



100 NE Adams Street  
Peoria, Illinois 61629

**Notice of Annual Meeting of Stockholders**  
**Wednesday, April 14, 2004**  
**1:30 p.m. — Central Daylight Time**

**Northern Trust Building**  
**50 South LaSalle Street**  
**Chicago, Illinois 60675**

March 4, 2004

Fellow stockholder:

On behalf of the board of directors, you are cordially invited to attend the 2004 Caterpillar Inc. annual meeting of stockholders to:

- elect directors;
- act on two management proposals;
- act on stockholder proposals, if properly presented; and
- conduct any other business properly brought before the meeting.







You must have an admission ticket to attend, and procedures for requesting that ticket are detailed on page 39 of this proxy statement. Attendance and voting is limited to stockholders of record at the close of business on February 17, 2004.

Sincerely yours,

A handwritten signature in cursive script that reads "Jim Owens".

James W. Owens  
Chairman

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## **Attendance and Voting Matters**

### ***Admission Ticket Required***

Anyone wishing to attend the annual meeting must have an admission ticket issued in his or her name. Admission is limited to stockholders of record on February 17, 2004 and one guest, or a stockholder's authorized proxy holder. The requirements for obtaining an admission ticket are specified in the "Admission Ticket Request Procedure" located on page 39.

### ***Record Date Information***

Each share of Caterpillar stock you own as of February 17, 2004, entitles you to one vote. On February 17, 2004, there were 341,423,739 shares of Caterpillar common stock outstanding.

### ***Voting by Telephone or Internet***

Caterpillar is again offering stockholders the opportunity to vote by phone or electronically via the Internet. In order to vote by phone or via the Internet, simply call the telephone number or access the website shown on your proxy and/or voting instruction card and then follow the instructions provided. A phone or Internet vote authorizes the named proxies in the same manner as if you marked, signed and returned the card by mail. In the opinion of counsel, voting by phone or via the Internet are valid proxy voting methods under Delaware law and Caterpillar's bylaws.

### ***Giving your Proxy to Someone Other than Individuals Designated on the Card***

If you want to give your written proxy to someone other than the individuals named on the proxy card:

- cross out the individuals named and insert the name of the individual you are authorizing to vote; or
- provide a written authorization to the individual you are authorizing to vote along with your proxy card.

To obtain an admission ticket for your authorized proxy representative, see the requirements specified in the "Admission Ticket Request Procedure" on page 39.

## ***Quorum***

A quorum of stockholders is necessary to hold a valid meeting. If at least one-third of Caterpillar stockholders are present in person or by proxy, a quorum will exist. Abstentions and broker non-votes are counted as present for establishing a quorum. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner.

## ***Vote Necessary for Action***

Directors are elected by a plurality vote of the shares present at the meeting, meaning that the director nominee with the most affirmative votes for a particular slot is elected for that slot. In an uncontested election for directors, the plurality requirement is not a factor.

Other actions require an affirmative vote of the majority of shares present at the meeting. Abstentions and broker non-votes have the effect of a no vote on matters other than director elections.

Votes submitted by mail, telephone or Internet will be voted by the individuals named on the card (or the individual properly authorized) in the manner you indicate. If you do not specify how you want your shares voted, they will be voted in accordance with management's recommendations. If you hold shares in more than one account, you must vote each proxy and/or voting instruction card you receive to ensure that all shares you own are voted. You may change your vote by voting in person at the annual meeting or by submitting another proxy that is dated later. For all methods of voting, the last vote cast will supercede all previous votes.

# **The Caterpillar Board of Directors**

## ***Structure***

Our board of directors is divided into three classes for purposes of election. One class is elected at each annual meeting of stockholders to serve for a three-year term. With the exception of the Chairman, all directors are independent as defined in the New York Stock Exchange listing standards.

Directors elected at the 2004 annual meeting of stockholders will hold office for a three-year term expiring in 2007. Other directors are not up for election this year and will continue in office for the remainder of their terms.

If a nominee is unavailable for election, proxy holders will vote for another nominee proposed by the board or, as an alternative, the board may reduce the number of directors to be elected at the meeting.



## **PROPOSAL 1 — Election of Directors**

### ***Directors Up For Election This Year for Terms Expiring in 2007***

- **JOHN T. DILLON**, 65, former Chairman and CEO of International Paper (paper and forest products). Prior to his appointment as Chairman and CEO, Mr. Dillon served as President and Chief Operation Officer of International Paper. Other directorship: Kellogg Co. Mr. Dillon has been a director of the company since 1997.
- **JUAN GALLARDO**, 56, Chairman of Grupo Embotelladoras Unidas S.A. de C.V. (bottling); Chairman of Mexico Fund Inc. (mutual fund); and Vice Chairman of Home Mart de Mexico, S.A. de C.V. (retail trade). Former Chairman and CEO of Grupo Azucarero Mexico, S.A. de C.V. (sugar mills). Other directorships: Grupo Mexico, S.A. de C.V.; Lafarge SA; and NADRO S.A. de C.V. Mr. Gallardo has been a director of the company since 1998.
- **WILLIAM A. OSBORN**, 56, Chairman and CEO of Northern Trust Corporation (multibank holding company) and The Northern Trust Company (bank). Other directorships: Nicor Inc. and Tribune Company. Mr. Osborn has been a director of the company since 2000.
- **GORDON R. PARKER**, 68, former Chairman of Newmont Mining Corporation (gold properties production, exploration and acquisition company). Other directorships: Gold Fields Limited and Phelps Dodge Corporation. Mr. Parker has been a director of the company since 1995.
- **EDWARD B. RUST, JR.**, 53, Chairman and CEO of State Farm Mutual Automobile Insurance Company (insurance). He is also President and CEO of State Farm Fire and Casualty Company, State Farm Life Insurance Company and other principal State Farm affiliates as well as Trustee and President of State Farm Mutual Fund Trust and State Farm Variable Product Trust. Other directorships: Helmerich & Payne, Inc. and The McGraw-Hill Companies, Inc. Mr. Rust has been a director of the company since 2003. Mr. Rust was recommended to the Governance Committee for service on Caterpillar's board by the former CEO.

**YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE “FOR” THE NOMINEES PRESENTED IN PROPOSAL 1.**

### ***Directors Remaining in Office Until 2005***

- **W. FRANK BLOUNT**, 65, Chairman and CEO of JI Ventures, Inc. (venture capital firm). Prior to his current position, Mr. Blount served as Chairman and CEO of Cypress Communications Inc. (telecommunications) and Director and CEO of Telstra Corporation Limited (telecommunications). Other directorships: ADTRAN, Inc.; Alcatel S.A.; Entergy Corporation; and Hanson PLC. Mr. Blount has been a director of the company since 1995.

- **JOHN R. BRAZIL**, 57, President of Trinity University (San Antonio, Texas). Prior to his current position, Dr. Brazil was President of Bradley University (Peoria, Illinois). Dr. Brazil has been a director of the company since 1998.
- **EUGENE V. FIFE**, 63, Managing Principal of Vawter Capital LLC (private investment firm). Prior to his current position, Mr. Fife was President and CEO of Illuminis Inc. (medical technology company). He is the non-executive Chairman of Eclipsys Corporation. Mr. Fife has been a director of the company since 2002.
- **GAIL D. FOSLER**, 56, Executive Vice President and Chief Economist of The Conference Board (research and business membership organization). Prior to her current position, Ms. Fosler was Senior Vice President of The Conference Board. Other directorships: Baxter International Inc.; DBS Group Holdings Ltd.; and Unisys Corporation. Ms. Fosler has been a director of the company since 2003.
- **PETER A. MAGOWAN**, 61, former Chairman and CEO of Safeway Inc. (leading food retailer). Mr. Magowan is President and Managing General Partner of the San Francisco Giants (Major League Baseball team). Other directorships: DaimlerChrysler AG; Safeway Inc.; and Spring Group plc. Mr. Magowan has been a director of the company since 1993.

### ***Directors Remaining in Office Until 2006***

- **DAVID R. GOODE**, 63, Chairman, President, and CEO of Norfolk Southern Corporation (holding company engaged principally in surface transportation). Other directorships: Delta Air Lines, Inc.; Georgia-Pacific Corporation; Norfolk Southern Railway Company; and Texas Instruments Incorporated. Mr. Goode has been a director of the company since 1993.
- **JAMES W. OWENS**, 58, Chairman and CEO of Caterpillar Inc. (machinery, engines, and financial products). Prior to his current position, Mr. Owens served as Vice Chairman and as Group President of Caterpillar. Mr. Owens has been a director of the company since January 31, 2004.
- **CHARLES D. POWELL**, 62, Chairman of Sagitta Asset Management Limited (asset management) and Louis Vuitton U.K. Ltd. (luggage and leather goods). Prior to his current positions, Lord Powell was Chairman of Phillips Fine Art Auctioneers (art, jewelry, and furniture auction) and Senior Director of Jardine Matheson Holdings Ltd. and associated companies (multinational business group). Other directorships: LVMH Moët-Hennessy Louis Vuitton; Mandarin Oriental International Ltd.; Schindler Holding Ltd.; Textron Corporation; and Yell Group plc. Lord Powell has been a director of the company since 2001.
- **JOSHUA I. SMITH**, 62, Chairman and Managing Partner of the Coaching Group, LLC (management consulting). As part of the Coaching Group, Mr. Smith served as former Vice Chairman and Chief Development Officer of iGate, Inc. (broadband networking company). Other directorships: CardioComm Solutions Inc.; Federal Express Corporation; and The Allstate Corporation. Mr. Smith has been a director of the company since 1993.

## ***Board Meetings, Communications, and Committees***

In 2003, our board met ten times. In addition to those meetings, directors attended meetings of individual board committees. For our incumbent board as a whole, attendance in 2003 at board and committee meetings was over 91 percent. Company policy, posted on our website, states that in the absence of unavoidable conflict, all directors are expected to attend the annual meeting of stockholders. Thirteen of fourteen directors attended the annual meeting in April 2003.

Our board has four standing committees, an ***Audit Committee***, ***Compensation Committee***, ***Governance Committee***, and ***Public Policy Committee***, each of which has a written charter adopted by the board that can be accessed on the Investor Information — Corporate Governance section of the company’s website ([www.CAT.com](http://www.CAT.com)).

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

Below is a description of each committee of the board. Committee memberships as of December 31, 2003, are listed in the Committee Membership table on page 7.

The ***Audit Committee*** assists the board in fulfilling its oversight responsibilities for financial matters. The committee performs this function by monitoring Caterpillar’s financial reporting process and internal controls and by assessing the audit efforts of Caterpillar’s independent auditors and internal auditing department. The committee has ultimate authority and responsibility to select, evaluate, and, where appropriate, replace the independent auditor. The committee also reviews updates on emerging accounting and auditing issues provided by the independent auditor and by management, to assess their potential impact on Caterpillar. During 2003, the committee held ten meetings. All members of the committee meet the standards for independence of audit committee members set forth in the New York Stock Exchange listing standards and meet financial literacy guidelines adopted by the board. Additionally, the board has determined that each member of the Audit Committee qualifies as an “audit committee financial expert” as defined under the Sarbanes-Oxley Act of 2002 and Item 401(h) of Regulation S-K.

The ***Compensation Committee*** assists the board of directors in fulfilling its' responsibilities in connection with the compensation of company directors, officers and employees. It performs this function by approving and recommending standards for the company's compensation programs and plans, including various incentive compensation, retirement and other benefit plans. The committee reviews the board's annual review of the performance of the company's Chief Executive Officer and fixes his compensation. The committee also reviews the company's salaried and management compensation practices, including the methodologies for setting employee and officer salaries, and fixes the salary and other compensation of all officers of the company. During 2003, the committee held four meetings.

The ***Governance Committee*** makes recommendations to the board regarding the appropriate size and composition of the board, and monitors and makes recommendations regarding the board's performance. The committee also reviews the company's Shareholder Rights Plan at least every three years to consider whether the continuance of the Rights Plan continues to be in the best interests of the company, its stockholders, and other constituencies of the company. The committee, formerly known as the Nominating and Governance Committee, continues to perform the functions of a nominating committee. As such, the committee makes recommendations regarding the criteria for the selection of candidates to serve on the board and evaluates and makes recommendations on proposed candidates for service on the board, including recommending the slate of nominees for election at annual meetings of stockholders. The committee also recommends candidates for election as officers of the company (including Chairman and Chief Executive Officer), monitors compliance with the board's Guidelines on Corporate Governance Issues, and administers the board's self-evaluation and shares the results thereof with the board for discussion and deliberation. The chair of this committee presides over regularly scheduled executive sessions of the independent directors. The committee considers director nominees from stockholders for election at the annual stockholders' meeting. Stockholders who are interested in nominating a director candidate can do so in accordance with to the policy discussed in the Governance Committee Report on page 11. During 2003, the committee held three meetings.

The ***Public Policy Committee*** assists the board with its' general oversight with respect to matters of public and social policy affecting the company domestically and internationally, including investor, consumer and community relations issues and employee safety programs, policies and procedures. The committee oversees the company's Code of Worldwide Business Conduct, Policy Letters, and compliance programs and reviews major legislative proposals and proposed regulations involving matters not falling within the substantive coverage of any other committee of the board. During 2003, the committee held three meetings.



<b>Committee Membership</b> (as of December 31, 2003)				
	<b>Audit</b>	<b>Compensation</b>	<b>Governance</b>	<b>Public Policy</b>
Glen A. Barton <sup>1</sup>				
W. Frank Blount	✓		✓	
John R. Brazil		✓		✓*
John T. Dillon	✓		✓*	
Eugene V. Fife	✓*			✓
Gail D. Fosler		✓		✓
Juan Gallardo		✓		✓
David R. Goode	✓		✓	
Peter A. Magowan		✓		✓
William A. Osborn		✓*	✓	
Gordon R. Parker	✓		✓	
Charles D. Powell		✓		✓
Edward B. Rust, Jr.	✓		✓	
Joshua I. Smith			✓	✓
*Chairman of Committee				
<sup>1</sup> Glen A. Barton retired as Chairman and CEO of Caterpillar effective January 31, 2004. James W. Owens assumed the role of Chairman and CEO on that date and is not a member of any board committee.				

### ***Director Compensation***

Of our current board members, only Mr. Owens is a salaried employee of Caterpillar. All other members receive separate compensation for board service. That compensation is comprised of:

<b>Annual Retainer:</b>	\$65,000
<b>Attendance Fees:</b>	\$1,000 for each board meeting \$1,000 for each board committee meeting Expenses related to attendance
<b>Committee Chairman Stipend:</b>	\$5,000 annually
<b>Stock Options:</b>	4,000 shares annually

Under Caterpillar's Directors' Deferred Compensation Plan, directors may defer 50 percent or more of their annual compensation in an interest-bearing account or an account representing shares of Caterpillar stock. Under the 1996 Stock Option and Long-Term Incentive Plan, directors may also elect to receive all or a portion of their annual retainer fees, attendance fees and/or stipends in shares of Caterpillar stock.

Our directors also participate in a Charitable Award Program. In the year of a director's death, the first of 10 equal annual installments is paid to charities selected by the director and to the Caterpillar Foundation. The maximum amount payable under the program is \$1 million on behalf of each eligible director and is based on the director's length of service. The program is financed through the purchase of life insurance policies, and directors derive no financial benefit from it.

## ***Legal Proceedings***

On May 11, 2000, the First Circuit Court in Mexico City granted Grupo Azucarero Mexico, S.A. de C.V., a public company of which Juan Gallardo is the controlling stockholder, suspension of payments protection, which is legal protection similar to Chapter 11 of the U.S. Bankruptcy Code. This protection enables the company to continue its operations while meeting its financial obligations in an orderly fashion.

## **Certain Related Transactions**

In 1998, Caterpillar entered into a lease agreement with Riverfront Development L.L.C. (Riverfront) for space at One Technology Plaza, 211 Fulton Street, Peoria, Illinois. Pursuant to this lease and subsequent amendments, Caterpillar paid \$752,447 to Riverfront in 2003. Cullinan Properties L.L.C. (Cullinan) owns 100 percent of Riverfront. Diane A. Oberhelman owns a majority of Cullinan and since 2000 has been married to Caterpillar Group President Douglas R. Oberhelman.

In each of 1998 and 2003, Caterpillar Financial Services Corporation entered into a loan arrangement with Dynamic Retailers, L.L.C. The current balance of these two loans is \$559,000. The purpose of the loans is to support two CAT Merchandise Centres in the Peoria, Illinois area. The loans are secured by inventory and fixtures. Cullinan is a 50 percent member of Dynamic Retailers, L.L.C. Diane Oberhelman owns a majority of Cullinan and is one of three personal guarantors of the full payment of the loan.

## **Audit Committee Report**

The Audit Committee (committee) is comprised entirely of independent directors (as defined for members of an audit committee in the New York Stock Exchange listing standards) and operates under a written charter adopted by the board (attached hereto as Exhibit B). The members of the committee, as of December 31, 2003, are listed at the end of this report. Management is responsible for the company's internal controls and the financial reporting process. The independent auditors (auditors) are responsible for performing an independent audit of the company's consolidated financial statements in accordance with generally accepted auditing standards and issuing a report thereon. The committee's responsibility is to monitor these processes. In this regard, the committee meets separately at each committee meeting with management, the Vice President for Corporate Auditing and Compliance, and the auditors. The committee has the authority to conduct or authorize investigations into any matters within the scope of its responsibilities and the authority to retain such outside counsel, experts, and other advisors as it determines appropriate to assist it in the conduct of any such investigation. The committee is responsible for selecting and, if appropriate, replacing the auditors (PricewaterhouseCoopers LLP).

### ***Pre-Approval Process***

The committee pre-approves all audit and non-audit services to be performed by the auditor. It has policies and procedures in place to ensure that the company and its subsidiaries are in full compliance with the requirements for pre-approval set forth in the Sarbanes-Oxley Act of 2002 and the SEC rules regarding auditor independence. These policies and procedures provide a mechanism by which management can request and secure pre-approval of audit and non-audit services in an orderly manner with minimal disruption to normal business operations. The policies and procedures are detailed as to the particular service and **do not** delegate the committee's responsibility to management. They address any service provided by the auditor, and any audit or audit-related services to be provided by any other audit service provider. The pre-approval process includes an annual and interim component.

### ***Annual Pre-Approval Process***

At each February committee meeting, management and the auditor jointly submit a service matrix of the types of audit and non-audit services that management may wish to have the auditor perform for the year. The service matrix categorizes the types of services by Audit, Audit-Related, Tax and All Other. Approval of a service is merely an authorization that this type of service is permitted by the committee, subject to pre-approval of specific services. Management and the auditor jointly submit an Annual Pre-approval Limits Request. The request lists individual project and aggregate pre-approval limits by service category. The request also lists known or anticipated services and associated fees. The committee approves or rejects the pre-approval limits and each of the listed services. For 2003, the pre-approval limits were as follows:

<b>Type of Service</b>	<b>Pre-approval Limits (in thousands)</b>	
	<b>Per Project</b>	<b>Aggregate Limit</b>
<b>Audit Services</b>	\$ 200	\$ 10,000
<b>Audit Related Services</b>	\$ 200	\$ 1,000
<b>Tax Services</b>	\$ 200	\$ 15,000
<b>All Other Services</b>	\$ 200	\$ 1,000

### ***Interim Pre-Approval Process***

During the course of the year, the Chairman of the committee (chairman) has the authority to pre-approve requests for services that were not approved in the annual pre-approval process.

## ***On-Going Monitoring***

At each committee meeting subsequent to the February meeting, the chairman reports any interim pre-approvals since the last meeting. Also, at each of these meetings, management and the auditor provide the committee with an update of fees expected to be incurred for the year compared to amounts pre-approved in February.

The committee has discussed with the company's auditors the overall scope and plans for the independent audit. Management represented to the committee that the company's consolidated financial statements were prepared in accordance with generally accepted accounting principles. Discussions about the company's audited financial statements included the auditors' judgments about the quality, not just the acceptability of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements. The committee also discussed with the auditors other matters required by Statement on Auditing Standards No. 61 *Communication with Audit Committees*, as amended by SAS No. 90 *Audit Committee Communications*. Management and the auditors also made presentations to the committee throughout the year on specific topics of interest, including: (i) the management philosophy, asset allocation levels, risk controls and oversight of the company's pension funds; (ii) the company's derivative policy; (iii) self-insurance and risk management; (iv) the company's information technology systems and the security program to protect these systems; (v) the applicability of new accounting releases; and (vi) the company's critical accounting policies.

The auditors provided to the committee the written disclosures required by Independence Standards Board Standard No. 1 *Independence Discussions with Audit Committees*, and the committee discussed the auditors' independence with management and the auditors. In addition, the committee considered whether the information technology and other non-audit consulting services provided by the auditors' firm could impair the auditors' independence and concluded that such services have not impaired the auditors' independence.

Based on (i) the committee's discussion with management and the auditors, (ii) the committee's review of the representations of management, and (iii) the report of the auditors to the committee, the committee recommended to the board that the audited consolidated financial statements be included in the company's Annual Report on Form 10-K for the year ended December 31, 2003, filed with the Securities and Exchange Commission.

By the Audit Committee consisting of:

*Eugene V. Fife (Chairman)*

*W. Frank Blount*  
*John T. Dillon*

*David R. Goode*

*Gordon R. Parker*  
*Edward B. Rust, Jr.*

## ***Audit Fees***

Fees paid to our auditors' firm were comprised of the following (in millions):

	<b>2002</b>	<b>2003</b>
	<b><u>Actual</u></b>	<b><u>Actual</u></b>
<b>Audit Services</b> .....	\$ 8.5	\$ 10.2
<b>Audit Related Services</b> .....	3.9	3.5
<b>Tax Compliance Services</b> <sup>1</sup> .....	2.3	2.5
<b>Tax Planning and Consulting Services</b> <sup>2</sup> .....	11.8	10.5
<b>All Other</b> .....		
6 Sigma Training .....	2.0	—
Information System Design & Implementation .....	7.5	—
Other .....	<u>.2</u>	<u>.4</u>
Sub-total .....	<u>9.7</u>	<u>.4</u>
<b>TOTAL</b> .....	<b><u>\$ 36.2</u></b>	<b><u>\$ 27.1</u></b>

<sup>1</sup> "Tax Compliance" includes, among other things, tax return preparation and review, executive tax compliance, and advising on the impact of changes in local tax laws.

<sup>2</sup> "Tax Planning and Consulting" includes, among other things, tax planning and advice and assistance with respect to transfer pricing issues.

## **Governance Committee Report**

The Governance Committee (committee) is composed of six directors, identified at the end of this report, all of whom meet the independence requirements for nominating committee members as defined in the New York Stock Exchange listing standards and determined by the board in its business judgment. The committee operates under a written charter adopted by the board. As part of its mandate, the committee evaluates and makes recommendations regarding proposed candidates to serve on the board, including recommending the slate of nominees for election at annual meetings of stockholders.

## *Process for Nominating Directors*

The committee identifies director nominees from various sources such as officers, directors, and stockholders and in 2003 did not retain the services of any third party consultants to assist in identifying and evaluating potential nominees. The committee will consider and evaluate a director candidate recommended by a stockholder in the same manner as a committee-recommended nominee. The committee will assess all director nominees taking into account several factors including, but not limited to, issues such as the current needs of the board and the nominee's: (i) integrity, honesty and accountability; (ii) successful leadership experience and strong business acumen; (iii) forward-looking, strategic focus; (iv) collegiality; (v) independence and absence of conflicts of interests; (vi) ability to devote necessary time to meet director responsibilities; and (vii) ability to commit to company stock ownership. Where appropriate, the committee will ultimately recommend nominees that it believes will enhance the board's ability to manage and direct, in an effective manner, the affairs and business of the company.

## *Stockholder Nominations*

Stockholders wishing to recommend a director candidate to serve on the board may do so by providing advance written notice to the company. Such written notice of an intent to nominate a director candidate at an annual meeting of stockholders must be given either by personal delivery or by United States mail, postage prepaid, to the Corporate Secretary no later than ninety (90) days in advance of such meeting. The notice must set forth: (a) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the nominating stockholder is a stockholder of record of the company's stock entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the board; and (e) the consent of each nominee to serve as a director of the company if so elected. The presiding officer of the annual meeting of stockholders may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure. If you are interested in recommending a director candidate, you may request a copy of the company's by-laws by writing the Corporate Secretary at the address set forth on the front page of this Proxy Statement.

By the Governance Committee consisting of:

*John T. Dillon (Chairman)*

*W. Frank Blount*

*William A. Osborn*

*Edward B. Rust, Jr.*

*David R. Goode*

*Gordon R. Parker*

*Joshua T. Smith*

## Caterpillar Stock Owned by Officers and Directors

(as of December 31, 2003)

Barton .....	706,407 <sup>1</sup>	Oberhelman .....	154,968 <sup>9</sup>
Baumgartner .....	241,001 <sup>2</sup>	Osborn.....	8,183 <sup>10</sup>
Blount.....	30,021 <sup>3</sup>	Owens .....	398,763 <sup>11</sup>
Brazil.....	13,650 <sup>4</sup>	Parker .....	35,931 <sup>12</sup>
Dillon .....	26,064 <sup>5</sup>	Powell .....	6,166 <sup>13</sup>
Fife.....	11,000	Rust.....	2,000
Fosler.....	1,000	Shaheen.....	219,818 <sup>14</sup>
Gallardo.....	61,788 <sup>6</sup>	Smith.....	24,092 <sup>15</sup>
Goode .....	38,208 <sup>7</sup>	Thompson .....	125,106 <sup>16</sup>
Magowan .....	54,622 <sup>8</sup>	All directors and executive officers as a group ...	4,946,871 <sup>17</sup>
<sup>1</sup> Barton — Includes 572,067 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to supplemental employees' investment plans representing an equivalent value as if such compensation had been invested on December 31, 2003, in 4,693 shares of common stock.			
<sup>2</sup> Baumgartner — Includes 178,334 shares subject to stock options exercisable within 60 days.			
<sup>3</sup> Blount — Includes 24,000 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2003, in 390 shares of common stock.			
<sup>4</sup> Brazil — Includes 12,000 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2003, in 124 shares of common stock.			
<sup>5</sup> Dillon — Includes 20,000 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2003, in 185 shares of common stock.			
<sup>6</sup> Gallardo — Includes 16,000 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2003, in 124 shares of common stock.			
<sup>7</sup> Goode — Includes 28,000 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2003, in 13,469 shares of common stock.			
<sup>8</sup> Magowan — Includes 32,000 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2003, in 3,441 shares of common stock.			
<sup>9</sup> Oberhelman — Includes 129,321 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to supplemental employees' investment plans representing an equivalent value as if such compensation had been invested on December 31, 2003, in 7,512 shares of Common Stock.			
<sup>10</sup> Osborn — Includes 4,000 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2003, in 29 shares of common stock.			
<sup>11</sup> Owens — Includes 310,334 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to supplemental employees' investment plans representing an equivalent value as if such compensation had been invested on December 31, 2003, in 3,054 shares of common stock.			
<sup>12</sup> Parker — Includes 28,000 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2003, in 449 shares of common stock.			
<sup>13</sup> Powell — Includes 4,000 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2003, in 29 shares of common stock.			
<sup>14</sup> Shaheen — Includes 157,289 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to supplemental employees' investment plans representing an equivalent value as if such compensation had been invested on December 31, 2003, in 5,066 shares of common stock.			
<sup>15</sup> Smith — Includes 20,000 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2003, in 429 shares of common stock.			
<sup>16</sup> Thompson — In addition to the shares listed above, a portion of compensation has been deferred pursuant to supplemental employees' investment plans representing an equivalent value as if such compensation had been invested on December 31, 2003, in 9,858 shares of common stock.			
<sup>17</sup> Group — Includes 3,684,778 shares subject to stock options exercisable within 60 days. Also includes 99,728 shares for which voting and investment power is shared. All directors and executive officers as a group beneficially own less than one percent of the company's outstanding common stock.			

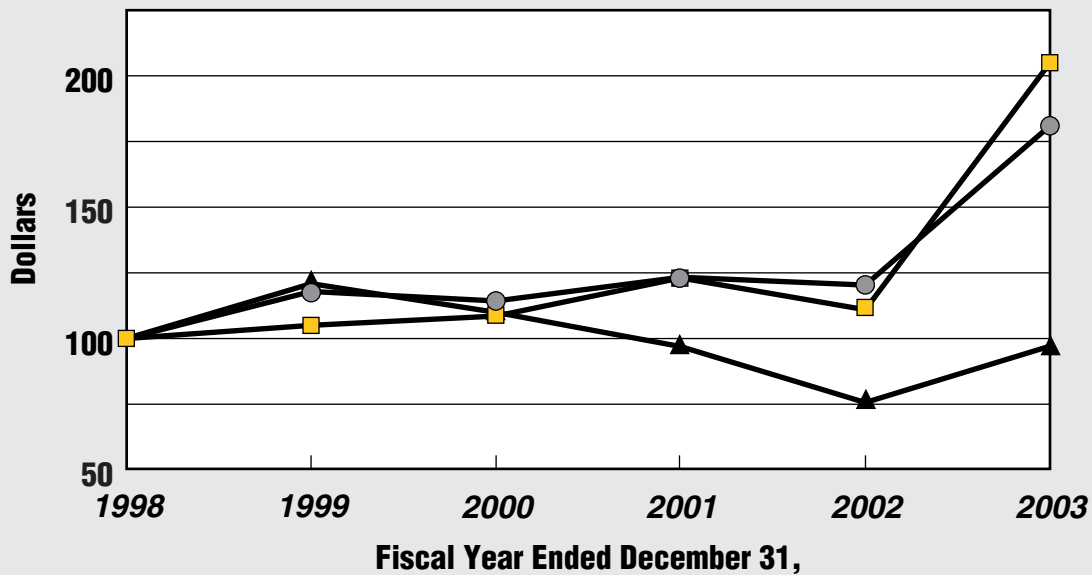
## Persons Owning More than Five Percent of Caterpillar Stock (as of December 31, 2003)

Name and Address	Voting Authority		Dispositive Authority		Total Amount of Beneficial Ownership	Percent of Class
	Sole	Shared	Sole	Shared		
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071	0	0	19,479,500	0	19,479,500	5.6

## Performance Graph

### CATERPILLAR INC. Total Cumulative Stockholder Return for Five-Year Period Ending December 31, 2003

The graph below shows the cumulative stockholder return assuming an investment of \$100 on December 31, 1998 and reinvestment of dividends thereafter.



	1998	1999	2000	2001	2002	2003
Caterpillar Inc. ■	100.00	105.03	108.55	123.05	110.97	204.94
S&P 500 ▲	100.00	120.89	109.97	96.94	75.64	97.09
S&P 500 Machinery ●	100.00	117.91	114.30	123.34	120.35	180.97



## Compensation Committee Report on Executive Officer and Chief Executive Officer Compensation

As Caterpillar's Compensation Committee (committee), our primary goal is to establish a compensation program that serves the long-term interests of Caterpillar and its stockholders. Our prime asset is our people. A focused, competitive compensation program tailored to meet our long-term goals significantly enhances that asset.

We believe that Caterpillar has developed a compensation program that effectively:

- links the interests of management and stockholders;
- links employee compensation with both individual performance and long-term Caterpillar performance; and
- attracts and retains people of high caliber and ability.

Although this report is directed at CEO and executive officer compensation, the committee emphasizes that only through the efforts of all highly motivated, dedicated Caterpillar employees around the globe has the company been able to have the success it had in 2003.

### *Executive Officer Compensation*

Our executive officer compensation package is a combination of base pay, short-term and long-term incentive compensation. No executive officer has a "golden parachute" agreement that would reward him or her upon departure from the company. Total annual cash compensation consists of base salary and cash payouts under our corporate short-term incentive compensation plans. Long-term compensation consists of stock options, grants of restricted stock and the three year long-term cash performance plan. The committee established the following principles to guide us in structuring our pay practices:

- ***Base salary, as a percentage of total direct pay, should decrease as salary grade levels increase*** — as employees move to higher levels of responsibility with greater ability to influence enterprise results, the percentage of their pay at risk should increase correspondingly;
- ***The ratio of long-term variable pay to short-term variable pay should increase as salary grade levels increase*** — the long-term future of our company should be the top priority of our executives and our compensation program must motivate our executives to take actions that are best for the long-term vitality of the company; and
- ***The ratio of stock options and other equity-based compensation to long-term performance-based plans should increase as salary grade levels increase*** — stock options provide a clear link between interests of the stockholder and the interests of the recipient. Our compensation program must place increasing emphasis on developing an "ownership mentality" among our top executives.

These principles guided the committee's compensation decisions in 2003.

## ***Total Annual Cash Compensation***

Total annual cash compensation for executive officers is comprised of base salary plus annual short-term incentive pay. At Caterpillar, total cash is targeted to be highly competitive in relation to salaries offered at other companies within our competitive market for talent.

When reviewing total annual cash compensation, we use Hewitt as our principle source of survey data. As a benchmark against the survey data received from Hewitt, we request survey data from Hay and Towers Perrin. All companies included in these surveys are in the S&P Composite Index. In December 2002, the data showed that executive officer short-term incentive compensation at Caterpillar at the Chairman/CEO and Vice President levels, respectively, was slightly above or slightly below the median of the surveyed companies, and below that of surveyed companies at the Group President level. In response, we approved a 10 percent increase at the mid-point salary range at the Group President level. The percentage of the base pay element of short-term incentive pay at the Chairman/CEO and Vice President levels was maintained from the prior year.

### **Payouts Under The Corporate Incentive Compensation Plans**

Executive officers, along with other management, salaried, and hourly payrolls, participate in corporate incentive compensation plans as part of their short-term compensation package. For the CEO and Group Presidents, the plan is called the Executive Short-Term Incentive Plan (ESTIP). The ESTIP was approved by our stockholders at the annual meeting of stockholders on April 11, 2002, so as to preserve the tax-deductibility offered for such compensation under Section 162(m) of the United States Tax Code. For all other salaried and management employees, the corporate incentive compensation plan is referred to as the Short-Term Incentive Plan (STIP). The ESTIP and the STIP (the plans) are substantially similar team-based pay at risk plans that deliver a target percentage of base salary to each participant based on performance against team goals at both the enterprise and business unit levels. The following guiding principles apply to the plans:

- percentage of pay at risk is to remain at market-leading levels, meaning that commensurately less pay at market target levels is included in base pay than is the case for our comparator companies;
- they are focused on rewarding employees for the delivery of results against measurable goals;
- they are designed to deliver highly competitive incentive compensation at target levels;
- the company's payout objective under the plans should be at target on average over a period of years; and
- they are designed to drive behavior aligned with both enterprise and business unit results.

For 2003, approximately \$335 million in short-term incentive compensation was earned by approximately 51,678 Caterpillar employees.

Team awards under these plans are calculated by multiplying:

- pro-rated annual base salary;
- a specific percentage of base salary that varies based on position;
- a performance factor based upon Caterpillar's achievement of certain earnings per share (EPS) levels; and
- a performance factor based upon Caterpillar's achievement of certain 6 Sigma benefits levels.

Before any amount could be awarded under these plans for 2003, Caterpillar had to achieve a threshold EPS level, with larger amounts awarded for achievement of business plan, target or maximum EPS level. Due to a challenging 2003 business climate, we approved a recommendation to lower the payout factor for achievement of the business plan from .9 to .44 in February 2003. For 2003, the target EPS level was exceeded and all executive officers received a team award.

As part of the STIP, 26 business units (or divisions within those units) at Caterpillar have their own short-term incentive compensation plans tied to the goals of their particular unit. For 2003, 25 executive officers received part of their short-term incentive payouts based on the performance of their individual business units. Several factors specific to the unit may have impacted that payout, including EPS, 6 Sigma benefits, return on assets (ROA), accountable profit, cash flow, revenue growth, price realization, percentage of industry sales, and quality.

Executive officers participating in their respective divisional incentive plans were eligible to receive 50 percent of the team award amount that would have been awarded if he or she had participated solely in the divisional plans and 50 percent of the amount that would have been awarded had the officer participated solely in the corporate STIP metrics (EPS and corporate 6 Sigma benefits).

In addition to these awards, certain executive officers received an individual award for 2003 based on individual performance. In February 2003, we approved a change in this discretionary portion of the plan to establish a new 2 percent discretionary award to be reserved exclusively for executive officers and employees at all salary grade levels receiving the highest performance ranking in their annual performance reviews. In his discretion, the Chairman decides whether any individual awards to executive officers are warranted. Each business unit Vice President decides whether any individual awards to employees at all other salary grade levels are warranted. Unused portions of the funds allocated to the Chairman and unit Vice Presidents each year for individual awards are not carried forward into the next year.

### ***Long-Term Incentive Compensation***

The Long-Term Incentive Plan (LTIP) is comprised of three components: annual stock option grants, a three-year cash performance plan and grants of restricted stock.

## **Stock Options**

In 2003, all executive officers and certain other key employees were granted stock options. These stock options permit the holder to buy Caterpillar stock for a price equal to the stock's value when the option was granted. If the price of Caterpillar stock increases from the date of grant, the options have value. Typically, holders have 10 years to exercise stock options from the date they were granted, absent events such as death or termination of employment. We view stock options as critical to linking the interest of our stockholders and employees to realize a benefit from appreciation in the price of Caterpillar stock.

The number of options an executive officer receives depends upon his or her position in the company. Typically, a baseline number of options is granted for the positions of Vice President, Group President, and Chairman. Positive or negative adjustments may be made based on a subjective assessment of individual performance.

Consistent with our commitment to cultivate an ownership mentality among our executive officers, Caterpillar is one of the few companies to establish and adhere to strict ownership guidelines in connection with stock option grants. Pursuant to these guidelines, adjustments to the number of options granted may be made if the officer does not meet his or her stock ownership requirements. Officers are encouraged to own a number of shares at least equal to the average number of shares for which they received options in their last five option grants. Twenty-five percent of vested unexercised options apply toward the ownership target. If 100 percent of this guideline was not met, significant progress had not been made toward meeting it, or a satisfactory explanation for failure to meet it had not been presented, we would have reduced the number of options to be granted to that particular officer. For 2003, all officers complied with the target ownership guidelines and no officer was penalized for low share ownership.

## **Cash Performance Plan**

Our long-term incentive compensation plan also includes a cash performance plan offered to executive officers and other high-level management employees. Under this feature, a three-year performance cycle is established each year. If the company meets certain threshold, target or maximum performance goals at the end of the cycle, participants receive a cash payout. We have the ability to apply different performance criteria for different cycles, as well as the discretion to adjust performance measures for unusual items such as changes in accounting practices or corporate restructurings. For the 2002-2004 cycle and beyond, the committee decided to change the metric for the cash performance plan from after-tax ROA to a metric combining company EPS growth and return on equity (ROE). This change was made to better align our officers' interests with those of our stockholders. In February 2003, we set the threshold, target and maximum levels for the 2003-2005 cycle for EPS growth at the 25th, 50th and 75th percentiles of our S&P peer group, respectively, and for ROE at 15, 20 and 25 percent, respectively. As with the 2002-2004 plan, each measure will trigger independently for the 2003-2005 cycle.

For the three-year cycle established for the years 2001 through 2003, the threshold after-tax ROA goal was not met and no payout was made for the third consecutive year.

## **Restricted Stock Grants**

In December 2000, in recognition of the need to attract and retain outstanding performers, we approved the implementation of a restricted stock award program. Key elements of the program are:

- Establishment of a pool of 250,000 restricted shares of company stock, from which selected performance-based and retention-based grants would be made to officers and other key employees, as well as prospective employees;
- Refreshment of the pool annually to a level approved by the committee;
- Restrictions on awarded shares with vesting schedules varying from 3 – 5 years; and
- Forfeiture of restricted shares upon the grantee's election to leave Caterpillar.

Pursuant to the plan, the committee reviews nominations for awards to assure they meet the following criteria:

For prospective employees:

- Demonstrated potential as a significant contributor;
- Capabilities presenting a potential competitive advantage; or
- Special talents or characteristics to meet a specific corporate need.

For current Caterpillar employees:

- Exceptional performance;
- High potential for promotion; or
- High marketability for positions outside Caterpillar.

Sixty-one participants received a total of 42,210 restricted shares with a total value of \$2,290,387 under this restricted stock award program in 2003. In addition, 7 participants received a total of 4,425 phantom restricted shares with a total value of \$248,159 under this program in 2003.

### ***Mr. Barton's Individual Goals for 2003***

The committee reviewed Mr. Barton's individual goals established at the beginning of 2003 and his subsequent performance against those goals. We believe that the company's 2003 performance is a testament to Mr. Barton's effective strategic direction and leadership. He has very clearly positioned the company for long-term growth and success.

## **Financial Results**

The company had an excellent year, revising its annual outlook upwards at the conclusion of each quarter. The year-end results exceeded even the revised outlook announced at the beginning of the fourth quarter. This performance was attributable to many factors, including the company's diverse base of businesses, significant reductions in the company's core operating costs and higher sales and revenues in each of the company's three principal lines of business. In addition, 6 Sigma continued to achieve breakthroughs in cost reduction, quality and process improvement in 2003, surpassing even the aggressive enterprise goals set by Mr. Barton and enabling the company to more than offset \$310 million in higher retirement benefits costs in 2003.

## **Effective Management of Acquisitions and Growth Initiatives**

Mr. Barton met his goal of keeping recent acquisitions, growth initiatives and recently underperforming products on track to deliver improved returns in 2003. Building Construction Products made significant improvement as a result of continued product improvement and improved manufacturing strategies. Profitability improved at Perkins as well, attributable in part to the introduction of a new line of engines and reductions in employment. Additionally, renewed emphasis on the under 1-megawatt units of electric power generation paid off with a notable increase in volume.

## **Improvement in Cash Flow**

Under Mr. Barton's direction, 2003 was a very good year for the company's cash flow. After contributing \$720 million to the company's pension plans, operating cash flow from our Machinery and Engines principal lines of business was \$1.43 billion. This strong cash flow allowed funding for the company's capital expenditures, increased dividend payments and the share repurchase program while improving the strength of the company's financial position.

## **6 Sigma Leadership**

Thanks to Mr. Barton's leadership, the company's 6 Sigma efforts were extraordinarily successful in 2003, building on the momentum generated in 2002. 6 Sigma results far exceeded the company's aggressive goals set at the outset of the year and 6 Sigma was the key enabler of the \$231 million improvement in core operating costs in 2003. Nearly 40 percent of the company's employees — more than 25,000 people — are now directly engaged in 6 Sigma projects across the enterprise. Virtually every employee has been directly or indirectly involved by serving on or supporting those who are serving on 6 Sigma teams. More than 15,000 projects are in process, led by more than 2,600 black belts. The company also trained 176 master black belts and 17,500 green belts in 2003. In addition, 6 Sigma extended further throughout the company's value chain in 2003. Ninety-seven Caterpillar dealers and more than 240 suppliers are now using 6 Sigma to help improve their businesses and strengthen the value chain.

## **Commitment to Diversity**

Throughout the year, Mr. Barton set very clear expectations concerning the importance of building a more diverse, global workforce. He supported the Corporate Diversity Council in its effort to establish processes and metrics for driving and assessing performance at each business unit. Under Mr. Barton's direction, the company leveraged its relationships with twelve Strategic Partner Schools and five diversity-focused professional organizations to assure that the company has a source of highly talented diverse candidates from which to recruit. This Strategic Partner Schools initiative, launched this year, was very well received by the twelve participating schools and enabled the company to achieve tangible progress in its efforts to enhance the company's diversity. In addition, at Mr. Barton's direction, the Human Services Division launched a 6 Sigma project to explore additional means by which the company can attract candidates from a diverse background.

## **ACERT® Technology**

Mr. Barton achieved his 2003 goal of ensuring the company obtained EPA certification and successful market introduction of the full line of its Advanced Combustion Emissions Reduction Technology (ACERT) engines. The new Caterpillar engine line with ACERT technology offers five engines, the C7, C9, C11, C13 and C15, all of which have received EPA certification and meet 2004 EPA emission regulations without sacrificing engine performance. The company is in full production of all of the engines, in accordance with the pre-announced timeline. Market acceptance of ACERT engines has been strong. As reported in the Ward's year to date data through November 2003, Caterpillar maintained its leadership position in the North American on-highway truck and bus industry. Additionally, J.D. Powers awarded the company with the Award for Customer Acceptance of On-Highway Diesel Truck Engines for the fourth consecutive year in 2003.

## **Pursue New Business Opportunities**

In 2003, Mr. Barton achieved his goal of pursuing new business opportunities for the company. Several new initiatives were brought to the board for discussion, consideration and exploration. Several of these initiatives were approved for further due diligence, and agreements were finalized on a number of these initiatives in 2003. Solar Turbines Incorporated, a subsidiary of Caterpillar Inc. announced a five-year agreement with ChevronTexaco Corporation to supply turbomachinery systems, including industrial gas turbine engines, gas compressors and aftermarket products and services. Caterpillar consummated a five-year global alliance with BHP Billiton pursuant to which Caterpillar will supply an estimated \$1.5 billion in equipment and support to BHP Billiton's diversified global resources operations. The company also entered a multi-year alliance with Blount International, Inc. to bring a full line of purpose-built forestry equipment to Cat dealers and customers. Finally, the company finalized a joint venture agreement with Eaton Corporation to provide a total systems approach to integrated, reliable electric power solutions for customer needs. The product lines for the joint venture include paralleling switchgear and automatic transfer switches used for emergency or prime power applications for a wide variety of facilities, ranging from commercial and industrial facilities to utility and generation installations.

## **Critical Success Factors**

In 2003, Mr. Barton set a goal to provide enhanced progress reports to the board with respect to each of the company's Critical Success Factors (CSF's). He met this goal, providing regular updates on the CSF's throughout the year and dedicating significant time at each board meeting to a select number of CSF's, focusing particular emphasis on the Growth, Cost Reduction, Order Fulfillment, 6 Sigma and Best Products CSF's.

## **China and India**

Mr. Barton achieved his 2003 goal to accelerate the company's product and manufacturing strategy for China and India. The company's China and India operations experienced significant increases in terms of volumes and profitability in 2003 as compared to 2002. Product development accelerated in 2003 as well with the launch of the 426 Series I BHL in India and the D7G and D6G in China. The company finalized its acquisition of Hindustan Powerplus Ltd. (HPL) in 2003 to provide a solid foundation on which to build the company's future engine strategy in India.

In China, the company announced a multi-year framework for investments in November, which it expects to provide the basis for the company to significantly expand its business in China. In the first concrete milestone toward implementation for this expansion, the company signed a non-binding memorandum of understanding with the PRC's Shandong Engineering Machinery — the seventh largest wheel loader producer in China. Subject to approval from China's government officials and the companies' satisfactory completion of due diligence, these negotiations are expected to pave the way for Caterpillar to increase its presence in China. In June, Caterpillar Logistics Services, Inc., a wholly owned subsidiary of Caterpillar entered into a strategic venture with LSH Logistics Limited, a wholly owned subsidiary of Lei Shing Hong Limited, Caterpillar's largest dealer in China to market and provide a wide range of logistics services to the Greater China (including Hong Kong and Taiwan) and Korean markets.

## **Contact with Analysts and Stockholders**

For 2003, Mr. Barton set a goal of maintaining contact with financial analysts and stockholders. This goal was met as Mr. Barton participated in the company's Securities Analyst Conference attended by 90 analysts and investors representing over 25 percent of the company's outstanding shares in 2003. He also met individually with several institutional stockholders to keep abreast of trends and ideas prevalent in the marketplace. He held on-line interviews with noted business talk shows and participated in several press interviews regarding the company and industry trends.



## **Contact with Caterpillar Customers**

For 2003 Mr. Barton set a goal of maintaining regular contact with Caterpillar customers. This goal was met as Mr. Barton continued to be actively involved in the support of the company's marketing activities. He attended five different association meetings with dealers representing over 60 percent of the company's sales. He also attended major dealer anniversaries and met with several customer groups. He met throughout the year with numerous large engine, earthmoving, mining and logistics customers as well as several of the company's key suppliers.

## **Outside Organizations**

Mr. Barton met his goal to be an active participant in organizations dedicated to business and commerce. He regularly attended meetings of the Business Roundtable (BRT), International Business Roundtable, The Conference Board and the Business Council. He was appointed Chairman of the BRT's Health and Retirement Task Force and led the BRT's successful effort to have a prescription drug benefit added to Medicare. Mr. Barton also served as one of four panelists at the Business Council's meeting on Trade, which focused on issues relating to exports, and President Bush appointed him to the Export Council. The British Government also honored Mr. Barton for his personal leadership in growing Caterpillar's industrial base in the United Kingdom over the last ten years.

## **Commitment to the Peoria Community**

Mr. Barton achieved his 2003 goal of continuing his involvement in the growth and development of Caterpillar's hometown, Peoria, Illinois. Mr. Barton continued his service on the PeoriaNext Board, and was actively involved in fundraising activities to support new start-up companies in the Peoria region. He attended countless functions recognizing Caterpillar employee participation in community activities and spoke at a number of different community organizations, including at the graduation ceremonies at Western Illinois University, Eureka College and the University of Missouri Engineering Program.

By the Compensation Committee consisting of:

*William A. Osborn (Chairman)*

*John R. Brazil*

*Juan Gallardo*

*Peter A. Magowan*

*Gail D. Foster*

*Charles D. Powell*

## Executive Compensation Tables

<b>2003 Summary Compensation Table</b>								
Name and Principal Position	Annual Compensation				Long-Term Compensation			
	Year	Salary	Bonus <sup>1</sup>	Other Annual Compensation <sup>2</sup>	Awards		Payouts	
					Restricted Stock Awards <sup>3</sup>	Securities Underlying Options	LTIP Payouts	All Other Compensation <sup>4</sup>
G. A. Barton Chairman and CEO	2003	\$1,250,000	\$1,688,393	\$2,707	\$ 0	250,000	\$ 0	\$130,076
	2002	1,175,001	917,943	628	0	190,000	0	56,400
	2001	1,075,002	1,188,004	5,941	421,350	160,000	0	51,600
V. H. Baumgartner <sup>5</sup> Group President	2003	868,696	822,832	0	0	70,000	0	40,630
	2002	712,638	404,907	0	0	61,000	0	23,841
	2001	549,229	478,179	0	0	54,000	0	26,363
D. R. Oberhelman Group President	2003	537,340	509,159	0	0	70,000	0	49,215
	2002	498,000	282,910	176	0	61,000	0	19,540
	2001	407,086	414,720	0	147,473	24,000	0	7,150
J. W. Owens Group President	2003	695,000	681,419	378	0	70,000	0	64,536
	2002	670,002	380,600	482	0	61,000	0	22,781
	2001	645,006	600,927	0	0	54,000	0	25,800
G. L. Shaheen Group President	2003	649,004	655,022	6,070	0	70,000	0	61,469
	2002	590,505	375,472	718	0	61,000	0	24,020
	2001	553,755	488,167	1,704	0	54,000	0	22,150
R. L. Thompson Group President	2003	689,170	709,863	2,109	0	70,000	0	64,186
	2002	670,002	380,600	1,099	0	61,000	0	20,100
	2001	645,006	565,927	1,732	0	54,000	0	19,350

<sup>1</sup> Consists of cash payments made pursuant to the corporate incentive compensation plan in 2004 with respect to 2003 performance, in 2003 with respect to 2002 performance, and in 2002 with respect to 2001 performance. Includes discretionary bonus payments authorized by the Compensation Committee of the Board of Directors. Receiving discretionary bonus payments in 2004 for 2003 were G. L. Shaheen (\$40,000) and R. L. Thompson (\$40,000). Receiving a discretionary payment in 2003 for 2002 was G. L. Shaheen (\$40,000). Receiving a discretionary payment in 2002 for 2001 was J. W. Owens (\$35,000). Also includes variable base pay lump sum amounts that must be re-earned annually. Receiving variable base pay lump sum awards in 2003 were G. A. Barton (\$60,000), J. W. Owens (\$23,000), and R. L. Thompson (\$17,000).

<sup>2</sup> Taxes paid on behalf of employee related to aircraft usage.

<sup>3</sup> Consists of restricted shares issued pursuant to the restricted stock award program established in December 2000. On March 1, 2001, 10,000 restricted shares were awarded to G. A. Barton and 3,500 restricted shares were awarded to D. R. Oberhelman. The fair market value of Caterpillar common stock at the time of these awards was \$42.135. As of December 31, 2003, the number and value of all restricted stock held by each of the following was: G. A. Barton – 13,723 (\$1,148,752), V. H. Baumgartner – 1,231 (\$103,047), D. R. Oberhelman – 4,456 (\$373,012), J. W. Owens – 1,893 (\$158,463), G. L. Shaheen – 1,524 (\$127,574) and R. L. Thompson – 1,893 (\$158,463). Caterpillar’s average stock price on December 31, 2003 (\$83.71 per share) was used to determine the value of restricted stock. Dividends are paid on this restricted stock.

<sup>4</sup> Consists of matching company contributions for the Caterpillar 401(k) Plan, and supplemental employees’ investment plans, respectively, of G. A. Barton (\$12,000/\$118,076), D. R. Oberhelman (\$12,000/\$37,215), J. W. Owens (\$12,000/\$52,536), G. L. Shaheen (\$12,000/\$49,469) and R. L. Thompson (\$12,000/\$52,186) and of matching contributions for V. H. Baumgartner (\$40,630) in a foreign Employees’ Investment Plan.

<sup>5</sup> Dollar amounts are based on compensation in Swiss Francs converted to U.S. dollars using the exchange rate in effect December 31, 2003.

<b>Option Grants in 2003</b>						
<b>Name</b>	<b>Individual Grants</b>				<b>Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term<sup>3</sup></b>	
	<b>Number of Securities Underlying Options Granted<sup>1</sup></b>	<b>% of Total Options Granted to Employees In Fiscal Year 2003<sup>2</sup></b>	<b>Exercise Price Per Share</b>	<b>Expiration Date</b>		
			<b>5%</b>	<b>10%</b>		
G. A. Barton	250,000	2.97	\$54.285	06/10/13	\$ 8,533,750	\$ 21,628,750
V. H. Baumgartner	70,000	.83	54.285	06/10/13	2,389,450	\$ 6,056,050
D. R. Oberhelman	70,000	.83	54.285	06/10/13	2,389,450	\$ 6,056,050
J. W. Owens	70,000	.83	54.285	06/10/13	2,389,450	\$ 6,056,050
G. L. Shaheen	70,000	.83	54.285	06/10/13	2,389,450	\$ 6,056,050
R. L. Thompson	70,000	.83	54.285	06/10/13	2,389,450	\$ 6,056,050
Executive Group	1,298,100	15.42	54.285	06/10/13	44,310,644	\$ 112,305,122
All Stockholders <sup>4</sup>	N/A	N/A	N/A	N/A	\$11,768,159,255	\$29,826,345,332
Executive Group Gain as % of all Stockholder Gain	N/A	N/A	N/A	N/A	.37%	.37%

<sup>1</sup> Options are exercisable upon completion of one full year of employment following the grant date (except in the case of death or retirement) and vest at the rate of one-third per year over the three years following the grant. Upon exercise, option holders may surrender shares to pay the option exercise price and satisfy tax-withholding requirements. Options granted to certain employees that are vested and not incentive stock options may be transferred to certain permitted transferees.

<sup>2</sup> In 2003, options for 8,474,100 shares were granted to employees and directors as follows: Executive Group – 1,298,100; non-employee directors – 56,000; and all others – 7,120,000.

<sup>3</sup> The dollar amounts under these columns reflect the 5% and 10% rates of appreciation prescribed by the Securities and Exchange Commission. The 5% and 10% rates of appreciation would result in per share prices of \$88.42 and \$140.80, respectively.

<sup>4</sup> For “All Stockholders” the potential realizable value is calculated from \$54.285, the average price of Common Stock on June 10, 2003, based on the outstanding shares of common stock on that date.

<b>Aggregated Option/SAR Exercises in 2003, and 2003 Year-End Option/SAR Values</b>						
<b>Name</b>	<b>Shares Acquired On Exercise<sup>1</sup></b>	<b>Value Realized<sup>2</sup></b>	<b>Number of Securities Underlying Unexercised Options/SARs at 2003 Year-End<sup>3</sup></b>		<b>Value of Unexercised In-the-Money Options/SARs at 2003 Year-End<sup>2</sup></b>	
			<b>Exercisable</b>	<b>Unexercisable</b>	<b>Exercisable</b>	<b>Unexercisable</b>
G. A. Barton	80,853	\$2,755,019	572,067	429,999	\$18,501,854	\$13,145,185
V. H. Baumgartner	6,800	174,314	178,334	128,666	6,371,615	3,944,765
D. R. Oberhelman	484	18,372	129,321	118,666	4,255,544	3,642,965
J. W. Owens	50,000	1,723,690	310,334	128,666	10,743,523	3,944,765
G. L. Shaheen	57,386	1,715,412	157,289	128,666	5,568,313	3,944,765
R. L. Thompson	242,334	4,827,258	0	128,666	0	3,944,765

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

<sup>2</sup> Calculated on the basis of the fair market value of the underlying securities at the exercise date or year-end, as the case may be, minus the exercise price.

<sup>3</sup> Numbers presented have not been reduced to reflect any transfers of options by the named executives.

### Long-Term Incentive Plans/Awards in 2003

Name	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts under Non-Stock Price-Based Plans <sup>1</sup>		
		Threshold	Target	Maximum
G. A. Barton Chairman and CEO	2003 – 2005	\$ 1,008,000	\$ 2,016,000	\$ 3,024,000
	2002 – 2004	1,008,000	2,016,000	3,024,000
V. H. Baumgartner Group President	2003 – 2005	461,266	922,532	1,383,798
	2002 – 2004	461,266	922,532	1,383,798
D. R. Oberhelman Group President	2003 – 2005	285,604	571,208	856,813
	2002 – 2004	285,604	571,208	856,813
J. W. Owens Group President	2003 – 2005	366,975	733,950	1,100,925
	2002 – 2004	366,975	733,950	1,100,925
G. L. Shaheen Group President	2003 – 2005	345,977	691,954	1,037,931
	2002 – 2004	345,977	691,954	1,037,931
R. L. Thompson Group President	2003 – 2005	363,302	726,604	1,089,906
	2002 – 2004	363,302	726,604	1,089,906

<sup>1</sup> Payout is based upon an executive's base salary at the end of the three-year cycle, a predetermined percentage of that salary, and Caterpillar's achievement of specified performance levels (EPS and ROE for the 2002 – 2004 and 2003 – 2005 cycles) over the three-year period. The threshold amount will be earned if 50% of the targeted performance level is achieved. The target amount will be earned if 100% of the targeted performance level is achieved. The maximum award amount will be earned at 150% of targeted performance level. Base salary levels for 2003 were used to calculate the estimated dollar value of future payments under both cycles.

### Pension Plan Table

Remuneration	Years of Service				
	15	20	25	30	35
\$ 250,000	\$ 56,250	\$ 75,000	\$ 93,750	\$ 112,500	\$ 131,250
300,000	67,500	90,000	112,500	135,000	157,500
350,000	78,750	105,000	131,250	157,500	183,750
400,000	90,000	120,000	150,000	180,000	210,000
450,000	101,250	135,000	168,750	202,500	236,250
500,000	112,500	150,000	187,500	225,000	262,500
550,000	123,750	165,000	206,250	247,500	288,750
650,000	146,250	195,000	243,750	292,500	341,250
750,000	168,750	225,000	281,250	337,500	393,750
850,000	191,250	255,000	318,750	382,500	446,250
950,000	213,750	285,000	356,250	427,500	498,750
1,100,000	247,500	330,000	412,500	495,000	577,500
1,400,000	315,000	420,000	525,000	630,000	735,000
1,600,000	360,000	480,000	600,000	720,000	840,000
1,950,000	438,750	585,000	731,250	877,500	1,023,750
2,500,000	562,500	750,000	937,000	1,125,000	1,312,500

The compensation covered by the pension program is based on an employee's annual salary and bonus. Amounts payable pursuant to a defined benefit supplementary pension plan are included. As of December 31, 2003, the persons named in the Summary Compensation Table had the following estimated credited years of benefit service for purposes of the pension program: G. A. Barton – 35 years\*; V. H. Baumgartner – 37 years\*\*; D. R. Oberhelman – 28 years; J. W. Owens – 31 years; G. L. Shaheen – 35 years\*; and R. L. Thompson – 21 years. The amounts payable under the pension program are computed on the basis of an ordinary life annuity and are not subject to deductions for Social Security benefits or other amounts.

\*Although having served more than 35 years with the company, amounts payable under the plan are based on a maximum of 35 years of service.

\*\*Mr. Baumgartner is covered by the pension plan of a subsidiary of the company which is intended to provide benefits comparable to those under the company's pension program.



## **PROPOSAL 2 — Approve Amendment to Caterpillar Inc. 1996 Stock Option and Long-Term Incentive Plan**

The Caterpillar Board of Directors (board) has adopted and recommends that you approve an amendment to our 1996 Stock Option and Long-Term Incentive Plan (plan) that would increase the number of shares authorized for issuance under the plan and allow the use of stock appreciation rights (SARs) and restricted stock units under the plan. We are currently authorized to issue 39 million shares under the plan, which are nearly depleted after 2003 option grants. We are asking that you approve an additional 25 million shares for issuance.

The full text of the plan with the proposed changes highlighted is attached as Exhibit A and we encourage you to reference it for important details on the plan. If the additional shares are approved, a Form S-8 registering these shares is expected to be filed by May 28, 2004.

### ***How is the Plan Administered?***

The plan is administered by the board's Compensation Committee (committee), which is made up of only independent directors. The committee has the authority to determine which employees get awards under the plan, as well as the amount and timing of awards. Caterpillar's board can terminate the plan at any time and can also amend the plan without stockholder approval, unless that approval is required under applicable law or stock exchange regulations.

Under the plan, awards are made to certain management employees of Caterpillar and non-employee directors in either options to purchase Caterpillar stock, in shares of Caterpillar stock that carry certain restrictions, or in performance awards tied to specific performance measures and targets. The committee has no control over the timing and amount of awards to non-employee directors. Approximately 1,900 employees and all non-employee directors participate in various portions of the plan.

### ***Important Facts About Stock Option Awards***

No employee can receive stock options representing more than 400,000 shares of Caterpillar stock in a particular year. The price at which stock options can be exercised cannot be less than 100 percent of the fair market value of the stock on the date the option is granted. Non-employee directors receive stock options for 4,000 shares each year.

Stock options have a term of 10 years and typically vest in one-third annual installments. There is also a period of employment required before options can be exercised and exercise after termination of employment is limited by certain time periods that vary based on termination circumstances.

For directors and certain other employees, stock options may be transferred to family members and other entities. For other individuals, options are transferable only by will, the laws of descent and distribution, or under a qualified domestic relations order.

## ***Important Facts About SARs***

A stock appreciation right is a right, denominated in shares, to receive, upon exercise of the right, in whole or in part, without payment to the company an amount, payable in shares, in cash or a combination thereof, that is equal to the excess of: (i) the fair market value of common stock on the date of exercise of the right; over (ii) the fair market value of common stock on the date of grant of the right multiplied by the number of shares for which the right is exercised. It is anticipated that SARs primarily will be used in place of stock options, and any appreciation in value will be paid in cash or stock. If the proposed amendment is approved, the committee will have the authority to grant SARs to participants and to determine the number of shares subject to each SAR, the term of the SAR (up to a maximum of 10 years), the time or times at which the SAR may be exercised, and all other terms and conditions of the SAR. SARs can be granted either as tandem or non-tandem awards. A tandem SAR is granted at the same time as an option and may be exercised by the recipient as an alternative to the option. The terms of a tandem SAR shall be the same as those of its related option. Upon the exercise of the related option, the tandem SAR (or portion related to the exercise) shall expire, and upon exercise of a tandem SAR, the related option shall expire. No employee can receive non-tandem SARs representing more than 400,000 shares of Caterpillar stock in a particular year. SARs typically vest in one-third annual installments. There is also a period of employment required before SARs can be exercised and exercise after termination of employment is limited by certain time periods that vary based on termination circumstances. For directors and certain other employees, non-tandem SARs may be transferred to family members and other entities. For other individuals, non-tandem SARs are transferable only by will, the laws of descent and distribution, or under a qualified domestic relations order.

## ***Tax Consequences for Stock Options and SARs***

Stock options or SARs have certain federal tax consequences, based on whether the employee is granted an incentive stock option or non-qualified stock option or SAR under the plan. If an incentive stock option is granted, the employee does not have taxable income at the time of grant. If the employee does not sell shares underlying the incentive option within two years from the date of grant or within one year from the date of option exercise, gain or loss on the sale will be treated as long-term capital gain or loss. If these holding periods are not satisfied, the employee will realize ordinary income at the time stock underlying the incentive stock option is sold and Caterpillar will receive a corresponding tax deduction.

If a non-qualified stock option or SAR is granted, the employee does not have taxable income at the time of grant. At the time of exercise, the employee will have ordinary income equal to the difference in the price of the stock on the date of exercise and the option's exercise price or SARs base price. Caterpillar receives a tax deduction equal to the employee's ordinary income. When shares underlying non-qualified stock options or SARs are sold, the employee realizes a short-term or long-term capital gain on additional stock appreciation from the date of exercise.

## ***Important Facts About Restricted Stock and Restricted Stock Units***

The committee can also award restricted stock and restricted stock units (RSUs) under the plan. Restricted stock is a share that is transferred or sold by Caterpillar to an employee, but is subject to substantial risk of forfeiture and to restrictions on its sale or transfer by the employee. An RSU is the right to receive a share of Caterpillar stock at a future date in accordance with the terms of such grant upon the attainment of certain conditions specified by the committee. The committee determines the eligible employees to whom, and the time or times at which, grants of restricted stock or RSUs will be made, the number of shares or units to be granted, the price to be paid, if any, the time or times within which the shares covered by such grants will be subject to forfeiture, the time or times at which the restrictions will terminate, and all other terms and conditions of the grants. Restricted stock and RSUs are restricted for a period of not less than two but not more than 10 years. During the restricted period, the holder cannot take delivery of the shares and forfeiture provisions apply if the holder terminates employment for other than retirement or other special circumstances.

## ***Tax Consequences for Restricted Stock and Restricted Stock Units***

An employee who receives an award of restricted stock does not generally recognize taxable income at the time of the award. Instead, the employee recognizes ordinary income in the first taxable year in which his or her interest in the shares becomes either: (1) freely transferable; or (2) no longer subject to a substantial risk of forfeiture. The amount of taxable income is equal to the fair market value of the shares less the cash, if any, paid for the shares.

An employee may elect to recognize income at the time he or she receives restricted stock in an amount equal to the fair market value of the restricted stock (less any cash paid for the shares) on the date of award.

Caterpillar receives a compensation expense deduction in an amount equal to the ordinary income recognized by the employee in the taxable year in which restrictions lapse (or in the taxable year of the award if, at that time, the employee had filed a timely election to accelerate recognition of income).

In the case of an award of a RSU, an employee will generally recognize ordinary income in an amount equal to the fair market value of any shares received on the date of delivery of the shares. In that taxable year, Caterpillar will receive a federal income tax deduction in an amount equal to the ordinary income that the employee has recognized.

## ***Important Facts About Performance Awards***

The committee can award a combination of cash and restricted stock to employees based on Caterpillar performance over a period of years. Typically, a performance period is established each year that has a duration of three years. Currently, performance factors for that time period may include ROA, ROE, return on sales, total stockholder return, cash flow, economic value added, and net earnings.

Performance measures typically include a threshold, target, and maximum level of performance to be achieved, with varying amounts awarded for each level. No individual may receive a performance award in a particular year exceeding \$2.5 million.

## ***Why Your Board Supports Approval of the Plan Amendment***

Your board believes the plan is a critical component to Caterpillar's ability to attract and retain quality employees and directors. Plans such as the one before you for consideration have become commonplace among large companies and are viewed by employees and directors as an important part of their compensation. Failure to offer them would put Caterpillar at an extreme disadvantage in recruiting and retaining employees. We believe that the ongoing effectiveness of the plan depends upon increasing the authorized shares and adding SARs and RSUs to the list of permissible types of compensation for the committee to grant.

***YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" PROPOSAL 2.***



## **PROPOSAL 3 — Ratification of Auditors**

The board seeks an indication from stockholders of their approval or disapproval of the Audit Committee's appointment of PricewaterhouseCoopers LLP (PricewaterhouseCoopers) as independent auditors for 2004.

PricewaterhouseCoopers has been our independent auditor since 1925, and no relationship exists other than the usual relationship between independent auditor and client.

If the appointment of PricewaterhouseCoopers as independent auditors for 2004 is not approved by the stockholders, the adverse vote will be considered a direction to the Audit Committee to consider other auditors for next year. However, because of the difficulty in making any substitution of auditors so long after the beginning of the current year, the appointment for the year 2004 will stand, unless the Audit Committee finds other good reason for making a change.

Representatives of PricewaterhouseCoopers will be available at the annual meeting of stockholders to respond to questions.

***YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" PROPOSAL 3.***





## **PROPOSAL 4 — Stockholder Proposal re: Rights Plan and Caterpillar Response**

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

### **Resolution Proposed by Stockholder**

#### **Shareholder Input on a Poison Pill**

RESOLVED: Shareholders request that our Directors increase shareholder voting rights and submit the adoption, maintenance or extension of any poison pill to a shareholder vote as soon as may be practical. Also once this proposal is adopted, dilution or removal of this proposal is requested to be submitted to a shareholder vote at the earliest possible shareholder election. Directors have the flexibility of discretion accordingly in scheduling any respective shareholder vote and in responding to shareholder votes.

#### **Supporting Statement of Proponent**

We as shareholders voted in support of this topic:

<u>Year</u>	<u>Rate of Support</u>
2000	50.8%
2001	49.7%
2002	48.2%
2003	48.7%

These percentages are based on yes and no votes cast. I believe this level of shareholder support is significant because this support followed our Directors' objections. This included extra cost company solicitations beyond the usual proxy distribution. Only 39% of shares outstanding voted against this topic in 2003. Source for 39%: May 14, 2003 10-Q.

I do not see how our Directors object to this proposal because it gives our Directors the flexibility to ignore our shareholder vote. In four years, our Directors have not responded with any management position evidence that our directors consulted with a corporate governance authority who supported this proposal topic. I believe our 4 consecutive votes between 48% and 51% are a strong signal of shareholder concern. This topic also won an overall 60% yes-vote at 79 companies in 2003.

#### **Poison Pill Negative**

The key negative of poison pills is that pills can preserve management deadwood.

Source: *Morningstar.com*

### **The Potential of a Tender Offer Can Motivate Our Directors**

Hectoring directors to act more independently is a poor substitute for the bracing possibility that shareholders could sell the company out from under its present management.

Source: *Wall Street Journal*, Feb. 24, 2003

### **Diluted Stock**

An anti-democratic management scheme to flood the market with diluted stock is not a reason that a tender offer for our stock should fail.

Source: *The Motley Fool*

### **Like a Dictator**

Poison pills are like a dictator who says, “Give up more of your freedom and I’ll take care of you.

“Performance is the greatest defense against getting taken over. Ultimately if you perform well you remain independent, because your stock price will go up.”

T.J. Dermot Dunphy, CEO of Sealed Air (NYSE) for 25 years

I believe our Directors could make a token response — hoping to gain points in the new corporate governance rating systems. A response, with a loophole to allow our directors to give a poison pill without a shareholder vote at any time, would not substitute for this proposal.

### **Council of Institutional Investors Recommendation**

The Council of Institutional Investors [www.cii.org](http://www.cii.org), whose members have \$2 trillion invested, called for shareholder approval of poison pills.

## **Shareholder Input on a Poison Pill Yes on 4**

### **Statement in Opposition to Proposal**

Caterpillar has a demonstrated history of commitment to good corporate governance that precedes by decades the corporate scandals that have understandably shaken investor confidence. This commitment is recognized in an independent study of corporate governance practices conducted by Institutional Shareholder Services (ISS). This study, which rated companies on fifty-one corporate governance criteria — including whether or not a Shareholder Rights Plan or “poison pill” is in place — placed Caterpillar in the top five percent compared to other firms in the capital goods industry with a 95.7 Industry Corporate Governance Quotient (CGQ).

Despite the company’s impressive governance record, proponent for the fifth consecutive year has submitted a governance issue proposal that has failed each year to receive sufficient support to pass under applicable law and company bylaws and that has received declining support (less than 50 percent of the yes-no vote and less than 43 percent of the overall vote at the 2001, 2002 and 2003 meetings) in three of the last four years. While proponent’s statement refers to only 39 percent of the outstanding shares voting against this proposal, that number is misleading as the category of “outstanding shares” includes shares that were not voted one way or the other on the proposal. The fact remains that more than 50 percent of the votes actually cast either “for” or “against” the proposal (netting out abstentions and shares that were not voted at all) voted against the proposal last year. Your board opposes this proposal.

Our Shareholder Rights Plan does not, and is not intended to, prevent bidders from making offers to acquire the company at a price and on terms that would be in the best interests of all stockholders. Instead, the Shareholder Rights Plan is designed to protect stockholders against potential abuses during a takeover attempt. In this regard, it is important to remember that hostile acquirers are interested in buying a company as cheaply as they can, and, in attempting to do so, may use coercive tactics such as partial and two-tiered tender offers and creeping stock accumulation programs which do not treat all stockholders fairly and equally. We believe our Rights Plan provides our board with an additional degree of control in a takeover situation by allowing it to evaluate a takeover proposal in a rational manner to determine whether, in the exercise of its fiduciary duties, the board believes the proposed offer adequately reflects the value of the company and is in the interests of all stockholders.

Boards have a fiduciary duty to act in the best interests of the stockholders. Our board is comprised (with one exception) entirely of independent outside directors. In the event of a takeover attempt triggering the Rights Plan, our board is in the best possible position to be free from self-interest in discharging its fiduciary duty to determine whether the proposed offer is in the best interests of the stockholders.

The economic benefits of a rights plan to stockholders have been validated in several studies. Georgeson & Company Inc. — a nationally recognized proxy solicitor and investor relations firm — analyzed takeover data between 1992 and 1996 to determine whether rights plans had any measurable impact on stockholder value. Their findings were as follows:

- Premiums paid to acquire target companies with rights plans were on average eight percentage points higher than premiums paid to target companies without rights plans;
- Rights plans contributed an additional \$13 billion in shareholder value during the last five years and shareholders of acquired companies without rights plans gave up \$14.5 billion in potential premiums;
- The presence of a rights plan did not increase the likelihood of withdrawal of a friendly takeover bid nor the defeat of a hostile one; and
- Rights plans did not reduce the likelihood of a company becoming a takeover target.

Georgeson's two pioneering "Poison Pill" Impact Studies in 1998 and a 1995 report from JP Morgan reached the same conclusions. For these reasons, plans similar to our Rights Plan have been adopted by a majority of the companies in the S&P 500 index.

Supporting this empirical evidence, the Director of Corporate Programs at ISS has conceded that "companies with poison pills tend to get higher premiums on average than companies that don't have pills." *Wall Street Journal*, January 29, 1999.

The company recognizes that despite the empirical evidence regarding the value of our Rights Plan, stockholders have a justified interest in assuring that independent board members systematically review the Rights Plan to confirm whether its existence continues to be in the best interests of the company and its stockholders. In response to this concern, on October 9, 2002, the board approved an amendment to the company's Rights Plan to include a provision (commonly referred to as a TIDE provision) that will require a committee comprised solely of independent directors to review the Rights Plan at least every three years to consider whether the continuance of the Rights Plan is in the best interests of the company, its stockholders and any other relevant constituencies of the company. The committee conducted this review in 2003 and concluded that based on our directors' business experience and knowledge of Caterpillar and the industry in which it operates, the Caterpillar Shareholder Rights Plan continues to be in your best interest.

***YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "AGAINST" PROPOSAL 4.***

## **PROPOSAL 5 — Stockholder Proposal re: Sale of Equipment to Israel and Caterpillar Response**

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

### **Resolution Proposed by Stockholder**

WHEREAS;

Caterpillar's Code of Worldwide Business Conduct states that "Caterpillar accepts the responsibilities of global citizenship" and recognizes that Caterpillar's "commitment to financial success must also take into account social, economic, political, and environmental priorities;"

The Code of Worldwide Business Conduct recognizes that "Caterpillar prospers not only by our customers' acceptance of our products and services, but also by the public's acceptance of our conduct;"

Through the Code of Worldwide Business Conduct Caterpillar has made a commitment to "respond to public inquiries . . . with prompt, courteous, honest answers;"

It is a matter of public record that since 1967, the Israeli government has used Caterpillar equipment, including specially modified D9 and D10 bulldozers to destroy over 7,000 buildings in the West Bank and Gaza Strip, leaving 50,000 men, women and children homeless;

It is a matter of public record that the Israel Defense Forces (IDF) have used Caterpillar equipment to uproot hundreds of thousands of olive trees as well as orchards of dates, prunes, lemons and oranges causing widespread economic hardship and environmental degradation in rural areas of Palestine;

Spokesmen for Caterpillar, Inc. have acknowledged that Caterpillar is aware of the IDF's use of Caterpillar equipment to destroy civilian homes, infrastructure and agricultural resources but has, nevertheless, refused either to condemn these practices or to take actions necessary to halt the sale or transfer of Caterpillar equipment to the IDF;

In response to the above-described abuses, public campaigns in the United States and Europe are advocating boycotts of Caterpillar industrial and consumer products.

**THEREFORE BE IT RESOLVED:** The shareholders request that the Board of Directors appoint a committee of outside directors to issue a report, omitting confidential information and prepared at reasonable cost, by October 1, 2004, addressing the following:

The process for review and evaluation used to determine whether the sale (either directly or through intermediaries, including agencies of the United States government) of Caterpillar equipment to the IDF comports with Caterpillar's Code of Worldwide Business Conduct.

### **Supporting Statement of Proponent**

We are concerned by the actual and potential damage to Caterpillar's international sales and worldwide reputation because of the widely-publicized use of Caterpillar equipment, particularly D9 and D10 bulldozers to destroy Palestinian homes, infrastructure and agricultural resources. We are interested in determining if the evidently small amount of revenue derived from these sales outweighs the economic and public relations costs, especially in the United States, Europe and Arab countries, and whether Caterpillar's Directors can reconcile acquiescence in the IDF's use of this equipment for these purposes with Caterpillar's Code of Worldwide Business Conduct.

### **Statement in Opposition to Proposal**

Caterpillar shares the world's concern over unrest in the Middle East and we certainly have compassion for all those affected by the political strife. However, more than two million Caterpillar machines and engines are at work in virtually every country of the world each day. We have neither the legal right nor the means to police individual use of that equipment. We believe any comments on political conflict in the region are best left to our governmental leaders who have the ability to impact action and advance the peace process.

***YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "AGAINST" PROPOSAL 5.***



## **PROPOSAL 6 — Stockholder Proposal re: HIV/AIDS and Caterpillar Response**

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

### **Resolution Proposed by Stockholder**

#### **Whereas:**

There are more than 42 million people worldwide currently living with HIV/AIDS, over 95% of whom live in the developing world. Yet only 4% of developing world patients who need antiretroviral therapy have access to it. (*AIDS Epidemic Update*, December 2002, UNAIDS/WHO);

According to UNAIDS, the HIV/AIDS pandemic is “creating or aggravating poverty among millions of people, eroding human capital, weakening government institutions and threatening business activities and investment” (*Financing Development in the Shadow of HIV/AIDS*, March 2002, UNAIDS);

Business leaders at the 2002 World Economic Forum committed themselves to the fight against AIDS as a business priority (*Financing Development in the Shadow of HIV/AIDS*);

The 2002 King Report on Corporate Governance for the Johannesburg Stock Exchange calls for listed companies to disclose the nature and extent of plans, policies and strategies which manage the potential impact of HIV/AIDS in the company’s activities (*Accountancy Age*, 12 May 2002);

For many businesses it is cost effective to provide HIV/AIDS treatment and prevention programs for their employees (*Harvard Business Review*, February 2003);

TUBERCULOSIS, one of the world’s leading infectious causes of death, takes 2 million lives a year and is a leading killer of people with HIV/AIDS (*Campaign for Access to Essential Medicines*, 2001, Doctors without Borders);

Virtually no research is being conducted to develop new treatments for TB, a disease that Doctors Without Borders calls “a political and social problem that could have incalculable consequences for generations to come” (*Campaign for Access*);

MALARIA kills between one and two million people each year and 300-500 million new cases occur every year (*Campaign for Access*);

Malaria is often treated in developing countries with drugs that are no longer effective, and people with resistant malaria cannot access the treatment that could save their lives (*Campaign for Access*);

In a report for the UN Conference on Financing for Development, UNAIDS states: “Increasing illness and death of large numbers of productive members of society will reduce overall production and consumption.” (*Financing Development in the Shadow of HIV/AIDS*);

The World Bank reports that in southern Africa and other affected regions “a complete economic collapse will occur” unless there is a response to the HIV/AIDS pandemic. Even “a delay in responding to the outbreak of the epidemic, however, can lead to collapse.” (*The Long-run Economic Costs of AIDS, June 2003, The World Bank*).

**RESOLVED:** Shareholders request that our Board review the economic effects of the HIV/AIDS, tuberculosis and malaria pandemics on the company’s business strategy, and its initiatives to date, and report to shareholders within six (6) months following the 2004 annual meeting. This report developed at reasonable costs and omitting proprietary information, will identify the impacts of these pandemics on the company.

### **Supporting Statement of Proponent**

Investors want to feel confident that our board has fully considered the risks and opportunities our company faces in relation to the public health crisis in emerging markets, and has effective policies and processes in place for dealing with the challenges.

### **Statement in Opposition to Proposal**

At Caterpillar, we have demonstrated that we greatly respect the proponents’ interests in the impact of diseases and health issues in Africa. We met with the proponents via teleconference on two occasions last year and extended an offer to meet with them again this year to discuss their concerns and the information sought by this proposal. However, we believe that the proposed study and report would not benefit current or potential victims of the diseases, nor would it benefit Caterpillar and its stockholders.

Caterpillar already offers employees in the region access to company-subsidized health benefits covering counseling, voluntary testing and treatment programs for HIV-AIDS. The company encourages employees to take advantage of the programs, which supplement government insurance.

In addition, Sub-Saharan Africa constitutes an extremely small part of our business. Substantially less than 1 percent of our workforce is employed in the region. Operations in Sub-Saharan Africa accounted for only 1 percent of the company’s total assets, approximately 3 percent of net earnings and approximately 3 percent of the company’s sales and revenues. Furthermore, the company’s products bear no relationship to the health issues addressed by the proposal.

While Caterpillar feels a strong responsibility to its employees, we believe the report requested by the proponents is excessive and is not in the best interests of our stockholders.

***YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE “AGAINST” PROPOSAL 6.***

## Other Matters

### *Section 16(a) Beneficial Ownership Reporting Compliance*

Based upon a review of our records, all reports required to be filed pursuant to Section 16(a) of the Exchange Act were filed on a timely basis except four reports — one each for Michael J. Baunton, Richard P. Lavin, James J. Parker, and Sherril K. West. These filings reported one late transaction for each of the above indicated individuals.

### *Stockholder Proposals for the 2005 Annual Meeting*

If you want to submit a proposal for possible inclusion in the company's 2005 Proxy Statement, our Corporate Secretary must receive it on or before November 4, 2004.

### *Matters Raised at the Meeting not Included in this Statement*

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

Under Caterpillar bylaws, a stockholder may bring a matter before the annual meeting by giving adequate notice to our Corporate Secretary. To be adequate, that notice must contain information specified in our bylaws and be received by us not less than 45 days nor more than 90 days prior to the annual meeting. If, however, less than 60 days notice of the meeting date is given to stockholders, notice of a matter to be brought before the annual meeting may be provided to us up to the 15th day following the date notice of the annual meeting was provided.

### *Solicitation*

Caterpillar is soliciting this proxy on behalf of its board of directors. This solicitation is being made by mail, but also may be made by telephone or in person. We have hired Innisfree M&A Incorporated for \$15,000, plus out-of-pocket expenses, to assist in the solicitation.

### *Stockholder List*

A stockholder list will be available for your examination during normal business hours at 100 NE Adams Street, Peoria, Illinois, at least ten days prior to the annual meeting and will also be available for examination at the annual meeting.

### *Revocability of Proxy*

You may revoke the enclosed proxy by filing a written notice of revocation with us or by submitting another executed proxy that is dated later.



## Admission Ticket Request Procedure

### ***Request Deadline***

Ticket requests must include all applicable information specified below and be submitted in writing and received by Caterpillar on or before March 31, 2004. No requests will be processed after that date.

### ***Number of Tickets***

Admission tickets will be limited to stockholders of record on February 17, 2004, and one guest, or a stockholder's authorized proxy representative.

### ***To Submit Request***

Submit requests to James B. Buda, Secretary by mail to 100 NE Adams Street, Peoria, IL 61629-7310 or by fax to (309) 675-6620. Ticket requests by telephone will not be accepted.

### ***Verification***

In all cases, record date share ownership will be verified. Please bring a valid photo identification to the meeting.

### ***Authorized Proxy Representative***

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

#### ***Registered Stockholders***

##### **For ownership verification provide:**

- name(s) of stockholder
- address
- phone number
- social security number and/or stockholder account number

##### **Also Include:**

- name of guest if other than stockholder
- name of authorized proxy representative, if one appointed
- address where tickets should be mailed and phone number

#### ***Beneficial Holders***

##### **For ownership verification provide:**

- a copy of your brokerage account statement showing Caterpillar stock ownership as of the record date (2/17/04);
- a letter from your broker, bank or other nominee verifying your record date (2/17/04) ownership; or
- a copy of your voting instruction card

##### **Also Include:**

- name of guest if other than stockholder
- name of authorized proxy representative, if one appointed
- address where tickets should be mailed and phone number

## Exhibit A

### CATERPILLAR INC.

#### 1996 STOCK OPTION AND LONG-TERM INCENTIVE PLAN (Proposed changes are indicated in *italics*)

##### Section 1. Purpose

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

##### Section 2. Shares Subject to the Plan

###### 2.1 *Shares Reserved for Issuance*

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

###### 2.2 *Reacquired Shares*

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

###### 2.3 *Adjustments in Authorized Shares*

In the event of any corporate event or transaction (including, but not limited to, a change in the shares of the Company or the capitalization of the Company) such as a merger, consolidation, reorganization, recapitalization, separation, stock dividend, stock split, reverse stock split, split up, spin-off, or other distribution of stock or property of the Company, combination of Shares, exchange of Shares, dividend in kind, or other like change in capital structure or distribution (other than normal cash dividends) to stockholders of the Company, or any similar corporate event or transaction, the Committee, in its sole discretion, in order to prevent dilution or

enlargement of Participants' rights under the Plan, shall substitute or adjust, as applicable, the number and kind of Shares that may be issued under the Plan or under particular forms of awards, the number and kind of Shares subject to outstanding awards, the option exercise price or base price applicable to outstanding awards, the annual award limits, the limits on awards set forth in Sections 5.1(a), 6.1(b) and 8.2, and other value determinations applicable to outstanding awards.

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

### **Section 3. Administration**

***Unless otherwise provided in the Plan, the Committee shall have the authority to grant awards under the Plan to non-employee directors, officers, and other key employees of the Company.***

Except as limited by the express provisions of the Plan or by resolutions adopted by the Board, the Committee also shall have the authority and discretion to interpret the Plan, to establish and revise rules and regulations relating to the Plan, and to make any other determinations that it believes necessary or advisable for administration of the Plan, except to the extent that such authority or discretion would cause an award to fail to qualify as performance based compensation for purposes of Section 162(m) of the Code.

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

### **Section 4. Eligibility and Participation**

#### **4.1 Eligibility**

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

#### **4.2 Actual Participation**

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

## **Section 5. Stock Options**

### *5.1 Company Employees*

#### (a) Eligibility

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

#### (b) Option Exercise Price

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

#### (c) Option Exercise

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

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

#### (d) Termination of Employment

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

Termination of employment with the Company shall terminate remaining rights under options then held; provided, however, that an option grant may provide that if employment terminates after completion of a specific period, the option may be exercised during a period of time after termination. That period may not exceed sixty months where termination of employ-

ment is caused by retirement or death or sixty days where termination results from any other cause provided that such period shall not extend beyond the original maximum term of the option. If death occurs after termination of employment but during the period of time specified, such period may be extended to not more than sixty-six months after retirement, or thirty-eight months after termination of employment for any other cause provided that such period shall not extend beyond the original maximum term of the option. In the event of termination within two years after a Change of Control as defined in Section 10.2 of the Plan, options shall be exercisable for a period of sixty months following the date of termination or for the maximum term of the option, whichever is shorter. Notwithstanding the foregoing, the Committee may change the post-termination period of exercisability of an option provided that change does not extend the original maximum term of the option.

(e) Transferability of Options

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

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

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

(f) Incentive Stock Options

Incentive stock options ("ISOs"), as defined in Section 422 of the Code, may be granted to key employees under the Plan. The decision to grant ISOs to particular persons is within the

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

## 5.2 *Non-Employee Directors*

### (a) Terms

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

### (b) Termination of Directorship

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

## ***Section 6. Stock Appreciation Rights***

### 6.1 ***Company Employees***

#### (a) ***Types of SARs***

***The Committee may grant "tandem" and "non-tandem" SARs under the Plan. A tandem SAR shall be granted at the same time as an option and may be exercised by the recipient as an alternative to the option. The term of a tandem SAR, its exercisability and any conditions or restrictions applicable to it shall be the same as its related option, and its base price shall be equal to the exercise price of the related option. In addition, upon the exercise of the option,***

the tandem SAR (or the portion related to the exercise) shall expire and upon exercise of the tandem SAR, the related option (or such portion) shall expire. The terms of a non-tandem SAR shall be established by the Committee. A SAR that is not otherwise designated but is granted at the same time as an option shall be a tandem SAR.

(b) Eligibility

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

(c) SAR Base Price

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

(d) SAR Exercise

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

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

(e) Termination of Employment

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

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

(f) Transferability of SARs

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

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

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



survivor of the individual who are Permitted Transferees. Each owner of an equitable interest is an individual who is a Permitted Transferee.

## 6.2 Non-Employee Directors

### (a) Terms

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

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

### (b) Termination of Directorship

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

## Section 7. Restricted Stock

### 7.1 Company Employees

#### (a) Eligibility

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

#### (b) Terms

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

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

- (i) The recipient shall not be entitled to delivery of the certificates for the Shares;
- (ii) None of the *restricted stock units or* Shares issued as restricted stock may be transferred other than by will or by the laws of descent and distribution; and
- (iii) *Restricted stock units or* Shares issued as restricted stock shall be forfeited if the recipient terminates employment with the Company, except for termination due to retirement after a specified age, disability, death or other special circumstances approved by the Committee.

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

## 7.2 *Non-Employee Directors*

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

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

- (i) The recipient shall not be entitled to delivery of the Shares;
- (ii) None of the Shares issued as restricted stock may be transferred other than by will or by the laws of descent and distribution; and
- (iii) Shares issued as restricted stock shall be forfeited if the recipient ceases to serve as a director of the Company, except for termination due to death, disability, or retirement under the Company's Directors' Retirement Plan.

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

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

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

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

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

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

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

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

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

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

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

## **Section 8. Performance Awards**

### **8.1 *Eligibility and Terms***

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

Period, Company performance factors applicable to the award (“Performance Measures”), and the method of Performance Award calculation.

At the time the Committee establishes a Performance Period for a particular award, it shall also establish Performance Measures and targets to be attained relative to those measures (“Performance Targets”). Performance Measures may be based on any of the following factors, alone or in combination, as the Committee deems appropriate: (i) return on assets; (ii) return on equity; (iii) return on sales; (iv) total stockholder return; (v) cash flow; (vi) economic value added; (vii) net earnings; and (viii) earnings per share relative to a peer group. The Committee may establish the peer group referenced above and amend the peer group as the Committee determines desirable. Performance Targets may include a minimum, maximum and target level of performance with the size of Performance Awards based on the level attained. Once established, Performance Targets and Performance Measures shall not be changed during the Performance Period; provided, however, that the Committee may eliminate or decrease the amount of a Performance Award otherwise payable to a participant. Upon completion of a Performance Period, the Committee shall determine the Company’s performance in relation to the Performance Targets for that period and certify in writing the extent to which Performance Targets were satisfied.

## 8.2 *Payment of Awards*

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

## 8.3 *Termination*

To receive a Performance Award, the participant must be employed by the Company on the last day of the Performance Period. If a participant terminates employment during the Performance Period by reason of death, disability or retirement, a payout based on the time of employment during the Performance Period shall be distributed. Participants employed on the last day of the Performance Period, but not for the entire Performance Period, shall receive a payout prorated for that part of the Performance Period for which they were participants. If the participant is deceased at the time of Performance Award payment, the payment shall be made to the recipient’s designated representative.

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

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

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

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

## **Section 10. Change of Control**

### *10.1 Effect on Grants and Awards*

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

### *10.2 Change of Control Defined*

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

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

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

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

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

## **Section 11. Amendment and Termination**

### *11.1 Amendment, Modification, Suspension, and Termination.*

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

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

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

### *11.3 Awards Previously Granted*

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

## **Section 12. Regulatory Compliance**

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

### **Section 13. *Dividend Equivalents***

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

### **Section 14. Beneficiary Designation**

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

### **Section 15. Rights of Participants**

#### *15.1 Employment*

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

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

#### *15.2 Participation*

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

#### *15.3 Rights as a Stockholder*

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

## **Section 16. Successors**

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

## **Section 17. Nonexclusivity of the Plan**

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

## **Section 18. No Constraint on Corporate Action**

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

## **Section 19. Governing Law**

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

## **Section 20. Duration of the Plan**

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

## **Section 21. Effective Date**

***This Plan Restatement shall be effective January 1, 2004.***



## **Exhibit B**

### **CATERPILLAR INC.**

#### **CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS (adopted by the Board of Directors on October 8, 2003)**

##### **I. PURPOSE AND GENERAL RESPONSIBILITIES**

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities of the company's compliance with legal and regulatory requirements with respect to financial matters. It performs this function by:

- serving as an independent and objective party to monitor the integrity of Caterpillar's financial statements, reporting process and internal control system;
- reviewing and assessing audit efforts of Caterpillar's independent auditors and internal auditing department;
- providing an avenue of open communication among Caterpillar's independent auditors, financial and senior management, internal auditing department, and Board of Directors;
- directly appointing, retaining, compensating, evaluating and terminating the company's independent auditors;
- reviewing the qualifications, independence and performance of the independent auditor;
- reviewing the performance of the company's internal audit function; and
- resolving disagreements, if any, between management and the independent auditor.

In carrying out these responsibilities, the Audit Committee shall have the authority to conduct or authorize investigations into any matters within the scope of its responsibilities and the authority to retain such outside counsel, experts, and other advisors as it determines appropriate to assist it in the conduct of any investigation. The Audit Committee shall receive appropriate funding from the company, as determined in the Audit Committee's sole discretion, for payment of compensation for such outside legal, accounting or other advisors employed by the Audit Committee.

While the Audit Committee has the responsibilities set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that Caterpillar's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations or to assure compliance with laws and regulations.

## **II. COMPOSITION**

The Audit Committee shall have a Chairman appointed by the Board of Directors. No member of the Audit Committee shall have a relationship to Caterpillar that may interfere with the exercise of their independent judgment, as such independence is defined by New York Stock Exchange Listing Standards. All members of the Audit Committee shall be financially literate as determined by the Board in its business judgment consistent with financial literacy guidelines adopted by the Board. At least one member of the Audit Committee must have accounting or related financial management expertise as determined by the Board in its business judgment.

## **III. MEETINGS ATTENDANCE AND MINUTES**

The Audit Committee shall meet at least six times a year or more frequently if circumstances dictate. Directors not on the Committee may attend meetings at their discretion. At least quarterly, the Audit Committee shall meet separately with the independent auditor and the Vice President for Corporate Auditing and Compliance in executive session. One-third of the Committee, but not less than two members, shall constitute a quorum for the transaction of business. Unless the Committee by resolution determines otherwise, any action required or permitted to be taken by the Committee may be taken without a meeting if all members of the Committee consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of the Committee. Members of the Committee may participate in a meeting through the use of conference telephone or similar communications equipment, as long as all members participating in such meeting can hear one another, and such participation shall constitute presence at such meetings.

At each meeting of the Audit Committee, the following individuals, or their designated representative, shall be present: the Group President in charge of financial matters, Chief Financial Officer, Controller, General Counsel and Corporate Secretary, Vice President for Corporate Auditing and Compliance, and the engagement partner for the independent auditor. At the invitation of the Audit Committee Chairman, other members of management or outside consultants shall attend Audit Committee meetings. The Audit Committee shall provide the Board with regular reports of issues arising with respect to the quality and integrity of the company's financial statements, the company's compliance with legal and regulatory requirements, the performance and independence of the company's auditors and the performance of internal audit.

Minutes of each meeting shall be filed with the records of the Company.

## IV. RESPONSIBILITIES AND DUTIES

### *Audit Committee Charter*

The Audit Committee shall review this charter at least annually (or more frequently as circumstances require) for adequacy and recommend to the Board any necessary changes. Should necessary charter changes come to the Audit Committee's attention prior to its scheduled annual review, such changes may be recommended to the Board prior to the annual review.

### *Independent Auditor*

It is understood that the independent auditor is ultimately accountable to the Audit Committee. In that regard, the Audit Committee has the ultimate authority and responsibility to select, evaluate, and, where appropriate, replace the independent auditor.

At least annually (or more frequently as circumstances require), the Audit Committee shall review a formal written statement from the independent auditor delineating all relationships between the independent auditor and Caterpillar and discuss with the independent auditor all significant relationships the independent auditor has with Caterpillar to determine its independence and objectivity. Any necessary action resulting from that review shall be recommended to the Board by the Audit Committee.

At least annually (or more frequently as circumstances require), the Audit Committee shall review a report of the independent auditor describing the firm's internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.

In connection with its continual assessment of the independence of the outside auditor, the Audit Committee shall pre-approve the retention of the outside auditor for any significant non-audit service and any fee for such service.

The Audit Committee views updates on emerging accounting and auditing issues as critical to its function. In this regard, the independent auditor and management shall provide updates on emerging accounting and auditing issues, as well as an assessment of their potential impact on Caterpillar, on a timely basis throughout the year. Additionally, the independent auditor and management shall at least annually (or more frequently as circumstances require) provide an analysis of the company's critical accounting policies.

The Audit Committee shall also develop and implement hiring policies for employees or former employees of the independent auditors.

## ***Internal Controls***

At least annually (or more frequently as circumstances require), the Audit Committee shall review with the independent auditor and management personnel the adequacy and effectiveness of Caterpillar's accounting, financial and other internal controls (including a review of any reports or communications required by or referred to in Statement of Auditing Standards No. 61, as amended by Statement of Auditing Standards 90), and elicit any recommendations for improvement of existing controls or the addition of new or more detailed controls.

## ***Report of Accounting, Internal Controls or Audit Complaints***

The Audit Committee shall establish procedures for the receipt, retention and treatment of complaints from company employees on accounting, internal accounting controls or auditing matters, as well as for the confidential, anonymous submissions by employees regarding questionable accounting or auditing matters.

## ***Financial Reporting Process***

### **Annual Process**

In February of each year, the Audit Committee shall review with the independent auditor and management Caterpillar's annual audited financial statements and related financial disclosures including disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations." As a result of that review, the Audit Committee shall recommend to the Board whether the audited financials and related disclosures should be included in Caterpillar's Annual Report on Form 10-K and the Annual Report to Shareholders as reflected in the Appendix to Caterpillar's annual Proxy Statement. In connection with that review:

- the independent auditor shall report on its completion of the annual audit, any significant issues arising, any audit problems or difficulties encountered, management's response to any problems or difficulties, and whether it intends to issue an unqualified opinion on the financials;
- the independent auditor shall express its judgment regarding the quality and appropriateness of Caterpillar's accounting principles as they apply to its financial reporting;
- management shall review the annual consolidated financial statements with the Audit Committee, discussing significant changes from the previous year and the impact of any new accounting pronouncements;
- the Audit Committee shall consider any significant changes to Caterpillar's auditing and accounting practices as suggested by the independent auditor or management;

- the Audit Committee shall review separately with management, the internal audit staff and the independent auditor any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information; and
- the Audit Committee shall review with the independent auditor and management the extent to which changes or improvements in financial or accounting practices, as previously approved by the Audit Committee, have been implemented.

Throughout the year, both the independent auditor and Vice President for Corporate Auditing and Compliance shall describe their audit plans (in terms of scope and procedures to be used) for the year and the progress of those plans to date.

### **Quarterly Process — Earnings Releases**

Prior to the issuance of each quarterly earnings release, the Committee shall review the release, including the financial information and earnings guidance provided to analysts and rating agencies, if any.

### **Quarterly Process — Forms 10-Q**

Prior to each Form 10-Q filing by Caterpillar, the Audit Committee shall review with the independent auditor any significant issues arising in the independent auditor's SAS 71 review of the quarterly financial statements and related disclosures.

### ***Annual Audit Committee Report***

Annually, the Audit Committee shall review and approve for inclusion in Caterpillar's annual Proxy Statement a "Report of the Audit Committee," containing information required under Securities & Exchange Commission rules.

### ***Report of Significant Litigation and Regulatory Matters***

At least at each October Audit Committee meeting (or more frequently as circumstances require), the Corporate Secretary and General Counsel shall discuss with the Audit Committee any significant litigation or regulatory matters outstanding involving Caterpillar. If significant litigation or regulatory matters arise during the year outside of a regularly scheduled report, those matters shall be brought to the attention of the Audit Committee at its next regularly scheduled meeting.

## ***Additional Areas of Review***

The Audit Committee may participate in other areas of review as designated by the Board, including, but not limited to, the following:

**Risk and Risk Management** — At least annually (or more frequently as circumstances require), the Audit Committee shall review the Company's policies with respect to risk assessment and risk management, including the company's major financial risk exposures and steps taken to monitor and control such exposures.

**Senior Officer Expenses** — At least annually (or more frequently as circumstances require), the Audit Committee shall review the expenses of the senior officers of Caterpillar through the level of Group President.

**Transactions with Management** — The Audit Committee shall review past or proposed transactions between Caterpillar, members of management, directors, and associates of directors.

**Information Technology** — The Audit Committee shall receive an annual report on the adequacy of Caterpillar's computerized information system controls and related security.

**Income Tax Matters** — At least annually (or more frequently as circumstances require), the Audit Committee shall receive a report from Caterpillar's Director of Tax regarding certain income tax matters, including the status of income tax reserves and governmental tax audits.

**Derivative Securities** — At least annually (or more frequently as circumstances require), the Audit Committee shall receive a report from the Chief Financial Officer on Caterpillar's use of derivative securities and compliance with the Derivative Policy of the Board.

**Caterpillar Financial Products Division Matters** — At least annually (or more frequently as circumstances require), the Vice President in charge of Caterpillar Financial Products Division shall update the Audit Committee on that subsidiary's operations, including a discussion of financing and lending activities.

## ***Committee Evaluation***

The Audit Committee shall engage in a self-evaluation annually.