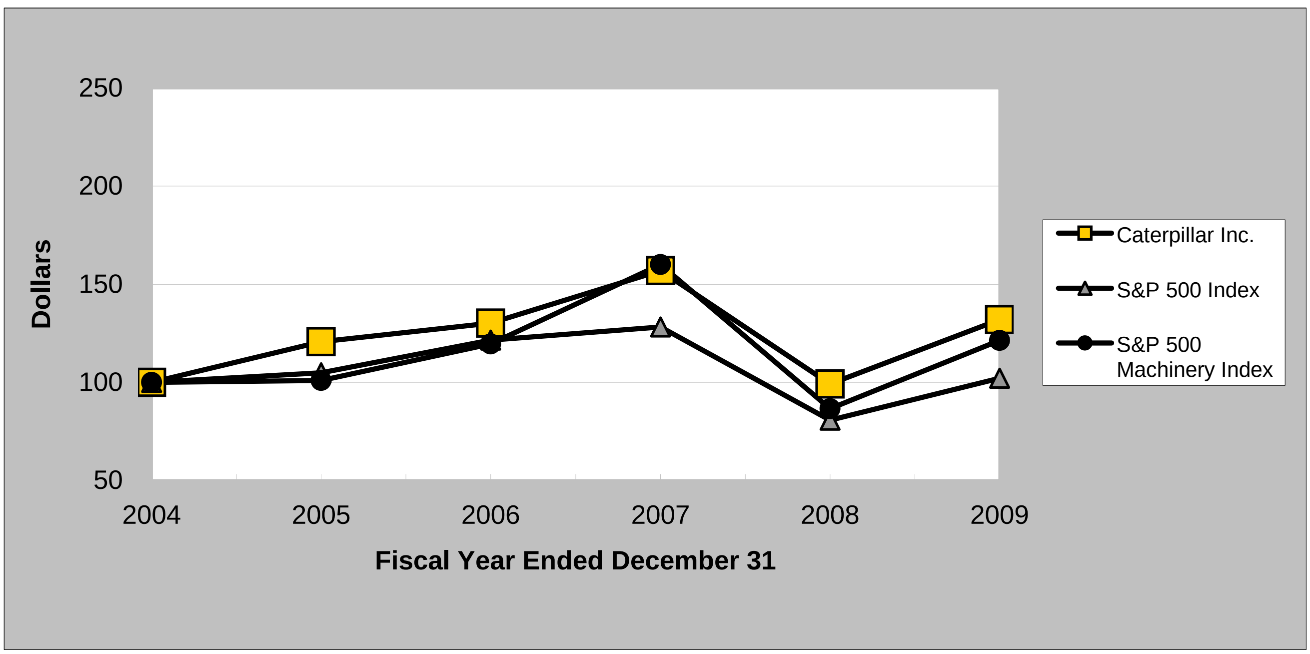
	2009		2008	
Quarter	High	Low	High	Low
First	$ 47.12	$ 21.71	$ 78.63	$ 59.60
Second	$ 40.96	$ 27.44	$ 85.96	$ 72.56
Third	$ 54.71	$ 30.01	$ 75.87	$ 58.11
Fourth	$ 61.28	$ 47.50	$ 59.03	$ 31.95

Number of Stockholders: Stockholders of record at year-end totaled 40,738, compared with 39,578 at the end of 2008. Approximately 58.5 percent of our issued shares are held by institutions and banks, 31 percent by individuals, and 10.5 percent by employees through company stock plans.

Caterpillar tax qualified defined contribution retirement plans held 41,657,053 shares at year-end, including 10,354,432 shares acquired during 2009. Non-U.S. employee stock purchase plans held an additional 5,405,047 shares at year-end, including 1,327,745 shares acquired during 2009.

Performance Graph: Total Cumulative Stockholder Return for Five-Year Period Ending December 31, 2009

The graph below shows the cumulative stockholder return assuming an investment of $100 on December 31, 2004, and reinvestment of dividends issued thereafter.



	2004	2005	2006	2007	2008	2009
Caterpillar Inc.	$ 100.00	$ 120.72	$ 130.24	$ 156.92	$ 99.19	$ 132.02
S&P 500	$ 100.00	$ 104.91	$ 121.46	$ 128.13	$ 80.74	$ 102.11
S&P 500 Machinery	$ 100.00	$ 100.97	$ 119.58	$ 160.09	$ 86.64	$ 121.32

Directors/Committee Membership (as of December 31, 2009)

	Audit	Compensation	Governance	Public Policy
W. Frank Blount			√*	
John R. Brazil		√		
Daniel M. Dickinson	√			
John T. Dillon	√*			
Eugene V. Fife			√	
Gail D. Fosler	√			
Juan Gallardo				√
David R. Goode		√*		
Peter A. Magowan			√	
William A. Osborn	√			
James W. Owens				
Charles D. Powell				√*
Edward B. Rust, Jr.		√		
Susan C. Schwab				√
Joshua I. Smith		√		

* Chairman of Committee

Officers (as of December 31, 2009, except as noted)

James W. Owens [1] .... Chairman and Chief Executive Officer
Douglas R. Oberhelman .... Vice Chairman and Chief Executive Officer - Elect [2]
Group President
Richard P. Lavin....................... Group President
Stuart L. Levenick .... Group President
Edward J. Rapp........................ Group President
Gérard R. Vittecoq .... Group President
Steven H. Wunning .... Group President
Kent M. Adams......................... Vice President
William P. Ainsworth .... Vice President
Ali M. Bahaj .... Vice President
Rodney C. Beeler .... Vice President
Mary H. Bell.............................. Vice President
Thomas J. Bluth .... Vice President
David P. Bozeman .... Vice President
James B. Buda......................... Vice President, General Counsel and Secretary
David B. Burritt .... Vice President and Chief Financial Officer
Richard J. Case........................ Vice President
Robert B. Charter..................... Vice President
Christopher C. Curfman .... Vice President
Paolo Fellin .... Vice President
Steven L. Fisher .... Vice President
Gregory S. Folley .... Vice President
Stephen A. Gosselin .... Vice President
Hans A. Haefeli .... Vice President
John S. Heller........................... Vice President and Chief Information Officer
Gwenne A. Henricks .... Vice President
Stephen P. Larson .... Vice President
Daniel M. Murphy..................... Vice President
James J. Parker .... Vice President
Mark R. Pflederer..................... Vice President
William J. Rohner..................... Vice President
Christiano V. Schena .... Vice President
William F. Springer................... Vice President
Gary A. Stampanato .... Vice President
Gary A. Stroup .... Vice President
Tana L. Utley............................ Vice President
James D. Waters, Jr. .... Vice President
Robert T. Williams.................... Vice President
Jiming Zhu................................ Vice President
Bradley M. Halverson............... Controller
Kevin E. Colgan .... Treasurer
Edward J. Scott [3] .... Chief Audit Officer
Christopher C. Spears [3] .... Chief Ethics and Compliance Officer
Jananne A. Copeland .... Chief Accounting Officer
Robin D. Beran......................... Assistant Treasurer
Laurie J. Huxtable .... Assistant Secretary

1 Will retire as CEO effective July 1, 2010 and as Chairman effective October 31, 2010.
2 Effective January 1, 2010. Will become CEO effective July 1, 2010 and Chairman effective October 31, 2010.
3 Effective January 1, 2010.

EXHIBIT 21

CATERPILLAR INC.
Subsidiaries and Affiliated Companies
(as of December 31, 2009)

Subsidiaries (51% or more ownership)	
Name of Company	Where Organized
1446790 Ontario Limited	Ontario
Acefun S.A. de C.V.	Mexico
Aceros Fundidos Internacionales LLC	Delaware
Aceros Fundidos Internacionales S. de R.L. de C.V.	Mexico
Anchor Coupling Inc.	Delaware
Asia Power Systems (Tianjin) Ltd.	China
AsiaTrak (Tianjin) Ltd.	China
Carter Machinery Company, Incorporated	Delaware
Carter Rental, Inc.	Virginia
Cat Rental Central Japan Ltd.	Japan
Cat Rental East Japan Ltd.	Japan
Cat Rental Hokkaido Co., Ltd.	Japan
Cat Rental Kyushu Ltd.	Japan
Cat Rental West Japan Ltd.	Japan
Caterpillar (Africa) (Proprietary) Limited	South Africa
Caterpillar (Bermuda) Holding Company	Bermuda
Caterpillar (Bermuda) Investments Parent Company	Bermuda
Caterpillar (China) Financial Leasing Co., Ltd.	China
Caterpillar (China) Investment Co., Ltd.	China
Caterpillar (China) Machinery Components Co., Ltd.	China
Caterpillar (HK) Limited	Hong Kong
Caterpillar (Shanghai) Trading Co., Ltd.	China
Caterpillar (Suzhou) Co., Ltd.	China
Caterpillar (Thailand) Limited	Thailand
Caterpillar (U.K.) Limited	England
Caterpillar (Xuzhou) Design Center Ltd.	China
Caterpillar AccessAccount Corporation	Nevada
Caterpillar Americas C.V.	Netherlands
Caterpillar Americas Co.	Delaware
Caterpillar Americas Funding Inc.	Delaware
Caterpillar Americas Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Americas Services Co.	Delaware
Caterpillar Asia Limited	Hong Kong
Caterpillar Asia Pacific L.P.	Bermuda
Caterpillar Asia Pte. Ltd.	Singapore
Caterpillar Belgium S. A.	Belgium
Caterpillar Brasil Comercio de Maquinas e Pecas Ltda.	Brazil
Caterpillar Brasil Ltda.	Brazil
Caterpillar Brazil LLC	Delaware
Caterpillar Central Japan Ltd.	Japan
Caterpillar Centro de Formacion, S.L.	Spain
Caterpillar China Limited	Hong Kong
Caterpillar CIS LLC	Russia
Caterpillar CMC, LLC	Delaware

Caterpillar Commercial Australia Pty. Ltd.	Australia
Caterpillar Commercial Holding S.A.R.L.	Switzerland
Caterpillar Commercial LLC	Delaware
Caterpillar Commercial Northern Europe Limited	England and Wales
Caterpillar Commercial S.A.	Belgium
Caterpillar Commercial S.A.R.L.	France
Caterpillar Commercial Services S.A.R.L.	France
Caterpillar Commerciale S.r.L.	Italy
Caterpillar Communications LLC	Delaware
Caterpillar Corporativo Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Credito, S.A. de C.V., Sociedad Financiera de Objecto Multiple, E. N.R.	Mexico
Caterpillar DC Pension Trust	England and Wales
Caterpillar Distribution Mexico S.R.L. de C.V.	Mexico
Caterpillar Distribution Services Europe B.V.B.A.	Belgium
Caterpillar East Japan Ltd.	Japan
Caterpillar Elkader LLC	Delaware
Caterpillar Engine Systems Inc.	Delaware
Caterpillar Environmental Technologies Mexico, S. de R.L. de C.V.	Mexico
Caterpillar European Finance s.r.o.	Czechoslovakia
Caterpillar Finance Corporation	Japan
Caterpillar Finance France S.A.	France
Caterpillar Finance, s.r.o.	Czech Republic
Caterpillar Financial Acquisition Funding LLC	Delaware
Caterpillar Financial Acquisition Funding Partners	United Kingdom
Caterpillar Financial Australia Limited	Australia
Caterpillar Financial Corporacion Financiera, S.A., E.F.C.	Spain
Caterpillar Financial Dealer Funding LLC	Delaware
Caterpillar Financial Funding Corporation	Nevada
Caterpillar Financial Member Company	Delaware
Caterpillar Financial New Zealand Limited	New Zealand
Caterpillar Financial Nordic Services AB	Sweden
Caterpillar Financial Nova Scotia Corporation	Nova Scotia
Caterpillar Financial OOO	Russia
Caterpillar Financial Receivables Corporation	Nevada
Caterpillar Financial Renting, S.A.	Spain
Caterpillar Financial S.A. Arrendamento Mercantil	Brazil
Caterpillar Financial S.A. Credito, Financiamento e Investimento	Brazil
Caterpillar Financial SARL	Switzerland
Caterpillar Financial Services (Dubai) Limited	United Arab Emirates
Caterpillar Financial Services (Ireland) plc	Ireland
Caterpillar Financial Services (UK) Limited	England and Wales
Caterpillar Financial Services Argentina S.A.	Argentina
Caterpillar Financial Services Asia Pte. Ltd.	Singapore
Caterpillar Financial Services Belgium S.P.R.L.	Belgium
Caterpillar Financial Services Corporation	Delaware
Caterpillar Financial Services CR, s.r.o.	Czech Republic
Caterpillar Financial Services GmbH	Germany
Caterpillar Financial Services Korea, Ltd.	Korea
Caterpillar Financial Services Limited Les Services Financiers Caterpillar Limitee	Canada
Caterpillar Financial Services Malaysia Sdn Bhd	Malaysia
Caterpillar Financial Services Netherlands B.V.	Netherlands

Caterpillar Financial Services Norway AS	Norway
Caterpillar Financial Services Philippines Inc.	Philippines
Caterpillar Financial Services Poland Sp. z o.o.	Poland
Caterpillar Financial Ukraine LLC	Ukraine
Caterpillar Finansal Kiralama Anomim Sirketi	Turkey
Caterpillar Fomento Comercial Ltda.	Brazil
Caterpillar Forest Products Inc.	Delaware
Caterpillar France S.A.S.	France
Caterpillar GB, L.L.C.	Delaware
Caterpillar Global Mining Pty. Ltd.	Australia
Caterpillar Global Services LLC	Delaware
Caterpillar Group Services S.A.	Belgium
Caterpillar Hokkaido Ltd.	Japan
Caterpillar Holding (France) S.A.S.	France
Caterpillar Holding Germany GmbH	Germany
Caterpillar Holding Ltd.	Bermuda
Caterpillar Holdings Singapore Pte. Ltd.	Singapore
Caterpillar Hungary Component Manufacturing Ltd.	Hungary
Caterpillar Hydraulics Italia S.r.l.	Italy
Caterpillar Impact Products Limited	England and Wales
Caterpillar India Private Limited	India
Caterpillar Insurance Co. Ltd.	Bermuda
Caterpillar Insurance Company	Missouri
Caterpillar Insurance Holdings Inc.	Delaware
Caterpillar Insurance Services Corporation	Tennessee
Caterpillar International Finance Limited	Ireland
Caterpillar International Finance Luxembourg, S.a.r.l.	Luxembourg
Caterpillar International Holding S.A.R.L.	Switzerland
Caterpillar International Investments Coöperatie U.A.	Netherlands
Caterpillar International Investments S.A.R.L.	Switzerland
Caterpillar International Ltd.	Bermuda
Caterpillar International Product SARL	Switzerland
Caterpillar International Services Corporation	Nevada
Caterpillar International Services del Peru S.A.	Peru
Caterpillar Investment One SARL	Switzerland
Caterpillar Investment Two SARL	Switzerland
Caterpillar Investments	England and Wales
Caterpillar IRB LLC	Delaware
Caterpillar Japan Accounting Services Ltd.	Japan
Caterpillar Japan Akashi General Services Ltd.	Japan
Caterpillar Japan Ltd.	Japan
Caterpillar Japan Sagami Engineering Ltd.	Japan
Caterpillar Japan Sagami General Services Ltd.	Japan
Caterpillar Japan System Services Ltd.	Japan
Caterpillar 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 GmbH	Germany
Caterpillar Logistics Services International LLC	Russia
Caterpillar Logistics Services International N.V.	Belgium
Caterpillar Logistics Services Polska Sp. z o.o.	Poland
Caterpillar Logistics Services Spain, S.A.	Spain
Caterpillar Logistics Services, Inc.	Delaware
Caterpillar Logistics Supply Chain Services GmbH	Germany
Caterpillar Logistics Supply Chain Services Italia S.r.l.	Italy
Caterpillar Logistics Supply Chain Services Limited Liability Company	Hungary
Caterpillar Luxembourg Group S.a.r.l.	Luxembourg
Caterpillar Luxembourg S.a.r.l.	Luxembourg
Caterpillar Marine Asia Pacific Pte. Ltd.	Singapore
Caterpillar Marine Power UK Limited	England and Wales
Caterpillar Marine Trading (Shanghai) Co., Ltd.	China
Caterpillar Materiels Routiers S.A.S.	France
Caterpillar Mexico, S.A. de C.V.	Mexico
Caterpillar Mining Chile Servicios Limitada	Chile
Caterpillar Motoren (Guangdong) Co. Ltd.	China
Caterpillar Motoren GmbH & Co. KG	Germany
Caterpillar Motoren 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 Okinawa Ltd.	Japan
Caterpillar Operator Training Ltd.	Japan
Caterpillar Overseas Credit Corporation S.A.R.L.	Switzerland
Caterpillar Overseas Investment Holding, S.A.R.L.	Switzerland
Caterpillar Overseas S.A.R.L.	Switzerland
Caterpillar Panama Services SA	Panama

Caterpillar Paving Products Inc.	Oklahoma
Caterpillar Paving Products Xuzhou Ltd.	China
Caterpillar Pension Trust Limited	England and Wales
Caterpillar Poland Sp. z o.o.	Poland
Caterpillar Power Generations Systems (Chile) SpA	Chile
Caterpillar Power Generations Systems L.L.C.	Delaware
Caterpillar Power Systems Inc.	Delaware
Caterpillar Power Systems y Compañia Limitada	Nicaragua
Caterpillar Power Ventures Corporation	Delaware
Caterpillar Power Ventures Europe B.V.	Netherlands
Caterpillar Power Ventures International, Ltd.	Bermuda
Caterpillar Prodotti Stradali S.r.l.	Italy
Caterpillar Product Development S.A.R.L.	Switzerland
Caterpillar Product Services Corporation	Missouri
Caterpillar R&D Center (China) Co., Ltd.	China
Caterpillar Redistribution Services International S.A.R.L.	Switzerland
Caterpillar Reman Powertrain Indiana LLC	Delaware
Caterpillar Reman Powertrain Services, Inc.	South Carolina
Caterpillar Remanufacturing Drivetrain LLC	Delaware
Caterpillar Remanufacturing Limited	England and Wales
Caterpillar Remanufacturing Services (Shanghai) Co. Ltd.	China
Caterpillar Renting France S.A.S.	France
Caterpillar S.A.R.L.	Switzerland
Caterpillar Sales Inc.	Delaware
Caterpillar Services Limited	Delaware
Caterpillar Servicios Limitada	Chile
Caterpillar Servicios Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Servizi Italia Srl	Italy
Caterpillar Skinningrove Limited	England and Wales
Caterpillar Special Products 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	United Kingdom
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 West Japan Ltd.	Japan
Caterpillar Work Tools B.V.	Netherlands
Caterpillar Work Tools, Inc.	Kansas
Caterpillar World Trading Corporation	Delaware
Caterpillar Xuzhou Ltd.	China
Caterpillar/SCB Investments LP	Delaware

Caterpillar/SCB Receivables Finance LP	Nevada
Catsub I, Inc.	Oregon
Centre de Distribution de Wallonie S.A.	Belgium
CFRC/CFMC Investments, LLC	Delaware
Chemetron-Railway Canada Corporation	Ontario
Chemetron-Railway Products, Inc.	Delaware
EDC European Excavator Design Center GmbH & Co. KG	Germany
EDC European Excavator Design Center Verwaltungs GmbH	Germany
Elektrocieplawnia Starahowice Sp. z o.o.	Poland
Energy Services International Limited	Bermuda
Ensambladora Tecnologica de Mexico, S.A. de C.V.	Mexico
Euronov Polska	France
Eurenov S.A.S.	Poland
F.G. Wilson (Engineering) Limited	Northern Ireland
F.G. Wilson (Proprietary) Limited	South Africa
F.G. Wilson (USA) LLC	Delaware
F.G. Wilson Generators India Private Limited	India
F. Perkins Limited	England and Wales
Federal Financial Services LLC	Delaware
Forchester do Brasil Ltda.	Brazil
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 Holdings Ltd.	Ontario
Lovat Inc.	Ontario
Lovat Trading (Shanghai) Co. Ltd.	China
Magnum Power Products, LLC	Delaware
MaK Americas Inc.	Illinois
MaK Beteiligungs GmbH	Germany
MaK Power Systems Lanka (Private) Ltd.	Sri Lanka
Mec-Track S.r.l.	Italy
Metalmark Financial Services Limited	England and Wales
MGE Equipamentos e Servicos Ferroviarios Ltda.	Brazil
Motori Perkins S.P.A.	Italy
Nadri Limited	Ontario
Necoles Investments B.V.	Netherlands
P. T. Caterpillar Finance Indonesia	Indonesia
P. T. Natra Raya	Indonesia
P. T. Solar Services Indonesia	Indonesia
Perkins Engines (Asia Pacific) Pte Ltd	Singapore
Perkins Engines Company Limited	England and Wales
Perkins Engines, Inc.	Maryland
Perkins France (S.A.S.)	France
Perkins Group Limited	England and Wales
Perkins Holdings Limited LLC	Delaware and England and Wales
Perkins International Inc.	Delaware
Perkins Limited	England and Wales
Perkins Motoren GmbH	Germany
Perkins Motores do Brasil Ltda.	Brazil

Perkins Power Systems Technology (Wuxi) Co., Ltd.	China
Perkins Shibaura Engines (Wuxi) Co., Ltd.	China
Perkins Shibaura Engines Limited	England and Wales
Perkins Shibaura Engines LLC	Delaware
Perkins Technology Inc.	Delaware
Premier Automotive Parts Limited	United Kingdom
Progress Metal Reclamation Company	Kentucky
Progress Rail Canada Corporation	Canada
Progress Rail Holdings Inc.	Alabama
Progress Rail Raceland Corporation	Delaware
Progress Rail Services Corporation	Alabama
Progress Rail Services de Mexico S.A. de C.V.	Mexico
Progress Rail Services Holdings Corp.	Delaware
Progress Rail Services LLC	Delaware
Progress Rail 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
Qingzhou Aoweier Engineering Machinery Co., Ltd.	China
Qingzhou Shandong Logistics Co., Ltd.	China
Railcar, Ltd.	Georgia
Rapisarda Industries Srl	Italy
Richlu Holdings Inc.	Ontario
S & L Railroad, LLC	Nebraska
SCM Singapore Holdings Pte. Ltd.	Singapore
SEM Service & Distribution Centre	United Arab Emirates
Servicios Administrativos Progress S. de R.L. de C.V.	Mexico
Servicios Ejecutivos Progress S. de R.L. de C.V.	Mexico
Servicios Logisticos Progress S. de R.L. de C.V.	Mexico
Shandong SEM Machinery Co Ltd.	China
Societe Industrial Rubber Hoses Sarl	Tunisia
Solar Turbines Canada Ltd./Ltee.	Canada
Solar Turbines CIS Limited Liability Company	Russia
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
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.r.L.	Italy
Turbomach SA - Spain	Spain
Turbomach SA - Switzerland	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
United Industries Corporation	Kentucky
VALA (UK) LP	England and Wales
VALA Inc.	Delaware
VALA LLC	Delaware
Veratech Holding B.V.	Netherlands
West Virginia Auto Shredding Inc.	West Virginia
XPart Limited	United Kingdom

Affiliated Companies (50% and less ownership)	
Name of Company	Where Organized
10G LLC	Delaware
Advanced Filtration 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
MCFA Canada Ltd.	Ontario
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
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 Proprietary 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
Tech Itoh Co., Ltd.	Japan
Technocast, S.A. de C.V.	Mexico
Tri-County Venture Capital Fund I, LLC	Delaware
Turboservices SDN BHD	Malaysia
VirtualSite Solutions LLC	Delaware
Yaita Jusyaryou Co., Ltd.	Japan
Yeep Co.	Japan

EXHIBIT 23

PRICEWATERHOUSECOOPERS

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, 33-32851, 333-111355, 333-128342, 333-135467, 333-133275, 333-133266, 333-133265, 333-141548) and Form S-4 (No. 333-121003) of Caterpillar Inc. of our report dated February 19, 2010 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/PricewaterhouseCoopers LLP
Peoria, Illinois
February 19, 2010

EXHIBIT 31.1

SECTION 302 CERTIFICATION

I, James W. Owens, certify that:

1. I have reviewed this annual report on Form 10-K of Caterpillar Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrants most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 19, 2010	*/s/James W. Owens* (James W. Owens)	Chairman of the Board and Chief Executive Officer

EXHIBIT 31.2

SECTION 302 CERTIFICATION

I, David B. Burritt, certify that:

1. I have reviewed this annual report on Form 10-K of Caterpillar Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report; based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrants most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

February 19, 2010	*/s/David B. Burritt*	Vice President and Chief Financial Officer
	(David B. Burritt)	

EXHIBIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Caterpillar Inc. (the "Company") on Form 10-K for the period ending December 31, 2009 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 19, 2010	*/s/James W. Owens* (James W. Owens)	Chairman of the Board and Chief Executive Officer
February 19, 2010	*/s/David B. Burritt* (David B. Burritt)	Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Caterpillar Inc. and will be retained by Caterpillar Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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