CATERPILLAR®

100 NE Adams Street
Peoria, Illinois 61629

Annual Meeting of Stockholders
Wednesday, April 12, 2000
1:30 p.m. — Central Daylight Time

Bank One Auditorium
1 Bank One Plaza
Chicago, Illinois 60670

March 3, 2000

Fellow stockholder:

On behalf of the Board of Directors, you are cordially invited to attend the 2000 Caterpillar Inc. Annual Meeting of Stockholders to:

- elect directors;
- approve an amendment to the 1996 Stock Option Plan to increase the number of shares authorized for issuance;
- approve appointment of independent auditors for 2000;
- act on stockholder proposals 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 15, 2000.

Sincerely yours,

Glen Barton

Glen A. Barton
Chairman

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Voting Matters

Voting Matters

Record Date Information

Each share of Caterpillar stock you own as of February 15, 2000 entitles you to one vote. On February 15, 2000, there were 351,249,448 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 card or voting instruction form.

If you vote by phone or via the internet, please have your social security number and proxy or voting instruction card available. The sequence of numbers appearing on your card and your social security number are necessary to verify 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 broker votes on some matters on the proxy card but not on others, because he or she does not have the authority to do so.

Vote Necessary for Action

Directors are elected by a plurality vote of 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 action is by 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.

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 2000 Annual Meeting of Stockholders will hold office for a three-year term expiring in 2003. Other directors are not up for election this year and will continue in office for the remainder of their terms.

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

Caterpillar corporate governance guidelines (see p. 6) were changed in 1999 to require Caterpillar employees, including CEOs, to resign from the Board of Directors upon their resignation or retirement from the company. As a result, Mr. George A. Schaefer is retiring from the Board effective April 12, 2000, and Mr. Donald V. Fites is not standing for re-election.

✓ PROPOSAL 1 — Election of Directors

Directors Up For Election This Year for Terms Expiring in 2003

- ***LILYAN H. AFFINITO,*** 68, former Vice Chairman of Maxxam Group Inc. (forest products operations). Other directorships: Jostens Inc.; KeySpan Energy Corporation; and Kmart Corporation. Ms. Affinito has been a director of the Company since 1980.
- ***GLEN A. BARTON,*** 60, Chairman and CEO of Caterpillar Inc. (manufacture of construction, mining, forestry, and agricultural machinery and engines). Prior to his current position, Mr. Barton served as Vice Chairman and as Group President of Caterpillar. Other directorships: Inco Ltd. Mr. Barton has been a director of the Company since 1998.

- ***DAVID R. GOODE,*** 59, 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.
- ***JOSHUA I. SMITH,*** 58, Chairman and CEO of The MAXIMA Corporation (computer systems and management information products and services). Other directorships: Federal Express Corporation and The Allstate Corporation. Mr. Smith has been a director of the Company since 1993.

YOUR BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE NOMINEES PRESENTED IN PROPOSAL 1.

Directors Remaining in Office Until 2001

- ***JOHN T. DILLON,*** 61, 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. Mr. Dillon has been a director of the Company since 1997.
- ***JUAN GALLARDO,*** 52, Chairman and CEO of Grupo Embotelladoras Unidas S.A. de C.V. (bottling), Chairman and CEO of Grupo Azucarero Mexico, S.A. de C.V. (sugar mills), and Vice Chairman of Home Mart de Mexico, S.A. de C.V. (retail trade). Other directorships: Nacional de Drogas; Grupo Mexico, S.A. de C.V.; and Mexico Fund Inc. Mr. Gallardo has been a director of the company since 1998.
- ***GORDON R. PARKER,*** 64, former Chairman of Newmont Mining Corporation (production, worldwide exploration for, and acquisition of gold properties). Other directorships: Gold Fields Limited; Gold Fields of South Africa Ltd.; Phelps Dodge Corporation; and The Williams Companies, Inc. Mr. Parker has been a director of the Company since 1995.

Directors Remaining in office until 2002

- ***W. FRANK BLOUNT,*** 61, former Director and CEO of Telstra Corporation Limited (telecommunications). Other directorships: Alcatel S.A.; ADTRAN Inc.; Broken Hill Propriety Company Ltd.; Entergy Corporation; National Australia Bank Ltd.; Pioneer International; and Techniche Ltd. Mr. Blount has been a director of the Company since 1995.
- ***JOHN R. BRAZIL,*** 53, 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.
- ***JAMES P. GORTER,*** 70, Chairman of the Board of Baker, Fentress & Company (mutual fund) and former Limited Partner of Goldman, Sachs & Co. (investment bankers). Mr. Gorter has been a director of the Company since 1990.

- ***PETER A. MAGOWAN,*** 57, former Chairman of Safeway Inc. (leading food retailer). Mr. Magowan is also 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,*** 69, Of Counsel to Hogan & Hartson (a Washington, D.C. law firm). Other directorships: Allied Zurich Plc; ConAgra, Inc.; FMC Corporation; Farmers Group Inc.; Oppenheimer Funds; Texas Instruments Incorporated; Weyerhaeuser Co. and Zurich Allied AG. Mr. Yeutter has been a director of the Company since 1991.

Board Meetings and Committees

In 1999, our full Board met seven times. In addition to those meetings, directors attended meetings of individual Board committees, and non-employee directors met twice in executive session. For our incumbent Board as a whole, attendance in 1999 at full Board and committee meetings was 95.4%.

Our Board has four standing committees.

The ***Audit Committee,*** made up of only independent directors as defined by New York Stock Exchange rules, reviews management's independent auditor selection and makes recommendations to the Board based on that review. The Committee also questions management, including Caterpillar's internal audit staff, and independent auditors on the application of accounting and reporting standards to Caterpillar. The Committee also reviews major litigation involving Caterpillar. During 1999, the Committee held three meetings.

The ***Compensation Committee*** reviews Caterpillar's compensation practices and approves its compensation programs and plans. The Committee also reviews CEO performance and makes recommendations regarding CEO compensation. During 1999, the Committee held four meetings.

The ***Nominating and Governance Committee*** recommends candidates to fill Board vacancies and for the slate to be proposed by the Board at the Annual Meeting of Stockholders. The Nominating Committee also advises the Board on nominees for Chairman of the Board, Chief Executive Officer, and other executive officer positions at Caterpillar. The Committee considers director nominees from stockholders for election at the annual stockholders' meeting if a written nomination is 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). In addition to these duties, the committee monitors Caterpillar's corporate governance practices and suggests applicable revisions. During 1999, the Committee held two meetings.

The ***Public Policy Committee*** makes recommendations to the Board on public and social policy issues impacting Caterpillar. The Committee also oversees Caterpillar's compliance programs and reviews legislation and stockholder matters not within the responsibilities of another Board committee. During 1999, the Committee held three meetings.

Committee Membership				
	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		✔		✔
Gordon R. Parker	✔		✔	
Joshua I. Smith			✔*	✔
Clayton K. Yeutter		✔		✔*

* Chairman of Committee

** Mr. Barton, Chairman of the Board, does not serve on any Board committees.

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. That compensation includes:

Annual Retainer:	$30,000
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
Restricted Stock:	750 shares annually (400 shares have a restricted period of three years, while 350 shares are restricted until the director terminates service)

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, non-employee 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. Beginning in the year of a director's death, an amount is paid proportionately in ten annual installments 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.

Caterpillar Inc.
Guidelines on Corporate Governance Issues

In 1999, the Board adopted the following corporate governance guidelines specifically tailored to the needs of Caterpillar. These guidelines, replacing those previously adopted in 1994, reflect the Board's commitment to monitor the effectiveness of policy and decision-making both at the Board and management level, with a view to enhancing shareholder value over the long term. The Board believes these guidelines should be an evolving set of corporate governance principles, subject to alteration as circumstances warrant.

I. Selection of Chairman and Chief Executive Officer

The Board believes the positions of Chief Executive Officer and Chairman of the Board should be combined to provide unified leadership and direction. The Board reserves the right to adopt a different policy should circumstances change.

II. Chairman/CEO's Death, Resignation, or Incapacity

In the event of the death, resignation or incapacity of the Chairman of the Board and/or the Chief Executive Officer, the Chairman of the Nominating and Governance Committee will immediately call a meeting of that committee to recommend to the full Board the selection of a temporary or permanent replacement for either or both positions.

III. Board Committees

The Board currently has four standing committees: Audit, Compensation, Nominating and Governance, and Public Policy. There may be occasions when the Board will wish to form a new standing or ad hoc committee, or disband a current committee depending upon the circumstances.

Specific charters will be adopted by the Board for all standing committees.

The Board will approve committee assignments, including committee chairmanships. In so doing, the Board will consider the desires of individual directors and the recommendations of the Nominating and Governance Committee in consultation with the Chairman and Chief Executive Officer. The Board will rotate committee membership periodically, at about five year intervals. Such rotation shall not be mandatory, however, since there may be persuasive reasons to maintain an individual director's committee membership for a longer period.

Committee chairmen will determine the frequency of meetings of their respective committees, and, in consultation with management, will set meeting times and develop committee agendas. Each committee will, at the beginning of the year, enumerate the subjects to be discussed within that committee during the year. This enumeration may be altered by the committee chairman, in consultation with management, should circumstances so warrant.

Only independent directors may serve on the Audit, Compensation, and Nominating and Governance Committees. Any director may attend and participate in discussions of any Board committee, although formal committee action will only be through the vote of appointed committee members.

Board committees shall have access to accountants, compensation consultants, investment bankers, or other independent consultants, whose expertise is deemed essential to carrying out the committees' respective missions.

IV. Board Meetings

The Board Chairman will establish the agenda for board meetings. Any Board member may, however, recommend the inclusion of specific agenda items. Such recommendations will be accommodated to the extent practicable.

Materials important to the Board's understanding of agenda items shall be distributed to the Board, in a timely manner, before it meets. These materials shall be informative but concise.

Members of the Executive Office who are not Board members may attend and participate in Board meetings at the invitation of the Chairman. Should the Chairman contemplate inviting any such person to attend and participate on a regular basis, Board concurrence will first be obtained.

V. Board Access to Senior Management and Auditors

Board members shall have complete access to Caterpillar management and independent auditors. Board member contact with such individuals shall be handled in a manner that would not be disruptive to the company's business operations. Any non-routine written communications emanating from such contact should be copied to the Chief Executive Officer.

The Board encourages the Chief Executive Officer to bring into Board and committee meetings Caterpillar executives: (a) to provide additional insight on items being discussed because of their personal involvement in such areas; and/or (b) to provide Board exposure to individuals with outstanding management potential.

VI. Compensation For Independent Directors

Compensation of independent directors at Caterpillar shall be comparable to that offered by other companies of similar size and scope. Independent directors shall receive no additional remuneration, in the form of consulting fees or other special benefits, beyond that provided for service on the Board.

Directors who are officers of the company shall receive no additional remuneration for serving as a Caterpillar director.

Caterpillar management will periodically review with the Compensation Committee the status of independent director compensation relative to comparable companies. Any changes to Board compensation shall arise from recommendations of the Compensation Committee, with full discussion and concurrence by the Board.

The Board is committed to fostering compensation programs and policies designed to encourage director and senior management stock ownership over the long-term. Such programs, in the view of the Board, will help align the interests of directors and top management with those of shareholders.

VII. Board Composition

The Board believes that it should generally have no less than 10 and no more than 18 directors. This range permits diversity of experience without hindering effective discussion or diminishing individual accountability. The Board is prepared, however, to increase its membership beyond 18 should that be necessary to accommodate an outstanding candidate.

To ensure Board independence, no more than three non-independent directors shall serve on the Board at any point in time. All other directors shall be independent. A director shall be considered independent if he or she: (1) is not currently employed by Caterpillar; (2) has not been employed by Caterpillar during the last five years; or (3) has not received significant remuneration from Caterpillar in any capacity other than as a director during the last five years. This policy may be modified temporarily if, due to unforeseen circumstances, strict adherence would be detrimental to the Board's performance.

Upon his or her resignation or retirement from the Company, any employee of the Company, including the Chief Executive Officer, then serving on the Board shall resign from the Board. No employee of the Company, including the Chief Executive Officer, shall remain on the Board after his or her resignation or retirement from the Company.

VIII. Membership Criteria

The Nominating and Governance Committee shall solicit and receive recommendations, and review qualifications of, potential Caterpillar director candidates. From its assembled list of qualified candidates, the Nominating and Governance Committee shall from time to time recommend to the full Board the election of new directors.

The Chief Executive Officer will periodically review with the Nominating and Governance Committee and, if he or she wishes, with the full Board, the particular attributes that would be most beneficial to the company in future Board nominees. This assessment will include, but not be limited to, issues such as integrity, competence, age and experience, commitment and dedication, collegiality, diversity, technical background, and international skills.

IX. Termination of Board Membership

The Board does not believe term limits are appropriate at Caterpillar. While mandatory turnover would provide fresh viewpoints to the Board, term limits have the compelling disadvantage of losing the contribution of directors who have a unique insight into the business of Caterpillar and its operations. The Board believes it would be unwise to discard such value through the premature termination of a director.

The Board is presently satisfied with the current mandatory retirement age of 72.

Upon termination of his or her primary occupation or other significant change in business/professional circumstances, a Board member shall tender his or her resignation to the Board. The full Board shall decide whether or not to accept the resignation.

X. Evaluation of the Chief Executive Officer

The Chief Executive Officer will be expected to report annually to the Compensation Committee on his or her goals and objectives for the ensuing year, and also to report annually on the level of achievement of the preceding year's goals and objectives. All Board members shall be invited to those particular Compensation Committee meetings, and all shall have the opportunity to participate in any appropriate follow-up meetings or discussions.

The full Board shall participate in the evaluation of the Chief Executive Officer, since this is deemed to be one of the Board's most significant oversight functions. Both objective and subjective criteria will be used, including but not limited to: (a) the company's financial performance; (b) accomplishment of Caterpillar's long term strategic objectives; and (c) the development of the firm's top management team. The Chief Executive Officer shall not attend full Board meetings discussing his or her evaluation.

XI. Board Evaluation

The Board will engage in a self-evaluation annually. This evaluation will be of the Board as a collective body and not of directors on an individual basis. The evaluation process will be administered by the Nominating and Governance Committee and evaluation results shared with the full Board for their discussion and deliberation.

XII. Board Member Commitments

Caterpillar recognizes that its Board members benefit from service on the board of other companies. We encourage that service but also believe it is critical that directors have the opportunity to dedicate sufficient time to their service on the Caterpillar Board. To that end, the Caterpillar Chief Executive Officer and any other director who is a Caterpillar employee shall serve on no more than two public company boards in addition to the Caterpillar Board. It is recommended that directors other than the Chief Executive Officer or Caterpillar employees serve on no more than five public company boards in addition to the Caterpillar Board.

XIII. Executive Sessions

The Board may meet periodically in executive session as circumstances warrant. Such executive sessions may be in one of three formats: (1) sessions involving only directors; (2) sessions involving only non-management directors and the Chief Executive Officer; and (3) sessions involving only non-management directors.

XIV. Communications with Shareholders and Other Constituents

The Board believes it would be useful to make its corporate governance guidelines available to stakeholders/constituents and requests that management do so in whatever manner is most feasible.

XV. Executive Succession Planning

The Board deems as one of its most critical functions the selection of a Chief Executive Officer and Executive Office team that fits Caterpillar's current culture, understands its business strategy and inspires others to follow their lead. To that end, the Board has an executive succession plan tailored to reflect Caterpillar's current business strategy and vision. The executive succession plan involves creating profiles of ideal candidates based on the Board's understanding of Caterpillar's strategy and vision, and selecting successors expected to fit the needs of the company over time. In implementing its executive succession plan, the Board believes that, at its core, succession planning: (1) is a board-driven, collaborative process; (2) is a continuous process; (3) should be driven by corporate strategy; and (4) involves building a talent-rich organization by attracting and developing the right people.

XVI. Implementation and Alteration of the Guidelines

Implementation and alteration of these guidelines shall be the responsibility of the Nominating and Governance Committee, working in coordination with the Chairman and Chief Executive Officer.

Caterpillar Stock Owned by Officers and Directors

(As of December 31, 1999)

Affinito ....46,034[1]	Magowan ....30,798[11]
Barton ....228,835[2]	Owens ....237,206[12]
Blount....................12,359[3]	Parker ....18,100[13]
Brazil ....950[4]	Schaefer....................73,117[14]
Dillon....................6,500[5]	Shaheen ....76,599[15]
Fites ....1,240,106[6]	Smith....................12,200[16]
Flaherty....................334,105[7]	Thompson ....115,661[17]
Gallardo....................14,136[8]	Yeutter ....29,565[18]
Goode ....22,100[9]	All directors and executive officers as a group ....4,606,848[19]
Gorter ....46,250[10]	

[1] 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, 1999 in 8,543 shares of Common Stock.

[2] Includes 144,658 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, 1999 in 4,236 shares of Common Stock.

[3] 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, 1999 in 93 shares of Common Stock.

[4] 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, 1999 in 8 shares of Common Stock.

[5] 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, 1999 in 24 shares of Common Stock.

[6] Includes 1,005,541 shares subject to stock options exercisable within 60 days and 110,236 shares for which beneficial ownership is disclaimed. 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, 1999 in 11,931 shares of Common Stock and pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 1999 in 819 shares of Common Stock.

[7] Includes 220,599 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, 1999 in 6,395 shares of Common Stock.

[8] Includes 1,333 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 the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 1999 in 8 shares of Common Stock.

[9] 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, 1999 in 6,413 shares of Common Stock.

[10] 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, 1999 in 5,837 shares of Common Stock.

[11] 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, 1999 in 99 shares of Common Stock.

[12] Includes 173,399 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, 1999 in 2,758 shares of Common Stock.

[13] 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, 1999 in 112 shares of Common Stock.

[14] Includes 16,000 shares subject to stock options exercisable within 60 days.

[15] Includes 37,603 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, 1999 in 563 shares of Common Stock.

[16] 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, 1999 in 106 shares of Common Stock.

[17] Includes 49,999 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, 1999 in 4,300 shares of Common Stock.

[18] 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, 1999 in 4,481 shares of Common Stock.

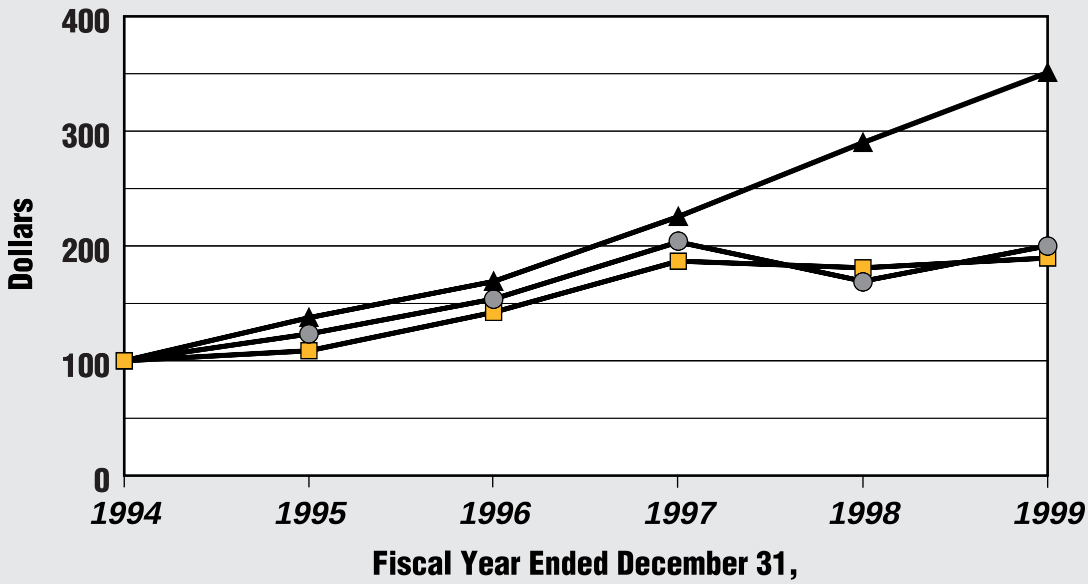
[19] Includes 3,064,875 shares subject to stock options exercisable within 60 days. Also includes 168,638 shares for which voting and investment power is shared and 110,236 shares for which beneficial ownership is disclaimed. All directors and executive officers as a group beneficially own less than one percent of outstanding Common Stock.

Persons Owning More than Five Percent of Caterpillar Stock
(As of December 31, 1999)

Name and Address	Voting Authority		Dispositive Authority		Total Amount of Beneficial Ownership	Percent of Class
	Sole	Shared	Sole	Shared		
Oppenheimer Capital 1345 Avenue of the Americas New York, NY 10105	-0-	21,672,813	-0-	21,672,813	21,672,813	6.1%
Merrill Lynch, Pierce, Fenner & Smith Incorporated World Financial Center, North Tower 250 Vesey Street New York, NY 10281	-0-	20,659,727	-0-	20,659,727	20,659,727	5.8%

Performance Graph

CATERPILLAR INC.
Total Cumulative Shareholder Return for
Five-Year Period Ending December 31, 1999



December 31,		1994	1995	1996	1997	1998	1999
Caterpillar Inc.	■	100.00	108.75	142.24	186.80	180.96	189.52
S&P 500	▲	100.00	137.55	169.11	225.52	289.96	350.96
S&P Machinery (Diversified)	●	100.00	123.41	153.80	203.45	169.32	200.18

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. Without a focused, competitive compensation program tailored to meet our long-term goals, that asset is diminished significantly.

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

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

Recognition from parties outside Caterpillar the last several years is a testament to the effectiveness of our compensation programs. Some recent examples include the following.

For the fourth consecutive year, *Industry Week* named us in 1999 as one of the "World's 100 Best Managed Companies." They described selected companies as demonstrating "superior, consistent financial performance" and noted that they were honored for "investing heavily in such areas as research and development, new markets, employees, and society."

In 1999, Caterpillar Brasil won the 1999 National Prize for Quality Excellence, the Brazilian equivalent of the Malcolm Baldrige National Quality Award. This award recognizes companies that have achieved excellence in quality deployment and strategic planning implementation.

In 1999, Caterpillar Financial Services Corporation won the Tennessee Quality Excellence Award. This award is presented to organizations in Tennessee that have demonstrated management excellence and a readiness to compete in the global arena.

In 1998, Solar Turbines Incorporated, another Caterpillar subsidiary, received the Malcolm Baldrige National Quality Award in the manufacturing category from the United States Department of Commerce and the National Institute of Standards and Technology. This award recognizes U.S. companies for their achievements in quality and business excellence.

Although this report is directed at CEO and executive officer compensation, the Committee emphasizes that without the efforts of all highly motivated, dedicated Caterpillar employees around the globe, this recognition would not be possible.

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 and payouts under the long-term incentive portion of our stock option plan.

Short-Term Incentive Compensation

Survey Data

In December of 1998, we received survey data from Hewitt, Hay, Towers Perrin, and a group of 10 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 was below that of other surveyed companies.

In response, we approved increases to the midpoint of salary ranges for executive officers. With those increases, executive officer short-term incentive compensation for 1999 was anticipated to remain slightly below market average.

Base Salary Increases

In December of 1998, we also discussed with Caterpillar's CEO at that time, Don Fites, and the current CEO, Glen Barton, potential base salary increases for individual executive officers. Based on that discussion, which involved a subjective analysis of individual performance, as well as a review of the officer's current salary and the amount of the last salary increase, base salary increases were established for certain executive officers for 1999. The need to bring salary levels closer to those revealed in survey data was also a factor in these increases.

At our December 1998 meeting, we also established Mr. Barton's salary as incoming CEO. Survey data referenced above was reviewed and a salary range for Mr. Barton was established. It was determined that a salary at the midpoint of that range, coupled with potential payouts under the Corporate Incentive Compensation Plan, would provide Mr. Barton with short-term incentive compensation slightly below market average.

Payouts Under The Corporate Incentive Compensation Plan

Executive Officers, along with other management and salaried employees, also participate in the Corporate Incentive Compensation Plan as part of their short-term compensation package. 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 1999, approximately $134 million in short-term incentive compensation was earned by about 52,000 Caterpillar employees.

Team awards under this plan are calculated by multiplying:

- annual base salary;
- a specific percentage of base salary that varies based on position; and
- a performance factor based upon Caterpillar's achievement of certain ROA levels.

Before any amount could be awarded under the Corporate Incentive Compensation Plan for 1999, Caterpillar had to achieve a minimum ROA level, with larger amounts awarded for achievement of a target or maximum ROA level. For 1999, the minimum ROA level was achieved and all executive officers received a team award.

In addition to a team award, certain executive officers received an individual award for 1999 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. If the Chairman decides individual awards are not warranted in a given year, an allocation is not required. Amounts not allocated are not carried forward into the next year.

In addition to the Corporate Incentive Compensation Plan, 340 business units (or divisions within those units) at Caterpillar have their own short-term incentive compensation plan tied to the goals of their particular unit. For 1999, 21 executive officers received 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.

Long-Term Incentive Compensation

Stock Options

In 1999, 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 our 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 ten years to exercise stock options from the date they were granted, absent events such as death or termination of employment. Executive officers may transfer stock options to family members. 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.

Adjustments to the number of options granted may also be made if the officer does not meet certain stock ownership guidelines. In 1999, the Compensation Committee encouraged officers to own a number of shares at least equal to the average number of shares for which they received options in their last three option grants. For 1999 stock option grants, if one-hundred percent of this guideline was not met, significant progress had not been made to 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 1999, no officer was penalized for low share ownership.

For 2000 option grants, this ownership guideline is being changed to reflect more accurately industry practices. With this change, the required ownership target will be the average of the last five years' option grants, rather than the current three years, a five-year period to reach the required level will be allowed, and 25% of vested unexercised options will apply toward the ownership target.

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.

In 2000, a payout occurred under a long-term incentive cycle established for the years 1997 through 1999. That payout was based on a formula that factored the participant's base salary at the end of the cycle, a predetermined percentage of that salary based on the participant's position in the company, and whether certain after-tax return on asset goals were met by Caterpillar. For the 1997 through 1999 cycle, the threshold after-tax return on asset goal was exceeded, although the target goal was not achieved. The total payout value received by 165 participants in 2000 under this long-term incentive feature was approximately $9.7 million.

MR. BARTON'S INDIVIDUAL GOALS FOR 1999

The Committee reviewed Mr. Barton's individual goals established at the beginning of 1999 and his subsequent performance against those goals. Mr. Barton's 1999 performance was also considered in determining any adjustments to his 2000 salary. We believe, that during his first year as CEO, Mr. Barton has done an excellent job of continuing to position Caterpillar for long-term growth and success.

Financial Results

Mr. Barton set goals for Caterpillar's financial results that were not met in 1999, although the company's engines and financial services businesses performed very well. In responding to a slowdown in machine sales, Mr. Barton took quick, effective action to reduce costs, a testament to his leadership and ability to manage the company in times of slower growth. During the year, the company also made significant strides in managing work-in-process inventories. The Committee notes that for the first time since 1967 Caterpillar was profitable in a year when sales declined from the previous year.

Effective Management of Recent Acquisitions

Over the past few years, Caterpillar has acquired several companies in a targeted effort to place the company in a strong long-term position. Major acquisitions include, Perkins, MaK, and F.G. Wilson. In 1999, Mr. Barton set a goal of continuing to foster contributions from these acquisitions to the Caterpillar enterprise.

Mr. Barton achieved this goal in 1999. The company is on-track in realizing synergies forecasted for Perkins and have identified additional synergies. At MaK, significant cost reductions were implemented and management changes effected designed to result in solid future growth. At F.G. Wilson, excellent progress was made in integrating that acquisition into our dealer network and improving production flows.

New Product Development and Growth Initiatives

In 1999, Mr. Barton set a goal of continuing to direct recent growth initiatives and product introductions toward projected targets. Specific initiatives include compact construction products, agricultural tractors, and large mining products. Mr. Barton met this goal as these projects are on track to achieve projected results.

Continued Focus on Quality

In 1999, Mr. Barton set a goal of continuing to focus on the quality of Caterpillar products and undertaking initiatives designed to ensure that the company's excellent reputation for quality is maintained. Mr. Barton met this goal by continuing to emphasize the need for quality in all functions throughout the enterprise and continuing to explore aggressively initiatives directed at product quality.

On-Site Interaction with Caterpillar Employees

For 1999, Mr. Barton set a goal of visiting at least 20 Caterpillar facilities. Mr. Barton exceeded this goal by visiting 26 facilities, holding communicator meetings at many of them involving large groups of employees. Mr. Barton's efforts in this area reflect his commitment to maintaining direct contact with, and receiving direct input from, the Caterpillar workforce world-wide.

Contact with Analysts and Shareholders

For 1999, Mr. Barton set a goal of maintaining contact with financial analysts and shareholders. This goal was met as Mr. Barton made presentations to analysts in March and October and held meetings with several institutional shareholders, providing significant support to our investor relations efforts.

Contact with Caterpillar Dealers and Customers

For 1999, Mr. Barton set a goal of maintaining contact with Caterpillar dealers and customers. This goal was met as Mr. Barton visited numerous dealers and large customers around the world, maintaining visibility with them and receiving their input on business trends, product needs, and dealer issues.

Board of Director Contact and Corporate Governance

For 1999, Mr. Barton set a goal of initiating one-on-one contact with outside directors on a regular basis. This goal was met as Mr. Barton held one-on-one meetings with several directors and implemented suggestions resulting from those meetings.

Although not specified as a goal for 1999, Mr. Barton fostered significant strides in corporate governance on behalf of Caterpillar warranting specific recognition. From the outset of his tenure as Chairman, Mr. Barton continued the process of reviewing and updating our corporate governance guidelines. The results of that review are reflected in revised guidelines appearing in this proxy statement (see p. 6). We believe those guidelines reflect a progressive, solid approach to corporate governance and reveal Mr. Barton's commitment to this important aspect of Caterpillar's success.

Participation in Outside Business Organizations and Maintaining Contact with Political Leaders

For 1999, Mr. Barton set a goal of becoming an active participant in business organizations designed to further the interests of Caterpillar and the business community in general. Mr. Barton met that goal by accepting a directorship position in the U.S.-Japan Business Council and by becoming an active participant on the Business Roundtable's trade task force. Mr. Barton also met with several political leaders during the year, maintaining Caterpillar's presence with them and voicing Caterpillar's views on various topics.

Commitment to the Peoria Community

Mr. Barton established a goal in 1999 of continuing his involvement in the growth and development of Caterpillar's hometown, Peoria, Illinois. Mr. Barton met that goal by continuing his participation on the Bradley University Board of Trustees and by becoming Vice Chairman of that Board in December. He is also a member of the presidential search committee for Bradley University. In addition, Mr. Barton and his wife are leading a capital campaign for Peoria's local public broadcasting station.

By the Compensation Committee consisting of:

James P. Gorter (Chairman)	*John T. Dillon*	*Peter A. Magowan*
Lilyan H. Affinito	*David R. Goode*	*Clayton K. Yeutter*

Executive Compensation Tables

1999 Summary Compensation Table

Name and Principal Position	Annual Compensation: Year	Annual Compensation: Salary	Annual Compensation: Bonus[2]	Annual Compensation: Other Annual Compensation[5]	Long-Term Compensation: Awards: Securities Underlying Options[3]	Long-Term Compensation: Payouts: LTIP Payouts ($)	All Other Compensation[1]
G. A. Barton	1999	$ 935,000	$ 441,322	$1,410	150,000	$ 493,784[4]	$44,880
Chairman and	1998	562,503	409,500	1,654	50,000	492,917	26,999
CEO	1997	500,000	384,000	-0-	50,000	375,000	24,000
G. S. Flaherty	1999	645,000	228,330	1,437	50,000	316,050[4]	30,960
Group President	1998	545,004	294,300	-0-	50,000	408,750	21,363
	1997	500,000	384,000	-0-	50,000	375,000	20,700
J. W. Owens	1999	585,000	207,090	-0-	50,000	286,650[4]	23,400
Group President	1998	485,004	261,900	-0-	50,000	363,750	17,246
	1997	430,000	330,240	-0-	50,000	322,500	12,041
G. L. Shaheen	1999	480,000	169,920	1,221	50,000	206,453[4]	19,470
Group President	1998	325,830	197,722	-0-	21,000	246,375	1,350
	1997	275,004	216,985	-0-	21,000	165,000	-0-
R. L. Thompson	1999	585,000	207,090	2,283	50,000	286,650[4]	17,550
Group President	1998	485,004	261,900	-0-	50,000	363,750	14,549
	1997	430,000	330,240	-0-	50,000	322,500	12,900
D. V. Fites	1999	125,000	60,132	1,033	-0-	612,500[4]	26,454
Retired Chairman	1998	1,350,000	972,000	2,524	200,000	1,215,000	64,799
and CEO	1997	1,250,000	1,280,000	-0-	150,000	1,125,000	56,700

[1] Consists of matching Company contributions, respectively, for the Employees' Investment Plan and supplemental employees' investment plans of G. A. Barton ($7,698/$37,182), G. S. Flaherty ($7,871/$23,089), J. W. Owens ($6,700/$16,700), G. L. Shaheen ($6,650/$12,820), R. L. Thompson ($5,050/$12,500), and D. V. Fites ($2,254/$17,868). For Mr. Fites, $6,332 of this amount represented taxable income attributable to the use of company aircraft after his retirement.

[2] Consists of cash payments made pursuant to the Corporate Incentive Compensation Plan in 2000 with respect to 1999 performance, in 1999 with respect to 1998 performance, and in 1998 with respect to 1997 performance.

[3] Numbers for 1997 have been adjusted to reflect a two-for-one stock split effective after the 1997 grant. No options have been granted at an option price below fair market value on the date of the grant. Although no outstanding options have been repriced, an exercise price adjustment was made to such options to reflect the two-for-one stock split.

[4] This payout was made in early 2000. Fifty percent was in cash and fifty percent in restricted stock. Caterpillar's average stock price on December 31, 1999 ($46.5625 per share) was used to determine the restricted stock portion of the payout. As of December 31, 1999, the number and value of restricted stock held was G. A. Barton – 13,445 ($626,033), G. S. Flaherty – 12,549 ($584,313), J. W. Owens – 10,612 ($494,121), G. L. Shaheen – 6,019 ($280,260), R. L. Thompson – 10,612 ($494,121), and D. V. Fites – 0 ($0). Dividends are paid on this restricted stock.

[5] Taxes paid on behalf of employee related to aircraft usage.

Option Grants in 1999

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term[1]	
Name	Number of Securities Underlying Options Granted[2]	% of Total Options Granted to Employees In Fiscal Year 1999[3]	Exercise Price Per Share	Expiration Date	5%	10%
G. A. Barton	150,000	3.01	$62.3438	06/08/09	$ 5,881,155	$ 14,904,000
G. S. Flaherty	50,000	1.00	62.3438	06/08/09	1,960,385	4,968,000
J. W. Owens	50,000	1.00	62.3438	06/08/09	1,960,385	4,968,000
G. L. Shaheen	50,000	1.00	62.3438	06/08/09	1,960,385	4,968,000
R. L. Thompson	50,000	1.00	62.3438	06/08/09	1,960,385	4,968,000
D. V. Fites	-0-	N/A	N/A	N/A	N/A	N/A
Executive Group	915,360	18.35	62.3438	06/08/09	35,889,160	90,950,170
All Stockholders[4]	N/A	N/A	N/A	N/A	13,954,231,760	35,362,763,121
Executive Group Gain as % of all Stockholder Gain	N/A	N/A	N/A	N/A	.2572%	.2572%

[1] 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 $101.5515 and $161.7038, respectively.

[2] 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 the executive group and certain other employees that are not incentive stock options may be transferred to certain family members and descendants.

[3] In 1999, options for 4,989,132 shares were granted to employees and directors as follows: Executive Group – 915,360; non-employee directors – 52,000; and all others – 4,021,772.

[4] For "All Stockholders" the potential realizable value is calculated from $62.3438, the price of Common Stock on June 8, 1999, based on the outstanding shares of Common Stock on that date.

Aggregated Option/SAR Exercises in 1999, and 1999 Year-End Option/SAR Values

			Number of Securities Underlying Unexercised Options/SARs at 1999 Year-End[3]		Value of Unexercised In-the-Money Options/ SARs at 1999 Year-End[2]	
Name	Shares Acquired On Exercise[1]	Value Realized[2]	Exercisable	Unexercisable	Exercisable	Unexercisable
G. A. Barton	42,851	$ 1,521,017	144,658	200,000	$ 1,421,073	$ -0-
G. S. Flaherty	30,600	1,401,863	220,599	100,000	3,145,591	-0-
J. W. Owens	9,000	397,547	173,399	100,000	1,990,377	-0-
G. L. Shaheen	35,585	1,139,171	37,603	71,000	276,202	-0-
R. L. Thompson	16,667	465,636	49,999	100,000	-0-	-0-
D. V. Fites	48,459	1,764,178	1,105,541	4,000	17,439,419	-0-

[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 1999

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	1999–2001	$ 280,500	$ 561,000	$ 841,500
	1998–2000	267,514	535,028	802,542
G. S. Flaherty Group President	1999–2001	161,250	322,500	483,750
	1998–2000	161,250	322,500	483,750
J. W. Owens Group President	1999–2001	146,250	292,500	438,750
	1998–2000	146,250	292,500	438,750
G. L. Shaheen Group President	1999–2001	120,000	240,000	360,000
	1998–2000	86,667	173,333	260,000
R. L. Thompson Group President	1999–2001	146,250	292,500	438,750
	1998–2000	146,250	292,500	438,750
D. V. Fites[2] Retired Chairman and CEO	1999–2001	12,500	25,000	37,500
	1998–2000	162,500	325,000	487,500

[1]Payout is based upon an executive's base salary at the end of the three-year cycle, a predetermined percentage of that salary, and Caterpillar's achievement of specified 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 1999 were used to calculate the estimated dollar value of future payments under both cycles.

[2]Estimates for Mr. Fites Long-Term Incentive Plan awards have been adjusted to reflect his retirement effective February 1, 1999.

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	937,500	1,125,000	1,312,500
$ 3,000,000	675,000	900,000	1,125,000	1,350,000	1,575,000
$ 3,500,000	787,500	1,050,000	1,312,500	1,575,000	1,837,500

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, 1999, 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*; G. S. Flaherty – 35 years*; J. W. Owens – 27 years; G. L. Shaheen – 32 years, R. L. Thompson – 17 years, and D. V. Fites – 35 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.

POST-RETIREMENT SECURITY ARRANGEMENT

Because of continuing concerns regarding the personal safety of Mr. Fites, we are providing him with certain post-retirement, security-based services in 2000. At a cost of approximately $50,000 to Caterpillar, Mr. Fites will be provided with a home security system and assigned security personnel. Mr. Fites will also have personal use of company aircraft at an estimated cost not anticipated to exceed $75,000, such cost to fluctuate based on actual usage.

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

The Caterpillar Board of Directors has adopted and recommends that you approve an amendment to our stock option plan that would increase the number of shares authorized for issuance under the plan. We are currently authorized to issue fourteen million shares under the plan and we are close to using up that amount with anticipated option grants in the Year 2000. We are asking that you approve an additional 10 million shares for issuance.

The full text of the plan with the proposed change 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, 2000.

How is the Plan Administered?

The plan is administered by the Board's Compensation Committee, which is made up only of 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 of Directors 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 Compensation 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% 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 ten years and are typically exercisable in one-third 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 Compensation 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 ten 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.

Each year, non-employee directors receive 750 restricted shares under the plan. Four hundred of these shares have a restricted period of three years, while 350 shares are restricted until the director terminates service.

Important Facts About Performance Awards

The Compensation 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. Performance factors for that time period may include return on assets, return on equity, return on sales, total shareholder return, cash flow, economic value added, and net earnings.

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

Table of Benefits under the Plan Based Upon 1999 Option Grants

The table below describes awards received in 1999 under the plan by our named executive officers individually, all of our officers as a group, all non-officer participants as a group, and all independent directors as a group. The price of Caterpillar stock on December 31, 1999 was $46.5625.

1996 Stock Option and Long-Term Incentive Plan (Awards in 1999)			
	Options (# of shares)	**Restricted Stock** (including stock distributed as Performance Awards)	**Performance Awards** ($ value — excluding restricted stock distributed)
G. A. Barton	150,000	5,302	$ 246,909.51
G. S. Flaherty	50,000	3,393	158,063.44
J. W. Owens	50,000	3,078	143,330.62
G. L. Shaheen	50,000	2,216	103,270.83
R. L. Thompson	50,000	3,078	143,330.62
D. V. Fites	-0-	6,577	306,258.44
Officer Group	915,360	61,890	2,902,308.59
Non-officer Group	4,021,772	41,960	1,967,196.59
Non-employee Director Group	52,000	8,650	N/A

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.

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

PROPOSAL 3 — Appointment of Auditors

The Board of Directors seeks from the stockholders an indication of their approval or disapproval of the Board's appointment of PricewaterhouseCoopers LLP ("PricewaterhouseCoopers") as independent auditors for 2000.

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

If the appointment of PricewaterhouseCoopers as independent auditors for 2000 is not approved by the stockholders, the adverse vote will be considered a direction to the Board of Directors to consider other auditors for next year. However, because of the difficulty in making any substitution of auditors so long after the beginning of the current year, the appointment for the year 2000 will stand, unless the Board finds other good reason for making a change.

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

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

PROPOSAL 4 — Stockholder Proposal Regarding Shareholder Rights Plan and Caterpillar Response

Mr. John Chevedden, 2215 Nelson Avenue, No. 205, Redondo Beach, CA 90278 (owner of 100 shares of Company stock) advises that he intends to present for consideration and action at the annual meeting the following resolution.

Resolution Proposed by Stockholder

RESOLVED:

SHAREHOLDERS TO HAVE THE OPPORTUNITY TO VOTE ON POISON PILLS

Recommend the company shall not adopt or maintain any poison pill — euphemistically called a rights plan, share purchase rights plan or similar agreement — designed to block, the acquisition of stock in excess of a specified amount:

Unless such plan or agreement has previously been approved by a majority of the outstanding shares of stock at a shareholder meeting.

Shareholders request the board redeem or terminate any such plan or agreement with a simple-majority shareholder vote.

Supporting Statement of Proponent

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

- The poison pill is an anti-takeover device, which injures shareholders by reducing management accountability. It adversely affects shareholder value.
- Poison pills are a major shift of shareholder rights from shareholders to management. Pills give directors absolute veto power over any proposed business combination, no matter how beneficial it might be for the shareholders.
  Nell Minow and Robert Monks in their book
  POWER AND ACCOUNTABILTY
- Poison pills like Caterpillar's are increasingly unpopular. Shareholder proposals to redeem poison pills or subject pills to shareholder vote achieved 60%-approval from shareholders in 1999.
  Corporate Governance Bulletin, April 1999

- The Council of Institutional Investors (Internet address: www.ciicentral.com) — an association of institutional investors — recommends poison pills be subject to shareholder vote.
- Institutional investors own 71% of Caterpillar stock.

Subjecting poison pills to shareholder vote is an important step toward making Caterpillar more competitive and accountable at the highest management level — where it will have the greatest opportunity to improve company performance.

The company has following core practices that are not in the best interest of shareholders — according to many institutional shareholders and independent corporate research associations:

- A 75% supermajority vote requirement
- Classified Board
- 2 former CEOs sit on the Board of Directors, Mr. Fites and Mr. Schaefer
- 2 former CEOs sit on the nomination committee, again Mr. Fites and Mr. Schaefer
- No cumulative voting
- Directors are not required to own any stock or accept any stock as pay. Director John Brazil owns only 200 shares.
- A directors' charitable award program compromises director independence

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

Fifty institutional investors, managing a total of $840 million, told McKinsey & Co. they would pay an 11% average premium for the stock of a company with good governance practices.

Why the big jump? Some investors said they believed that good governance would help boost performance over time. Others felt good governance decreases the risk of bad news — and when trouble occurs, they rebound faster.

Business Week Sept. 15,1997

What issues highlight concern about improving Caterpillar's performance?

- CAT posted a 35% drop in net income on sharply lower revenue.
- Sales of the company's mighty earth-movers lost their muscle.

  Dow Jones Oct. 15,1999
- We do not recommend these shares.
- The appreciation potential for CAT over the next 3 to 5 years is limited.

  Value Line August 6,1999
- CAT reports the 4th consecutive quarterly profit decline.

  New York Times July 17,1999

To increase shareholder value vote yes:

SHAREHOLDERS TO HAVE THE OPPORTUNITY TO VOTE ON POISON PILLS
YES ON 4

Statement in Opposition to 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.

But, as a result of these and related initiatives, over the past decade Caterpillar has generated significant consolidated operating cash flow. Much of that cash flow was used to increase our dividend several times and to initiate programs to repurchase a percentage of our outstanding shares. Equally important, we are using that cash flow to fund our business for sustained growth.

That, we believe, is the key to stockholder value; creating a company that can deliver cash flow to both replenish itself and to provide reasonable returns to stockholders over a continuum of time.

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 doesn’t matter so long as they realize a gain. If the company ceases to exist, no matter. They will move their capital to another investment.

Perhaps we can’t blame these individuals for wanting quick gains. But 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 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 and explore alternatives if necessary.

Georgeson & Company Inc.’s Research Group 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 for 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.

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

PROPOSAL 5 — Stockholder Proposal Regarding Global Standards and Caterpillar Response

The Catholic Foreign Mission Society of America (owner of 15,000 shares of Company stock) advises that they intend to present for consideration and action at the annual meeting the following resolution.

Resolution Proposed by Stockholder

WHEREAS, our company, as a global corporation, faces numerous complex problems which also affect out [sp.] interests as shareholders. The international context within which our company operates is becoming increasingly diverse as we enter the millennium.

Companies operating in the global economy are faced with important concerns arising from diverse cultures and political and economic contexts. These concerns require management to address issues beyond the traditional business focus. These include human rights, worker' [sp.] right to organize and bargain collectively, non-discrimination in the workplace and sustainable community development. Companies should find effective ways to eliminate the use of child labor, forced labor, bribery and harmful environment practices.

We believe global companies need to operationalize comprehensive codes of conduct, such as those found in the "*Principles for Global Corporate Responsibility: Bench Marks for Measuring Business Performance*," developed by an international group of religious investors. Companies need to formulate policies, programs and practices to address the challenges they face in the global marketplace.

A *New York Times* editorial stated, "[Corporations] should hold themselves to some guidelines. Their own practices should not be abusive, even if local laws allow it. This means giving workers wages they can live on and good working conditions." (Corporations and Conscience," *New York Times*, 12/6/98).

Our company should be in a position to assure shareholders that its employees are treated fairly and paid a sustainable living wage wherever they work in the global economy. One important element of ensuring compliance is the utilization of independent monitors made up of respected local human rights, religious and other non-governmental organizations. A number of global companies are involved in the development of credible code enforcement mechanisms that include independent monitoring.

Improving the quality of life for employees and their communities can lead to productivity and enhance the bottom line for the company.

RESOLVED. The shareholders request the Board of Directors to review or amend, where applicable, its code or standards for its international operations and to report a summary of this review to share holders by October 2000.

Supporting Statement of Proponent

We recommend the review include the following areas:

1. A description of policies which are designed to protect human rights — civil, political, social, cultural and economic — consistent with respect for human dignity and international labor rights standards.
2. A report of efforts to ensure that the company does not employ children under the age of fifteen, or younger than the age of completing compulsory education in the country of manufacture where such age is higher than fifteen.
3. A report of company policies ensuring that there is no use of forced labor, whether in the form of prison labor, indentured labor or bonded labor.
4. Establishment of consistent standards for workers' health and safety, practices for handling hazardous wastes, and protection of the environment, as well as promising a fair and dignified quality of life for workers and their communities.

We believe a company poised to compete in the 21st Century needs comprehensive global standards to guide them.

Statement in Opposition to Proposal

We could not agree more with the proponents when they state that "a company poised to compete in the 21st Century needs comprehensive global standards to guide them." With that philosophy in mind, we adopted the Caterpillar Code of Worldwide Business Conduct and Operating Principles ("Code of Conduct") in 1974 and have revised it four times since then, the latest revision occurring in 1992. We readily distribute this document to inquiring shareholders and other constituents. As stated in our introduction to the Code of Conduct, we believe "[n]o document issued by Caterpillar is more important than this one."

As illustrated in the following excerpts, our current Code of Conduct embodies many of the principles contained in the proponent's proposal.

Human Relationships

"We aspire to a high standard of excellence in human relationships. Specifically, we intend:

- To select and place employees on the basis of qualifications for the work to be performed — without discrimination in terms of race, religion, national origin, color, sex, age, or physical or mental disability ...
- To protect people's health and lives. This includes maintaining a clean work environment as free as practicable from health and safety hazards ...
- To compensate people fairly, according to their contributions to the company, within the framework of national and local practices ...
- To seek to provide stable, secure employment consistent with the long-term success of Caterpillar ..."

Corporate Facilities

"We desire to provide functional, safe, attractive, efficient facilities that are harmonious with national modes. They are to be compatible with local laws and environmental considerations, complement public planning, and reflect Caterpillar's commitment to conserve energy and other scarce resources."

Protection of the Environment

"Caterpillar's continued competitiveness and leadership in a global marketplace require individual and corporate dedication to a clean and safe environment in which to live and work."

Public Responsibility

- "... It isn't enough to successfully offer useful products and services. A business should, for example, employ and promote people fairly, see to their job safety and the safety of its products, conserve energy and other valuable resources, and help protect the quality of the environment ...
- Each corporate facility is an integral part of the community in which it operates. Like an individual, it benefits from character building, health, welfare, educational, and cultural activities. And like an individual, it also has a citizen's responsibility to support such activities ...
- Overall, it's our intention that Caterpillar's business activities make good social sense — and that Caterpillar's social activities make good business sense."

Conclusion

At Caterpillar, we are dedicated to promoting a healthy, productive and rewarding work environment for our employees worldwide and our Code of Conduct, which is readily available to requesting shareholders, currently reflects that dedication. Accordingly, we see no further purpose served by the proponent's proposal and **THE BOARD OF DIRECTORS RECOMMENDS A VOTE "AGAINST" PROPOSAL 5.**

Other Matters

Section 16(a) Beneficial Ownership Reporting Compliance

Based upon a review of our records, all reports required to be filed pursuant to Section 16(a) of the Exchange Act were filed on a timely basis, except one late filing for each of the following: James S. Beard — Form 4 — sale of 1,744 shares and James P. Gorter — Form 5 — 750 shares restricted stock grant and two late filings for Donald V. Fites: Form 4 — sale of 10,000 shares and Form 5 — transfer of 49,355 options.

Stockholder Proposals for the 2000 Annual Meeting

If you want to submit a proposal for possible inclusion in the Company's 2001 Proxy Statement, our Corporate Secretary must receive it on or before November 3, 2000.

Matters Raised at the Meeting

We have received notification from Mr. John Chevedden that he intends to discuss at the meeting a comparison of Caterpillar's Corporate Governance Guidelines (as set forth on page 6) with the "Council of Institutional Investors Shareholder Bill of Rights." Mr. Chevedden has also requested that management express its views regarding the comparison. We have received no indication from Mr. Chevedden that he is soliciting a shareholder vote on this matter. If a shareholder vote is solicited, proxy holders will vote on the matter in their discretion.

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 One North State Street, 11th Floor, Chicago, Illinois 60602, at least ten days prior to the annual meeting.

Revocability of Proxy

You may revoke the enclosed proxy by filing a written notice of revocation with us or by providing a later executed proxy.

Exhibit A

CATERPILLAR INC.
1996 STOCK OPTION AND LONG-TERM INCENTIVE PLAN
(Amended and Restated as of 02/09/2000)

(Proposed change is 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*

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

2.2 *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 7.2 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. 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 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 of the individual to whom the option is granted; the estate (and any trust that serves a distributive function of an estate) of the individual to whom the option is granted; 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 individuals 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

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).

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; and (vii) net earnings. 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.