



100 NE Adams Street
Peoria, Illinois 61629

Notice of Annual Meeting of Stockholders
Wednesday, April 10, 2002
1:30 p.m. — Central Daylight Time

Bank One Auditorium
1 Bank One Plaza
Chicago, Illinois 60670

March 1, 2002

Fellow stockholder:

On behalf of the Board of Directors, you are cordially invited to attend the 2002 Caterpillar Inc. Annual Meeting of Stockholders to:

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





Attendance and voting is limited to stockholders of record at the close of business on February 11, 2002.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Glen Barton". The signature is written in a cursive, flowing style.

Glen A. Barton
Chairman

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Voting Matters

Record Date Information

Each share of Caterpillar stock you own as of February 11, 2002 entitles you to one vote. On February 11, 2002, there were 343,445,049 shares of Caterpillar common stock outstanding.

Voting by Telephone or Internet

Caterpillar is again offering shareholders the opportunity to vote by phone or via the Internet. Instructions for shareholders interested in using either of these methods to vote are set forth on the enclosed proxy and/or voting instruction card.

If you vote by phone or via the Internet, please have your proxy and/or voting instruction card available. The control number appearing on your card is necessary to process your vote. A phone or Internet vote authorizes the named proxies in the same manner as if you marked, signed and returned the card by mail. In the opinion of counsel, voting by phone and via the Internet are valid proxy voting methods under Delaware law and Caterpillar 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 individuals named on the proxy card:

- cross out 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.

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 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. You may change your vote by voting in person at the Annual Meeting or by submitting another proxy that is dated later. If you vote via the Internet or by telephone, 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.

Directors elected at the 2002 Annual Meeting of Stockholders will hold office for a three-year term expiring in 2005. Other directors are not up for election this year and will continue in office for the remainder of their terms. James P. Gorter will not stand for re-election, because he has reached the mandatory retirement age of 72. We wish to thank Jim for his years of loyal service to our Board.

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 2005

- **W. FRANK BLOUNT**, 63, 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; Global Light Telecommunications Inc.; and Hanson PLC. Mr. Blount has been a director of the Company since 1995.
- **JOHN R. BRAZIL**, 55, President of Trinity University (San Antonio, TX). Former President of Bradley University (Peoria, IL). Dr. Brazil has been a director of the Company since 1998.

- **PETER A. MAGOWAN**, 59, 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 and Safeway Inc. Mr. Magowan has been a director of the Company since 1993.
- **CLAYTON K. YEUTTER**, 71, Of Counsel to Hogan & Hartson (Washington, D.C. law firm). Other directorships: Oppenheimer Funds and Weyerhaeuser Co. Mr. Yeutter has been a director of the Company since 1991.

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

Directors Remaining in office until 2004

- **JOHN T. DILLON**, 63, Chairman and CEO of International Paper (paper and forest products). Prior to his current position, 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**, 54, 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: NADRO S.A. de C.V. and Grupo Mexico, S.A. de C.V. Mr. Gallardo has been a director of the Company since 1998.
- **WILLIAM A. OSBORN**, 54, 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**, 66, former Chairman of Newmont Mining Corporation (production, worldwide exploration for, and acquisition of gold properties). Other directorships: Gold Fields Limited; Phelps Dodge Corporation; and The Williams Companies, Inc. Mr. Parker has been a director of the Company since 1995.

Directors Remaining in Office Until 2003

- **LILYAN H. AFFINITO**, 70, former Vice Chairman of Maxxam Group Inc. (forest products operations, real estate management and development, and aluminum production). Other directorships: KeySpan Corporation and Kmart Corporation. Ms. Affinito has been a director of the Company since 1980.
- **GLEN A. BARTON**, 62, Chairman and CEO of Caterpillar Inc. (machinery, engines, and financial products). Prior to his current position, Mr. Barton served as Vice Chairman and as Group President of Caterpillar. Other directorships: Inco Ltd. and Newmont Mining Corporation. Mr. Barton has been a director of the Company since 1998.

- **DAVID R. GOODE**, 61, Chairman, President, and CEO of Norfolk Southern Corporation (holding company engaged principally in surface transportation). Other directorships: Delta Air Lines, Inc.; Georgia-Pacific Corporation; and Texas Instruments Incorporated. Mr. Goode has been a director of the Company since 1993.
- **CHARLES D. POWELL**, 60, Chairman of Sagitta Asset Management Limited (asset management) and Louis Vuitton U.K. Ltd. (luggage and leather goods). Former Chairman of Phillips Fine Art Auctioneers (art, jewelry, and furniture auction). Other directorships: LVMH Moët-Hennessy Louis Vuitton and Textron Corporation. Lord Powell has been a director of the Company since 2001.
- **JOSHUA I. SMITH**, 60, 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). Mr. Smith is also Chairman and CEO of The MAXIMA Corporation (computer systems and management information products and services). 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 and Committees

In 2001, our Board met six times. In addition to those meetings, directors attended meetings of individual Board committees. For our incumbent Board as a whole, attendance in 2001 at Board and committee meetings was 98.8%.

Our Board has four standing committees.

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 also recommends the independent auditor for appointment by the Board and reviews updates on emerging accounting and auditing issues provided by the independent auditor and by management, to assess their potential impact on Caterpillar. All members of the Committee are independent as defined by New York Stock Exchange rules and meet financial literacy guidelines adopted by the Board. During 2001, the Committee held four meetings.

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 conducts annual reviews 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 2001, the Committee held four meetings.

The *Nominating and 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 makes recommendations regarding the criteria for the selection of candidates to serve on the Board and evaluates and makes recommendations on proposed candidates, 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 CEO), monitors compliance with the Board's Guidelines on Corporate Governance Issues, and administers the Board's annual self-evaluation process. The Committee considers director nominees from stockholders for election at the annual stockholders' meeting. Stockholder nominations must be in writing and received by Caterpillar's Corporate Secretary not later than ninety days in advance of the meeting (nomination procedures are discussed in greater detail in our bylaws which will be provided upon written request). During 2001, the Committee held two meetings.

The *Public Policy Committee* provides general oversight with respect to matters of public and social policy affecting the Company domestically and internationally, including investor, consumer and community relation 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 2001, the Committee held three meetings.

Committee Membership (as of December 31, 2001)				
	Audit	Compensation	Nominating & Governance	Public Policy
Lilyan H. Affinito	✓		✓	
Glen A. Barton				
W. Frank Blount	✓		✓	
John R. Brazil		✓		✓*
John T. Dillon	✓		✓*	
Juan Gallardo	✓	✓		
David R. Goode	✓*	✓		
James P. Gorter	✓	✓*		
Peter A. Magowan		✓		✓
William A. Osborn	✓	✓		
Gordon R. Parker			✓	✓
Charles D. Powell		✓		✓
Joshua I. Smith			✓	✓
Clayton K. Yeutter			✓	✓
* Chairman of Committee				

Director Compensation

Of our current Board members, only Mr. Barton is a salaried employee of Caterpillar. Board members that are not salaried employees of Caterpillar receive separate compensation for Board service. Effective January 1, 2002, that compensation includes:

Annual Retainer:	\$60,000
Attendance Fees:	\$1,000 for each Board meeting \$1,000 for each Board Committee meeting Expenses related to attendance
Committee Chairman Stipend:	\$5,000 annually
Stock Options:	4,000 shares annually

Under Caterpillar's Directors' Deferred Compensation Plan, directors may defer fifty 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, 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 ten 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 the program.

Legal Proceedings

Joshua I. Smith is Chairman and Chief Executive Officer of The MAXIMA Corporation. On June 26, 1998, that corporation filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the United States District Court for the Southern District of Maryland.

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 shareholder, 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 October 1998, Caterpillar entered into a lease agreement with Riverfront Development L.L.C. for space at One Technology Plaza, 211 Fulton Street, Peoria, Illinois. Pursuant to this lease and subsequent amendments, in 2001 Caterpillar paid \$408,185.16 to Riverfront Development L.L.C. Cullinan Properties, Ltd. owned 50% of Riverfront Development L.L.C. until May of 2001, when Cullinan Properties, L.L.C. acquired the other 50%. Cullinan Properties L.L.C. now owns 100% of Riverfront Development L.L.C. Diane A. Oberhelman owns a majority of Cullinan Properties L.L.C. and has been married to Caterpillar Group President Douglas R. Oberhelman since 2000.

Audit Committee Report

The Audit Committee of the Caterpillar Inc. Board of Directors (the “Committee”) is comprised of seven independent directors and operates under a written charter adopted by the Board. The members of the Committee, as of December 31, 2001 are listed at the end of this report.

Management is responsible for the Company’s internal controls and the financial reporting process. The independent accountants (“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. In addition, the Committee recommends to the Board the appointment of the Company’s auditors (PricewaterhouseCoopers LLP).

In this context, 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’ judgements about the quality, not just the acceptability of the accounting principles, the reasonableness of significant judgements 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) currency fluctuation; and (v) the applicability of new accounting releases.

The Company’s 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, 2001 filed with the Securities and Exchange Commission.

David R. Goode (Chair)

<i>Lilyan H. Affinito</i>	<i>W. Frank Blount</i>	<i>John T. Dillon</i>
<i>Juan Gallardo</i>	<i>James P. Gorter</i>	<i>William A. Osborn</i>

Audit Fees

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

2001 Financial Statement Audit.....	<u>\$ 7.6</u>
Information system design & implementation services provided in 2001	<u>\$ 8.6</u>
All other services provided in 2001*.....	<u>\$ 17.0</u>

*Consists primarily of 6 Sigma training, income tax consulting, planning and return preparation, merger and acquisition support, and other operational consulting projects.

Caterpillar Stock Owned by Officers and Directors (as of December 31, 2001)

Affinito53,131 ¹	Oberhelman.....96,126 ¹²
Barton446,309 ²	Osborn.....3,761 ¹³
Baumgartner160,902 ³	Owens334,267 ¹⁴
Blount.....21,922 ⁴	Parker27,758 ¹⁵
Brazil6,450 ⁵	Powell994 ¹⁶
Dillon18,011 ⁶	Shaheen.....153,644 ¹⁷
Flaherty.....414,945 ⁷	Smith19,902 ¹⁸
Gallardo.....51,613 ⁸	Thompson.....224,482 ¹⁹
Goode.....31,758 ⁹	Yeutter40,328 ²⁰
Gorter55,908 ¹⁰	All directors and executive officers as a group5,241,392 ²¹
Magowan44,498 ¹¹	

¹ Affinito — 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, 2001 in 9,499 shares of Common Stock.

² Barton — Includes 301,030 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, 2001 in 4,473 shares of Common Stock.

Caterpillar Stock Owned by Officers and Directors *(Continued)*

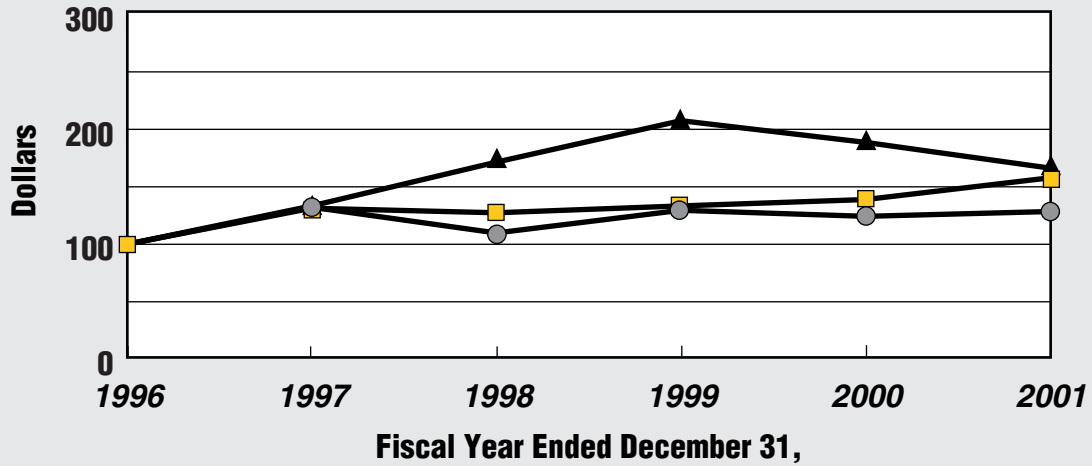
(as of December 31, 2001)

³ Baumgartner — Includes 105,800 shares subject to stock options exercisable within 60 days.
⁴ Blount — 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, 2001 in 243 shares of Common Stock.
⁵ Brazil — 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, 2001 in 63 shares of Common Stock.
⁶ Dillon — 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, 2001 in 103 shares of Common Stock.
⁷ Flaherty — Includes 313,433 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, 2001 in 6,752 shares of Common Stock.
⁸ Gallardo — Includes 8,000 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, 2001 in 63 shares of Common Stock.
⁹ Goode — 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, 2001 in 9,468 shares of Common Stock.
¹⁰ Gorter — 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, 2001 in 8,488 shares of Common Stock.
¹¹ Magowan — 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, 2001 in 257 shares of Common Stock.
¹² Oberhelman — Includes 70,471 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, 2001 in 5,211 shares of Common Stock.
¹³ Osborn — 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, 2001 in 9 shares of Common Stock.
¹⁴ Owens — Includes 265,069 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, 2001 in 2,912 shares of Common Stock.
¹⁵ Parker — 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, 2001 in 283 shares of Common Stock.
¹⁶ Powell — 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, 2001 in 9 shares of Common Stock.
¹⁷ Shaheen — Includes 109,936 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, 2001 in 2,347 shares of Common Stock.
¹⁸ Smith — 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, 2001 in 270 shares of Common Stock.
¹⁹ Thompson — Includes 151,333 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, 2001 in 6,675 shares of Common Stock.
²⁰ Yeutter — 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, 2001 in 6,232 shares of Common Stock.
²¹ Group — Includes 3,761,270 shares subject to stock options exercisable within 60 days. Also includes 34,881 shares for which voting and investment power is shared and 1 share for which beneficial ownership is disclaimed. All directors and executive officers as a group beneficially own less than one percent of outstanding Common Stock.

Performance Graph

CATERPILLAR INC. Total Cumulative Shareholder Return for Five-Year Period Ending December 31, 2001

The graph below shows the cumulative shareholder return assuming the investment of \$100 on December 31, 1996 and reinvestment of dividends thereafter.



	1996	1997	1998	1999	2000	2001
Caterpillar Inc. ■	100.00	131.37	127.42	133.39	138.93	157.87
S&P 500 ▲	100.00	133.35	171.46	207.54	188.65	166.24
S&P Machinery (Diversified) ●	100.00	132.28	109.87	129.59	124.32	128.51

Compensation Committee Report on Executive Officer and Chief Executive Officer Compensation

As Caterpillar's Compensation 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 achieve its success.

EXECUTIVE OFFICER COMPENSATION

Our executive officer compensation package is a combination of short-term and long-term incentive compensation. Short-term compensation consists of base salary and cash payouts under our Corporate Incentive Compensation Plan. Long-term compensation consists of stock options, grants of restricted stock, and cash payouts under the long-term portion of our long-term incentive plan. The Committee established the following principles to guide us in structuring our direct 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 shareholder 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 2001.

Short-Term 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.

In October of 2000, we received survey data from Hewitt, Hay, Towers Perrin, and a group of selected Comparator Companies with which we often benchmark. All companies included in these surveys are in the S&P Composite Index and two of them are in the S&P Machinery (Diversified) Index. The data showed that executive officer short-term incentive compensation at Caterpillar at the Chairman/CEO and Vice President levels was below that of surveyed companies, and slightly above that of surveyed companies at the Group President level. Based on this information, the Committee agreed with the Company's recommendation and made no change to the short-term compensation for any of the executive officer levels.

Payouts Under The Corporate Incentive Compensation Plan

Executive officers, along with other management and salaried employees, participate in the Corporate Incentive Compensation Plan as part of their short-term compensation package. This plan, also referred to as the Short-Term Incentive Plan ("STIP"), is team-based pay at risk. STIP delivers a target percentage of base salary to each participant based on performance against team goals at both the enterprise and business unit levels. Payouts under this plan are driven by two factors:

- a team award based on Caterpillar's pre-tax return on assets ("ROA") for the year; and
- an individual award based on individual performance.

For 2001, approximately \$251.095 million in short-term incentive compensation was earned by approximately 52,000 Caterpillar employees.

Team awards under this plan are calculated by multiplying:

- annual base salary (determined as monthly salary rate in effect as of December 31st of the year multiplied by 12);
- a specific percentage of base salary that varies based on position;
- a performance factor based upon Caterpillar's achievement of certain ROA levels; and
- for officers, a performance factor based upon achievement of certain 6 Sigma benefits levels.

Before any amount could be awarded under the STIP for 2001, Caterpillar had to achieve a minimum ROA level, with larger amounts awarded for achievement of a target or maximum ROA level. For 2001, the minimum ROA level was achieved and all executive officers received a team award.

As part of the STIP, twenty-five 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 2001, 38 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 return on sales, ROA, accountable profit, operating expenses, percentage of industry sales, quality and customer satisfaction.

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 STIP.

In addition to these awards, certain executive officers received an individual award for 2001 based on individual performance. In making individual awards, the Chairman is allocated a special recognition award amount each year that equals a percentage of all incentive compensation paid to executive officers that year. In his discretion, the Chairman decides whether any individual awards are warranted. Unused portions of the funds allocated to the Chairman 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 cash award based on a 3-year performance target plan and grants of restricted stock.

Stock Options

In 2001, 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 interests of our stockholders and employees in realizing 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. 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 and have five years to meet this target. 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 the particular officer. For 2001, all officers complied with the target ownership guidelines and no officer was penalized for low share ownership.

Long-Term Incentive Feature

Our option plan also includes a long-term incentive feature offered to executive officers and other high-level management employees. Under this feature, a three-year company 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 payout that is one-half cash and one-half restricted Caterpillar stock. 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 three-year cycle established for the years 1999 through 2001, the threshold after-tax ROA goal was not met and no payout was made.

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 the Company, 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 for a total of five years, with restrictions lapsing in equal increments at the end of years 3, 4 and 5; 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 employee; or
- Highly marketable outside Caterpillar.

In 2001, 92 participants received a total of 91,475 restricted shares with a total value of \$4,034,696 under this restricted stock award plan. Additionally, in February 2001, the Committee on its own initiative granted Mr. Barton 10,000 restricted shares.

MR. BARTON'S INDIVIDUAL GOALS FOR 2001

The Committee reviewed Mr. Barton's individual goals established at the beginning of 2001 and his subsequent performance against those goals. Mr. Barton's 2001 performance was also considered in determining adjustments to his 2002 salary. We believe that Mr. Barton has done an excellent job of positioning Caterpillar for long-term growth and success.

Financial Results

For many reasons, it was an extraordinarily challenging year, and like many companies, Caterpillar revised its outlook slightly following the tragedy on September 11. Unlike many of those companies, Caterpillar delivered profits in line with the revised expectations for the year (excluding non-recurring charges) despite a very difficult global business environment in 2001. This performance was attributable to many factors, including the Company's diverse base of businesses which reflects a key element of Mr. Barton's direction. Electric power generation and petroleum sector engines, financial products and logistics businesses performed particularly well under Mr. Barton's stewardship. In 2001, Caterpillar became the new benchmark for 6 Sigma rollout. In addition, under Mr. Barton's direction, the Company further established itself as the world-wide leader in rental services through its strong dealer organization. These efforts and the Company's results in a difficult economic environment are a testament to Mr. Barton's leadership and ability to manage the Company effectively in times of slower growth.

Pursue New Growth Initiatives

In 2001, Mr. Barton achieved his goal of pursuing growth opportunities for the Company. In January, Caterpillar acquired Pioneer Machinery, Inc., the forestry products equipment leader in six southeastern states. The Company also reached an agreement with Mitsubishi Heavy Industries Ltd. to expand and strengthen their long-standing joint venture, Shin Caterpillar Mitsubishi Ltd. In addition, Caterpillar Logistics and Ford Motor Company entered into a software alliance to develop a world-class logistics information system to increase the speed at which service repair parts are delivered to market. The Company expects this alliance to lead to significant growth in Caterpillar Logistics in the years ahead.

6 Sigma Champion

In 2001, Mr. Barton committed to be the Company's 6 Sigma champion to ensure total implementation across the enterprise. This effort was extraordinarily successful in 2001. Under Mr. Barton's direction, the Company has become the benchmark for 6 Sigma rollout, as the first company to deploy 6 Sigma simultaneously at all business units and have the benefits exceed the costs of deployment in the first year of implementation. Caterpillar was also the first company to begin deployment of 6 Sigma in all areas of the value chain in year one.

Restructure Business to Reflect Market Realities

In 2001, Mr. Barton attained his goal to re-engineer the business to reflect the realities of the rapidly changing market environment. This re-engineering included a wide-ranging reorganization of Caterpillar Overseas, S.A., which created synergies and bottom-line benefits to the Company. Under Mr. Barton's direction, the Company also reorganized the North American engine sales group and announced plans in 2001 to reduce worldwide employment by more than 900 people in order to reduce costs, improve efficiencies and leverage global synergies to better serve customers while delivering strong results to investors.

Effective Management of Acquisitions and Growth Initiatives

In 2001, Mr. Barton achieved his goal of keeping recent acquisitions and growth initiatives on track to deliver improved returns. The profitability of engine-related acquisitions improved due to increased revenues and significant cost reduction efforts. Good progress was also made in the large mining equipment sector, particularly in sales of the Caterpillar 797. Building Construction Products made good gains and had notable success in cost reduction in 2001.

Additionally, under Mr. Barton's direction, Caterpillar took significant steps to re-focus company efforts in the agriculture business on the areas of highest potential value — engines, drivetrains, electronics and technology — by selling the design, assembly and marketing of the new MT Series of Caterpillar's Challenger® high-tech farm tractors to AGCO Corporation. This agreement with AGCO also offers Caterpillar the opportunity to provide additional engines and other components to AGCO — one of the leading global suppliers of agricultural equipment.

Engines and Fuel Systems Agreement

In 2001, Mr. Barton set a goal of finalizing an agreement with DaimlerChrysler on engines and fuel systems. In July, the companies announced a revised cooperation agreement focusing on fuel systems, medium-duty engines and engine technology. While the parties deferred discussions on a medium-duty engine joint venture, teams of employees from both companies negotiated throughout the year on developing long-term supply agreements for fuel systems and heavy-duty truck engines for DaimlerChrysler's North American truck unit, Freightliner.

Support of Distribution System

In 2001, Mr. Barton set a goal of supporting and enhancing the Company's distribution system. Mr. Barton achieved this goal, attending several meetings of regional dealers as well as meeting separately with several individual dealers. Mr. Barton also oversaw Caterpillar's acquisition of Pioneer Machinery, Inc., the leading dealer of forestry products equipment in six southeastern states.

Contact with Analysts and Shareholders

For 2001, Mr. Barton set a goal of maintaining contact with financial analysts and shareholders. This goal was met as Mr. Barton made presentations to more than 70 analysts in September and held meetings with institutional shareholders and analysts throughout the year. These meetings provided significant support to the Company's investor relations efforts.

Contact with Caterpillar Customers

For 2001, Mr. Barton set a goal of maintaining regular contact with Caterpillar customers. This goal was met as Mr. Barton visited with numerous large engine, earthmoving, mining and logistics customers.

Maintaining Contact with Political Leaders

For 2001, Mr. Barton set a goal of establishing relationships with appropriate governmental officials in the Bush Administration. Mr. Barton achieved this goal, gaining significant access to the new administration through his participation in the Business Council, Business Roundtable and the National Mining Association.

Commitment to the Peoria Community

Mr. Barton achieved his goal of continuing his involvement in the growth and development of Caterpillar's hometown, Peoria, Illinois, in 2001. Mr. Barton continued his service as the Chairman of the Bradley University Board of Trustees. He also remained active in the leadership group promoting a bio-science center in Peoria as well as the group investigating better transportation links to and from Peoria. In addition, Mr. Barton and his wife continued their visible and active presence in community fund-raising efforts.

By the Compensation Committee consisting of:

James P. Gorter (Chairman)

John R. Brazil

Juan Gallardo

David R. Goode

Peter A. Magowan

William A. Osborn

Charles D. Powell

Executive Compensation Tables

2001 Summary Compensation Table							
Name and Principal Position	Annual Compensation				Long-Term Compensation		All Other Compensation ⁴
	Year	Salary	Bonus ¹	Other Annual Compensation ²	Awards	Payouts	
					Securities Underlying Options	LTIP Payouts ³	
G. A. Barton Chairman and CEO	2001	\$1,075,002	\$1,188,004	\$5,941	160,000	\$ 0	\$51,600
	2000	967,500	780,000	0	160,000	352,778	46,440
	1999	935,000	441,322	1,410	150,000	493,784	44,880
V. H. Baumgartner ⁵ Group President	2001	549,229	478,179	0	54,000	0	26,363
	2000	506,813	306,901	0	24,000	127,635	24,327
	1999	488,049	175,065	0	21,000	173,073	21,549
G. S. Flaherty Group President	2001	696,249	609,120	828	54,000	0	31,077
	2000	657,498	418,078	266	54,000	195,417	31,560
	1999	645,000	228,330	1,437	50,000	316,050	30,960
D. R. Oberhelman Group President	2001	407,086	414,720	0	24,000	0	7,150
	2000	364,998	278,436	7,164	24,000	90,625	5,463
	1999	354,996	252,846	3,190	21,000	139,160	9,762
J. W. Owens Group President	2001	645,006	600,927	0	54,000	0	25,800
	2000	600,000	383,760	0	54,000	179,375	24,000
	1999	585,000	207,090	0	50,000	286,650	23,400
G. L. Shaheen Group President	2001	553,755	488,167	1,704	54,000	0	22,150
	2000	519,996	324,478	68	54,000	144,444	20,800
	1999	480,000	169,920	1,221	50,000	206,453	19,470
R. L. Thompson Group President	2001	645,006	565,927	1,732	54,000	0	19,350
	2000	600,000	383,760	1,528	54,000	179,375	18,000
	1999	585,000	207,090	2,283	50,000	286,650	17,550

¹ Consists of cash payments made pursuant to the Corporate Incentive Compensation Plan in 2002 with respect to 2001 performance, in 2001 with respect to 2000 performance, and in 2000 with respect to 1999 performance.

² Taxes paid on behalf of employee related to aircraft usage.

³ As of December 31, 2001, the number and value of restricted stock held was G. A. Barton — 24,275 (\$1,278,564), V. H. Baumgartner — 5,197 (\$273,726), G. S. Flaherty — 9,809 (\$516,640), D. R. Oberhelman — 7,963 (\$419,411), J. W. Owens — 8,845 (\$465,866), G. L. Shaheen — 6,364 (\$335,192), and R. L. Thompson — 8,845 (\$465,866). Caterpillar's average stock price on December 31, 2001 (\$52.67 per share) was used to determine the value of restricted stock. Dividends are paid on this restricted stock.

⁴ Consists of matching Company contributions, respectively, for the Employees' Investment Plan and supplemental employees' investment plans of G. A. Barton (\$8,560/\$43,040), G. S. Flaherty (\$6,986/\$24,091), D. R. Oberhelman (\$7,150/\$0), J. W. Owens (\$6,920/\$18,880), G. L. Shaheen (\$6,950/\$15,200), and R. L. Thompson (\$5,200/\$14,150) and of matching contributions for V. H. Baumgartner (\$26,363) in a foreign Employees' Investment Plan.

⁵ Dollar amounts are based on compensation in Swiss Francs converted to U.S. dollars using the exchange rate in effect December 31, 2001.

Option Grants in 2001						
Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term³	
	Number of Securities Underlying Options Granted¹	% of Total Options Granted to Employees In Fiscal Year 2001²	Exercise Price Per Share	Expiration Date	5%	10%
G. A. Barton	160,000	2.13	\$53.5300	06/12/11	\$ 5,386,357	\$ 13,650,085
V. H. Baumgartner	54,000	.72	53.5300	06/12/11	1,817,895	4,606,904
G. S. Flaherty	54,000	.72	53.5300	06/12/11	1,817,895	4,606,904
D. R. Oberhelman	24,000	.32	53.5300	06/12/11	807,954	2,047,513
J. W. Owens	54,000	.72	53.5300	06/12/11	1,817,895	4,606,904
G. L. Shaheen	54,000	.72	53.5300	06/12/11	1,817,895	4,606,904
R. L. Thompson	54,000	.72	53.5300	06/12/11	1,817,895	4,606,904
Executive Group	1,095,380	14.58	53.5300	06/12/11	36,875,671	93,450,191
All Stockholders ⁴	N/A	N/A	N/A	N/A	11,559,266,910	29,293,451,952
Executive Group Gain as % of all Stockholder Gain	N/A	N/A	N/A	N/A	.3190%	.3190%

¹ 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.

² In 2001, options for 7,564,206 shares were granted to employees and directors as follows: Executive Group — 1,095,380; non-employee directors — 52,000; and all others — 6,416,826.

³ 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 \$87.19 and \$138.84, respectively.

⁴ For “All Stockholders” the potential realizable value is calculated from \$53.5300, the price of Common Stock on June 12, 2001, based on the outstanding shares of Common Stock on that date.

Aggregated Option/SAR Exercises in 2001, and 2001 Year-End Option/SAR Values						
Name	Shares Acquired On Exercise¹	Value Realized²	Number of Securities Underlying Unexercised Options/SARs at 2001 Year-End³		Value of Unexercised In-the-Money Options/SARs at 2001 Year-End³	
			Exercisable	Unexercisable	Exercisable	Unexercisable
G. A. Barton	11,740	\$ 255,155	336,252	316,667	\$2,578,591	\$ 1,521,466
V. H. Baumgartner	-0-	-0-	105,800	77,000	1,041,782	228,219
G. S. Flaherty	8,500	266,597	313,433	106,667	4,206,780	513,493
D. R. Oberhelman	-0-	-0-	70,471	47,000	263,291	228,219
J. W. Owens	9,664	302,946	265,069	106,667	2,777,139	513,493
G. L. Shaheen	-0-	-0-	109,936	106,667	655,641	513,493
R. L. Thompson	-0-	-0-	151,333	106,667	307,437	513,493

¹ 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.

² 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.

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

Long-Term Incentive Plans/Awards in 2001

Name	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts under Non-Stock Price-Based Plans ¹		
		Threshold	Target	Maximum
G. A. Barton Chairman and CEO	2001–2003	\$ 550,000	\$ 1,100,000	\$ 1,650,000
	2000–2002	500,000	1,000,000	1,500,000
V. H. Baumgartner Group President	2001–2003	207,543	415,086	622,629
	2000–2002	172,667	345,333	518,000
G. S. Flaherty Group President	2001–2003	264,375	528,750	793,125
	2000–2002	251,250	502,500	753,750
D. R. Oberhelman Group President	2001–2003	180,000	360,000	540,000
	2000–2002	121,785	243,570	365,354
J. W. Owens Group President	2001–2003	245,625	491,250	736,875
	2000–2002	230,625	461,250	691,875
G. L. Shaheen Group President	2001–2003	211,875	423,750	635,625
	2000–2002	195,000	390,000	585,000
R. L. Thompson Group President	2001–2003	245,625	491,250	736,875
	2000–2002	230,625	461,250	691,875

¹Payout 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 levels of after-tax return on assets ("ROA") over the three-year period. The target amount will be earned if 100% of targeted ROA is achieved. The threshold amount will be earned if 50% of targeted ROA is achieved, and the maximum award amount will be earned at 150% of targeted ROA. Base salary levels for 2001 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
\$ 100,000	\$ 22,500	\$ 30,000	\$ 37,500	\$ 45,000	\$ 52,500
\$ 150,000	33,750	45,000	56,250	67,500	78,750
\$ 200,000	45,000	60,000	75,000	90,000	105,000
\$ 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, 2001, 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 – 36 years**, G. S. Flaherty – 35 years*; D. R. Oberhelman – 26 years; J. W. Owens – 29 years; G. L. Shaheen – 34 years, and R. L. Thompson – 19 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. There are no material differences between Mr. Baumgartner's pension plan benefits and those disclosed in the table.



PROPOSAL 2 — Approve Amendment to Caterpillar Inc. 1996 Stock Option Plan 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 add earnings per share (“EPS”) relative to a peer group as a permissible factor upon which the Compensation Committee may base performance measures and targets under the plan. We are currently authorized to issue 24 million shares under the plan which will be nearly depleted with anticipated option grants in 2002. We are asking that you approve an additional 15 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. A Form S-8 registering additional shares under the plan is expected to be filed by May 1, 2002.

How is the Plan Administered?

The Plan is administered by the Board’s Compensation Committee (“Committee”), which is made up of only independent directors. They have 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 shareholder 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.

Tax Consequences for Stock Options

Stock options have certain federal tax consequences, based on whether the employee is granted an incentive stock option or non-qualified stock option 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 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. Caterpillar receives a tax deduction equal to the employee's ordinary income. When shares underlying non-qualified stock options 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

The Committee can also award restricted stock under the plan. This stock is 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.

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, return on equity, return on sales, total shareholder return, cash flow, economic value added, and net earnings. We are asking for approval to add EPS relative to a peer group as an additional performance factor. Adding this factor will provide the Committee an additional vehicle to drive Company behavior to deliver the demonstrable shareholder value reflected by per share 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.

Table of Benefits under the Plan Based Upon 2001 Option Grants

The following table describes estimated awards that would have been received under the Plan by eligible participants if the requested amendment had been in place and applied to the 1999 through 2001 cycle. The price of Caterpillar stock on December 31, 2001 was \$52.67.

1996 Stock Option and Long-Term Incentive Plan		
	Options (# of shares)	Performance Awards* (\$ value)
G. A. Barton	160,000	381,300
V. H. Baumgartner	54,000	133,400
G. S. Flaherty	54,000	188,000
D. R. Oberhelman	24,000	109,300
J. W. Owens	54,000	174,700
G. L. Shaheen	54,000	150,700
R. L. Thompson	54,000	174,700
Officer Group	1,095,380	3,600,000
Non-officer Group	N/A	2,400,000
Non-employee Director Group	52,000	N/A
*Assumes threshold after-tax ROA goal was not met and threshold EPS relative to peer group goal was exceeded.		

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 EPS relative to a peer group to the list of possible factors available in setting performance measures.

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



PROPOSAL 3 — Adopt Caterpillar Inc. Executive Incentive Compensation Plan

The shareholders of the Company are being asked to approve the Caterpillar Inc. Executive Incentive Compensation Plan (“Plan”), a copy of which is attached to this Proxy Statement as Exhibit B. The Plan is designed to continue the existing performance-based incentive concepts used by the Company for many years and make the necessary technical changes to ensure the deductibility of awards under the Plan to the Chief Executive Officer, Group Presidents, and any other officer of the Company designated by the Compensation Committee (“Committee”) of the Board of Directors (“Board”). Under Section 162(m) of the Internal Revenue Code of 1986 as amended (“Code”), the Company may not deduct more than \$1 million per year for compensation paid to the CEO and the four other most highly compensated officers of the Company. An exclusion from the \$1 million per officer limitation is available for compensation that satisfies the shareholder approval and other requirements provided in Section 162(m) for qualified performance-based compensation. The purpose of submitting the Plan to the shareholders for approval is to qualify the annual incentive bonus to be paid to each participating executive officer as performance-based compensation that will be excluded from the \$1 million limit on tax deductible compensation under Section 162(m). Subject to shareholder approval, the Board adopted the Plan on February 13, 2002.

How is the Plan Administered?

The Plan is administered by the Committee, which is made up of only independent directors. The Committee has the authority to designate participants under the Plan, establish performance goals and objectives and determine the amount and timing of awards. Within the first 90 days of the calendar year, the Committee will establish the performance goals and objectives governing the Plan. These performance goals will be based on any of the following factors, alone or in combination, as the Committee deems appropriate: (i) ROA; (ii) return on equity; (iii) return on sales; (iv) total shareholder return; (v) cash flow; (vi) economic value-added; (vii) net earnings; (viii) EPS; and (ix) realized Enterprise 6 Sigma benefits. Performance goals may be measured on an absolute basis or relative to a group of peer companies selected by the Committee, relative to internal goals or relative to levels attained in prior years. The Committee shall have discretion to adjust performance goals as specified under the Plan and to exclude certain factors, including the effect of non-recurring transactions and charges or changes in accounting standards. For each year that the Plan is in effect, the Committee may use one or more of the permitted performance goals and may change the performance goals and targets from year to year. The maximum dollar amount that any Participant may be paid in any single year under the Plan may not exceed \$3 million.

Important Facts About Awards

Under the Plan, each participant will be eligible to receive an incentive bonus based on the achievement of the pre-established goals set by the Committee. If a participant terminates employment before the last day of the year by reason of death, disability or retirement, a payout based on the time of employment during the year shall be distributed. Participants employed on the last day of the year, but not for the entire year, shall receive a payout prorated for that part of the year for

which they were participants. If the participant is deceased at the time of an award payment, the payment shall be made to the recipient's designated representative.

The Committee may amend, suspend or terminate the Plan at any time in its sole and absolute discretion. Any amendment or termination of the Plan, however, shall not affect the right of a participant to receive any earned but unpaid incentive bonus. The Committee may amend the Plan without shareholder approval, unless such approval is necessary to comply with applicable laws, including provisions of the Securities Exchange Act of 1934 or the Code.

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

Tax Consequences for Awards

Awards shall be paid in cash within three months of the fiscal year-end or as soon as practicable thereafter. Federal, state and local taxes will be withheld as appropriate.

It is the intent of the Company that awards made pursuant to the Plan constitute "qualified performance-based compensation" satisfying the requirements of Section 162(m) of the Code. Any bonus to be paid to each participating executive officer as performance-based compensation will be excluded from the \$1 million limit on tax deductible compensation under Section 162(m).

Benefits under the Plan Based Upon 2001 Awards

For information about the payouts that would have been paid to the Chief Executive Officer and the four other most highly compensated officers of the Company for the last fiscal year if the Plan had been in place, please see the bonus amounts included in the 2001 Summary Compensation Table under "Bonus" for 2001.

Why Your Board Supports Approval of the Plan

Your Board believes that the Plan is a critical component of Caterpillar's ability to retain quality executive officers. Plans such as the one before you is substantially similar in operation to the Corporate Incentive Compensation Plan, which has been used to make bonus awards to participants for a number of years. It is the intent of the Board that the awards made pursuant to the Plan to the participants will approximate bonuses historically paid by the Company to participants pursuant to the Corporate Incentive Compensation Plan, which will continue in effect for all other salaried and management employees. However, under the Plan, any amounts paid will now qualify for deductibility by the Company for federal income tax purposes. No bonuses will be paid under the Plan unless it is approved by the shareholders.

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(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 shareholder proposal promptly upon receipt of a written or oral request.

Resolution Proposed by Stockholder

SHAREHOLDER VOTE ON POISON PILLS

THIS TOPIC WON MORE THAN 50% VOTE IN 2000

(Greater than 50% vote is based on yes and no votes cast)

(Greater than 46% vote if abstentions are counted as no votes)

Shareholders request the Board redeem any poison pill issued previously unless such issuance is approved by the affirmative vote of shareholders, to be held as soon as may be practicable.

Greater than 50% of the yes-no votes approved this proposal topic, sponsored by John Chevedden, at the 2000 shareholder meeting.

Supporting Statement of Proponent

Why submit Caterpillar’s poison pill to a simple-majority shareholder vote?

1. The poison pill is an anti-takeover device, which injures shareholders by reducing management accountability.
2. Poison pills are a major shift of shareholder rights from shareholders to management.
3. Poison pills adversely affect shareholder value.

POWER AND ACCOUNTABILITY

By Nell Minow and Robert Monks in their book

- Poison pills like Caterpillar’s are increasingly unpopular. Shareholder proposals to redeem poison pills or subject pills to shareholder vote achieved 57%-approval from shareholders in 2000.
- The Council of Institutional Investors (www.cii.org) — an association of institutional investors whose assets exceed \$1 Trillion (with a “T”) — recommends poison pills first be approved by shareholders.
- Institutional investors own 65% of Caterpillar stock. Furthermore, institutional investors have a fiduciary duty to vote in the best interest of shareholders.

We believe the adoption of this proposal to improve an important management rule deserves particular attention because the company has a number of rules and practices that are not in the best interest of shareholders — according to many institutional investors:

- A 75% supermajority vote requirement.
- Staggered Board.
- Cumulative voting not allowed.
- A directors’ charitable award program that compromises director independence.

Caterpillar Not Receptive to an Attractive Offer to Shareholders?

The combination of the Caterpillar staggered 3-year director terms and poison pill is a formidable defense against potentially attractive take-over overtures, I believe. In order to repeal the Caterpillar poison pill and complete a successful offer with a premium price to shareholders, a group must win virtually all board seats up for election at 2 consecutive annual meetings. Few groups are willing to undertake this process due to the time and expense required.

Good governance rules can improve shareholder value:

A survey by McKinsey & Co., international management consultant shows that institutional investors are prepared to pay an 18% premium for good corporate governance.

Wall Street Journal June 19, 2000

The Caterpillar 1999 proxy statement said: “At Caterpillar, we make decisions based on their potential to enhance shareholder value.”

To increase shareholder value vote yes for:
SHAREHOLDER VOTE ON POISON PILLS
THIS TOPIC WON MORE THAN 50% VOTE IN 2000
YES ON 4

Statement in Opposition to Proposal

For the third consecutive year, proponent makes a 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 meeting) each year. For several reasons, your Board opposes this proposal.

Rewarding stockholders with increased value unquestionably is a primary function of corporate managers and directors. That is what they are paid to do. But, this does not justify irresponsible, short-term actions to achieve quick results.

Caterpillar believes the correct approach for assuring ongoing stockholder value is a long-term commitment to sustained business competitiveness. It was this commitment that permitted the investment of billions of dollars in renewed factories and a radical restructuring of the Company so it could excel in the highly competitive global environment of the twenty-first century. These strategic initiatives would not have been taken under a short-term perspective seeking instantaneous rewards.

Some take a more shortsighted view of “value.” They see it as anything that produces a reward — even if it is a one-time event that destroys the company. A leveraged buyout, a takeover, a split-up of the company, it does not matter so long as they realize a gain — if the company ceases to exist, no matter. They will move their capital to another investment. However, our managers and directors are responsible for providing more stockholder wealth on an ongoing basis by managing the Company’s assets for the highest possible returns over the long term. They also have obligations to provide meaningful jobs for employees, and to the well being of communities in which their facilities are located.

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 shareholders. Instead, the Shareholder Rights Plan is designed to protect shareholders 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 shareholders 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 shareholders.

Boards have a fiduciary duty to act in the best interests of the shareholders. 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 shareholders.

The economic benefits of a shareholder rights plan to shareholders 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 shareholder rights plans had any measurable impact on shareholder 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 Shareholder 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 Investor Shareholder Services ("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 Board disagrees with many of the "supporting statements" contained in this proposal and believes that many are misleading, outdated, and/or out of context.

Based on its business experience and knowledge of Caterpillar and the industry in which it operates, the Board believes the Caterpillar Shareholder Rights Plan is in your best interest.

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

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.

Stockholder Proposals for the 2003 Annual Meeting

If you want to submit a proposal for possible inclusion in the Company's 2002 Proxy Statement, our Corporate Secretary must receive it on or before November 1, 2002.

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.

Exhibit A

CATERPILLAR INC. 1996 STOCK OPTION AND LONG-TERM INCENTIVE PLAN (Amended and Restated as of 01/01/2002)

(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 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, restricted stock, 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*

Thirty-nine 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 *Stock Splits/Stock Dividends*

In the event of a change in the outstanding Shares of the Company by reason of a stock dividend, recapitalization, merger, consolidation, split-up, combination, exchange of shares, or similar event, the Compensation Committee (“Committee”) of the Company’s Board of Directors (“Board”) shall take any action, which, in its discretion, it deems necessary to preserve benefits under the Plan, including adjustment to the aggregate number of Shares reserved for issuance under the Plan, the number and option price of Shares subject to outstanding options granted under the Plan and the number and price of Shares subject to other awards under the Plan.

2.3 *Reacquired Shares*

If Shares issued pursuant to the Plan are not acquired by participants 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 grants under the Plan.

Section 3. Administration

The Committee shall have the authority to grant awards under the Plan to 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.

The Committee shall be composed solely of members of the Board that are outside directors, as that term is defined in Section 162(m) of the Internal Revenue Code. The Committee shall have no authority with respect to non-employee director awards under the Plan.

Section 4. Stock Options

4.1 Company Employees

(a) Eligibility

The Committee shall determine Company officers and 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.

(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 low prices at which Shares are traded on the New York Stock Exchange 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. Options that are not incentive stock options as defined in Section 4.1(f) of the Plan shall not be exercisable after the expiration of ten years from the date of 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 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 employment is caused by retirement or death or sixty days where termination results from any other cause. 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. In the event of termination within two years after a Change of Control as defined in Section 8.2 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 Internal Revenue 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 this corporation 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, as defined in Section 422 of the Internal Revenue Code, may be granted under the Plan. The decision to grant incentive stock options to particular persons is within the Committee's discretion. Incentive stock options shall not be exercisable after expiration of ten years from the date of grant. The amount of incentive stock options vesting in a particular year cannot exceed \$100,000 per option recipient, based on the fair market value of the options on the date of grant; provided that any portion of an option that cannot be exercised as an incentive stock option because of this limitation may be converted by the Committee to another form of option. The Board may amend the Plan to comply with Section 422 of the Internal Revenue Code or other applicable laws and to permit options previously granted to be converted to incentive stock options.

4.2 *Non-Employee Directors*

(a) Terms

Subject to the share ownership requirements, options with a term of ten years and one day 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 60 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 60 months of the date of death, provided that if the director dies after cessation of director status, the option is exercisable within 66 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 5. Restricted Stock

5.1 Company Employees

(a) Eligibility

The Committee may determine whether restricted stock shall be awarded to Company officers and employees, the timing of award, and the conditions and restrictions imposed on the award.

(b) Terms

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 following restrictions will be imposed on Shares of restricted stock until expiration of the restriction 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 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. Upon expiration of the restriction period, the Shares will be made available to the recipient, subject to satisfaction of applicable tax withholding requirements.

5.2 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 5.2(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 5.2(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 5.2(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 5.2(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 5.2(b).

(c) Effective January 1, 2002, shares of restricted stock shall no longer be granted under Section 5.2(a) of the Plan or awarded under Section 5.2(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 5.2(a) and 5.2(b).

Section 6. Performance Awards

6.1 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 shareholder 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.

6.2 Payment of Awards

Performance Awards may be paid in cash, Shares of 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 90 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 \$2.5 million. 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.

6.3 *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 7. 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 8. Change of Control

8.1 *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 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 awards then outstanding shall be deemed satisfied as of the date of the Change of Control; and (iii) all Performance Awards 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 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.

8.2. *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 15 percent or more of the combined voting power of the Company’s then outstanding common stock, unless the Board by resolution negates the effect of this provision in a particular circumstance, deeming that resolution to be in the best interests of Company stockholders;
- (b) During any period of two consecutive years, there shall cease to be a majority of the Board comprised of individuals who at the beginning of such period constituted the Board;
- (c) The shareholders 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 shareholders 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 9. Amendment and Termination

The Board may terminate the Plan at any time, except with respect to grants and awards then outstanding. The Board may amend the Plan without shareholder approval, unless such approval is necessary to comply with applicable laws, including provisions of the Exchange Act or Internal Revenue Code.

Section 10. 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 11. Effective Date

The Plan shall be effective upon its approval by the Company’s stockholders at the 1996 Annual Meeting of Stockholders.

Exhibit B

CATERPILLAR INC. EXECUTIVE INCENTIVE COMPENSATION PLAN (Effective as of 01/01/2002)

Section 1. Purpose

The purpose of the Caterpillar Inc. Executive Incentive Compensation Plan (“Plan”) is to advance the interests of Caterpillar Inc. and its subsidiaries (collectively, the “Company”) by providing an annual incentive bonus to be paid to certain executive officers of the Company based on the achievement of pre-established quantitative performance goals. The Plan is a performance-based compensation plan as defined in Internal Revenue Code Section 162(m) of the Internal Revenue Service of 1986 as amended (“Code”) and payments under the Plan are intended to qualify for tax deductibility under Section 162(m).

Section 2. Administration

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

Section 3. Performance Awards

3.1 *Eligible Participants*

This Plan is applicable to the Chief Executive Officer, the Group Presidents and any other officers of the Company designated by the Committee (“Eligible Participants”). Absent a specific designation, the Eligible Participants will be limited to the CEO and Group Presidents.

3.2 *Award Criteria*

Prior to March 31 of each year for which an award (“Performance Award”) is payable hereunder, the Committee shall establish the performance factors (“Performance Measures”) applicable to the award for that year and the objective criteria pursuant to which the bonus for that year is to be payable (“Performance Targets”). The Committee shall have sole discretion to determine the Company Performance Measures applicable to the Performance Award, and the method of Performance Award calculation. Performance Measures may be based on any of the following factors, alone or in combination, as the Committee deems appropriate: (i) return on assets; (ii) return on equity; (iii) return on sales; (iv) total shareholder return; (v) cash flow; (vi) economic value added; (vii) net earnings; (viii) earnings per share; and (ix) realized 6 Sigma benefits.

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 Plan year defined as the fiscal year of the Company (“Performance Period”); provided, however, that the Committee may eliminate or decrease the amount of a Performance Award otherwise payable to a participant. The maximum dollar amount that any Participant may be paid in any single year under the Plan may not exceed \$3 million.

3.3 Payment of Awards

As soon as practicable after the Company’s audited financial statements are available for the Performance Period in which the incentive compensation will be paid, the Committee shall determine the Company’s performance in relation to the Performance Targets for that Performance Period. In performing such evaluation, the Committee is authorized to make adjustments in the method of calculating attainment of performance objectives as follows (i) to exclude the dilutive effects of acquisitions or joint ventures; (ii) to assume that any business divested by the Company achieved performance objectives at targeted levels during the balance of a Performance Period following such divestiture; (iii) to exclude restructuring and/or other nonrecurring charges; (iv) to exclude exchange rate effects, as applicable, for non-U.S. dollar denominated net sales and operating earnings; (v) to exclude the effects of changes to generally accepted accounting standards required by the Financial Accounting Standards Board; (vi) to exclude the effects to any statutory adjustments to corporate tax; (vii) to exclude the impact of any “extraordinary items” as determined under generally accepted accounting principles; (viii) to exclude the effect of any change in the outstanding shares of common stock of the Company by reason of any stock dividend or split, stock repurchase, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other similar corporate change, or any distributions to common shareholders other than regular cash dividends; and (ix) to exclude any other unusual, non-recurring gain or loss or other extraordinary item. The Committee shall certify in writing the extent to which Performance Targets were satisfied.

Performance Awards shall be paid in cash within three months of the fiscal year or as soon as practicable thereafter. Federal, state and local taxes will be withheld as appropriate.

3.4 Termination of Employment

To receive a Performance Award, the participant must be employed by the Company on the last day of the fiscal year. If a participant terminates employment before such date by reason of death, disability or retirement, a payout based on the time of employment during the year shall be distributed. Participants employed on the last day of the year, but not for the entire year, shall receive a payout prorated for that part of the year 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 4. Change of Control

4.1 Effect on Awards

Unless the Committee shall otherwise expressly provide in the agreement relating to an award under the Plan, upon the occurrence of a Change of Control as defined below: (i) all Performance Awards for a year 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 and a fraction, the numerator of which is the number of months that have elapsed since the beginning of the year 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 twelve.

4.2 Change of Control Defined

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

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

(b) During any period of two consecutive 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 shareholders 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 shareholders approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of its assets.

Section 5. Amendment and Termination

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

Section 6. Section 162(m) Compliance

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

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

Section 7. Employment Rights

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

Section 8. Term

The Plan applies to each of the five calendar years during the period beginning January 1, 2002 and ending December 31, 2006. The Plan shall be effective as of January 1, 2002, subject to the approval of the Plan by the Company’s stockholders. Any Performance Awards made under the Plan prior to shareholder approval shall be effective when made, but shall be conditioned on, and subject to, such approval of the Plan by stockholders.