

CATERPILLAR INC
Form 10-K/A
July 17, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 2)

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File No. 1-768

CATERPILLAR INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

1-768
(Commission File Number)

37-0602744
(IRS Employer I.D. No.)

100 NE Adams Street, Peoria, Illinois
(Address of principal executive offices)

61629
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u> | <u>Name of each exchange on which registered</u> |
|---------------------------------|-----------------------------------------------------------------------------|
| Common Stock (\$1.00 par value) | Chicago Stock Exchange New York Stock Exchange Pacific Exchange, Inc. |

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| | |
|---------------------------------------|-----------------------------------------------------------------------------|
| Preferred Stock Purchase Rights | Chicago Stock Exchange New York Stock Exchange Pacific Exchange, Inc. |
| 9% Debentures due April 15, 2006 | New York Stock Exchange |
| 6% Debentures due May 1, 2007 | New York Stock Exchange |
| 9 3/8% Debentures due August 15, 2011 | New York Stock Exchange |
| 9 3/8% Debentures due March 15, 2021 | New York Stock Exchange |
| 8% Debentures due February 15, 2023 | New York Stock Exchange |

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of December 31, 2002, there were 344,255,067 shares of common stock of the Registrant outstanding, and the aggregate market value of the voting stock held by non-affiliates of the Registrant (assuming only for purposes of this computation that directors and officers may be affiliates) was \$15,566,956,689.

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

Documents Incorporated by Reference

Portions of the documents listed below have been incorporated by reference into the indicated parts of this Form 10-K/A, as specified in the responses to the item numbers involved.

- 2003 Annual Meeting Proxy Statement (Proxy Statement) - Part III
- Annual Report to Security Holders filed as an appendix to the 2003 Annual Meeting Proxy Statement (Appendix) - Parts I, II, and IV

Explanatory Note: On May 29, 2003 the registrant amended its' Form 10-K filed with the Securities and Exchange Commission on March 31, 2003 for the year ended December 31, 2002. The registrant hereby further amends its' Form 10-K for the year ended December 31, 2003 to include entire Financial Statements and Notes in Item 15 and and to adjust references to Statements and Notes previously incorporated by reference from the Appendix to reference Statements and Notes in Item 15. This amendment also includes changes required by Regulation G with respect to non-GAAP financial information.to comply with new SEC rules regarding non-GAAP information.

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PART I

Item 1. Business.

Principal Lines of Business / Nature of Operations

Caterpillar operates in three principal lines of business:

1. Machinery

- design, manufacture and marketing of construction, mining, agricultural and forestry machinery - track and wheel tractors, track and wheel loaders, pipelayers, motor graders, wheel tractor-scrappers, track and wheel excavators, backhoe loaders, mining shovels, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, telescopic handlers, skid steer loaders and related parts.

● **Engines**

- design, manufacture and marketing of engines for Caterpillar *Machinery*, electric power generation systems; on-highway vehicles and locomotives; marine, petroleum, construction, industrial, agricultural and other applications; and related parts. Reciprocating engines meet power needs ranging from 5 to over 22,000 horsepower (4 to over 16 200 kilowatts). Turbines range from 1,600 to 19,500 horsepower (1 000 to 14 500 kilowatts).

● **Financial Products**

- financing to customers and dealers for the purchase and lease of Caterpillar and other equipment, as well as some financing for Caterpillar sales to dealers. Financing plans include operating and finance leases, installment sale contracts, working capital loans and wholesale financing plans. The division also provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment. This line of business consists primarily of Caterpillar Financial Services Corporation and Caterpillar Insurance Holdings, Inc. and their subsidiaries.

Due to financial information required by Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*, we have also divided our business into eight operating segments for financial reporting purposes. Information about our operating segments, including geographic information, appears in Note 22 in Item 15 of this Form 10-K/A.

Company Strengths

Caterpillar is the leader in construction and mining equipment, diesel and natural gas engines and industrial gas turbines in our size range. Annual sales and revenues top \$20 billion, making Caterpillar the largest manufacturer in its industry. Caterpillar is also a leading U.S. exporter, with more than half of its sales outside the United States. Through its global network of independent dealers, Caterpillar builds long-term relationships with customers around the world. For over 75 years, the Caterpillar name has been associated with the highest level of quality products and services.

Competitive Environment

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

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

Machinery

Caterpillar machinery competitors include John Deere in the Americas, and Komatsu, Hitachi Construction Machinery, Terex Corporation, Volvo Construction Machinery, JCB, CNH, and Ingersoll Rand globally. These competitors manufacture a wide range of earthmoving, construction, and mining machines that compete across all lines of Caterpillar business. The industry has been characterized by industry consolidation and overcapacity resulting in fierce competition and deteriorating financial performance.

During 2002, all competitors were faced with declining or shrunken markets, and continued intense price competition. Japan-based competitors continued to focus on cost reduction, manufacturing efficiency, and improved global marketing. Certain global competitors based in the United States and Europe continued with acquisitions or added new product lines - strengthening their competitive positions. However, most competitors slowed or revised their competitive strategies in the face of falling sales and eroded profitability.

Joint development and acquisition programs for components and purchased-finished material continued with certain competitors, aimed primarily at reducing manufacturing costs without sacrificing competitive differentiation.

Industry consolidation continued, as large international competitors integrated acquisitions and refined operations.

Most competitors experienced continued severe pressure on distribution systems, exacerbating pressure on financial results. Marketplace confusion continues as certain European and Asian competitors seek to manage the results of changing alliances. However, competitive focus remains on meeting volume requirements - especially for Asian competitors - at the expense of profitability.

Continuing excess capacity meant a continued global environment of intense competition for the available customers and deals. In addition, increasingly well-informed customers have high expectations for product performance and support services, with little willingness to allow higher transaction prices.

Japanese government policies and revised public works plans initiated during 2001 continued to reduce domestic demand and put pressure on Japanese manufacturers and their partners to find replacement demand.

Increasing business in China for traditional products, and the introduction of new products, substantially benefited all competitors - and especially benefited certain Japanese competitors that needed to replace declining Japanese demand with new markets.

Engines

Caterpillar operates in a very competitive engine/turbine manufacturing and packaging environment. The company manufactures diesel, heavy fuel and natural gas engines for the on- and off-highway markets, and industrial turbines for the oil & gas and power generation applications. In North America, on-highway diesel engine competitors include Cummins Inc., Volvo Group AB, Mack Trucks, Inc. (part of Volvo), Detroit Diesel Corporation (part of DaimlerChrysler Corporation) and Navistar International Corporation. Overseas on-highway diesel engine competitors include Mercedes Benz (part of DaimlerChrysler Corporation), Volvo, Mitsubishi Heavy Industries, Scania, MAN B&W, Iveco Diesel Engines, Isuzu Motors, Ltd., Hino Motors and MWM Brazil.

North America off-highway diesel and natural gas engine/turbine competitors include Cummins Inc., John Deere Power Systems, Ford Power Products, GE, and Waukesha. Overseas off-highway diesel, natural gas and heavy-fuel engine/turbine competitors include Wartsila NSD, MAN B&W, MTU Friedrichshafen (part of DaimlerChrysler), Volvo Penta (part of Volvo), Mitsubishi Heavy Industries, Deutz, Jenbacher, Kubota, Isuzu, Kawasaki Heavy Industries and Alstom.

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Electric power packaging and other engine/turbine-related packaging business remained fragmented. North American packagers include GE, Cummins, Kohler, Katolight, Generac, Multiquip, Detroit Diesel, Stuart & Stevenson, Hanover, and other regional packagers. Overseas packagers include Alstom, Rolls Royce, Wartsila NSD, MAN B&W, Jenbacher, SDMO, Himoina, Mitsubishi Heavy Industries, Daewoo, Denyo, Atlas Copco, Kawasaki Heavy Industries and many other local and regional packagers dispersed around the world. These packagers leveraged engine/turbine over-capacity and off-the-shelf technology to expand operations and product lines, and to enter new markets. They also used flexible/global sourcing and flexible distribution channels to reach new customers, maximize volumes and keep costs down.

Competitors formed or continued joint ventures and partnerships in an effort to share development costs, secure customer bases, reach new markets, and/or leverage core competencies. In addition, component suppliers such as Delphi Automotive Systems,

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Bosch GmbH, Denso, and Stanadyne Automotive played more visible roles as technology drivers, partners, and key suppliers to the engine business.

Competitors in North America introduced new on-highway truck diesel engines utilizing cooled exhaust re-circulation technology to meet lower emission standards mandated pursuant to a United States Environmental Protection Agency (EPA) consent decree which required the company and other engine manufacturers to meet certain emission standards by October 2002. The industry continues to invest in new technology to meet emission deadlines in North America, Europe, and Asia.

Caterpillar's competitive position in the diesel engine line of business continued to strengthen in 2002. Prior to the implementation of the consent decree in October 2002, Caterpillar's share of industry sales of heavy-duty engines increased 5% in 2002. This improvement is continuing. Similar results are occurring with our mid-range product. We believe this is occurring because the consent decree motivated most of our competitors to accelerate their production of Exhaust Gas Recirculation (EGR) engines in advance of the October 2002 deadline. This new technology had not been previously used or tested and has large amounts of new content. The technology that Caterpillar developed and uses, however, is an outgrowth of existing technology and requires significantly less new content than our competitors' products. We employ a phased introduction of new technology that assures customers of only limited new technology in any given engine model. We have been phasing in the technological components for our Advanced Combustion Emission Reduction Technology (ACERT™) engines since we made the decision to abandon EGR in early 2001. For example, we introduced aftertreatment technology into our medium heavy-duty product in early 2001, one of the four major components used in our ACERT product. Similarly, our October 2002 heavy heavy-duty bridge engines phased in ACERT fuels systems and aftertreatment technology. We believe that this phased in approach has helped our competitive position, as higher new content is recognized to carry a higher risk in new developments. Our view is supported by engine orders received since October 2002.

Moreover, the consent decree led to our competitors' initiation and announcement of an industry wide emissions-related price increase for engines that comply with the October 2002 deadline. This price increase bolstered Caterpillar's competitive position because it made it economically feasible for us to sell a bridge engine with the associated NCPs as opposed to exiting the market until compliant ACERT engines were certified.

Further, we believe that Caterpillar's development of one technology that can be used for both on-highway and off-highway purposes may give us a further competitive advantage. One competitor has already announced that it will not be using its EGR technology for off-highway. Therefore, this competitor will need to develop new technology for off-highway, while Caterpillar is able to use its on-highway technology for off-highway engines.

We believe that all of our competitors, who are subject to consent decree requirements, have certified at least one engine model as fully compliant with the consent decree requirements, as have we. However, it is our understanding that some competitive engine manufacturers have chosen to reduce the number of engine models for which they are seeking certification. We also understand that at least one other engine manufacturer may seek to sell an engine model subject to NCPs.

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Additional information about the consent decree appears in Item 1 of this Form 10-K/A under "Environmental Matters."

Financial Products

Caterpillar Financial Services Corporation (Cat Financial), incorporated in Delaware, is a wholly owned finance subsidiary of Caterpillar Inc. Cat Financial provides retail financing alternatives for Caterpillar machinery and engines as well as other equipment and marine vessels to customers and dealers around the world and provides wholesale financing to Caterpillar dealers. It has over 20 years of experience in providing financing in these markets, contributing to knowledge of asset values, industry trends, product structuring, and customer needs. Cat Financial emphasizes prompt and responsive service and offers various financing plans to meet customer requirements, increase Caterpillar sales, and generate financing revenue. As of December 31, 2002, Cat Financial had 1,201 employees.

Cat Financial offers various financing plans designed to increase the opportunity for sales of our products and generate financing income for our company. Its activity is conducted primarily in the United States, with additional offices in Asia, Australia, Canada, Europe and Latin America.

Cat Financial's operations are subject to supervision and regulation by state, federal, and various foreign government authorities as well as laws and judicial and administrative decisions imposing requirements and restrictions, which, among other things, (i) regulate credit granting activities, (ii) establish maximum interest rates, finance charges, and other charges, (iii) require disclosures to customers, (iv) govern secured transactions, (v) set collection, foreclosure, repossession, and other trade practices, (vi) prohibit discrimination in the extension of credit and administration of loans, and (vii) regulate the use and reporting of information related to

borrower's credit experience.

Cat Financial's retail financing plans include:

Investment in finance leases - retail:

- Leases that, for tax purposes, Cat Financial is considered the owner of the equipment, but depending on the characteristics of the lease, are classified as either operating or finance leases for financial reporting purposes (20 percent*).
- Finance (non-tax) leases where the lessee is considered the owner of the equipment during the term of the contract and that either require or allow the customer to purchase the equipment for a fixed price at the end of the term (16 percent*).
- Installment sale contracts, which are equipment loans that enable customers to purchase equipment with a down payment or trade-in and structure payments over time (20 percent*).
- Governmental lease-purchase plans in the U.S. that offer low interest rates and flexible terms to qualified non-federal government agencies (1 percent*).

Retail notes receivable:

- Working capital loans that allow customers and dealers to use their Caterpillar equipment as collateral to obtain financing for other business needs (26 percent*).

Wholesale financing plans (17 percent*) include wholesale notes receivable and investment in finance leases that are secured by the assets of the dealers.

* Indicates the percentage of Cat Financial's total portfolio at December 31, 2002. For more information on the above and Cat Financial's concentration of credit risk, please refer to Note 18 in Item 15 of this Form 10-K/A.

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The retail financing business is highly competitive, with financing for users of Caterpillar equipment available through a variety of sources, principally commercial banks and finance and leasing companies. Cat Financial's main competitors include Citibank, GECC, CIT Group, John Deere Capital Corporation, Case New Holland Credit, JCB Credit, and local banks. The sluggish economy in 2002 created a highly competitive environment for sales. Competitive manufacturers used below-market interest rate programs (subsidized by the manufacturer) to assist machine sales. Caterpillar and Cat Financial work together to provide a broad array of financial merchandising programs around the world to meet these competitive offers.

Cat Financial is largely dependent upon Caterpillar dealers' ability to sell equipment and customers' willingness to enter into financing or leasing agreements with it. It is also affected by the availability of funds from its financing sources and general economic conditions such as inflation and market interest rates.

Cat Financial has a "match funding" objective whereby, within specified boundaries, the interest rate profile (fixed rate or floating rate) of their debt portfolio largely matches the interest rate profile of their receivable, or asset, portfolio. In connection with that objective, Cat Financial uses interest rate derivative instruments to modify the debt structure to match the receivable portfolio. This "match funding" reduces the risk of deteriorating margins between interest-bearing assets and interest-bearing liabilities, regardless of which direction interest rates move. Cat Financial also uses these instruments to gain an economic and/or competitive advantage through a lower cost of borrowed funds. This is accomplished by changing the characteristics of existing debt instruments or entering into new agreements in combination with the issuance of new debt. For more information regarding match funding, please see Note 2 in Item 15 of this Form 10-K/A.

In managing foreign currency risk for Cat Financial's operations, our objective is to minimize earnings volatility resulting from conversion and the remeasurement of net foreign currency balance sheet positions. Our policy allows the use of foreign currency forward contract to offset the risk of currency mismatch between our receivable and debt portfolio.

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

Cat Financial finances a significant portion of Caterpillar dealers' sales, especially in North America. Cat Financial's competitive

position is improved by marketing programs, subsidized by Caterpillar and/or Caterpillar dealers, which allow it to offer below-market interest rates. Under these programs, Caterpillar, or the dealer, subsidizes an amount at the outset of the transaction, which Cat Financial then recognizes as revenue over the term of the financing.

Caterpillar Insurance Company, a wholly owned subsidiary of Caterpillar Insurance Holdings Inc., is a U.S. insurance company domiciled in Missouri and primarily regulated by the Missouri Department of Insurance. The insurance company is licensed to conduct Property and Casualty Insurance business in forty-six states and the District of Columbia, and as such, is regulated in those jurisdictions as well. As the state of Missouri acts as the lead regulatory authority, it monitors the financial status to ensure that the company is in compliance with minimum solvency requirements, as well as other financial ratios prescribed by the National Association of Insurance Commissioners.

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

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Cat Insurance provides protection for claims under the following programs:

- Extended service contracts (parts and labor) offered by third party dealers to purchasers of eligible categories of machines and engines manufactured by Caterpillar.
- Reinsurance for the worldwide cargo risks of Caterpillar products.
- Reinsurance for the risks of physical damage to equipment manufactured by Caterpillar, which is leased, rented, or sold by third party dealers.

Transaction processing time and the supporting technologies continue to drive us in our efforts to respond quickly to customers, improve internal processing efficiencies and reduce cost. Our web-based Cat FinancExpressSM transaction processing and information tool currently available in the U.S. and France gives us a competitive advantage. FinancExpress collects information on-line to provide finance quotes, credit decisions, and print documents, all in a very short time frame.

Other information about our operations in 2002 and outlook for 2003, including risks associated with foreign operations appears in Item 7 of this Form 10-K/A.

Business Developments in 2002

Due to some of the weakest markets in a decade, geopolitical uncertainty and a sluggish global economic recovery, the company focus in 2002 was on achieving breakthroughs in cost reduction, quality and process improvement with respect to its core products and there was no one particular event, new product, agreement or development that individually or in the aggregate had a material impact on our financial performance.

Charges

Information about charges related to the sale of the MT series of our Challenger line of high-tech tractors and the closing of two facilities appears in Note 24 in Item 15 of this Form 10-K/A.

Backlog Orders

The dollar amount of backlog believed to be firm was approximately \$2.90 billion and \$3.05 billion at December 31, 2002 and December 31, 2001, respectively. Of the total backlog, approximately \$310 million and \$350 million at December 31, 2002 and December 31, 2001, respectively, was not expected to be filled in the following year. Our backlog is generally highest in the first and second quarters because of seasonal buying trends in our industry.

Dealers

Machines are distributed principally through a worldwide organization of dealers (dealer network), 59 located in the United States and 156 located outside the United States. Worldwide, these dealers serve 180 countries and operate 2,888 places of business, including 1,276 dealer rental outlets. Reciprocating engines are sold principally through the worldwide dealer organization and to other manufacturers for use in products manufactured by them. Some of the reciprocating engines manufactured by Perkins are also sold through their worldwide network of 164 distributors located in 140 countries. Some of the electric power generations systems manufactured by FG Wilson are sold through their worldwide network of 250 dealers located in 170 countries. Our dealers do not deal exclusively with our products; however, in most cases sales and servicing of our products are our dealers' principal business. Turbines and large marine reciprocating engines are sold through sales forces employed by Solar and MaK, respectively.

Occasionally, these employees are assisted by independent sales representatives.

The company's relationship with each independent dealer within the dealer network is memorialized in a standard sales and service agreement. Pursuant to this agreement, the company grants the dealer the right to purchase its products and to sell the products in a specified geographic region. Dealer prices are established by the company after receiving input from dealers on transactional pricing in the marketplace. The company also agrees to defend the company's intellectual property and to provide warranty and technical support to the dealer. The agreement further grants the dealer a non-exclusive license to the company's trademarks, service marks and brand names.

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In exchange for these rights, the agreement obligates the dealer to develop and promote the sale of the company's products to current and prospective customers in the dealer's region. Each dealer specifically agrees to employ adequate sales and support personnel to market, sell and promote the company's products, demonstrate and exhibit the products, perform the company's product improvement programs, inform the company concerning any features that might affect the safe operation of any of the company's products and maintain detailed books and records of the dealer's financial condition, sales and inventories and make these books and records available at the company's reasonable request.

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

Patents and Trademarks

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

Research and Development

We have always placed strong emphasis on product-oriented research and engineering relating to the development of new or improved machines, engines and major components. In 2002, 2001, and 2000, we spent \$854 million, \$898 million, and \$854 million, respectively, on our research and engineering programs. Of these amounts, \$656 million in 2002, \$696 million in 2001, and \$649 million in 2000 were attributable to new prime products, major component development and major improvements to existing products. The remainders were attributable to engineering costs incurred during the early production phase as well as ongoing efforts to improve existing products.

Employment

At December 31, 2002, we employed 68,990 persons of whom 32,527 were located outside the United States.

In the U.S., other than a few extremely narrow exceptions, Caterpillar employees are at will employees and, therefore, are not subject to any kind of employment contract or agreement. At select business units, certain highly specialized employees have been hired under employment contracts that specify a term of employment and specified pay and other benefits. The only other agreements or contracts we have that apply to employees are collective bargaining agreements that apply to hourly employees who are members of the United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), the International Association of Machinists (IAM) or other union organizations, which have varying expiration dates. We also have employees, particularly employees who deal with proprietary or other confidential information, sign confidentiality agreements. Agreements with employees are important to Caterpillar, and are given a great deal of attention, particularly at the time of union bargaining for collective bargaining agreements, but they have no appreciable impact on Caterpillar's overall business.

As of December 31, 2002, the UAW represented approximately 8,700 Caterpillar employees under a six-year central labor agreement that will expire April 1, 2004; the IAM represented approximately 2,300 employees under labor contracts that expire on October 30, 2004, December 5, 2004, April 30, 2005 and May 29, 2005. Based on our historical experience during periods when labor unrest or work stoppage by union employees has occurred, we do not expect the occurrence of such events, if any, arising in connection with the expiration of these agreements will have a material impact on our operations or results.

Outside the U.S., the company enters standard employment contracts in those countries in which such contracts are mandatory or customary. The provisions of these agreements correspond in each case with the required or customary terms in the subject jurisdiction.

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Sales

Sales outside the United States were 55% of consolidated sales for 2002, 51% for 2001, and 50% for 2000.

Environmental Matters

The company is regulated by federal, state, and international environmental laws governing our use of substances and control of emissions in all our operations. Compliance with these existing laws has not had a material impact on our capital expenditures, earnings, or competitive position.

We are cleaning up hazardous waste at a number of locations, often with other companies, pursuant to federal and state laws. When it is likely we will pay clean-up costs at a site and those costs can be estimated, the costs are charged against our earnings. In doing that estimate, we do not consider amounts expected to be recovered from insurance companies and others.

The amount accrued for environmental clean-up is not material and is included in Statement 3 under "Accrued expenses" in Item 15 of this Form 10-K/A. If a range of liability estimates is available on a particular site, we accrue the lower end of that range.

We cannot estimate costs on sites in the very early stages of clean-up. Currently, we have five sites in the very early stages of clean-up, and there is no more than a remote chance that a material amount for clean-up will be required.

Pursuant to a consent decree Caterpillar entered with the United States Environmental Protection Agency (EPA), the company was required to meet certain emission standards by October 2002. The decree provides that if the manufacturers were unable to meet the standards at that time they would be required to pay a non-conformance penalty (NCP) on each engine sold that did not meet the standard. The amount of the NCP would be based on how close to meeting the standard the engine came - the more out of compliance the higher the penalty. The company began shipping lower emission engines in October 2002 as a bridge until fully compliant Advanced Combustion Emission Reduction Technology (ACERT) engines are introduced in 2003.

The consent decree also provided the ability to "bank" emissions credits prior to October 2002 that could be used to offset non-conforming engines produced after January 1, 2003. That is, if a company was able to produce and sell engines that were below the applicable standard prior to October 2002, then the company could apply the emission credits created by those engines to engines produced after January 1, 2003 that do not meet the consent decree standard. For example, an engine produced and sold prior to October 2002 that produced 3.5 grams of NOx as compared to 4.0 gram standard would create a 0.5 gram credit. This credit would be "banked" to be used to offset the NOx deficiency of an engine produced after January 1, 2003 that did not meet the consent decree standard. Given this scenario, a company could produce and sell a 3.0 gram engine in 2003 without paying an NCP even though the engine exceeds the 2.5 gram standard. Caterpillar has a legal right, as described in the consent decree, to use its banked credits as offsets against NCPs for non-compliant engines produced after December 31, 2002. The EPA has approved the process by which the credits are calculated.

We produced and sold 70,399 medium heavy-duty engines prior to October 2002 that yielded emissions below the applicable standard for that period, resulting in 20,987.8 Mg of medium heavy-duty banked credits. We expect to produce approximately 26,800 non-conforming medium heavy-duty engines after January 1, 2003, but we do not expect to pay any NCPs on these medium-duty engines in 2003 due to our banked credits. We produced and sold 958 heavy-duty engines in 2002 resulting in 1,230.2 Mg of heavy-duty banked credits. Of the approximately 25,800 non-conforming heavy-duty engines we expect to build after January 1, 2003, these banked credits are expected to offset the NCPs on approximately 3,000 of these units.

We began production of medium heavy-duty ACERT engines complying with the EPA emissions standards in early 2003. Caterpillar received certification from the EPA in January 2003 for the C9 diesel engine, the first of our new engines equipped with ACERT Technology. We began shipping of the C9 -- which was certified to the more stringent Transit Bus standards - in March. We received certification for our second ACERT equipped model, the C7 in March and this engine will be in production in June of 2003.

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We anticipate that our heavy heavy-duty models -- the C13 and C15 (the ACERT versions of the current C-12 and C-15, respectively) -- will be in full production by October and the C11 (the ACERT version of the current C-10) will be in full production by December after the EPA has certified each engine. As a result, we do not anticipate paying NCPs beyond 2003.

The certification process is described in the consent decree and the regulations, and includes the following:

- The durability of the engine is established through testing to determine if the engine emissions change with time. An emissions deterioration factor is determined that represents the amount of emission deterioration that would be expected over the useful life of the engine.

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- An emission data engine is tested according to the regulations. Emission levels are determined on various steady state and transient tests.
- The results from the two tests are submitted to the EPA in a certification application as proof that the engine meets the requirements along with additional information and a request that a certificate be granted.
- The EPA reviews the application and if all the regulatory requirements are met, a certificate is issued.
- If the engine exceeds the standard, the EPA issues a certificate for either a banked or an NCP engine. The NCP engine certificate requires Production Compliance Auditing (PCA) testing.

After receipt of the EPA certificate manufacturing and shipment of the certified engines can begin. Each engine is labeled to indicate that it is certified.

Our expense for NCPs was \$40 million in 2002. This amount was based on levels that we believed the engines would perform when tested. For 2002, we paid NCPs on 6,195 heavy-duty units and 7,198 medium heavy-duty units, and in 2003 we estimate we will pay NCPs on 22,858 heavy-duty units. The actual NCP amount will not be known until final testing with the EPA is completed with all models during 2003. Our estimates of the NCP amounts are based on our knowledge of how each of the engine models is expected to perform in PCA testing. Caterpillar can make fairly accurate predictions of the emissions profiles of its engines due to its engineering knowledge, development process, and prior testing of its engines during development. PCA testing on medium heavy-duty engines has now been completed; PCA testing on heavy heavy-duty engines is on going. Therefore, while PCA testing has not been concluded, we are confident that our NCP and credit-consumption estimates will be fairly accurate.

Aside from \$142 million in customary research and development expenses, emissions standard changes negatively impacted our 2002 financial results by \$24 million (\$17 million after tax) as NCPs (\$40 million pre-tax), product cost increases and ramp-up production costs (\$4 million pre-tax) were partially offset by price increases for these engines (\$20 million pre-tax). We recorded the \$40 million for NCPs when the bridge engines were produced, and either have paid or will pay the EPA from an escrow account no later than 30 days after PCA testing on an engine class is complete. For example, on January 31, 2003, Caterpillar deposited \$41.4 million (the recorded \$40 million based on our estimates plus an additional \$1.4 million following the completion of PCA testing) with an escrow agent for estimated NCPs related to fourth quarter 2002 bridge engine production. This included \$17 million for medium heavy-duty engine models and \$24.4 million for heavy-duty engine models. After completion of EPA testing of "high horsepower" medium heavy-duty engines, on March 11, 2003 Caterpillar released \$8 million from the escrow account to the EPA. After completion of testing of the remaining medium heavy-duty engine models, on March 25, 2003 Caterpillar released the remaining \$9 million from the medium heavy-duty engine escrow account and paid an additional \$900,000 to the EPA because the tested level of NCPs for that engine family was slightly higher per engine than was anticipated at the time of the January 31 escrow deposit.

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The following table reflects the 2002 impact of the emission standard changes:

| 2002 | |
|--------------------------------------------------|---------|
| (millions of dollars) | |
| Price (Engines Sold x Price Increase) | \$ 20 |
| Incremental Costs (Cost of Additional Materials) | (4) |
| NCPs (Engines Sold x Projected NCP per Engine) | (40) |
| Net Effect Pre-Tax | \$ (24) |
| Tax | 7 |
| Net Effect After Tax | \$ (17) |

In addition to the above, the consent decree required Caterpillar to pay a fine of \$25 million, which was expensed in 1998 and to

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make investments totaling \$35 million in environmental-related products by July 7, 2007. Total qualifying investments to date for these projects is \$21 million, of which \$10 million was made in 2002. A future benefit is expected to be realized from these environmental projects related to Caterpillar's ability to capitalize on the technologies it developed in complying with its environmental project obligations. In short, Caterpillar expects to receive a positive net return on the environmental projects by being able to market the technology it developed.

As of December 31, 2002 we expect the net unfavorable impact of emission standard changes in 2003 to be no more than 2002 as we estimate that significantly higher NCPs (approximately \$93 million pre-tax), product cost increases and ramp-up production costs (approximately \$76 million pre-tax), will be partially offset by price increases for bridge and ACERT engines (approximately \$153 million pre-tax). For example, we estimate that we will sell 8,728 C-12 engines in 2003 that will be subject to NCPs. We also estimate that the blended (there are multiple models of the C-12) NCP per engine will be \$5,103. Caterpillar is not required to make any payment to the EPA for these engines until PCA testing for the engine model has been completed. However, Caterpillar is required to place an amount equal to its estimated NCPs for that engine model into an escrow account on a quarterly basis. As a result, we will record approximately \$93 million for NCPs as the bridge engines are produced and once PCA testing is completed for an engine model, we will pay the EPA the NCPs on these engine sales out of the established escrow accounts on a quarterly basis.

The following table reflects the projected 2003 impact of the emission standard changes:

| 2003 | | |
|---------------------------------------------------------------------------|----|------|
| (millions of dollars) | | |
| Price (Bridge or ACERT Price Increase x Projected Engine Sales) | \$ | 153 |
| Incremental Costs (Cost of Additional Materials) | | (76) |
| NCPs (Projected NCP per Engine x Projected Engine Sales - banked credits) | | (93) |
| Net Effect Pre-Tax | \$ | (16) |
| Tax | | 4 |
| Net Effect After Tax | \$ | (12) |

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As reflected in this table, our projections for 2003 are subject to assumptions regarding projected NCPs, price increases and volumes. For example, our estimate of NCPs per engine could change from the \$3600 average per heavy-duty engine based on the results of on-going EPA testing; this testing could impact both the NCP level per engine and the utilization of banked credits. However, we are able to make fairly accurate predictions of the results of the EPA tests due to our engineering knowledge, development process and internal testing during development. Our net price increase for heavy-duty bridge engines was successfully implemented on October 1, 2002; this increase was competitive with price increases implemented by other engine manufacturers on that date. With the introduction of ACERT engines in 2003, there will be an additional price increase to truck manufacturers that purchase our engines. This increase has been communicated to the truck manufacturers and is based on the additional value that we expect truck owners to receive from ACERT engines compared to our competitors as a result of better fuel economy, less maintenance and greater durability. The ultimate net price increase we are able to achieve for our ACERT engines is dependent upon marketplace acceptance of these engines versus competitive alternatives. While we estimate volume to the best of our ability, industry volume is an issue out of our control.

We will revise our disclosures in future filings accordingly if the actual NCP amount in 2003 vary materially from our projections, if the market unexpectedly will not bear the planned price increase or if our estimated volumes prove to have been materially too conservative or optimistic.

Available Information

The company files electronically with the Securities and Exchange Commission required reports on Form 8-K, Form 10-Q and Form 10-K; proxy materials; ownership reports for insiders on Forms 3, 4, and 5 as required by Section 16 of the Securities and Exchange Act of 1934; and registration statements on Forms S-3 and S-8, as necessary. The public may read and copy any materials the company has filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, DC

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20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports filed with the SEC are available free of charge through our Internet site (www.CAT.com/secfilings) as soon as reasonably practicable after filing with the SEC. Additional company information may be obtained as follows:

Current information -

- phone our Information Hotline - 800-228-7717 (U.S. or Canada) or 858-244-2080 (outside U.S. or Canada) to request company publications by mail, listen to a summary of Caterpillar's latest financial results and current outlook, or to request a copy of results by fax or mail
- request, view, or download materials on-line or register for email alerts at www.CAT.com/materialsrequest

Historical information -

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

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Item 1a. Executive Officers of the Registrant as of December 31, 2002

| Name and Age | Present Caterpillar Inc. position and date of initial election | Principal positions held during the past five years other than Caterpillar Inc. position currently held |
|----------------------------|----------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Glen A. Barton (63) | Chairman and Chief Executive Officer (1999) | <ul style="list-style-type: none"> • Group President (1990 - 1998) • Vice Chairman (1998 - 1999) |
| Vito H. Baumgartner (62) | Group President (2000) | <ul style="list-style-type: none"> • Chairman, Caterpillar Overseas S.A. (1990-present) • Vice President (1990-2000) |
| Douglas R. Oberhelman (49) | Group President (2001) | <ul style="list-style-type: none"> • Vice President (1995-2001) • Chief Financial Officer (1995-1998) |
| James W. Owens (56) | Group President (1995) | |
| Gerald L. Shaheen (58) | Group President (1998) | <ul style="list-style-type: none"> • Vice President (1995-1998) |
| Richard L. Thompson (63) | Group President (1995) | |
| Ali M. Bahaj (49) | Vice President (2002) | <ul style="list-style-type: none"> • Director, Division Services, Engine Products Division (1998-2001) • Director, Business Development & Consulting Services (2001-2002) |
| Sidney C. Banwart (57) | Vice President (1998) | <ul style="list-style-type: none"> • General Manager (1995-1998) • Chief Information Officer (2001- present) |
| Michael J. Baunton (51) | Vice President (1998) | <ul style="list-style-type: none"> • Divisional Managing Director, Varity Perkins (1996-1998) • President, Perkins Engine Company Limited (1998 - present) |
| James S. Beard (61) | Vice President (1990) | |
| Richard A. Benson (59) | Vice President (1989) | |
| James B. Buda (55) | Vice President, General Counsel and Secretary (2001) | <ul style="list-style-type: none"> • Associate General Counsel (1996-1999) • Associate General Counsel, UK (1999-2001) |
| Rodney L. Bussell (56) | Vice President (2001) | |

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| | | |
|--------------------------|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | <ul style="list-style-type: none"> • Manager, Transmission Business Unit (1992-1998) • General Manager, Large Engine Products & Fuel Systems Division (1998-2001) |
| Thomas A. Gales (54) | Vice President (2000) | <ul style="list-style-type: none"> • Sloan Fellow, M.I.T. (1997-1998) • Managing Director, Caterpillar France, S.A. (1998-2000) |
| Stephen A. Gosselin (45) | Vice President (2002) | <ul style="list-style-type: none"> • Special Assignment, Distribution Team (1997-1998) • Regional Engine Manager, Engine Products Division (1998-1999) • North American Distribution Manager, Engine Products Division (1999-2000) • Regional Manager, North American Commercial Division (2000-2002) |
| Donald M. Ings (54) | Vice President (1993) | <ul style="list-style-type: none"> • President, Solar Turbines Incorporated (1993-1998) |
| Richard P. Lavin (50) | Vice President (2001) | <ul style="list-style-type: none"> • Product Manager, Track-Type Tractors Division (1996-1998) • Director, Corporate Human Relations (1998-1999) • Director, Compensation & Benefits (1999-2001) |
| Stuart L. Levenick (49) | Vice President (2000) | <ul style="list-style-type: none"> • Regional Manager, Caterpillar Asia Pte. Ltd. (1995-1998) • General Manager, Commonwealth of Independent States (1998-2000) • Chairman, Shin Caterpillar Mitsubishi Ltd. (2000 - present) |
| Robert R. Macier (54) | Vice President (1998) | <ul style="list-style-type: none"> • Business Unit Manager (1994-1998) |
| David A. McKie* (58) | Vice President (1998) | <ul style="list-style-type: none"> • Managing Director, Caterpillar Belgium S.A. (1995-1998) |

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| Name and Age | Present Caterpillar Inc. position and date of initial election | Principal positions held during the past five years other than Caterpillar Inc. position currently held |
|-------------------------|----------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| F. Lynn McPheeters (60) | Vice President and Chief Financial Officer (1998) | <ul style="list-style-type: none"> • Treasurer (1996-1998) |
| Daniel M. Murphy (55) | Vice President (1996) | |
| Gerald Palmer (57) | Vice President (1992) | |
| James J. Parker (52) | Vice President (2001) | <ul style="list-style-type: none"> • General Manager, Truck Engine Division (1996-1998) • Director, Electric Power (1998-2001) |
| Edward J. Rapp (45) | Vice President (2000) | <ul style="list-style-type: none"> • Department Manager, Building Construction Products, Caterpillar Overseas S.A. (1995-1998) • Regional Manager, Caterpillar Overseas S.A. (1998-2000) |

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| | | |
|----------------------------------------|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Alan J. Rassi* (62) | Vice President (1992) | |
| Christiano V. Schena (53) | Vice President (2002) | <ul style="list-style-type: none"> • Managing Director, Caterpillar Brasil Ltda. (1996-2000) • Managing Director, Caterpillar France S.A. (2000) • General Manager, EAME Product Development Division (2000-2002) • Managing Director, Building Construction Products Europe (2002) |
| William F. Springer (51) | Vice President (2002) | <ul style="list-style-type: none"> • Manager, Hydraulic Excavator Product (1996-1998) • President, Caterpillar Logistics (1998-2002) |
| Gary A. Stroup (53) | Vice President (1992) | <ul style="list-style-type: none"> • President, Solar Turbines Incorporated (1998-present) |
| Gerard R. Vittecoq (54) | Vice President (2000) | <ul style="list-style-type: none"> • Treasurer, Caterpillar Overseas S.A. (1996-1998) • Managing Director, Caterpillar Belgium S.A. (1998-2000) |
| Sherril K. West (55) | Vice President (1995) | |
| Donald G. Western (54) | Vice President (1995) | |
| Steven H. Wunning (51) | Vice President (1998) | <ul style="list-style-type: none"> • President, Caterpillar Logistics (1994-1998) |
| Kenneth J. Zika* (55) | Controller (2001) | <ul style="list-style-type: none"> • Manager, Cost Management & Business Services (1997-1998) • Treasurer (1998-2001) |
| David B. Burritt (47) | Controller (2002) | <ul style="list-style-type: none"> • Director, Strategy & Planning, Caterpillar Overseas S.A. (1998-1999) • General Manager, Strategic & Business Services - Europe, Caterpillar Overseas S.A. (1999-2001) • Corporate 6 Sigma Champion (2001-2002) |
| Kevin E. Colgan (50) | Treasurer (2001) | <ul style="list-style-type: none"> • Vice President, Caterpillar Financial Services Corporation (1997-2001) |
| * Retired effective December 31, 2002. | | |

Item 2. Properties.

General Information

Caterpillar's operations are highly integrated. Although the majority of our plants are involved primarily in the production of either machines or engines, several plants are involved in the manufacture of both. In addition, several plants are involved in the manufacture of components which are used in the assembly of both machines and engines. Caterpillar's parts distribution centers are involved in the storage and distribution of parts for machines and engines. Also, the research and development activities carried on at the Technical Center involve both machines and engines.

Properties we own are believed to be generally well maintained and adequate for present use. Through planned capital expenditures, we expect these properties to remain adequate for future needs. Properties we lease are covered by leases expiring over terms of generally 1 to 10 years. We anticipate no difficulty in retaining occupancy of any leased facilities, either by renewing leases prior to expiration or by replacing them with equivalent leased facilities.

Plant Closings

Information about charges relating to plant closings appears in Note 24 in Item 15 of this Form 10-K/A.

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Headquarters

Our corporate headquarters are in Peoria, Illinois. Additional marketing headquarters are located both inside and outside the United States. The Financial Products Division is headquartered in leased offices located in Nashville, Tennessee.

Distribution

Distribution of our parts is conducted from parts distribution centers inside and outside the United States. Caterpillar Logistics Services, Inc. distributes other companies' products utilizing certain of our distribution facilities as well as other non-Caterpillar facilities located both inside and outside the United States. We also own or lease other storage facilities that support distribution activities.

Changes in Fixed Assets

During the five years ended December 31, 2002, changes in our investment in property, plant and equipment were as follows (stated in millions of dollars):

| Year | Expenditures | | Acquisitions | | Provisions for Depreciation | Disposals and Other Adjustments | Net Increase (Decrease) During Period |
|------|--------------|--------------|--------------|--------------|-----------------------------|---------------------------------|---------------------------------------|
| | U.S. | Outside U.S. | U.S. | Outside U.S. | | | |
| 1998 | \$ 935 | \$ 391 | \$ 21 | \$ 347 | \$ (818) | \$ (41) | \$ 835 |
| 1999 | \$ 950 | \$ 453 | \$ 3 | \$ 103 | \$ (888) | \$ (196) | \$ 425 |
| 2000 | \$ 1,067 | \$ 526 | \$ 0 | \$ 9 | \$ (969) | \$ (62) | \$ 571 |
| 2001 | \$ 1,345 | \$ 623 | \$ 2 | \$ 32 | \$ (1,070) | \$ (280) | \$ 652 |
| 2002 | \$ 1,030 | \$ 743 | \$ 15 | \$ 0 | \$ (1,199) | \$ (146) | \$ 443 |

At December 31, 2002, the net book value of properties located outside the United States represented about 36% of the net book value of all properties reflected in our consolidated financial position. Additional information about our investment in property, plant, and equipment appears in Note 1F and Note 7 in Item 15 of this Form 10-K/A.

Technical Center, Training Centers, Demonstration Areas, and Proving Grounds

We own a Technical Center located in Mossville, Illinois and various other training centers, demonstration areas, and proving grounds located both inside and outside the United States.

Manufacturing, Remanufacturing, and Overhaul

Manufacturing, remanufacturing, and overhaul of our products are conducted at the following locations. These facilities are believed to be suitable for their intended purposes with adequate capacities for current and projected needs for existing products.

| | | | | |
|-------------------------------|-----------------------------|-------------------------|---------------------------|----------------------------------|
| Manufacturing Inside the U.S. | Kansas | Tennessee | France | Mexico |
| California | * Wamego | * Dyersburg | * Arras | * Monterrey |
| * | | * Rockwood | * Grenoble | * Reynosa |
| | Kentucky | | * Rantigny | * Saltillo ¹ |
| Gardena | * Danville | Texas | | * Tijuana |
| * San Diego | | * Houston | Germany | * Torreon |
| Florida | Michigan | * Waco | * Kiel | |
| * Jacksonville | * Menominee | | * Rostock | The Netherlands |
| | * Mt. Clemens | Outside the U.S. | | * s'-Hertogenbosch |
| Georgia | Minnesota | Australia | Hungary | Northern Ireland |
| * Alphretta | * Grand Rapids ¹ | | * Gödöllő | * Larne |
| * Griffin | * Minneapolis | * Burnie | India | * Monkstown |
| * Jefferson | * New Ulm | * Melbourne | * Bangladore ¹ | * Springvale |
| * LaGrange | | | * Mumbai ¹ | |
| * Toccoa | Mississippi | Belgium | * Pondicherry | Peoples Republic of China |
| * Thomasville | * Oxford | * Gosselies | * Thiruvallur | |

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| | | | | |
|--------------------------|-----------------------|-----------------|---------------------------|------------------------|
| Illinois | Missouri | Brazil | Indonesia | * Erliban ¹ |
| * Aurora | * Boonville | * Piracicaba | * Jakarta | * Shunde ¹ |
| * Champaign ¹ | * West Plains | | | * Tianjin ² |
| * Decatur | | Canada | Italy | * Xuzhou ² |
| * Dixon | North Carolina | * Laval | * Anagni ¹ | Poland |
| * East Peoria | * Clayton | * Montreal | * Bazzano | * Janow Lubelski |
| * Joliet | * Franklin | | * Fano | |
| * Mapleton | * Leland | England | * Frosinone ¹ | Russia |
| * Mossville | * Morganton | * Barwell | * Jesi | * Tosno |
| * Peoria | * Sanford | * Leicester | * Marignano | |
| * Pontiac | | * Nottingham | * Milan ¹ | South Africa |
| * Sterling | Ohio | * Peterborough | * Minerbio | * Boksburg |
| * Woodridge ¹ | * Dayton ¹ | * Peterlee | | |
| | * Marion | * Saxham | Japan | Sweden |
| Indiana | South Carolina | * Shrewsbury | * Akashi ¹ | * Söderhamn |
| * Lafayette | * Greenville | * Skinningrove | * Sagamihara ¹ | |
| | * Sumter | * Stafford | | |
| | | * Stockton | | |
| | | * Wimborne | | |
| | | * Wolverhampton | | |

¹ Facility of affiliated company (50% or less owned)

² Facility of partially owned subsidiary (more than 50%, less than 100%)

Remanufacturing and Overhaul

Inside the U.S.

Outside the U.S.

| | | | | |
|-------------------|----------------|------------------|-----------------|-----------------|
| Mississippi | Australia | England | Malaysia | Nigeria |
| | | * Shrewsbury | * Kuala Lumpur | * Port Harcourt |
| * Corinth | * Melbourne | | | |
| * Prentiss County | | Indonesia | Mexico | |
| | Belgium | * Bandung | * Nuevo Laredo | |
| Texas | * Gosselies | | * Tijuana | |
| * De Soto | | Ireland | * Veracruz | |
| * Mabank | Canada | * Dublin | | |
| | * Edmonton | | | |

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Item 3. Legal Proceedings.

The company is a party to litigation matters and claims that are normal in the course of its operations, and, while the results of such litigation and claims cannot be predicted with certainty, management believes, based on the advice of counsel, the final outcome of such matters will not have a materially adverse effect on our consolidated financial position.

On January 16, 2002, Caterpillar commenced an action in the Circuit Court of the Tenth Judicial Circuit of Illinois in Peoria, Illinois against Navistar International Transportation Corporation and International Truck and Engine Corporation (collectively Navistar). The lawsuit arises out of a long-term purchase contract between Caterpillar and Navistar effective May 31, 1988, as amended from time to time (the Purchase Agreement). The lawsuit alleges that Navistar breached its contractual obligations by: (i) paying Caterpillar \$8.08 less per fuel injector than the agreed upon price for new unit injectors delivered by Caterpillar; (ii) refusing to pay contractually agreed upon surcharges owed as a result of Navistar ordering less than planned volumes of replacement unit injectors; and (iii) refusing to pay contractually agreed upon interest stemming from Navistar's late payments. Caterpillar seeks a declaratory judgment upholding the contract and more than \$100 million in damages arising from Navistar's alleged breach of contract. On January 22, 2003, Caterpillar filed its First Amended Complaint to add four new defendants -- Franklin Power Products, Inc., Newstream Enterprises, Sturman Industries, Inc., and Sturman Engine Systems, Inc. The Amended Complaint alleges that Franklin and Newstream failed to pay the contract price for shipments of unit injectors; Caterpillar seeks damages of approximately \$2 million and \$5 million from each defendant respectively. With respect to Sturman Industries, Inc. and Sturman Engine Systems, Inc., the Amended Complaint alleges that the two companies colluded with International to utilize technology that Sturman misappropriated from Caterpillar to help Navistar develop its G2 fuel system. The Amended Complaint further alleges that the two parties' collusion led Navistar to select Sturman Engine Systems, Inc. and another company, instead of Caterpillar, to develop and manufacture the G2 fuel system. At December 31, 2002, the past due receivable from Navistar related to this case

was \$104 million.

On January 17, 2002, International Truck and Engine Corporation commenced an action against Caterpillar in the Circuit Court of Cook County, Illinois. The lawsuit alleges that Caterpillar breached the Purchase Agreement by: (i) failing to isolate its engineering and fuel systems business, (ii) failing to implement Navistar's "G2 technology;" (iii) improperly charging Navistar for costs associated with fixing problems caused by Caterpillar's design and/or manufacturing errors; (iv) not fulfilling its warranty obligations; (v) failing to fulfill its commitments regarding product pricing and cost reduction; and (vi) continuing to collect surcharges after Navistar's contractual obligation to pay the surcharges ceased. The lawsuit, which also alleges Caterpillar breached its implied covenant of good faith and fair dealing, seeks a declaratory judgment and damages "in an amount to be determined at trial, but presently estimated to exceed \$500 million" arising out of Caterpillar's alleged breach. On April 2, 2002, the Court granted Caterpillar's Motion for Involuntary Dismissal of this complaint; Navistar subsequently asserted its claims as counterclaims in the action Caterpillar filed in Peoria described above. The company believes the claims are without merit and will vigorously contest them.

On May 7, 2002 International Truck and Engine Corporation (International) commenced an action against Caterpillar in the Circuit Court of DuPage County, Illinois that alleges Caterpillar breached various aspects of a long-term agreement term sheet. In its third amended complaint, International seeks a declaration from the court that the term sheet constitutes a legally binding contract for the sale of heavy-duty engines at specified prices through the end of 2006, alleges that Caterpillar breached the term sheet by raising certain prices effective October 1, 2002, and also alleges that Caterpillar breached an obligation to negotiate a comprehensive long-term agreement referenced in the term sheet. International further claims that Caterpillar improperly restricted the supply of heavy-duty engines to International from June through September 2002. International seeks damages "in an amount to be determined at trial" and injunctive relief. Caterpillar filed an answer denying International's claims and has filed a counterclaim seeking a declaration that the term sheet has been effectively terminated. Caterpillar denies International's claims and will vigorously contest them. This matter is not related to the breach of contract action brought by Caterpillar against Navistar currently pending in the Circuit Court of Peoria County, Illinois.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Information required by Item 5 is incorporated by reference from "Price Ranges" and "Number of Stockholders" on page A-44 and from "Dividends declared per share of common stock" on page A-31 of the Appendix.

Non-U.S. Employee Stock Purchase Plans

We have twenty-six employee stock purchase plans administered outside the United States for our foreign employees. As of December 31, 2002, those plans had approximately 9,442 participants in the aggregate. During the fourth quarter of 2002, a total of 30,816 shares of Caterpillar common stock or foreign denominated equivalents were distributed under the plans. Participants in some foreign plans have the option of receiving non-U.S. share certificates (foreign-denominated equivalents) in lieu of U.S. shares of Caterpillar Inc. common stock upon withdrawal from the plan. These equivalent certificates are tradable only on the local stock market and are included in our determination of shares outstanding.

Item 6. Selected Financial Data.

Information required by Item 6 is incorporated by reference from the "Five-year Financial Summary" on page A-31 of the Appendix.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

It is our objective to provide the most meaningful disclosures in our Management's Discussion and Analysis in order to explain significant changes in our company's results of operations and liquidity and capital resources. As discussed in Note 22A in Item 15 of this Form 10-K/A, our segment financial information is not based on generally accepted accounting principles and it is not intended to measure contributions to enterprise results. Therefore, it is impractical for us to try to discuss our company's results of operations and liquidity and capital resources solely based on segment information. Where practical, we have linked our discussions to segment information provided in Table VI of Note 22 in Item 15 of this Form 10-K/A (see "Reconciliation of Machinery and Engine Sales by Geographic Region to External Sales by Marketing Segment" in this Item 7). Our discussions will focus on consolidated results and our three principal lines of business as described below:

Consolidated

-represents the consolidated data of Caterpillar Inc. and all its subsidiaries (affiliated companies that are more than 50% owned).

Machinery-design, manufacture and marketing of construction, mining, agricultural and forestry machinery-track and wheel

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tractors, track and wheel loaders, pipelayers, motor graders, wheel tractor-scrappers, track and wheel excavators, backhoe loaders, mining shovels, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, telescopic handlers, skid steer loaders and related parts.

Engines-design, manufacture and marketing of engines for Caterpillar *Machinery*, electric power generation systems; on-highway vehicles and locomotives; marine, petroleum, construction, industrial, agricultural and other applications; and related parts. Reciprocating engines meet power needs ranging from 5 to over 22,000 horsepower (4 to over 16 200 kilowatts). Turbines range from 1,600 to 19,500 horsepower (1 000 to 14 500 kilowatts).

Financial Products-financing to customers and dealers for the purchase and lease of Caterpillar and other equipment, as well as some financing for Caterpillar sales to dealers. Financing plans include operating and finance leases, installment sale contracts, working capital loans and wholesale financing plans. The division also provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment. This line of business consists primarily of Caterpillar Financial Services Corporation (Cat Financial) and Caterpillar Insurance Holdings, Inc. (Cat Insurance) and their subsidiaries.

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Machinery and Engine Sales

| | <u>Total</u> | <u>North America</u> | <u>EAME*</u> | <u>Latin America**</u> | <u>Asia/Pacific</u> |
|------------------------------|-----------------|----------------------|-----------------|------------------------|---------------------|
| (Millions of dollars) | | | | | |
| Fourth Quarter 2002 | | | | | |
| Machinery | \$ 3,151 | \$ 1,643 | \$ 878 | \$ 186 | \$ 444 |
| Engines*** | 1,838 | 728 | 589 | 270 | 251 |
| | <u>\$ 4,989</u> | <u>\$ 2,371</u> | <u>\$ 1,467</u> | <u>\$ 456</u> | <u>\$ 695</u> |
| Fourth Quarter 2001 | | | | | |
| Machinery | \$ 2,799 | \$ 1,417 | \$ 809 | \$ 222 | \$ 351 |
| Engines*** | 1,936 | 816 | 562 | 348 | 210 |
| | <u>\$ 4,735</u> | <u>\$ 2,233</u> | <u>\$ 1,371</u> | <u>\$ 570</u> | <u>\$ 561</u> |

* Europe, Africa & Middle East and Commonwealth of Independent States.

** Latin America includes Mexico.

*** Does not include internal engine transfers of \$316 million and \$296 million in fourth quarter 2001, respectively. Internal engine transfers are valued at prices comparable to those for unrelated parties.

FOURTH QUARTER 2002 COMPARED WITH FOURTH QUARTER 2001

Fourth-quarter 2002 sales and revenues were \$5.38 billion compared to \$5.10 billion in 2001. The increase of more than 5 percent was due to a \$180 million improvement in price realization, about half of which was due to the favorable impact of currency and higher sales volume. Price realization is defined as the net impact of price changes, sales variances and currency fluctuations on sales. Sales variances include items such as warranty, special retail and wholesale incentive programs and manufacturer and cash discounts. Profit for the fourth quarter 2002 was \$305 million or 88 cents per share compared to \$167 million or 48 cents per share in the fourth quarter 2001. Excluding the \$97 million after-tax impact of charges recorded in 2001 for sale of the Challenger agricultural tractor line, plant closing and consolidations and costs for planned employment reductions, earnings per share increased 16 percent. The \$90 million favorable impact of improved price realization (excluding currency) plus the impact of lower SG&A and R&D expenses were partially offset by continuing manufacturing inefficiencies related to volume shifts at most U.S. engine manufacturing facilities.

Application of the goodwill non-amortization provisions of SFAS 142 resulted in a favorable pretax impact on earnings of \$22 million for the fourth quarter. This was partially offset by a \$14 million pretax increase in pension and other postretirement benefit expense. The increase was a result of lower plan asset returns in recent years and assumed discount rates used in 2002 compared to 2001, partially offset by the favorable pretax impact of other postretirement benefit plan changes made in the second quarter. These changes impacted U.S. employees only and included an increase in retiree cost sharing of health care benefits, elimination of

company payments for Medicare part B premiums and significant reductions in retiree life insurance.

MACHINERY AND ENGINES

Machinery sales were \$3.15 billion, an increase of \$352 million or 13 percent from fourth quarter 2001. Sales volume for the quarter increased 9 percent from a year ago, mainly due to year-over-year changes in dealer inventories. In the fourth quarter of 2001, dealers decreased machine inventories about 12 percent. In the fourth quarter of 2002, dealer inventories increased 3 percent; however, year-end 2002 inventories compared to current selling rates were lower than year-earlier levels in all regions.

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Engine sales

were \$1.84 billion, a decrease of \$98 million or 5 percent from fourth quarter 2001. Sales volume for the quarter decreased 9 percent from a year ago. While on-highway truck and bus engine sales were flat, engine sales into the electric power, petroleum and marine sectors decreased about 10 percent due to reduced corporate profits and continued business investment uncertainties in these industries.

| | Fourth Quarter | |
|-------------------------|----------------|---------|
| | 2002 | 2001 |
| Operating Profit | | |
| (Millions of dollars) | | |
| Machinery | \$ 351 | \$ 137 |
| Engines | 26 | 39 |
| | \$ 377 | \$ 176* |

* Includes \$153 million of charges for the sale of the Challenger agricultural tractor line, plant closing and consolidations and costs for planned employment reductions. These charges were split \$98 million and \$55 million to machinery and engines, respectively. Caterpillar operations are highly integrated; therefore, the company uses a number of allocations to determine lines of business operating profit.

Machinery operating profit

increased \$214 million from fourth quarter 2001. Excluding the \$98 million impact of charges for the sale of the Challenger agricultural tractor line, plant closing and consolidations and cost for planned employment reductions, operating profit increased \$116 million or 49 percent. Higher sales volume contributed about \$60 million of the improvement, with the remainder due to improved price realization (excluding the impact of currency) and cost reduction.

Engine operating profit decreased \$13 million from fourth quarter 2001. Excluding the \$55 million impact of charges for the sale of the Challenger agricultural tractor line, plant closing and consolidations and cost for planned employment reductions, operating profit decreased \$68 million or 72 percent. Lower sales volume of large reciprocating engines, volume-related manufacturing inefficiencies and non-conformance penalties for on-highway truck and bus engines reduced operating profit by approximately \$110 million. This was partially offset by improved price realization (excluding currency) and cost reduction.

Interest expense was \$10 million higher than a year ago primarily due to increased long-term borrowings and less capitalized interest year-over-year.

Other income/expense was income of \$43 million compared to income of \$42 million last year.

FINANCIAL PRODUCTS

Financial Products revenues for the fourth quarter were \$431 million, up \$16 million or 4 percent compared with fourth quarter 2001. The favorable impact of approximately \$60 million due to the continued portfolio growth of finance receivables and leases at Cat Financial was partially offset by the approximately \$44 million unfavorable impact of generally lower interest rates on finance receivables.

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**Reconciliation of Machinery and Engine Sales
by Geographic Region to External Sales by Marketing Segment**

| | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|-----------------------------------------------------------------------------------|-------------|-------------|-------------|
| (Millions of dollars) | | | |
| North America Geographic Region | \$ 9,480 | \$ 10,260 | \$ 10,492 |
| Engine sales included in the Power Products segment | (2,962) | (3,463) | (3,880) |
| Company owned dealer sales included in the All Other segment | (350) | (438) | (350) |
| North America Geographic Region sales which are included in the All Other segment | (339) | (263) | (197) |
| Other* | (254) | (218) | (204) |
| North America Marketing external sales | \$ 5,575 | \$ 5,878 | \$ 5,861 |
| EAME | | | |
| Power Products sales not included in the EAME Marketing segment | (1,611) | (1,750) | (1,817) |
| Other* | (739) | (517) | (456) |
| EAME Marketing external sales | \$ 2,828 | \$ 2,847 | \$ 2,768 |
| Latin America Geographic Region | | | |
| Power Products sales not included in the Latin America Marketing segment | (639) | (280) | (247) |
| Other* | 354 | 142 | 119 |
| Latin America Marketing external sales | \$ 1,313 | \$ 1,501 | \$ 1,303 |
| Asia/Pacific Geographic Region | | | |
| Power Products sales not included in the Asia/Pacific Marketing segment | (524) | (351) | (303) |
| Other* | (208) | (255) | (269) |
| Asia/Pacific Marketing external sales | \$ 1,660 | \$ 1,408 | \$ 1,377 |

* Mostly represents external sales of the Construction & Mining Products and the All Other segments.

Machinery and Engines Sales by Geographic Region

| | <u>Total</u> | <u>North America</u> | <u>EAME*</u> | <u>Latin America**</u> | <u>Asia/Pacific</u> |
|------------------------------|--------------|----------------------|--------------|------------------------|---------------------|
| (Millions of dollars) | | | | | |
| 2002 | | | | | |
| Machinery | \$ 11,975 | \$ 6,517 | \$ 3,156 | \$ 818 | \$ 1,484 |
| Engines*** | 6,673 | 2,963 | 2,022 | 780 | 908 |
| | \$ 18,648 | \$ 9,480 | \$ 5,178 | \$ 1,598 | \$ 2,392 |
| 2001 | | | | | |
| Machinery | \$ 12,158 | \$ 6,790 | \$ 3,215 | \$ 891 | \$ 1,262 |
| Engines*** | 6,869 | 3,470 | 1,899 | 748 | 752 |
| | \$ 19,027 | \$ 10,260 | \$ 5,114 | \$ 1,639 | \$ 2,014 |
| 2000 | | | | | |
| Machinery | \$ 11,857 | \$ 6,607 | \$ 3,121 | \$ 893 | \$ 1,236 |
| Engines*** | 7,056 | 3,885 | 1,920 | 538 | 713 |

Machinery and Engines Sales by Geographic Region

| | | | | | | | | | |
|----|--------|----|--------|----|-------|----|-------|----|-------|
| \$ | 18,913 | \$ | 10,492 | \$ | 5,041 | \$ | 1,431 | \$ | 1,949 |
|----|--------|----|--------|----|-------|----|-------|----|-------|

* Europe, Africa & Middle East and Commonwealth of Independent States

** Latin America includes Mexico

*** Does not include internal engine transfers of \$1,286 million, \$1,231 million and \$1,356 million in 2002, 2001 and 2000, respectively. Internal engine transfers are valued at prices comparable to those for unrelated parties.

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Before-tax profit for *Financial Products* was \$68 million, down \$14 million or 17 percent from fourth quarter 2001, primarily due to lower gains on the securitization of receivables of \$9 million before tax at Cat Financial and lower income (mostly investment income) of \$9 million before tax at Cat Insurance.

INCOME TAXES

Fourth-quarter tax expense reflects an estimated annual tax rate of 28 percent for 2002 and 32 percent for 2001 resulting from a change in the geographic mix of profits.

UNCONSOLIDATED AFFILIATED COMPANIES

The company's share of unconsolidated affiliated companies' profits increased \$6 million from fourth quarter a year ago, primarily due to improved profitability of Shin Caterpillar Mitsubishi Ltd.

2002 COMPARED WITH 2001

For the full year, the company achieved sales and revenues of \$20.15 billion compared to \$20.45 billion in 2001. This decline of about 1 percent was due to lower sales volume of about \$680 million, partially offset by improved price realization of approximately \$300 million. About half of the price realization improvement was due to the favorable impact of the weaker U.S. dollar on sales in other currencies, primarily the euro and Australian dollar.

Profit for the full year was \$798 million or \$2.30 per share, compared to \$805 million or \$2.32 per share, down less than 1 percent from 2001. Excluding the \$97 million after-tax impact of charges recorded in the fourth quarter of 2001 for the sale of the Challenger agricultural tractor line, plant closing and consolidations and cost for planned employment reductions, profit declined 12 percent. The combined effect of favorable price realization and net favorable currency of approximately \$250 million was more than offset by lower sales volume and related manufacturing inefficiencies.

Application of the goodwill non-amortization provisions of SFAS 142 resulted in a favorable before-tax impact on 2002 earnings of \$85 million. This was more than offset by a \$93 million before-tax increase in pension and other postretirement benefit expense. This increase was a result of lower plan asset returns in recent years, partially offset by the favorable before-tax impact of other postretirement benefit plan changes made in the second quarter of 2002. These changes impacted U.S. employees only and included an increase in retiree cost sharing of health care benefits, elimination of company payments for Medicare part B premiums and significant reductions in retiree life insurance.

MACHINERY AND ENGINES

Machinery sales were \$11.98 billion, a decrease of \$183 million or 2 percent from 2001. Sales volume for the year decreased 4 percent from 2001. Higher sales in Asia/Pacific were due to higher retail demand. Sales in North America, EAME and Latin America declined due to lower retail demand. Sales were also affected by changes in dealer inventories. In 2001, dealers decreased machine inventories about 7 percent. In 2002, dealer inventories increased by about 3 percent; however, year-end 2002 inventories compared to current selling rates were lower than year-earlier levels in all regions.

Engine sales were \$6.67 billion, a decrease of \$196 million or 3 percent from 2001. Sales volume for the year decreased 4 percent from 2001. Caterpillar truck engine sales rose 36 percent due to a surge in demand from North American truck OEMs for heavy-duty truck engines prior to the October 2002 emissions deadline and improved truck fleet operating profits. Sales into the petroleum sector increased 4 percent as higher sales of turbine engines more than offset a decline in sales of reciprocating engines. These increases were more than offset by 30 percent lower sales to the electric power sector, where financial uncertainties and depressed operating profits within the electric utility, technology and telecommunications industries impacted demand.

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Operating Profit

| Operating Profit | | | |
|------------------------------|-------------|-------------|-------------|
| | 2002 | 2001 | 2000 |
| (Millions of dollars) | | | |
| Machinery | \$ 932 | \$ 849 | \$ 1,001 |
| Engines | 175 | 348 | 667 |
| | \$ 1,107 | \$ 1,197* | \$ 1,668 |

* Includes \$153 million of charges for the sale of the Challenger agricultural tractor line, plant closing and consolidations and costs for planned employment reductions. These charges were split \$98 million and \$55 million to machinery and engines, respectively.

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

Machinery operating profit

increased \$83 million, or 10 percent from 2001. Excluding the \$98 million impact of charges for the sale of the Challenger agricultural tractor line, plant closing and consolidations and cost for planned employment reductions, operating profit decreased \$15 million or 2 percent. The favorable profit impact of price realization, net impact of currency and lower SG&A expenses were more than offset by the profit impact of lower sales volume and related manufacturing inefficiencies.

Application of the goodwill non-amortization provisions of SFAS 142 resulted in a favorable impact on 2002 machinery operating profit of approximately \$10 million. This was more than offset by a \$62 million before-tax increase in pension and other postretirement benefit expense.

Engine operating profit decreased \$173 million, or 50 percent from 2001. Excluding the \$55 million impact of charges for the sale of the Challenger agricultural tractor line, plant closing and consolidations and cost for planned employment reductions, operating profit decreased \$228 million or 57 percent. Increased turbine and on-highway truck and bus engine volumes and improved price realization improved operating profit by approximately \$140 million. These favorable items were more than offset by the profit impact of lower sales volume of large reciprocating engines, volume-related manufacturing inefficiencies and nonconformance penalties for on-highway truck and bus engines.

Application of the goodwill non-amortization provisions of SFAS 142 resulted in a favorable impact on 2002 engine operating profit of approximately \$75 million. This was partially offset by a \$31 million before-tax increase in pension and other postretirement benefit expense.

Interest expense was \$6 million lower in 2002 compared to 2001 primarily due to lower interest rates on short-term borrowings.

Other income/expense improved by \$87 million year-over-year primarily due to the absence of foreign currency losses and lower expenses related to the sales of receivables to Cat Financial.

| Supplemental Information | | | |
|---------------------------------|-------------|-------------|-------------|
| | 2002 | 2001 | 2000 |
| (Millions of dollars) | | | |
| Identifiable Assets: | | | |
| Machinery | \$ 10,793 | \$ 10,121 | \$ 9,602 |
| Engines | 7,300 | 7,154 | 6,952 |
| Total | \$ 18,093 | \$ 17,275 | \$ 16,554 |
| Capital Expenditures: | | | |
| Machinery | \$ 393 | \$ 616 | \$ 573 |
| Engines | 305 | 493 | 327 |
| Total | \$ 698 | \$ 1,109 | \$ 900 |

| Supplemental Information | | | | |
|---------------------------------------|--|--------|--------|--------|
| Depreciation and Amortization: | | | | |
| Machinery | | \$ 437 | \$ 424 | \$ 419 |
| Engines | | 348 | 411 | 394 |
| Total | | \$ 785 | \$ 835 | \$ 813 |

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

FINANCIAL PRODUCTS

Financial Products revenues for 2002 were \$1.68 billion, up \$33 million or 2 percent compared with 2001. A favorable impact of approximately \$205 million due to a \$2.1 billion increase in the portfolio at Cat Financial and an increase in third party insurance premiums and fees earned of approximately \$21 million at Cat Insurance was mostly offset by the impact of generally lower interest rates on finance receivables at Cat Financial.

Before-tax profit was \$287 million, down \$58 million or 17 percent from 2001. A \$41 million before-tax charge of "other than temporary" declines in the market value of securities in the investment portfolio at Cat Insurance resulted from poor overall market performance. Also, there was less securitization-related income of approximately \$28 million before tax and higher operating expenses of \$17 million before tax at Cat Financial. These items were partially offset by higher rental income, net of depreciation, of \$30 million before tax at Cat Financial and higher underwriting income of \$7 million before tax at Cat Insurance.

INCOME TAXES

Tax expense reflects an estimated annual tax rate of 28 percent for 2002 and 32 percent for 2001 resulting from a change in the geographic mix of profits.

UNCONSOLIDATED AFFILIATED COMPANIES

The company's share of unconsolidated affiliated companies' profits decreased \$7 million from a year ago, primarily due to losses at Shin Caterpillar Mitsubishi Ltd. resulting from depressed construction equipment demand in Japan.

UPDATE-2001 CHARGES

In 2001, we recorded charges of \$153 million (\$97 million after tax). These charges were for the sale of the Challenger agricultural tractor line, plant closing and consolidations and costs for planned employment reductions.

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During 2002, we reduced the Challenger exit cost reserve by \$38 million, primarily for cash outlays for research and development expenses and manufacturing equipment in accordance with the contract with AGCO. We reduced the Shrewsbury redundancy reserve by \$6 million for separation benefits for 225 employees. As planned, the U.S. employment reduction was achieved entirely through voluntary retirements. As a result, the reserve of \$34 million was reclassified to our pension accounts upon completion of the retirement program.

Future cash outlays for contractual commitments for the Challenger line of approximately \$2 million per year will continue through 2008. Most of the diesel engine production at our Shrewsbury, England plant ceased in 2002; however, it has taken longer than anticipated to finalize the design of one replacement engine. As a result, some diesel engine production at Shrewsbury will continue through 2003. The reserve will be reduced as redundancy and exit costs are incurred through 2003.

| Charges | 2001 | Asset | 2002 | 12/31/02 |
|------------------------------|--------|-------------|-----------|----------|
| | Charge | Impairments | Activity* | Balance |
| (Millions of dollars) | | | | |
| Challenger: | | | | |
| Asset impairments | \$ 32 | \$ (32) | \$ -- | \$ -- |
| Exit costs | 49 | -- | (38) | 11 |
| | 81 | (32) | (38) | 11 |

| Charges | | | | |
|---------------------------|--------|---------|---------|-------|
| Shrewsbury: | | | | |
| Asset impairments | 16 | (16) | -- | -- |
| Redundancy | 10 | -- | (6) | 4 |
| Exit costs | 4 | -- | (2) | 2 |
| | 30 | (16) | (8) | 6 |
| U.S. employment reduction | 34 | -- | (34) | -- |
| Other asset impairments | 8 | (8) | -- | -- |
| Total | \$ 153 | \$ (56) | \$ (80) | \$ 17 |

* All amounts were paid in cash except for the U.S. employment reduction of \$34 million, which was reclassified to our pension accounts.

SUPPLEMENTAL INFORMATION

Dealer Machine Sales to End Users and Deliveries to Dealer Rental Operations

Worldwide dealer sales (including both sales to end users and deliveries to dealer rental operations) declined 8 percent from 2001. The capital spending environment remained weak in the industrial countries of North America and Europe, the result of slow economic growth, a delayed recovery in corporate profitability, the crisis in corporate governance and uncertainty associated with rising geopolitical tensions in the second half of the year. Dealer sales were also impacted by reduced cash flow in the metal and coal mining industries, which depressed worldwide equipment sales to these industries.

Dealer sales (including both sales to end users and deliveries to dealer rental operations) in North America declined 10 percent from 2001, the same as industry demand. Caterpillar's share of industry sales remained at year earlier levels. Dealer sales declined in both the United States, down 11 percent, and Canada, down 5 percent. For the region, sales increased 2 percent in the heavy construction sector due to higher sales to the U.S. military, spurred by increased defense spending, and for airport construction. In addition, sales to highway construction remained strong, as public infrastructure construction remained at high levels. Sales to the quarry and aggregates sector were up 10 percent, due primarily to an increase in Caterpillar's share of industry sales. Sales growth in these two sectors was more than offset by a 37 percent reduction in sales to mining, especially coal. Sales to the general construction sector declined 9 percent due to reductions in dealer rental deliveries as well as reduced purchases by residential and non-residential builders.

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Dealer sales in EAME declined 9 percent due to 14 percent lower sales in Europe. General business conditions in Europe were weak due to slow economic growth. Sales increased in the Commonwealth of Independent States, up 7 percent, and Africa & Middle East, up 1 percent. For the region, sales to the heavy construction sector increased about 5 percent due to new product shipments, major pipeline projects in Russia and infrastructure projects in the Middle East. Sales to quarry and aggregate producers were up 6 percent as well. These increases were more than offset by 21 percent lower sales to the general construction sector. Sales were also lower to industrial, down 22 percent; and mining, down 13 percent.

In Asia/Pacific, dealer sales increased 7 percent, led by a strong 45 percent gain in China, as economic growth was good and public infrastructure spending increased. For the region, sales were 28 percent higher in the heavy construction sector and industrial sector sales grew 43 percent. Sales also increased to the general construction sector, up 7 percent; and the quarry and aggregates sector, up 14 percent. These gains more than offset 13 percent lower sales to the mining sector, resulting from sharp cutbacks in purchases by coal mining companies.

Dealer sales in Latin America declined 5 percent. Sales in Mexico increased 20 percent due to an expansion in overall construction activity, and sales in Brazil increased 14 percent due to good economic growth in the first half of the year. However, these increases were more than offset by declines in Argentina, down 88 percent, Peru, down 34 percent and Chile, down 19 percent. Sales declined sharply in Argentina due to political uncertainty while sales in Peru and Chile declined due to reduced cash flow in the metal mining industry. For the region, sales were up 8 percent in the heavy construction sector, mostly due to major pipeline projects. This gain was more than offset by 25 percent lower sales to the mining sector, especially metals, as well as a 6 percent decline in sales to the general construction sector.

Dealer Inventories of New Machines

Worldwide dealer new machine inventories at year-end 2002 were about 3 percent higher than 2001 levels. Inventories increased

in North America, up 6 percent; Asia/Pacific, up 9 percent; and EAME, up 4 percent. Dealer inventory declined 20 percent in Latin America. Despite the overall increase in dealer inventories, inventories compared to current selling rates were lower than year-earlier levels in all regions.

Engine Sales to End Users and OEMs

Worldwide engine sales to dealer customers and OEMs were up 1 percent in 2002. Sales to the on-highway truck and bus sector rose 38 percent and sales to the petroleum sector rose 5 percent, more than offsetting 21 percent lower sales to the electric power sector and 6 percent lower sales to the marine sector. Similar to the market fundamentals discussed above for construction machinery, global engine sales were impacted by the weak capital spending environment in industrialized countries and depressed operating profits and heightened investor uncertainties concerning new electric utility and energy investments.

In North America, Caterpillar sales of on-highway truck and bus engines rose 38 percent but were more than offset by lower sales in electric power, down 36 percent; petroleum, down 32 percent; and marine, down 42 percent. North American sales were impacted by sluggish economic growth, weak corporate profits, continuing economic uncertainties and delayed new investments. Caterpillar widened its leadership position in the North American on-highway truck and bus industry; Caterpillar's share of industry demand rose significantly for both heavy-duty and midrange truck engines. The heavy-duty truck industry and Caterpillar heavy-duty truck engine demand were substantially higher than we originally expected for 2002. We estimate about 40,000 extra heavy-duty trucks were built in 2002 to accommodate an artificial surge in customer demand for trucks with engines built before the October 2002 emissions deadline. This artificial demand added an estimated \$200 million to Caterpillar's 2002 truck engine sales, representing about 50 percent of the total year-over-year sales increase to the on-highway truck and bus sector.

In EAME, overall sales declined 3 percent, with a 30 percent increase in demand for larger reciprocating and turbine engines used in the petroleum sector more than offset by 16 and 14 percent lower sales into the electric power and marine sectors, respectively. Electric power and marine engine sales were impacted by weakening economic trends in Western Europe and increased business uncertainty which delayed new business investment decisions.

Sales in Asia/Pacific rose 20 percent with sales gains in all sectors except electric power where sales declined 17 percent. Sales of large reciprocating and turbine engines used in the petroleum sector surged 62 percent, as developing countries in Asia/Pacific and Latin America increased oil and gas exploration and development to raise local energy production and offset higher costs of imported fuels. Sales in Latin America increased 60 percent with sales gains in all sectors and pronounced strength in large reciprocating and turbine engine sales into the petroleum and marine sectors, which rose 48 and 242 percent, respectively.

2001 COMPARED WITH 2000

Sales and revenues for 2001 were \$20.45 billion, 1 percent more than 2000. The increase was due to higher sales volume of about \$390 million and increased *Financial Products* revenues of approximately \$160 million, which were partially offset by approximately \$275 million of lower price realization. More than 90 percent of the price realization detriment was due to the unfavorable impact of the stronger U.S. dollar on sales in other currencies, primarily the euro and Australian dollar.

Profit of \$805 million, including charges of \$153 million (\$97 million after tax) for the sale of the Challenger agricultural tractor line, plant closing and consolidations and cost for planned employment reductions, was down \$248 million. Excluding these charges, profit was \$902 million, down \$151 million or 14 percent. The combined effect of higher sales volume and a net favorable currency impact of approximately \$225 million was more than offset by cost inefficiencies resulting from sharp volume shifts at some manufacturing facilities and higher SG&A expenses related to spending for future growth and improving long-term cost structure. The net favorable currency impact occurred as the negative impact of currency on sales was more than offset by a positive impact on costs.

MACHINERY AND ENGINES

Machinery sales were \$12.16 billion, an increase over 2000 of \$301 million resulting from a 3 percent increase in sales volume. Sales were higher in all regions except Latin America, which was about flat. In North America, sales increases due to higher share of industry sales and a slower rate of dealer inventory reduction more than offset reduced industry demand. In EAME and Asia/Pacific, improved retail demand more than offset the impact of reductions in dealer inventory. Sales in Latin America remained near 2000 levels as higher retail demand offset reductions in dealer inventory.

Engine sales were \$6.87 billion, a decrease of \$187 million or 3 percent from 2000 even though sales volume was flat. Unfavorable price realization resulting from competitive pressures in North America combined with the unfavorable impact of the stronger U.S. dollar on sales in other currencies caused the sales decline. Higher sales in the electric power, petroleum and marine sectors were offset by a substantial drop in truck engine sales.

Machinery operating profit decreased \$152 million from 2000. The favorable impact of higher sales volume and the net favorable

impact of currency were more than offset by higher costs, including charges of \$98 million for the sale of the Challenger agricultural tractor line, plant closing and consolidations and cost for planned employment reductions, employment-related cost increases and higher energy costs.

Engine operating profit decreased \$319 million from 2000. The decline was primarily due to lower price realization, manufacturing inefficiencies related to sharp swings in production levels and charges of \$55 million for the sale of the Challenger agricultural tractor line, plant closing and consolidations and cost for planned employment reductions.

Interest expense was \$7 million lower than a year ago as lower effective borrowing rates more than offset the impact of higher borrowings.

Other income/expense improved by \$38 million due to lower foreign currency losses (primarily the British pound) in 2001.

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FINANCIAL PRODUCTS

Revenues

for 2001 were a record \$1.65 billion, up \$180 million or 12 percent compared with 2000 (excluding revenue transactions with *Machinery and Engines*, revenues increased \$161 million or 13 percent). The increase resulted primarily from a \$1.1 billion increase in the portfolio at Cat Financial.

Before-tax profit increased \$67 million or 24 percent from 2000. Record profit at Cat Financial resulted from an approximate one-percentage point increase in the spread on the receivables portfolio and increased gains of \$31 million on sales of receivables.

The wider interest rate spread on the portfolio was principally a result of 2001's interest rate environment, where the continuing rapid decrease in rates allowed Cat Financial's debt rates to decrease more rapidly than the portfolio rates because we are not 100% "match funded." As rates stabilize or increase our interest rate spread is expected to narrow accordingly.

The increase in gains on sales of receivables at Cat Financial was due to North American dealer trade receivables purchased from Caterpillar Inc. that were paid earlier than estimated at their purchase date. Cat Financial purchases trade receivables each week at discounts that are expected to yield a market rate of interest over their term. Because the discounts are based on estimates as to when the receivables will be paid, the actual yield on the receivables can be higher or lower than the rates used to determine the discounts. In 2001 the yield was higher because the receivables paid substantially earlier than estimated. However, similar results are not expected in future periods.

INCOME TAXES

Excluding the tax effect of charges reported in 2001 for the sale of the Challenger agricultural line, plant closing and consolidations and cost for planned employment reductions and the favorable tax adjustment of \$39 million at Caterpillar Brasil Ltda. in 2000, tax expense in both years reflects an effective tax rate of 32 percent.

UNCONSOLIDATED AFFILIATED COMPANIES

The company's share of unconsolidated affiliated companies' results increased \$31 million from a year ago, primarily due to stronger results at Shin Caterpillar Mitsubishi Ltd.

2001 CHARGES

In December 2001, we signed an agreement with AGCO to sell the design, assembly and marketing of the new MT Series of Caterpillar's Challenger high-tech farm tractors during the first quarter of 2002. By selling the Challenger we will avoid the substantial new investment in distribution that would be required to make this product profitable. The sale will also provide our distribution network the expanded line of agricultural products it needs to be successful. A total charge of \$81 million was recognized for the Challenger sale. These charges reflect the provisions of the agreement with AGCO and are comprised of the following:

- \$32 million for write-downs of land, buildings and equipment at our DeKalb, Illinois, facility to fair market value based on the negotiated contract price with AGCO.
- \$49 million for exit costs. The contract with AGCO requires that we complete the design of the new Challenger tractor, ensure a successful market launch and pay for the remaining capital assets required for the production of the tractor. These amounts reflect our estimate of costs to fulfill our contract obligations and will be incurred in 2002. Also included in exit costs are contractual obligations that will remain after the sale to AGCO but will provide no benefit to Caterpillar. These obligations range from one to seven years.

In December 2001, we announced plans to cease production of diesel engines at the Perkins Engines Shrewsbury, England plant by the end of 2002. Production will be reallocated to other Caterpillar engine facilities to better leverage technology and capacity. Upon closure of the plant, we expect an annual benefit to cost of goods sold of approximately \$16 million. This represents lower overhead and other fixed manufacturing expenses as the production moves to other existing Caterpillar locations. A total charge of \$30 million was recognized for the closing and comprised the following:

- \$16 million for write-downs of land, buildings and equipment to fair market value as determined by third-party appraisers.
- \$10 million of separation costs for termination of 495 employees at the Shrewsbury plant. These benefits were communicated to impacted employees in December.
- Exit costs of \$4 million associated with closing the facility.

In December 2001, we announced plans to reduce U.S. salaried and management employment by 433 people at selected business units during the first half of 2002. These reductions are being made to reduce costs and improve efficiencies in support of our long-term growth and profitability goals. We expect this reduction to be achieved through voluntary early retirements but if the reduction goal is not met, we will use involuntary separations. The charge of \$34 million for this program reflects the cost of retirement incentives. We expect lower annual labor costs of approximately \$35 million after completion of the employment reduction.

Other charges of \$8 million were for write-downs of two manufacturing buildings, one at our Decatur, Illinois, facility and one at our Kiel, Germany, facility.

LIQUIDITY & CAPITAL RESOURCES

Sources of funds

The company generates its capital resources primarily through operations. Consolidated operating cash flow was \$2.37 billion for 2002, compared with \$1.99 billion for 2001. The increase is primarily the result of concerted efforts to reduce inventory and other working capital in response to the current economic environment. We anticipate that the majority of future capital resource requirements will be funded by operating cash flow, which is largely sourced from profits. See our "Outlook" in Item 7 of this Form 10-K.

Total debt as of December 31, 2002 was \$17.7 billion, an increase of \$1.08 billion from year-end 2001. Debt related to *Machinery and Engines* decreased \$59 million, due to improved operating cash flow and lower capital expenditures. Debt related to *Financial Products* increased \$1.14 billion due to portfolio growth at Cat Financial. We have a global credit facility of \$4.55 billion available to both *Machinery and Engines* and Cat Financial to support commercial paper programs. Cat Financial may use up to 90 percent of the available facility subject to a maximum debt to equity and a minimum interest coverage ratio. *Machinery and Engines* may use up to 100 percent of the available facility subject to a minimum level of net worth. Based on these restrictions, and the allocation decisions of available credit made by management, the portion of the facility available to Cat Financial at December 31, 2002, was \$3.95 billion. The facility is comprised of two components, \$2,425 million expiring in September 2003 and \$2,125 million expiring in September 2006. The facility expiring in September 2003 has a provision which allows Caterpillar to obtain a one-year loan in September 2003 that matures in September 2004.

Our total credit commitments as of December 31, 2002 were:

| (Millions of dollars) | <u>Consolidated</u> | <u>Machinery and Engines</u> | <u>Financial Products</u> |
|-------------------------------------|----------------------------|-----------------------------------------|--------------------------------------|
| Credit lines available: | | | |
| Global credit facility | \$ 4,550 | \$ 4,550 | \$ 3,950 |
| Other external | 1,353 | 542 | 811 |
| Intercompany | -- | 500 | 826 |
| Total credit lines available | 5,903 | 5,592 | 5,587 |
| Utilized credit | 238 | 64 | 174 |

| (Millions of dollars) | Consolidated | Machinery and Engines | Financial Products |
|-----------------------|--------------|--------------------------|-----------------------|
| Unused credit | \$ 5,665 | \$ 5,528 | \$ 5,413 |

We also generate funding through the securitization of receivables. In 2002, we generated \$1,696 million and \$641 million of capital resources from the securitization of trade and finance receivables, respectively. As of December 31, 2002, we had trade and finance receivables of \$2,904 million and \$13,462 million, respectively.

We do not generate material funding through structured finance transactions.

Committed funds

The company has committed cash outflow related to long-term debt, operating lease agreements, unconditional purchase obligations and other contractual obligations. Minimum payments for these long-term obligations are:

| (Millions of dollars) | 2003 | 2004 | 2005 | 2006 | 2007 | After 2007 | Total |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Long-Term Debt | \$ 3,912 | \$ 2,781 | \$ 1,492 | \$ 1,212 | \$ 1,022 | \$ 5,089 | \$ 15,508 |
| Operating Leases | 185 | 154 | 102 | 72 | 53 | 300 | 866 |
| Other Long-Term Obligations | 64 | 66 | 56 | 53 | 52 | 115 | 406 |
| Unconditional Purchase Obligations | 62 | 64 | 64 | 52 | 24 | 103 | 369 |
| Total Contractual Obligations | \$ 4,223 | \$ 3,065 | \$ 1,714 | \$ 1,389 | \$ 1,151 | \$ 5,607 | \$ 17,149 |

We did not have contingent liabilities with more than a remote chance of occurrence at December 31, 2002.

Machinery and Engines

Operating cash flow was \$1.70 billion for 2002, compared with \$1.51 billion for 2001. The improvement came mainly from focused efforts to reduce inventory and working capital requirements during 2002. Capital expenditures, excluding equipment leased to others, during 2002 were \$693 million, a decrease of \$378 million from 2001 due to tight controls on spending. On April 23, 2002, \$250 million of 40-year debt, priced at 6.95 percent, was sold. The proceeds from the offering were used for general corporate purposes.

Financial Products

Operating cash flow was \$649 million for 2002, compared with \$590 million for 2001. The increase was primarily due to improved cash from profit before depreciation and amortization for 2002. Cash used to purchase equipment leased to others was \$1.04 billion during 2002 compared to \$830 million for 2001. In addition, net cash used for finance receivables was \$1.16 billion for 2002, compared to \$.8 billion for 2001. At December 31, 2002, finance receivables past due over 30 days were 3.5 percent, compared with 3.9 percent at the end of 2001.

Financial Products debt was \$13.96 billion at December 31, 2002, an increase of \$1.14 billion from December 31, 2001, and primarily comprised \$9.95 billion of medium-term notes, \$174 million of short-term notes payable to banks, \$32 million of long-term notes payable to banks, \$38 million of loans from a company-owned partnership, \$255 million of money market funds and \$3.50 billion of commercial paper. During the second quarter of 2001, \$500 million of five-year debt, priced at 5.95 percent, was sold. The proceeds from the offering were used for general corporate purposes and to lower overall debt costs. The ratio of debt to equity of Cat Financial was 7.8:1 at December 31, 2002, compared with 7.7:1 at December 31, 2001.

| Dividends paid per common share | 2002 | 2001 | 2000 |
|---------------------------------|------|------|------|
| Quarter | | | |

| Dividends paid per common share | | | |
|----------------------------------------|----------|----------|----------|
| First | \$.350 | \$.340 | \$.325 |
| Second | .350 | .340 | .325 |
| Third | .350 | .350 | .340 |
| Fourth | .350 | .350 | .340 |
| | \$ 1.400 | \$ 1.380 | \$ 1.330 |

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts. The more significant estimates include: residual values for leased assets, fair market values for goodwill impairment tests, impairment of available for sale securities, and reserves for warranty, product liability and insurance losses, postemployment benefits, post-sale discounts, credit losses and certain charges. We use the following methods and assumptions in determining our estimates:

Residual values for leased assets--Determined based on the product, specifications, application and hours of usage. Each product has its own model for evaluation that includes market value cycles and forecasts. Consideration is also given to the number of machines that will be returned from lease during a given time frame.

Fair market values for goodwill impairment tests--Determined for each reporting unit by discounting projected cash flow for the upcoming five years and adding a year-five residual value based upon a market Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) multiple.

Impairment of available-for-sale securities--Securities are reviewed monthly to identify market values below cost of 20 percent or more. If a decline for a debt security is in excess of 20 percent for 6 months, the investment is evaluated to determine if the decline is due to general declines in the marketplace or if the investment has been impaired and should be written down to market value pursuant to SFAS 115. After the 6-month period, debt securities with declines from cost in excess of 20 percent are evaluated monthly for impairment. For equity securities, if a decline from cost of 20 percent or more continues for a 12-month period, an other than temporary impairment is recognized without continued analysis.

Warranty reserve--Determined by applying historical claim rate experience to the current field population and dealer inventory. Generally, historical claim rates are developed using a 12-month rolling average of actual warranty expense. These rates are applied to the field population and dealer inventory to determine the reserve.

Product liability and insurance loss reserve--Determined based upon reported claims in process of settlement and actuarial estimates for losses incurred but not reported.

Postemployment benefit reserve--Determined in accordance with SFAS 87, 106 and 112 using the assumptions detailed in Note 11 in Item 15 of this Form 10-K/A.

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Post-sale discount reserve--The company extends numerous merchandising programs that provide discounts to dealers as products are sold to end users. The reserve is determined based on historical data adjusted for known changes in merchandising programs.

Credit loss reserve--Determined by applying historical credit loss experience to the current receivable portfolio with consideration given to the condition of the economy and trends in past due accounts.

Charges reserve--Determined in accordance with the appropriate accounting guidance depending on the facts and circumstances surrounding the situation. 2001 charges discussed in Note 24 in Item 15 of this Form 10-K/A were estimated in accordance with SFAS 5 and 121 and EITF 94-3.

We have incorporated many years of historical data into the determination of each of these estimates. We have a proven history of using accurate estimates and sound assumptions to calculate and record appropriate reserves and residual values.

EMPLOYMENT

At December 31, 2002, Caterpillar's worldwide employment was 68,990 compared with 72,004 one year ago. The company

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reduced employment by 3,457 or about 5 percent during 2002 before the impact of acquisitions, which added 443 people.

| Full-Time Employees at Year End | | | |
|----------------------------------------|---------------|-------------|-------------|
| | 2002 | 2001 | 2000 |
| Inside U.S. | 36,463 | 38,664 | 37,660 |
| Outside U.S. | 32,527 | 33,340 | 30,780 |
| Total | 68,990 | 72,004 | 68,440 |
| By Region: | | | |
| North America | 36,667 | 38,879 | 37,870 |
| EAME | 21,302 | 22,246 | 21,880 |
| Latin America | 7,143 | 7,012 | 6,186 |
| Asia/Pacific | 3,878 | 3,867 | 2,504 |
| Total | 68,990 | 72,004 | 68,440 |

OTHER MATTERS

ENVIRONMENTAL AND LEGAL MATTERS

The company is regulated by federal, state and international environmental laws governing our use of substances and control of emissions in all our operations. Compliance with these existing laws has not had a material impact on our capital expenditures, earnings or competitive position.

We are cleaning up hazardous waste at a number of locations, often with other companies, pursuant to federal and state laws. When it is likely we will pay clean-up costs at a site and those costs can be estimated, the costs are charged against our earnings. In making that estimate, we do not consider amounts expected to be recovered from insurance companies and others.

The amount set aside for environmental cleanup is not material and is included in Statement 3 under "Accrued expenses" in Item 15 of this Form 10-K/A. If a range of liability estimates is available on a particular site, we accrue the lower end of that range.

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We cannot estimate costs on sites in the very early stages of cleanup. Currently, we have five sites in the very early stages of cleanup, and there is no more than a remote chance that a material amount for cleanup will be required.

Pursuant to a consent decree Caterpillar entered with the United States Environmental Protection Agency (EPA), the company was required to meet certain emission standards by October 2002. The decree provides that if the manufacturers were unable to meet the standards at that time they would be required to pay a non-conformance penalty (NCP) on each engine sold that did not meet the standard. The amount of the NCP would be based on how close to meeting the standard the engine came - the more out of compliance the higher the penalty. The company began shipping lower emission engines in October 2002 as a bridge until fully compliant Advanced Combustion Emission Reduction Technology (ACERT) engines are introduced in 2003.

The consent decree also provided the ability to "bank" emissions credits prior to October 2002 that could be used to offset non-conforming engines produced after January 1, 2003. That is, if a company was able to produce and sell engines that were below the applicable standard prior to October 2002, then the company could apply the emission credits created by those engines to engines produced after January 1, 2003 that do not meet the consent decree standard. For example, an engine produced and sold prior to October 2002 that produced 3.5 grams of NOx as compared to 4.0 gram standard would create a 0.5 gram credit. This credit would be "banked" to be used to offset the NOx deficiency of an engine produced after January 1, 2003 that did not meet the consent decree standard. Given this scenario, a company could produce and sell a 3.0 gram engine in 2003 without paying an NCP even though the engine exceeds the 2.5 gram standard. Caterpillar has a legal right, as described in the consent decree, to use its banked credits as offsets against NCPs for non-compliant engines produced after December 31, 2002. The EPA has approved the process by which the credits are calculated.

We produced and sold 70,399 medium heavy-duty engines prior to October 2002 that yielded emissions below the applicable standard for that period, resulting in 20,987.8 Mg of medium heavy-duty banked credits. We expect to produce approximately 26,800 non-conforming medium heavy-duty engines after January 1, 2003, but we do not expect to pay any NCPs on these medium-duty engines in 2003 due to our banked credits. We produced and sold 958 heavy-duty engines in 2002 resulting in 1,230.2 Mg of heavy-duty banked credits. Of the approximately 25,800 non-conforming heavy-duty engines we expect to build after January 1, 2003, these banked credits are expected to offset the NCPs on approximately 3,000 of these units.

We began production of medium heavy-duty ACERT engines complying with the EPA emissions standards in early 2003.

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Caterpillar received certification from the EPA in January 2003 for the C9 diesel engine, the first of our new engines equipped with ACERT Technology. We began shipping of the C9 -- which was certified to the more stringent Transit Bus standards - in March. We received certification for our second ACERT equipped model, the C7 in March and this engine will be in production in June of 2003.

We anticipate that our heavy heavy-duty models -- the C13 and C15 (the ACERT versions of the current C-12 and C-15, respectively) -- will be in full production by October and the C11 (the ACERT version of the current C-10) will be in full production by December after the EPA has certified each engine. As a result, we do not anticipate paying NCPs beyond 2003.

The certification process is described in the consent decree and the regulations, and includes the following:

- The durability of the engine is established through testing to determine if the engine emissions change with time. An emissions deterioration factor is determined that represents the amount of emission deterioration that would be expected over the useful life of the engine.
- An emission data engine is tested according to the regulations. Emission levels are determined on various steady state and transient tests.
- The results from the two tests are submitted to the EPA in a certification application as proof that the engine meets the requirements along with additional information and a request that a certificate be granted.

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- The EPA reviews the application and if all the regulatory requirements are met, a certificate is issued.
 - If the engine exceeds the standard, the EPA issues a certificate for either a banked or an NCP engine. The NCP engine certificate requires Production Compliance Auditing (PCA) testing.

After receipt of the EPA certificate manufacturing and shipment of the certified engines can begin. Each engine is labeled to indicate that it is certified.

Our expense for NCPs was \$40 million in 2002. This amount was based on levels that we believed the engines would perform when tested. For 2002, we paid NCPs on 6,195 heavy-duty units and 7,198 medium heavy-duty units, and in 2003 we estimate we will pay NCPs on 22,858 heavy-duty units. The actual NCP amount will not be known until final testing with the EPA is completed with all models during 2003. Our estimates of the NCP amounts are based on our knowledge of how each of the engine models is expected to perform in PCA testing. Caterpillar can make fairly accurate predictions of the emissions profiles of its engines due to its engineering knowledge, development process, and prior testing of its engines during development. PCA testing on medium heavy-duty engines has now been completed; PCA testing on heavy heavy-duty engines is on going. Therefore, while PCA testing has not been concluded, we are confident that our NCP and credit-consumption estimates will be fairly accurate.

Aside from \$142 million in customary research and development expenses, emissions standard changes negatively impacted our 2002 financial results by \$24 million (\$17 million after tax) as NCPs (\$40 million pre-tax), product cost increases and ramp-up production costs (\$4 million pre-tax) were partially offset by price increases for these engines (\$20 million pre-tax). We recorded the \$40 million for NCPs when the bridge engines were produced, and either have paid or will pay the EPA from an escrow account no later than 30 days after PCA testing on an engine class is complete. For example, on January 31, 2003, Caterpillar deposited \$41.4 million (the recorded \$40 million based on our estimates plus an additional \$1.4 million following the completion of PCA testing) with an escrow agent for estimated NCPs related to fourth quarter 2002 bridge engine production. This included \$17 million for medium heavy-duty engine models and \$24.4 million for heavy-duty engine models. After completion of EPA testing of "high horsepower" medium heavy-duty engines, on March 11, 2003 Caterpillar released \$8 million from the escrow account to the EPA. After completion of testing of the remaining medium heavy-duty engine models, on March 25, 2003 Caterpillar released the remaining \$9 million from the medium heavy-duty engine escrow account and paid an additional \$900,000 to the EPA because the tested level of NCPs for that engine family was slightly higher per engine than was anticipated at the time of the January 31 escrow deposit.

The following table reflects the 2002 impact of the emission standard changes:

| | 2002 |
|-----------------------|------|
| (millions of dollars) | |

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| | | |
|--------------------------------------------------|----|------|
| Price (Engines Sold x Price Increase) | \$ | 20 |
| Incremental Costs (Cost of Additional Materials) | | (4) |
| NCPs (Engines Sold x Projected NCP per Engine) | | (40) |
| <hr/> | | |
| Net Effect Pre-Tax | \$ | (24) |
| Tax | | 7 |
| <hr/> | | |
| Net Effect After Tax | \$ | (17) |

In addition to the above, the consent decree required Caterpillar to pay a fine of \$25 million, which was expensed in 1998 and to make investments totaling \$35 million in environmental-related products by July 7, 2007. Total qualifying investments to date for these projects is \$21 million, of which \$10 million was made in 2002. A future benefit is expected to be realized from these environmental projects related to Caterpillar's ability to capitalize on the technologies it developed in complying with its environmental project obligations. In short, Caterpillar expects to receive a positive net return on the environmental projects by being able to market the technology it developed.

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As of December 31, 2002 we expect the net unfavorable impact of emission standard changes in 2003 to be no more than 2002 as we estimate that significantly higher NCPs (approximately \$93 million pre-tax), product cost increases and ramp-up production costs (approximately \$76 million pre-tax), will be partially offset by price increases for bridge and ACERT engines (approximately \$153 million pre-tax). For example, we estimate that we will sell 8,728 C-12 engines in 2003 that will be subject to NCPs. We also estimate that the blended (there are multiple models of the C-12) NCP per engine will be \$5,103. Caterpillar is not required to make any payment to the EPA for these engines until PCA testing for the engine model has been completed. However, Caterpillar is required to place an amount equal to its estimated NCPs for that engine model into an escrow account on a quarterly basis. As a result, we will record approximately \$93 million for NCPs as the bridge engines are produced and once PCA testing is completed for an engine model, we will pay the EPA the NCPs on these engine sales out of the established escrow accounts on a quarterly basis.

The following table reflects the projected 2003 impact of the emission standard changes:

| 2003 | | |
|---------------------------------------------------------------------------|----|------|
| (millions of dollars) | | |
| Price (Bridge or ACERT Price Increase x Projected Engine Sales) | \$ | 153 |
| Incremental Costs (Cost of Additional Materials) | | (76) |
| NCPs (Projected NCP per Engine x Projected Engine Sales - banked credits) | | (93) |
| <hr/> | | |
| Net Effect Pre-Tax | \$ | (16) |
| Tax | | 4 |
| <hr/> | | |
| Net Effect After Tax | \$ | (12) |

As reflected in this table, our projections for 2003 are subject to assumptions regarding projected NCPs, price increases and volumes. For example, our estimate of NCPs per engine could change from the \$3600 average per heavy-duty engine based on the results of on-going EPA testing; this testing could impact both the NCP level per engine and the utilization of banked credits. However, we are able to make fairly accurate predictions of the results of the EPA tests due to our engineering knowledge, development process and internal testing during development. Our net price increase for heavy-duty bridge engines was successfully implemented on October 1, 2002; this increase was competitive with price increases implemented by other engine manufacturers on that date. With the introduction of ACERT engines in 2003, there will be an additional price increase to truck manufacturers that purchase our engines. This increase has been communicated to the truck manufacturers and is based on the additional value that we expect truck owners to receive from ACERT engines compared to our competitors as a result of better fuel economy, less maintenance and greater durability. The ultimate net price increase we are able to achieve for our ACERT engines

is dependent upon marketplace acceptance of these engines versus competitive alternatives. While we estimate volume to the best of our ability, industry volume is an issue out of our control.

We will revise our disclosures in future filings accordingly if the actual NCP amount in 2003 vary materially from our projections, if the market unexpectedly will not bear the planned price increase or if our estimated volumes prove to have been materially too conservative or optimistic.

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On August 30, 2002, a World Trade Organization (WTO) arbitration panel determined that the European Union (EU) may impose up to \$4.04 billion per year in retaliatory tariffs if the U.S. tax code is not brought into compliance with an August 2001 WTO decision that found the extraterritorial tax (ETI) provisions of the FSC Repeal and Extraterritorial Income Exclusion Act of 2000 constitute an export subsidy prohibited by the WTO Agreement on Subsidies and Countervailing Measures. Since August 2002, the EU has been developing a proposed list of U.S. origin products on which the EU could impose tariffs as high as 100 percent of the value of the product. Negotiations among EU Member States, the European Commission, and the private sector over which products are listed have been intense. That list has not yet been finalized, the EU has not announced that they will impose a retaliatory tariff, and it is unclear the extent to which the Company's products will be subject to a retaliatory tariff but based on what we know today, we do not believe it will materially impact our financial results. Assuming the EU implemented a retaliatory tariff and certain company products were subject to 100 percent tariffs, the company's competitive position in the European market would not be significantly affected. The company has production facilities in the EU, Russia, Asia, and South America that would not be affected by a retaliatory tariff aimed at U.S. origin products. If the EU implemented its proposed retaliatory tariff, increased pressure would be placed on Congress to repeal ETI, possibly during the 108th Congress. Based on current information related to this matter, it is not possible to predict how the U.S. legislative process will affect the company's 2003 tax liability, but based on what we know today, we do not believe the impact, if any, will be material in 2003.

On January 16, 2002, Caterpillar commenced an action against Navistar International Transportation Corporation and International Truck and Engine Corporation (Navistar). Caterpillar seeks a declaratory judgment upholding a long-term purchase contract plus damages arising from Navistar's alleged breach of contract. On January 22, 2003, Caterpillar filed its First Amended Complaint to add four additional defendants and to add claims alleging that two of the new defendants colluded with Navistar to utilize technology misappropriated from Caterpillar. At December 31, 2002, the past due receivable from Navistar related to this case was \$104 million. On January 17, 2002, Navistar commenced an action against Caterpillar that alleges we breached various aspects of the long-term purchase contract. On April 2, 2002, the Court granted Caterpillar's Motion for Involuntary Dismissal of this action; Navistar subsequently asserted its claims as counterclaims in the action Caterpillar filed in Peoria. We believe Navistar's claims are without merit, and resolution of these matters will not have a material impact on our financial statements.

On May 7, 2002, International Truck and Engine Corporation (International) commenced an action against Caterpillar in the Circuit Court of DuPage County, Illinois that alleges Caterpillar breached various aspects of a long-term agreement term sheet. In its third amended complaint, International seeks a declaration from the court that the term sheet constitutes a legally binding contract for the sale of heavy-duty engines at specified prices through the end of 2006, alleges that Caterpillar breached the term sheet by raising certain prices effective October 1, 2002, and also alleges that Caterpillar breached an obligation to negotiate a comprehensive long-term agreement referenced in the term sheet. International further claims that Caterpillar improperly restricted the supply of heavy-duty engines to International from June through September 2002. International seeks damages "in an amount to be determined at trial" and injunctive relief. Caterpillar filed an answer denying International's claims and has filed a counterclaim seeking a declaration that the term sheet has effectively been terminated. Caterpillar denies International's claims and will vigorously contest them. The company further believes that final resolution of this matter will not have a material impact on our financial statements. This matter is not related to the breach of contract action brought by Caterpillar against International currently pending in the Circuit Court of Peoria County, Illinois.

POSTRETIREMENT BENEFITS

In 2002 we recognized a net pension benefit of \$73 million compared with a benefit of \$163 million in 2001. The decrease was primarily a result of continued poor performance of the equity markets and lower than expected long-term returns on pension plan assets. SFAS 87, "Employers' Accounting for Pensions" requires companies to use an expected long-term rate of return for computing current year pension expense. Differences between the actual and expected returns are amortized into future earnings as actuarial gains and losses. At the end of 2002, unrecognized actuarial losses of \$2.56 billion primarily reflect lower than expected returns on our pension plan assets.

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Other postretirement benefit expense was \$240 million in 2002, up \$3 million from 2001. An increase resulting from several unfavorable items including inflation on health care costs and lower actual return on plan assets was almost entirely offset by changes to our U.S. benefit plans implemented during second quarter 2002. These changes include an increase in retiree cost

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sharing of health care benefits, elimination of company payments for Medicare part B premiums and significant reductions in retiree life insurance. In total, these changes lowered our existing benefit obligation by approximately \$475 million, which will be amortized into earnings over seven years (the average remaining service period of employees affected by the plan changes). In addition to this amortization, our ongoing annual expense will decrease approximately \$45 million from the plan changes. A benefit of \$75 million reflecting the partial year impact of the plan changes (representing both the amortization and ongoing impact of the changes) was recognized in 2002. Unrecognized actuarial losses for other postretirement plans were \$976 million at the end of 2002. These losses reflect lower than expected plan asset returns, higher than expected benefit costs, a decrease in the assumed discount rate and an increase in expected health care inflation. These losses will be amortized into future earnings in accordance with SFAS 106, "Employer's Accounting for Postretirement Benefits Other than Pensions."

The unrecognized actuarial losses will be impacted in future periods by actual asset returns, actual health care inflation, discount rate changes and other factors that impact pension and other postretirement benefit expenses.

SFAS 87 requires the recognition of an Additional Minimum Liability if the market value of plan assets is less than the accumulated benefit obligation at the end of the plan year. Based on these values, the company increased the Additional Minimum Liability by \$892 million in the fourth quarter of 2002. This resulted in a decrease in Accumulated Other Comprehensive Income (a component of Shareholder's Equity on the Statement of Financial Position) of \$610 million after tax. During 2002, the company made cash contributions of \$135 million to its U.S. defined benefit pension plans, which make up about 85 percent of the company's total pension liability. The company continues to have adequate liquidity resources to fund plans, as it deems necessary. Future changes to the Additional Minimum Liability will be dependent on several factors including actual returns on our pension plan assets, company contributions, benefit plan changes and our assumed discount rate.

Actuarial assumptions have a significant impact on both pension and other postretirement benefit expenses. The effect of a one-percentage point change in our primary actuarial assumptions on 2002 benefit costs and year-end obligations is included in the table below.

Postretirement Benefit Plan Actuarial Assumptions Sensitivity

Following are the effects of a one percentage-point change in our primary pension and other postretirement benefit actuarial assumptions on 2002 pension and other postretirement benefits costs and obligations:

| | 2002 Benefit Cost | | Year-end Benefit Obligation | |
|--------------------------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | One percentage-point increase | One percentage-point decrease | One percentage-point increase | One percentage-point decrease |
| (Millions of dollars) | | | | |
| Pension benefits: | | | | |
| Assumed discount rate | \$ (33) | \$ 26 | \$ (991) | \$ 1,146 |
| Expected rate of compensation increase | 29 | (25) | 222 | (202) |
| Expected long-term rate of return on plan assets | (93) | 93 | -- | -- |
| Other postretirement benefits: | | | | |
| Assumed discount rate | (17) | 28 | (434) | 485 |
| Expected rate of compensation increase | 2 | (2) | 12 | (12) |
| Expected long-term rate of return on plan assets | (12) | 12 | -- | -- |
| Assumed health care cost trend rate | 49 | (31) | 272 | (230) |

The assumed discount rate is used to discount future benefit obligations back to today's dollars. The U.S. discount rate is based on the Moody's Aa bond yield as of our measurement date, November 30. A similar process is used to determine the assumed discount rate for our non-U.S. pension plans. The discount rates used to calculate 2002 benefit plan expense were 7.3 percent for U.S. plans and 5.8 percent for non-U.S. plans. The discount rates for 2003 will be 7.0 percent for U.S. plans and 5.4 percent for non-U.S. plans.

The expected rate of compensation increase is used to develop benefit obligations using projected pay at retirement. It represents average long-term salary increases. The 2002 rate was 4.0 percent for U.S. benefit plans and 3.2 percent for non-U.S. pension

plans.

Our U.S. expected long-term rate of return on plan assets is based on our estimate of long-term passive returns for equities and fixed income securities weighted by the allocation of our pension assets. Based on historical performance, we add 1 percent to the passive returns due to our active management. A similar process is used to determine this rate for our non-U.S. pension plans. The expected long-term rates of return used to calculate 2002 benefit plan expense were 9.8 percent for U.S. plans and 7.6 percent for non-U.S. plans. The expected long-term rates of return for 2003 will be 9.0 percent for U.S. plans and 7.1 percent for non-U.S. plans.

The assumed health care trend rate represents the rate at which health care costs are assumed to increase. To calculate 2002 benefit expense, we assumed an increase of 10.6 percent for 2002. This rate was assumed to decrease gradually to the ultimate health care trend rate of 4.5 percent in 2009. This rate represents 2.5 percent general inflation plus 2.0 percent additional health care inflation. Based on our recent expenses and our forecast of changes, we expect an increase of 9.0 percent during 2003 with no change to the ultimate trend rate.

SENSITIVITY

Foreign Exchange Rate Sensitivity

Based on the anticipated and firmly committed cash inflow and outflow for our *Machinery and Engines* operations for the next 12 months and the foreign currency derivative instruments in place at year end, a hypothetical 10 percent weakening of the U.S. dollar relative to all other currencies would adversely affect our expected 2003 cash flow for our *Machinery and Engines* operations by \$39 million. Last year, similar assumptions and calculations yielded a potential \$62 million adverse impact on 2002 cash flow. We determine our net exposures by calculating the difference in cash inflows and outflows by currency and adding or subtracting outstanding foreign currency derivative instruments. We multiply these net amounts by 10 percent to determine the sensitivity.

Since our policy for *Financial Products* operations is to hedge the foreign exchange risk when the currency of our debt portfolio does not match the currency of our receivable portfolio, a 10 percent change in the value of the U.S. dollar relative to all other currencies would not have a material effect on our consolidated financial position, results of operations or cash flow. Neither our policy nor the effect of a 10 percent change in the value of the U.S. dollar has changed from that reported at the end of last year.

The effect of the hypothetical change in exchange rates ignores the effect this movement may have on other variables, including competitive risk. If it were possible to quantify this competitive impact, the results would probably be different from the sensitivity effects shown above. In addition, it is unlikely that all currencies would uniformly strengthen or weaken relative to the U.S. dollar. In reality, some currencies may weaken while others may strengthen.

Interest Rate Sensitivity

For our *Machinery and Engines* operations, we have the option to use interest rate swaps to lower the cost of borrowed funds by attaching fixed-to-floating interest rate swaps to fixed-rate debt. However, we currently do not have any interest rate swaps. A hypothetical 100 basis point adverse move (increase) in interest rates along the entire interest rate yield curve would adversely affect 2003 pretax earnings of *Machinery and Engines* by \$2 million. Last year, similar assumptions and calculations yielded a potential \$3 million adverse impact on 2002 pretax earnings. This effect is caused by the interest rate fluctuations on our short-term debt.

For our *Financial Products* operations, we use interest rate derivative instruments primarily to meet our match funding objectives and strategies. A hypothetical 100 basis point adverse move (increase) in interest rates along the entire interest rate yield curve would adversely affect the 2003 pretax earnings of *Financial Products* by \$15 million. Last year, similar assumptions and calculations yielded a potential \$15 million adverse impact on 2002 pretax earnings. To estimate the impact of interest rate sensitivity on our income, we compute the difference in baseline and sensitized interest expense over the next 12 months. We determine the baseline interest expense by applying a market interest rate to the unmatched portion of our debt portfolio. The unmatched portion of our portfolio is an estimate of fixed-rate assets funded by floating rate liabilities. We incorporate the effects of interest rate swap agreements in the estimate of our unmatched portfolio. We determine the sensitized interest expense by adding 100 basis points to the market interest rate applied to baseline interest expense and apply this rate to the unmatched portfolio. Our analysis assumes no new fixed-rate assets were extended and no further action was taken to alter our current interest rate sensitivity.

The effect of the hypothetical change in interest rates ignores the effect this movement may have on other variables including changes in actual sales volumes that could be indirectly attributed to changes in interest rates. The actions that management would take in response to such a change are also ignored. If it were possible to quantify this impact, the results could well be different than the sensitivity effects shown above.

OUTLOOK

Economic and Industry Summary

Worldwide economic and geopolitical uncertainties remained at relatively elevated levels in the early weeks of 2003. We expect this will dampen the economic recovery in the first half of 2003, but growth is expected to accelerate in the second half, leading to worldwide growth of about 3 percent for the year as a whole. In this environment, industry opportunity is expected to be about the same as 2002. Our outlook is based on and subject to the following economic and business condition assumptions: (1) the geopolitical tensions in the Middle East remain high, but do not degenerate into a major lengthy armed conflict, (2) the benefits from lower European interest rates offset fiscal tightening in several major European countries, (3) the U.S. Congress approves in early 2003 about \$30 billion in current fiscal year transportation funding and additional fiscal stimulus measures are passed by the end of the second quarter and (4) investor confidence improves as corporate earnings grow and trust is restored in the reliability of corporate reporting and oversight.

North America

Geopolitical and federal policy uncertainties in early 2003 are expected to dampen the strength of the first-half economic recovery. We assume these uncertainties will diminish and become less of a drag on growth in the second half of 2003. For the year as a whole, we expect economic growth of about 3 percent, supported by low interest rates and fiscal stimulus policies. The U.S. Congress is expected to pass a large fiscal stimulus package in the first half of 2003. The package, combined with the positive impact of previously enacted federal stimulus measures, is expected to more than offset state budget cutbacks, with most of the positive impact in the second half of the year. In addition, improved corporate earnings and cash flows, more accommodating credit conditions and a return to more normal commercial insurance coverage are also expected to provide support for stronger business capital spending in the second half of 2003. Construction activity is expected to be about flat, while industrial and mining activity is expected to be up about 3 percent. Industry sales of construction, industrial and mining machinery are expected to be about flat. Industry demand for reciprocating and turbine engines is expected to be down about 5 percent.

EAME

In EAME, we expect economic growth in Europe of about 2 percent, and about 5 percent growth in the CIS, Africa and the Middle East. While a recovery in Europe is expected, it will be restrained by a stronger euro and ongoing fiscal restraint in several major industrial countries. In Africa and the Middle East, oil exporters and precious metal producers are expected to benefit from good price levels, whereas most other commodity prices are expected to remain weak. We expect the CIS to grow at a solid rate, driven mainly by continued strong expansion of the oil and gas industry. Machine industry sales in EAME are expected to be about flat, while engine industry sales are also expected to be about flat.

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Latin America

Market conditions in Latin America are expected to be mixed. We expect overall economic growth rates in Mexico and Argentina to improve, leading to higher industry sales. Industry sales in Peru are expected to be about flat. Relatively slow growth in Brazil and Chile and continued political instability in Venezuela are expected to lead to lower industry machine sales in these markets. For Latin America in total, machine and engine industry sales are expected to be down about 10 percent.

Asia/Pacific

We expect good overall economic growth in the Asia/Pacific region (excluding Japan) based on moderate growth in Australia and continued good growth in the developing economies, particularly southeast Asia, China and India. In Japan, economic and business conditions are expected to continue to be difficult, and machine industry sales are projected to be about flat at cyclically depressed levels. Industry machine sales in the Asia/Pacific region are expected to be up about 10 percent, while engine and turbine industry sales are projected to be down about 5 percent.

Company Summary

Company sales and revenues are expected to be about the same as 2002. Company sales in EAME are projected to be up about 4 percent, while company sales into Asia/Pacific are expected to be up about 2 percent. In North America, company sales are expected to be down about 3 percent, while company sales in Latin America are expected to be down about 10 percent.

Financial Products revenues are expected to increase approximately 10 percent, primarily driven by Cat Financial's record portfolio additions in 2002.

We anticipate improved operational results will offset most of the \$300 million or approximately 60 cents per share of higher retiree pension, health care and related benefit costs. Therefore, despite flat sales and revenues and these increased costs, profit should be down only about 5 percent compared to 2002.

Supplemental consolidating data

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We are providing supplemental consolidating data for the purpose of additional analysis. The data has been grouped as follows:

Consolidated--Caterpillar Inc. and its subsidiaries.

Machinery and Engines--primarily our manufacturing, marketing and parts distribution operations, with *Financial Products* accounted for on the equity basis.

Financial Products--our finance and insurance subsidiaries, primarily Cat Financial and Cat Insurance.

Consolidating Adjustments--eliminations of transactions between *Machinery and Engines* and *Financial Products*.

Because the nature of operations of *Machinery and Engines* and *Financial Products* is different, especially with regard to the impact on financial position and cash flow items, this data allows readers to better understand our company.

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**Supplemental Data for Results of Operations
For The Years Ended December 31**

(Millions of dollars)

Supplemental consolidating data (unaudited)

| | Consolidated | | | Machinery and Engines(1) | | | Financial Products | | | Consolidating Adjustments | | |
|-----------------------------------------------|--------------|-----------|-----------|--------------------------|-----------|-----------|--------------------|-------|-------|---------------------------|----------------------|----------------------|
| | 2002 | 2001 | 2000 | 2002 | 2001 | 2000 | 2002 | 2001 | 2000 | 2002 | 2001 | 2000 |
| Sales and revenues: | | | | | | | | | | | | |
| Sales of Machinery and Engines | \$ 18,648 | \$ 19,027 | \$ 18,913 | \$ 18,648 | \$ 19,027 | \$ 18,913 | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |
| Revenues of Financial Products | 1,504 | 1,423 | 1,262 | -- | -- | -- | 1,678 | 1,645 | 1,465 | (174) ⁽²⁾ | (222) ⁽²⁾ | (203) ⁽²⁾ |
| Total sales and revenues | 20,152 | 20,450 | 20,175 | 18,648 | 19,027 | 18,913 | 1,678 | 1,645 | 1,465 | (174) | (222) | (203) |
| Operating costs: | | | | | | | | | | | | |
| Cost of goods sold | 14,709 | 14,752 | 14,497 | 14,709 | 14,752 | 14,497 | -- | -- | -- | -- | -- | -- |
| Selling, general and administrative expenses | 2,531 | 2,567 | 2,367 | 2,176 | 2,229 | 2,099 | 430 | 389 | 307 | (75) ⁽³⁾ | (51) ⁽³⁾ | (39) ⁽³⁾ |
| Research and development expenses | 656 | 696 | 649 | 656 | 696 | 649 | -- | -- | -- | -- | -- | -- |
| Interest expense of Financial Products | 521 | 657 | 688 | -- | -- | -- | 538 | 685 | 739 | (17) ⁽⁴⁾ | (28) ⁽⁴⁾ | (51) ⁽⁴⁾ |
| Other operating expenses | 416 | 467 | 237 | -- | 153 | -- | 416 | 314 | 237 | -- | -- | -- |
| Total operating costs | 18,833 | 19,139 | 18,438 | 17,541 | 17,830 | 17,245 | 1,384 | 1,388 | 1,283 | (92) | (79) | (90) |
| Operating profit | 1,319 | 1,311 | 1,737 | 1,107 | 1,197 | 1,668 | 294 | 257 | 182 | (82) | (143) | (113) |
| Interest expense excluding Financial Products | 279 | 285 | 292 | 279 | 285 | 292 | -- | -- | -- | -- | -- | -- |
| Other income (expense) | 74 | 143 | 83 | (1) | (88) | (126) | (7) | 88 | 96 | 82 ⁽⁵⁾ | 143 ⁽⁵⁾ | 113 ⁽⁵⁾ |
| | 1,114 | 1,169 | 1,528 | 827 | 824 | 1,250 | 287 | 345 | 278 | -- | -- | -- |

Supplemental Data for Results of Operations
For The Years Ended December 31
(Millions of dollars)

| Consolidated profit before taxes | | | | | | | | | | | | |
|----------------------------------------------------------------|---------------|---------------|-----------------|---------------|---------------|-----------------|---------------|---------------|---------------|----------------------|----------------------|----------------------|
| Provision for income taxes | 312 | 367 | 447 | 204 | 239 | 350 | 108 | 128 | 97 | -- | -- | -- |
| Profit of consolidated companies | 802 | 802 | 1,081 | 623 | 585 | 900 | 179 | 217 | 181 | -- | -- | -- |
| Equity in profit (loss) of unconsolidated affiliated companies | (4) | 3 | (28) | (12) | (4) | (31) | 8 | 7 | 3 | -- | -- | -- |
| Equity in profit of Financial Products' subsidiaries | -- | -- | -- | 187 | 224 | 184 | -- | -- | -- | (187) ⁽⁶⁾ | (224) ⁽⁶⁾ | (184) ⁽⁶⁾ |
| Profit | \$ 798 | \$ 805 | \$ 1,053 | \$ 798 | \$ 805 | \$ 1,053 | \$ 187 | \$ 224 | \$ 184 | \$ (187) | \$ (224) | \$ (184) |

⁽¹⁾Represents Caterpillar Inc. and its subsidiaries with *Financial Products* accounted for on the equity basis.

⁽²⁾Elimination of *Financial Products* revenues earned from *Machinery and Engines*.

⁽³⁾Elimination of expenses recorded by *Machinery and Engines* paid to *Financial Products*.

⁽⁴⁾Elimination of interest expense recorded by *Financial Products* paid to *Machinery and Engines*.

⁽⁵⁾Elimination of discount recorded by *Machinery and Engines* on receivables sold to *Financial Products*, and of interest earned by *Machinery and Engines* from *Financial Products*.

⁽⁶⁾Elimination of *Financial Products* profit for the period reported on *Machinery and Engines* statement on the equity basis.

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Supplemental Data for Financial Position
At December 31
(Millions of dollars)

Supplemental consolidating data (unaudited)

| | Consolidated | | Machinery and Engines ⁽¹⁾ | | Financial Products | | Consolidating Adjustments | |
|----------------------------------------------------|---------------|--------|--------------------------------------|--------|--------------------|--------|---------------------------|------------------------|
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| | Assets | | | | | | | |
| Current assets: | | | | | | | | |
| Cash and short-term investments | \$ 309 | \$ 400 | \$ 146 | \$ 251 | \$ 163 | \$ 149 | \$ -- | \$ -- |
| Receivables--trade and other | 2,838 | 2,592 | 2,712 | 2,170 | 1,386 | 1,182 | (1,260) ⁽²⁾ | (760) ⁽²⁾ |
| Receivables--finance | 6,748 | 5,849 | -- | -- | 6,748 | 5,849 | -- | -- |
| Deferred and refundable income taxes | 642 | 423 | 579 | 381 | 63 | 42 | -- | -- |
| Prepaid expenses | 1,328 | 1,211 | 1,356 | 1,220 | 7 | 8 | (35) ⁽³⁾ | (17) ⁽³⁾ |
| Inventories | 2,763 | 2,925 | 2,763 | 2,925 | -- | -- | -- | -- |
| Total current assets | 14,628 | 13,400 | 7,556 | 6,947 | 8,367 | 7,230 | (1,295) | (777) |
| Property, plant and equipment--net | 7,046 | 6,603 | 4,848 | 5,019 | 2,198 | 1,584 | -- | -- |
| Long-term receivables--trade and other | 66 | 55 | 66 | 55 | -- | -- | -- | -- |
| Long-term receivables--finance | 6,714 | 6,267 | -- | -- | 6,714 | 6,267 | -- | -- |
| Investments in unconsolidated affiliated companies | 747 | 787 | 398 | 460 | 349 | 327 | -- | -- |
| Investments in Financial Products subsidiaries | -- | -- | 1,961 | 1,662 | -- | -- | (1,961) ⁽⁴⁾ | (1,662) ⁽⁴⁾ |

Supplemental Data for Financial Position
At December 31
(Millions of dollars)

| | | | | | | | | |
|---------------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------------|-------------------------|
| Deferred income taxes | 850 | 938 | 971 | 999 | 12 | 13 | (133) ⁽⁵⁾ | (74) ⁽⁵⁾ |
| Intangible assets | 281 | 274 | 277 | 271 | 4 | 3 | -- | -- |
| Goodwill | 1,402 | 1,397 | 1,402 | 1,397 | -- | -- | -- | -- |
| Other assets | 1,117 | 936 | 614 | 465 | 503 | 471 | -- | -- |
| Total assets | \$ 32,851 | \$ 30,657 | \$ 18,093 | \$ 17,275 | \$ 18,147 | \$ 15,895 | \$ (3,389) | \$ (2,513) |
| Liabilities | | | | | | | | |
| Current liabilities: | | | | | | | | |
| Short-term borrowings | \$ 2,175 | \$ 2,180 | \$ 64 | \$ 219 | \$ 2,906 | \$ 2,164 | \$ (795) ⁽⁶⁾ | \$ (203) ⁽⁶⁾ |
| Accounts payable | 2,269 | 2,123 | 2,334 | 2,210 | 151 | 166 | (216) ⁽⁷⁾ | (253) ⁽⁷⁾ |
| Accrued expenses | 1,620 | 1,419 | 840 | 854 | 806 | 593 | (26) ⁽⁸⁾ | (28) ⁽⁸⁾ |
| Accrued wages, salaries and employee benefits | 1,178 | 1,292 | 1,161 | 1,276 | 17 | 16 | -- | -- |
| Dividends payable | 120 | 120 | 120 | 120 | -- | -- | -- | -- |
| Deferred and current income taxes payable | 70 | 11 | 35 | (29) | 35 | 40 | -- | -- |
| Deferred liability | -- | -- | -- | -- | 259 | 298 | (259) ⁽⁹⁾ | (298) ⁽⁹⁾ |
| Long-term debt due within one year | 3,912 | 3,131 | 258 | 73 | 3,654 | 3,058 | -- | -- |
| Total current liabilities | 11,344 | 10,276 | 4,812 | 4,723 | 7,828 | 6,335 | (1,296) | (782) |
| Long-term debt due after one year | 11,596 | 11,291 | 3,403 | 3,492 | 8,193 | 7,799 | -- | -- |
| Liability for postemployment benefits | 4,038 | 3,103 | 4,038 | 3,103 | -- | -- | -- | -- |
| Deferred income taxes and other liabilities | 401 | 376 | 368 | 346 | 165 | 99 | (132) ⁽⁵⁾ | (69) ⁽⁵⁾ |
| Total liabilities | 27,379 | 25,046 | 12,621 | 11,664 | 16,186 | 14,233 | (1,428) | (851) |
| Contingencies | | | | | | | | |
| Stockholders' equity | | | | | | | | |
| Common stock | 1,034 | 1,043 | 1,034 | 1,043 | 837 | 801 | (837) ⁽⁴⁾ | (801) ⁽⁴⁾ |
| Treasury stock | (2,669) | (2,696) | (2,669) | (2,696) | -- | -- | -- | -- |
| Profit employed in the business | 7,849 | 7,533 | 7,849 | 7,533 | 1,232 | 1,046 | (1,232) ⁽⁴⁾ | (1,046) ⁽⁴⁾ |
| Accumulated other comprehensive income | (742) | (269) | (742) | (269) | (108) | (185) | 108 ⁽⁴⁾ | 185 ⁽⁴⁾ |
| Total stockholders' equity | 5,472 | 5,611 | 5,472 | 5,611 | 1,961 | 1,662 | (1,961) | (1,662) |
| Total liabilities and stockholders' equity | \$ 32,851 | \$ 30,657 | \$ 18,093 | \$ 17,275 | \$ 18,147 | \$ 15,895 | \$ (3,389) | \$ (2,513) |

(1) Represents Caterpillar Inc. and its subsidiaries with *Financial Products* accounted for on the equity basis.

(2) Elimination of receivables between *Machinery and Engines* and *Financial Products*.

(3) Elimination of *Machinery and Engines* insurance premiums which are prepaid to *Financial Products*.

(4) Elimination of *Financial Products* equity which is accounted for on *Machinery and Engines* on the equity basis.

(5) Reclassification of *Financial Products* deferred tax liability to a deferred tax asset on a consolidated basis.

(6) Elimination of *Financial Products* short-term borrowings from *Machinery and Engines*.

(7) Elimination of payables between *Machinery and Engines* and *Financial Products*.

(8) Elimination of prepaid insurance in *Financial Products* accrued expenses.

(9) Elimination of *Financial Products* deferred liabilities with *Machinery and Engines*

Supplemental Data for Statement of Cash Flows
For The Years Ended December 31
(Millions of dollars)

Supplemental consolidating data (unaudited)

| | Supplemental consolidating data (unaudited) | | | | | | | |
|------------------------------------------------------------|---------------------------------------------|----------|--------------------------|---------|--------------------|----------|---------------------------|-------------------------|
| | Consolidated | | Machinery and Engines(1) | | Financial Products | | Consolidating Adjustments | |
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| Cash flow from operating activities: | | | | | | | | |
| Profit | \$ 798 | \$ 805 | \$ 798 | \$ 805 | \$ 187 | \$ 224 | \$ (187) ⁽²⁾ | \$ (224) ⁽²⁾ |
| Adjustments for non-cash items: | | | | | | | | |
| Depreciation and amortization | 1,220 | 1,169 | 785 | 835 | 435 | 334 | -- | -- |
| Undistributed profit of Financial Products | -- | -- | (187) | (124) | -- | -- | 187 ⁽³⁾ | 124 ⁽³⁾ |
| Unusual charges | -- | 153 | -- | 153 | -- | -- | -- | -- |
| Other | 306 | 344 | 148 | 308 | 144 | 25 | 14 ⁽⁴⁾ | 11 ⁽⁴⁾ |
| Changes in assets and liabilities: | | | | | | | | |
| Receivables--trade and other | (50) | 99 | 125 | 166 | (138) | (49) | (37) ⁽⁴⁾ | (18) ⁽⁴⁾ |
| Inventories | 162 | (211) | 162 | (211) | -- | -- | -- | -- |
| Accounts payable and accrued expenses | 164 | (160) | 114 | (203) | 25 | 40 | 25 ⁽⁴⁾ | 3 ⁽⁴⁾ |
| Other--net | (234) | (212) | (249) | (218) | (4) | 16 | 19 ⁽⁴⁾ | (10) ⁽⁴⁾ |
| Net cash provided by operating activities | 2,366 | 1,987 | 1,696 | 1,511 | 649 | 590 | 21 | (114) |
| Cash flow from investing activities: | | | | | | | | |
| Capital expenditures--excluding equipment leased to others | (728) | (1,100) | (693) | (1,071) | (35) | (29) | -- | -- |
| Expenditures for equipment leased to others | (1,045) | (868) | (5) | (38) | (1,040) | (830) | -- | -- |
| Proceeds from disposals of property, plant and equipment | 561 | 356 | 88 | 32 | 473 | 324 | -- | -- |
| Additions to finance receivables | (15,338) | (16,284) | -- | -- | (15,338) | (16,284) | -- | -- |
| Collections of finance receivables | 11,866 | 12,367 | -- | -- | 11,866 | 12,367 | -- | -- |
| Proceeds from sale of finance receivables | 2,310 | 3,079 | -- | -- | 2,310 | 3,079 | -- | -- |
| Net intercompany borrowings | -- | -- | (571) | 105 | 14 | 103 | 557 ⁽⁵⁾ | (208) ⁽⁵⁾ |
| Investments and acquisitions | (294) | (405) | (24) | (110) | (270) | (295) | -- | -- |
| Other--net | (40) | (72) | (14) | (41) | (62) | (45) | 36 ⁽⁶⁾ | 14 ⁽⁶⁾ |
| Net cash used for investing activities | (2,708) | (2,927) | (1,219) | (1,123) | (2,082) | (1,610) | 593 | (194) |
| Cash flow from financing activities: | | | | | | | | |
| Dividends paid | (481) | (474) | (481) | (474) | -- | (105) | -- | 105 ⁽⁷⁾ |
| Common stock issued, including treasury shares reissued | 10 | 6 | 10 | 6 | 36 | 14 | (36) ⁽⁶⁾ | (14) ⁽⁶⁾ |
| Treasury shares purchased | -- | (43) | -- | (43) | -- | -- | -- | -- |

Supplemental Data for Statement of Cash Flows
For The Years Ended December 31
(Millions of dollars)

| | | | | | | | | |
|---------------------------------------------------------------|-------------|--------------|--------------|--------------|--------------|--------------|----------------------|--------------------|
| Net intercompany borrowings | -- | -- | (14) | (103) | 571 | (105) | (557) ⁽⁵⁾ | 208 ⁽⁵⁾ |
| Proceeds from long-term debt issued | 4,137 | 4,062 | 248 | 681 | 3,889 | 3,381 | -- | -- |
| Payments on long-term debt | (3,339) | (2,953) | (225) | (354) | (3,114) | (2,599) | -- | -- |
| Short-term borrowings--net | (102) | 420 | (155) | (38) | 53 | 458 | -- | -- |
| Net cash provided by (used for) financing activities | 225 | 1,018 | (617) | (325) | 1,435 | 1,044 | (593) | 299 |
| Effect of exchange rate changes on cash | 26 | (12) | 35 | (18) | 12 | (3) | (21) ⁽⁸⁾ | 9 ⁽⁸⁾ |
| Increase (decrease) in cash and short-term investments | (91) | 66 | (105) | 45 | 14 | 21 | -- | -- |
| Cash and short-term investments at beginning of period | 400 | 334 | 251 | 206 | 149 | 128 | -- | -- |
| Cash and short-term investments at end of period | \$ 309 | \$ 400 | \$ 146 | \$ 251 | \$ 163 | \$ 149 | \$ -- | \$ -- |

⁽¹⁾Represents Caterpillar Inc. and its subsidiaries with *Financial Products* accounted for on the equity basis.

⁽²⁾Elimination of *Financial Products* profit after tax due to equity method of consolidation.

⁽³⁾Non-cash adjustment for the undistributed earnings from *Financial Products*.

⁽⁴⁾Elimination of non-cash adjustments and changes in assets and liabilities related to consolidated reporting.

⁽⁵⁾Net proceeds and payments to/from *Machinery and Engines* and *Financial Products*.

⁽⁶⁾Change in investment and common stock related to *Financial Products*.

⁽⁷⁾Elimination of dividends paid to/from *Machinery and Engines* and *Financial Products*.

⁽⁸⁾Elimination of the effect of exchange on intercompany balances.

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SAFE HARBOR STATEMENT UNDER THE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements contained in our Management's Discussion and Analysis are forward-looking and involve uncertainties that could significantly impact results. The words "believes," "expects," "estimates," "anticipates," "will be" and similar words or expressions identify forward-looking statements made on behalf of Caterpillar. Uncertainties include factors that affect international businesses, as well as matters specific to the company and the markets it serves.

World Economic Factors

Our current outlook calls for moderate growth in the U.S. economy in 2003. Our outlook assumes that the events of September 11, 2001 and the resulting impact on the economy were a one-time event and that there will be no further events of this magnitude. If, however, there are other significant shocks or sequence of shocks, financial, economic or acts of war and/or political terror, there could be a more protracted negative impact on consumer spending, housing starts, and capital spending which would negatively impact company results.

U.S. GDP growth is expected to continue at moderate rates in 2003. Should recent interest rate reductions and fiscal stimulus measures fail to boost growth in the U.S. economy as expected, leading to renewed economic weakness, then sales of machines and engines may be lower than expected. The outlook also projects that economic growth will continue in Asia/Pacific, Africa & Middle East and the CIS. Growth is expected to improve in Europe, Japan and Latin America. If, for any reason, these projected growth rates or improvements do not occur, sales would likely be lower than anticipated in the affected region. Persistent weakness in the construction sector in Japan is leading to lower machine sales in the Japanese market. In general, renewed currency speculation, significant declines in the stock markets, further oil or energy price increases, political disruptions or higher interest

rates could result in weaker than anticipated economic growth and worldwide sales of both machines and engines could be lower than expected as a result.

Economic recovery could also be delayed or weakened by growing budget or current account deficits or inappropriate government policies. In particular, our outlook assumes that Europe, the United Kingdom and Canada maintain economic stimulus policies and that the Japanese government remains committed to stimulating their economic recovery with appropriate monetary and fiscal policies. The outlook also assumes that the Brazilian government follows through with promised fiscal and structural reforms; and that the Venezuela crisis is confined to Venezuela and does not spill over to negatively impact growth prospects in neighboring countries. If political instability continues to deteriorate leading to negative spillover effects, this could result in greater regional economic and financial uncertainty and weaker regional growth.

Our outlook for 2003 also assumes that currency markets remain relatively stable, that average world oil prices fluctuate in a range of \$22 to \$29 a barrel, and equity markets recover. If commodity and/or currency markets experience a significant increase in volatility, and/or stock markets show further weakness, uncertainty would increase, both of which would result in slower economic growth, lower sales and potential impairment of investments. In addition, an eruption of political violence in the Middle East or a lengthy armed conflict with Iraq could lead to oil supply disruptions and persistent upward pressure on oil prices. In this case business and consumer confidence would fall and inflation pressures would move up leading to slower world economic growth and lower company sales. The Russian economy has improved, but political and economic uncertainty remains high and an unexpected deterioration could impact worldwide stock or currency markets, which in turn could weaken company sales.

Commodity Prices

The outlook for our sales also depends on commodity prices. Industrial metal prices recovered in 2002, and further gains are projected in 2003. But production rates are depressed and machine sales to the industrial metals industry are expected to be about flat. Oil prices remained flat near \$25 in 2002. We are expecting oil prices to be about flat - an average price of \$22 to \$29 a barrel in 2003. Based on this forecast, equipment sales into sectors that are sensitive to crude oil prices (oil, oil sands, coal and natural gas) are expected to be about flat. If, for whatever reason, average oil prices are significantly higher in 2003, our results would be negatively impacted.

Extended weakness in world economic growth could lead to sharp declines in commodity prices and production and lower than expected sales to the industrial metals and agriculture sectors.

Monetary and Fiscal Policies

For most companies operating in a global economy, monetary and fiscal policies implemented in the U.S. and abroad could have a significant impact on economic growth, and, accordingly, demand for a product. In the United States, the Federal Reserve reduced interest rates in 2002. These actions, together with projected federal tax cuts, and other fiscal stimulus measures are expected to lead to moderate U.S. growth in 2003, with some acceleration in momentum in the second half. In Europe, the European Central Bank reduced interest rates in 2002, further reductions are expected and growth in Europe is expected to improve in 2003. However, recent currency movements leading to a stronger euro may dampen European growth prospects in 2003 and this would cause machine sales to be lower than expected.

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In general, higher than expected interest rates, reductions in government spending, higher taxes, significant currency devaluations, and uncertainty over key policies are some factors likely to lead to slower economic growth and lower industry demand. The current outlook is for moderate U.S. growth in 2003 near 3%. This is expected to lead to about flat industry sales levels. If, for whatever reason, there was a setback leading to weak or negative growth in 2003, then demand for company products could fall in the U.S. and Canada and would also be lower throughout the rest of the world.

Political Factors

Political factors in the U.S. and abroad have a major impact on global companies. In 2001, the U.S. Congress enacted a tax cut with the first reductions effective in the third and fourth quarters of 2001 and with additional benefits in 2002, which is having and should continue to have a positive impact on the U.S. economy. The company is one of the largest U.S. exporters as a percentage of sales. International trade and fiscal policies implemented in the U.S. this year could impact the company's ability to expand its business abroad. U.S. foreign relations with certain countries and any related restrictions imposed could also have a significant impact on foreign sales. There are a number of significant political developments in Latin America, Asia, and Africa/Middle East which are expected to take place in 2003 that could affect U.S. trade policies and/or de-stabilize local market conditions leading to lower company sales. In particular, a recent escalation of political uncertainty in Venezuela and the Middle East is contributing to a decline in business confidence and reduced capital investment intentions.

In addition, significant political and economic instability persists in Argentina, Venezuela, the Middle East and Indonesia. Our outlook assumes that the effects of instability in Venezuela will be confined to Venezuela and not spread to other countries in the region. Our outlook also assumes that stability will ultimately be restored in Argentina, Indonesia and Venezuela through democratic means. If, however, the instability persists, worsens or spreads to other countries in the region, it could materially impact company sales into Argentina, Indonesia, Venezuela and other countries in the region. In addition, our outlook assumes that the recent escalation of the conflict in the Middle East does not deteriorate further into a significant armed conflict. In addition, we assume that recent terrorist incidents in Indonesia do not lead to a major, persistent escalation of political and economic uncertainty in that country.

In recent months there has been a significant escalation in political tensions in North Korea. Caterpillar does not sell machine or engine products to North Korea and our outlook assumes there will not be a military conflict there. If, however, there is a significant escalation of political tensions in North Korea, leading to a significant military build-up or increase in hostilities between North and South Korea, it could have a negative impact on sales to South Korea and other neighboring countries in the Asia/Pacific region.

Our outlook also assumes that there will be no major, lengthy armed conflict in Iraq. If such a lengthy armed conflict does arise, it is likely business and consumer confidence will drop sharply, resulting in stagnant worldwide economic growth and declines in worldwide business demand. In this scenario, worldwide company sales would likely fall about 10 percent from 2002.

Currency Fluctuations

Currency fluctuations are also an unknown for global companies. The company has facilities in major sales areas throughout the world and significant costs and revenues in most major currencies. This diversification greatly reduces the overall impact of currency movements on results. However, if the U.S. dollar strengthens suddenly against foreign currencies, the conversion of net non-U.S. dollar proceeds to U.S. dollars would somewhat adversely impact the company's results. Since the company's largest manufacturing presence is in the U.S., any unexpected strengthening of the U.S. dollar versus key overseas currencies could have an unfavorable impact on our global competitiveness.

Dealer Practices

A majority of the company's sales are made through its independent dealer distribution network. Dealer practices, such as changes in inventory levels for both new and rental equipment, are not within the company's control (primarily because these practices depend upon the dealer's assessment of anticipated sales and the appropriate level of inventory) and may have a significant positive or negative impact on our results. In particular, the outlook assumes that dealer inventories of new machines will be slightly lower at the end of 2003 than at the end of 2002. If dealers reduce inventory levels more than anticipated, company sales will be adversely impacted.

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Other Factors

The rate of infrastructure spending, housing starts, commercial construction and mining play a significant role in the company's results. Our products are an integral component of these activities and as these activities increase or decrease in the U.S. or abroad, demand for our products may be significantly impacted. In 1999, the six-year Federal highway bill did not boost U.S. sales as much as anticipated due to delays in getting major capital projects for highways underway. In 2000/2001 there was an increase in the volume of highway construction contracts, which had a positive impact on sales of certain types of equipment. Highway construction contracts in 2002 were up slightly, and heavy construction machine sales were also up slightly. However, an appropriations bill approving federal funding for highways, streets, bridges, airports, etc. for fiscal 2002/03 (the final year of the TEA 21 legislation) has been delayed. The baseline outlook assumes that a new transportation appropriations bill is passed in early 2003 that maintains funding levels in 2003 near 2002 levels. If funding is reduced, sales could be negatively impacted. Furthermore, if infrastructure spending plans are reduced by Federal and/or state governments due to budget constraints, machine sales will likely be lower in 2003.

Pursuant to a Consent Decree Caterpillar entered into with the United States Environmental Protection Agency (EPA), the company was required to meet certain emission standards by October 2002. The Consent Decree provides for the possibility that diesel engine manufacturers may not be able to meet these standards exactly on that date, and allows companies to continue selling non-compliant engines if they pay non-conformance penalties (NCPs) on those engines. The company began shipping lower emission engines in October 2002 as a "bridge" until the fully compliant ACERT engines are introduced in 2003. These "bridge" engines require the payment of NCPs. Emissions standard changes negatively impacted our financial results in 2002, by \$17 million after tax. We expect the net unfavorable impact in 2003 to be no more than the 2002 impact. We do not anticipate having to pay any NCPs on our medium-duty engines in 2003 due to credits we banked in 2001 and 2002. Early in 2003, Caterpillar will begin ramping up production of medium-duty and heavy-duty compliant ACERT engines. We do not anticipate paying NCPs beyond 2003. If these assumptions are not realized, company performance could be negatively impacted.

Projected cost savings or synergies from alliances with new partners could also be negatively impacted by a variety of factors. These factors could include, among other things, higher than expected wages, energy and/or materials costs, and/or higher than expected financing costs due to unforeseen changes in central bank interest rate policies. Cost savings could also be negatively impacted by unforeseen changes in tax, trade, environmental, labor, safety, payroll or pension policies in any of the jurisdictions where the alliances conduct their operations.

Results may be impacted positively or negatively by changes in the sales mix. Our outlook assumes a certain geographic mix of sales as well as a product mix of sales. If actual results vary from this projected geographic and product mix of sales, our results could be negatively impacted.

The company operates in a highly competitive environment and our outlook depends on a forecast of the company's share of industry sales. An unexpected reduction in that share could result from pricing or product strategies pursued by competitors, unanticipated product or manufacturing difficulties, a failure to price the product competitively, or an unexpected buildup in competitors' new machine or dealer owned rental fleets, leading to severe downward pressure on machine rental rates and/or used equipment prices.

The environment also remains very competitive from a pricing standpoint. Additional price discounting would result in lower than anticipated price realization.

Inherent in the operation of the Financial Products Division is the credit risk associated with its customers. The creditworthiness of each customer, and the rate of delinquencies, repossessions and net losses on customer obligations are directly impacted by several factors, including, but not limited to, relevant industry and economic conditions, the availability of capital, the experience and expertise of the customer's management team, commodity prices, political events, and the sustained value of the underlying collateral. Additionally, interest rate movements create a degree of risk to our operations by affecting the amount of our interest payments and the value of our fixed rate debt. While our policy is to use interest rate swap agreements to manage our exposure to interest rate changes and lower the costs of borrowed funds, if interest rates move upward more sharply than anticipated, it could negatively impact our results. With respect to our insurance operations, changes in the equity and bond markets could cause an impairment of the value of our investment portfolio, thus requiring a negative adjustment to earnings.

This discussion of uncertainties is by no means exhaustive but is designed to highlight important factors that may impact our outlook. Obvious factors such as general economic conditions throughout the world do not warrant further discussion but are noted to further emphasize the myriad of contingencies that may cause the company's actual results to differ from those currently anticipated.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk.

Information required by Item 7a appears in Note 1 I, Note 2, Note 17 and Note 18 in Item 15 of this Form 10-K/A. Other information required by Item 7a appears in Item 7 of this Form 10-K under "Sensitivity".

Item 8. Financial Statements and Supplementary Data.

Information required by Item 8 appears in Item 15 of this Form 10-K/A.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Information required by Item 10 relating to identification of directors is incorporated by reference from "Directors Up For Election This Year for Terms Expiring in 2006," "Directors Remaining in Office Until 2005," and "Directors Remaining in Office Until 2004" on pages 3 and 4 of the Proxy Statement. Identification of executive officers appears in Item 1a of this Form 10-K. There are no family relationships between the officers and directors of the company. All officers serve at the pleasure of the board of directors and are regularly elected at a meeting of the board of directors in April of each year. Information required by Item 10 relating to compliance with Section 16(a) of the Securities Exchange Act is incorporated by reference from "Section 16(a) Beneficial Ownership Reporting Compliance" on page 25 of the Proxy Statement.

Item 11. Executive Compensation.

Information required by Item 11 is incorporated by reference from "Director Compensation" on page 6, "Performance Graph" on page 11, "Compensation Committee Report on Executive Officer and Chief Executive Officer Compensation" on pages 12 through 18, and "Executive Compensation Tables" on pages 19 through 21 of the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

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Information required by Item 12 relating to securities authorized for issuance under equity compensation plans is included in the following table:

| Equity Compensation Plan Information | | | |
|------------------------------------------------------------|----------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| (as of December 31, 2002) | | | |
| Plan category | (a) Number of securities to be issued upon exercise of outstanding options, warrants and rights | (b) Weighted-average exercise price of outstanding options, warrants and rights | (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
| Equity compensation plans approved by security holders | 38,927,275 | \$48.91 | 8,956,928 |
| Equity compensation plans not approved by security holders | n/a | n/a | n/a |
| Total | 38,927,275 | \$48.91 | 8,956,928 |

Information required by Item 12 relating to security ownership of certain beneficial owners and management is incorporated by reference from "Caterpillar Stock Owned by Officers and Directors (as of December 31, 2002)" and "Persons Owning More than Five Percent of Caterpillar Stock (as of December 31, 2002)" on pages 9 through 11 of the Proxy Statement.

Item 13. Certain Relationships and Related Transactions.

Information required by Item 13 is incorporated by reference from "Certain Related Transactions" on page 7 of the Proxy Statement.

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PART IV

Item 14. Controls and Procedures.

An evaluation was performed under the supervision and with the participation of the company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the company's disclosure controls and procedures within 90 days before the filing date of this annual report. Based on that evaluation, the company's management, including the CEO and CFO, concluded that the company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to the date of this evaluation, there have been no significant changes in the company's internal controls or in other factors that could significantly affect internal controls subsequent to their evaluation. Although the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote, management's evaluation provided reasonable assurance that these controls will be effective.

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) The following documents are filed as part of this report:

1.

Financial Statements:

- Report of Independent Accountants
- Statement 1 - Results of Operations
- Statement 2 - Changes in Consolidated Stockholders' Equity
- Statement 3 - Financial Position
- Statement 4 - Statement of Cash Flow
- Notes to Consolidated Financial Statements

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF CATERPILLAR INC.:

In our opinion, the accompanying statements of consolidated financial position and the related statements of consolidated results of operations, changes in consolidated stockholders' equity and consolidated cash flows present fairly, in all material respects, the financial position of Caterpillar Inc. and its subsidiaries at December 31, 2002, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 9 to the consolidated financial statements, effective January 1, 2002 the Company changed the manner in which it accounts for goodwill and other intangible assets upon the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

Peoria, Illinois

January 23, 2003, except for Note 1C and 21 as to which the date is March 26, 2003

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STATEMENT 1
Consolidated Results of Operations for the Years Ended December 31
(Dollars in millions except per share data)

| | 2002 | 2001 | 2000 |
|----------------------------------------------|---------------|---------------|---------------|
| Sales and revenues: | | | |
| Sales of Machinery and Engines | \$ 18,648 | \$ 19,027 | \$ 18,913 |
| Revenues of Financial Products | 1,504 | 1,423 | 1,262 |
| Total sales and revenues | 20,152 | 20,450 | 20,175 |
| Operating costs: | | | |
| Cost of goods sold | 14,709 | 14,752 | 14,497 |
| Selling, general and administrative expenses | 2,531 | 2,567 | 2,367 |

STATEMENT 1
Consolidated Results of Operations for the Years Ended December 31
(Dollars in millions except per share data)

| | | | |
|-------------------------------------------------------------------------|-------------------|-------------------|-------------------|
| Research and development expenses | 656 | 696 | 649 |
| Interest expense of Financial Products | 521 | 657 | 688 |
| Other operating expenses | 416 | 467 | 237 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total operating costs | 18,833 | 19,139 | 18,438 |
| | <u> </u> | <u> </u> | <u> </u> |
| Operating profit | 1,319 | 1,311 | 1,737 |
| Interest expense excluding Financial Products | 279 | 285 | 292 |
| Other income (expense) | 74 | 143 | 83 |
| | <u> </u> | <u> </u> | <u> </u> |
| Consolidated profit before taxes | 1,114 | 1,169 | 1,528 |
| Provision for income taxes | 312 | 367 | 447 |
| | <u> </u> | <u> </u> | <u> </u> |
| Profit of consolidated companies | 802 | 802 | 1,081 |
| Equity in profit (loss) of unconsolidated affiliated companies | (4) | 3 | (28) |
| | <u> </u> | <u> </u> | <u> </u> |
| Profit | \$ 798 | \$ 805 | \$ 1,053 |
| | <u> </u> | <u> </u> | <u> </u> |
| Profit per common share | \$ 2.32 | \$ 2.35 | \$ 3.04 |
| Profit per common share--diluted⁽¹⁾ | \$ 2.30 | \$ 2.32 | \$ 3.02 |
| Weighted-average common shares (millions) | 344.0 | 343.3 | 346.8 |
| Weighted-average common shares--diluted (millions)⁽¹⁾ | 346.9 | 347.1 | 348.9 |
| Cash dividends declared per common share | \$ 1.400 | \$ 1.390 | \$ 1.345 |
| | <u> </u> | <u> </u> | <u> </u> |

⁽¹⁾ Diluted by assumed exercise of stock options, using the treasury stock method.

See accompanying Notes to Consolidated Financial Statements.

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STATEMENT 2
Changes in Consolidated Stockholders' Equity for the Years Ended December 31
(Dollars in millions)

| | 2002 | 2001 | 2000 |
|------------------------------------------------------------|-------------------|-------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Common stock: | | | |
| Balance at beginning of year | \$ 1,043 | \$ 1,048 | \$ 1,045 |
| Shares issued from treasury stock | (9) | (5) | 3 |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance at year-end | 1,034 | 1,043 | 1,048 |
| | <u> </u> | <u> </u> | <u> </u> |
| Treasury stock: | | | |
| Balance at beginning of year | \$ (2,696) | \$ (2,676) | \$ (2,275) |
| Shares issued: 2002--878,623; 2001--916,634; 2000--408,629 | 27 | 23 | 11 |
| Treasury shares purchased: 2001--937,000; 2000--10,789,700 | -- | (43) | (412) |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance at year-end | (2,669) | (2,696) | (2,676) |

STATEMENT 2
Changes in Consolidated Stockholders' Equity for the Years Ended December 31
(Dollars in millions)

| | | | | | | |
|-----------------------------------------------------------------------------------------------|-------|--------|-------|--------|-------|----------|
| Profit employed in the business: | | | | | | |
| Balance at beginning of year | 7,533 | | 7,205 | | 6,617 | |
| Profit | 798 | \$ 798 | 805 | \$ 805 | 1,053 | \$ 1,053 |
| Dividends declared | (482) | | (477) | | (465) | |
| Balance at year-end | 7,849 | | 7,533 | | 7,205 | |
| Accumulated other comprehensive income: | | | | | | |
| Foreign currency translation adjustment: | | | | | | |
| Balance at beginning of year | (17) | | 55 | | 125 | |
| Aggregate adjustment for year | 103 | 103 | (72) | (72) | (70) | (70) |
| Balance at year-end | 86 | | (17) | | 55 | |
| Minimum pension liability adjustment--consolidated companies: | | | | | | |
| Balance at beginning of year (net of tax of: 2002--\$82; 2001--\$1; 2000--\$1) | (161) | | (1) | | (2) | |
| Aggregate adjustment for year (net of tax of: 2002--\$301; 2001--\$81; 2000--\$0) | (610) | (610) | (160) | (160) | 1 | 1 |
| Balance at year-end (net of tax of: 2002--\$383; 2001--\$82; 2000--\$1) | (771) | | (161) | | (1) | |
| Minimum pension liability adjustment--unconsolidated affiliates: | | | | | | |
| Balance at beginning of year | (41) | | (31) | | (45) | |
| Aggregate adjustment for year | 4 | 4 | (10) | (10) | 14 | 14 |
| Balance at year-end | (37) | | (41) | | (31) | |
| Derivative financial instruments: | | | | | | |
| Balance at beginning of year (net of tax of: 2002--\$17) | (26) | | -- | | -- | |
| Gains/(losses) deferred during year (net of tax of: 2002--\$10; 2001--\$24) | 15 | 15 | (39) | (39) | -- | -- |
| (Gains)/losses reclassified to earnings during year (net of tax of: 2002--\$11; 2001--\$7) | 22 | 22 | 13 | 13 | -- | -- |
| Balance at year-end (net of tax of: 2002--\$4; 2001--\$17) | 11 | | (26) | | -- | |
| Available-for-sale securities: | | | | | | |
| Balance at beginning of year (net of tax of: 2002--\$13) | (24) | | -- | | -- | |
| Gains/(losses) deferred during year (net of tax of: 2002--\$16; 2001--\$14) | (29) | (29) | (26) | (26) | -- | -- |
| (Gains)/losses reclassified to earnings during year (net of tax of: 2002--\$12; 2001--\$1) | 22 | 22 | 2 | 2 | -- | -- |
| Balance at year-end (net of tax of: 2002--\$17; 2001--\$13) | (31) | | (24) | | -- | |

STATEMENT 2
Changes in Consolidated Stockholders' Equity for the Years Ended December 31
(Dollars in millions)

| | 2002 | 2001 | 2000 |
|-----------------------------------------------------|-----------------|-----------------|-----------------|
| Total accumulated other comprehensive income | (742) | (269) | 23 |
| Comprehensive income | \$ 325 | \$ 513 | \$ 998 |
| Stockholders' equity at year-end | \$ 5,472 | \$ 5,611 | \$ 5,600 |

See accompanying Notes to Consolidated Financial Statements.

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STATEMENT 3
Consolidated Financial Position at December 31
(Dollars in millions)

| | 2002 | 2001 | 2000 |
|----------------------------------------------------|------------------|------------------|------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and short-term investments | \$ 309 | \$ 400 | \$ 334 |
| Receivables--trade and other | 2,838 | 2,592 | 2,608 |
| Receivables--finance | 6,748 | 5,849 | 5,471 |
| Deferred and refundable income taxes | 642 | 423 | 397 |
| Prepaid expenses | 1,328 | 1,211 | 1,019 |
| Inventories | 2,763 | 2,925 | 2,692 |
| Total current assets | 14,628 | 13,400 | 12,521 |
| Property, plant and equipment--net | 7,046 | 6,603 | 5,951 |
| Long-term receivables--trade and other | 66 | 55 | 76 |
| Long-term receivables--finance | 6,714 | 6,267 | 6,095 |
| Investments in unconsolidated affiliated companies | 747 | 787 | 551 |
| Deferred income taxes | 850 | 938 | 907 |
| Intangible assets | 281 | 274 | 61 |
| Goodwill | 1,402 | 1,397 | 1,446 |
| Other assets | 1,117 | 936 | 856 |
| Total assets | \$ 32,851 | \$ 30,657 | \$ 28,464 |
| Liabilities | | | |
| Current liabilities: | | | |
| Short-term borrowings: | | | |
| --Machinery and Engines | \$ 64 | \$ 219 | \$ 369 |
| --Financial Products | 2,111 | 1,961 | 602 |
| Accounts payable | 2,269 | 2,123 | 2,339 |
| Accrued expenses | 1,620 | 1,419 | 1,148 |
| Accrued wages, salaries and employee benefits | 1,178 | 1,292 | 1,274 |

STATEMENT 3
Consolidated Financial Position at December 31
(Dollars in millions)

| | | | |
|--------------------------------------------------------------------------------------------------------|------------------|------------------|------------------|
| Dividends payable | 120 | 120 | 117 |
| Deferred and current income taxes payable | 70 | 11 | 57 |
| Long-term debt due within one year: | | | |
| --Machinery and Engines | 258 | 73 | 204 |
| --Financial Products | 3,654 | 3,058 | 2,558 |
| Total current liabilities | 11,344 | 10,276 | 8,668 |
| Long-term debt due after one year: | | | |
| --Machinery and Engines | 3,403 | 3,492 | 2,854 |
| --Financial Products | 8,193 | 7,799 | 8,480 |
| Liability for postemployment benefits | 4,038 | 3,103 | 2,514 |
| Deferred income taxes and other liabilities | 401 | 376 | 348 |
| Total liabilities | 27,379 | 25,046 | 22,864 |
| Contingencies (Note 21) | | | |
| Stockholders' equity | | | |
| Common stock of \$1.00 par value: | | | |
| Authorized shares: 900,000,000 | | | |
| Issued shares (2002, 2001 and 2000--407,447,312) at paid-in amount | 1,034 | 1,043 | 1,048 |
| Treasury stock (2002--63,192,245 shares; 2001--64,070,868 shares; and 2000--64,050,502 shares) at cost | (2,669) | (2,696) | (2,676) |
| Profit employed in the business | 7,849 | 7,533 | 7,205 |
| Accumulated other comprehensive income | (742) | (269) | 23 |
| Total stockholders' equity | 5,472 | 5,611 | 5,600 |
| Total liabilities and stockholders' equity | \$ 32,851 | \$ 30,657 | \$ 28,464 |

See accompanying Notes to Consolidated Financial Statements.

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STATEMENT 4
Consolidated Statement of Cash Flow for the Years Ended December 31
(Millions of dollars)

| | 2002 | 2001 | 2000 |
|---------------------------------------------|--------|--------|----------|
| Cash flow from operating activities: | | | |
| Profit | \$ 798 | \$ 805 | \$ 1,053 |
| Adjustments for non-cash items: | | | |
| Depreciation and amortization | 1,220 | 1,169 | 1,063 |
| Unusual charges | -- | 153 | -- |
| Other | 306 | 344 | 79 |
| Changes in assets and liabilities: | | | |

STATEMENT 4
Consolidated Statement of Cash Flow for the Years Ended December 31
(Millions of dollars)

| | | | |
|---------------------------------------------------------------|----------|----------|----------|
| Receivables--trade and other | (50) | 99 | (327) |
| Inventories | 162 | (211) | (54) |
| Accounts payable and accrued expenses | 164 | (160) | 335 |
| Other--net | (234) | (212) | (90) |
| | | | |
| Net cash provided by operating activities | 2,366 | 1,987 | 2,059 |
| Cash flow from investing activities: | | | |
| Capital expenditures--excluding equipment leased to others | (728) | (1,100) | (928) |
| Expenditures for equipment leased to others | (1,045) | (868) | (665) |
| Proceeds from disposals of property, plant and equipment | 561 | 356 | 263 |
| Additions to finance receivables | (15,338) | (16,284) | (14,879) |
| Collections of finance receivables | 11,866 | 12,367 | 10,336 |
| Proceeds from sale of finance receivables | 2,310 | 3,079 | 3,346 |
| Investments and acquisitions | (294) | (405) | (115) |
| Other--net | (40) | (72) | (111) |
| | | | |
| Net cash used for investing activities | (2,708) | (2,927) | (2,753) |
| Cash flow from financing activities: | | | |
| Dividends paid | (481) | (474) | (462) |
| Common stock issued, including treasury shares reissued | 10 | 6 | 4 |
| Treasury shares purchased | -- | (43) | (412) |
| Proceeds from long-term debt issued: | | | |
| --Machinery and Engines | 248 | 681 | 12 |
| --Financial Products | 3,889 | 3,381 | 3,748 |
| Payments on long-term debt: | | | |
| --Machinery and Engines | (225) | (354) | (198) |
| --Financial Products | (3,114) | (2,599) | (2,949) |
| Short-term borrowings--net | (102) | 420 | 800 |
| | | | |
| Net cash provided by financing activities | 225 | 1,018 | 543 |
| Effect of exchange rate changes on cash | 26 | (12) | (63) |
| | | | |
| Increase (decrease) in cash and short-term investments | (91) | 66 | (214) |
| Cash and short-term investments at beginning of period | 400 | 334 | 548 |
| | | | |
| Cash and short-term investments at end of period | \$ 309 | \$ 400 | \$ 334 |

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

See accompanying Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions except per share data)

1. Operations and summary of significant accounting policies

A. Nature of operations

We operate in three principal lines of business:

(1) **Machinery**--design, manufacture and marketing of construction, mining, agricultural and forestry machinery--track and wheel tractors, track and wheel loaders, pipelayers, motor graders, wheel tractor-scrappers, track and wheel excavators, backhoe loaders, mining shovels, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, telescopic handlers, skid steer loaders and related parts.

(2) **Engines**--design, manufacture and marketing of engines for Caterpillar *Machinery*, electric power generation systems; on-highway vehicles and locomotives; marine, petroleum, construction, industrial, agricultural and other applications; and related parts. Reciprocating engines meet power needs ranging from 5 to over 22,000 horsepower (4 to over 16 200 kilowatts). Turbines range from 1,600 to 19,500 horsepower (1 000 to 14 500 kilowatts).

(3) **Financial Products**--financing to customers and dealers for the purchase and lease of Caterpillar and other equipment, as well as some financing for Caterpillar sales to dealers. Financing plans include operating and finance leases, installment sale contracts, working capital loans and wholesale financing plans. The division also provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment. This line of business consists primarily of Caterpillar Financial Services Corporation (Cat Financial) and Caterpillar Insurance Holdings, Inc. (Cat Insurance) and their subsidiaries.

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

Our products are sold primarily under the brands "Caterpillar," "Cat," "Solar," "MaK," "Perkins," "FG Wilson" and "Olympian."

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

Machines are distributed principally through a worldwide organization of dealers (dealer network), 59 located in the United States and 156 located outside the United States. Worldwide, these dealers serve 180 countries and operate 2,888 places of business, including 1,276 dealer rental outlets. Reciprocating engines are sold principally through the worldwide dealer organization and to other manufacturers for use in products manufactured by them. Some of the reciprocating engines manufactured by Perkins are also sold through their worldwide network of 164 distributors located in 140 countries. Some of the electric power generations systems manufactured by FG Wilson are sold through their worldwide network of 250 dealers located in 170 countries. Our dealers do not deal exclusively with our products; however, in most cases sales and servicing of our products are our dealers' principal business. Turbines and large marine reciprocating engines are sold through sales forces employed by Solar and MaK, respectively. Occasionally, these employees are assisted by independent sales representatives.

Manufacturing activities of the *Machinery and Engines* lines of business are conducted in 45 plants in the United States; nine in the United Kingdom; eight in Italy; five in Mexico; four each in China and India; three each in France and Northern Ireland; two each in Australia, Canada, Germany and Japan; and one each in Belgium, Brazil, Hungary, Indonesia, The Netherlands, Poland, Russia, South Africa and Sweden. 14 parts distribution centers are located in the United States and 12 are located outside the United States.

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

B. Basis of consolidation

The financial statements include the accounts of Caterpillar Inc. and its subsidiaries. Investments in companies that are owned 20% to 50% or are less than 20% owned and for which we have significant influence are accounted for by the equity method (see Note 8 of this Item 15).

Certain amounts for prior years have been reclassified to conform with the current-year financial statement presentation. In addition, a new line ("Other operating expenses") was added to the Statement of Results of Operations in 2001. *Financial Products* depreciation expense on equipment leased to others is reported on the new line. Such expenses previously were included in "Selling, general and administrative expenses."

C. Sales and revenue recognition

Sales of *Machinery and Engines* are recognized when title transfers and the risks and rewards of ownership have passed to customers or independently owned and operated dealers.

Our standard invoice terms are established by marketing region. The dealer is responsible for payment even if the product is not sold to an end customer and must make payment within the standard terms to avoid interest costs. Interest at or above prevailing market rates is charged on any past due balance. Interest is not forgiven. In 2002, 2001 and 2000, terms were extended to not more than one year for \$193, \$224, and \$144 of receivables, respectively. These amounts represent approximately 1% of consolidated sales for each year.

Sales with payment terms of more than one month were as follows:

| Payment Terms (months) | 2002 | | 2001 | | 2000 | |
|---------------------------|-----------------|---------------------|-----------------|---------------------|-----------------|---------------------|
| | Sales | Percent of Sales | Sales | Percent of Sales | Sales | Percent of Sales |
| 2 | \$ 62 | 0.3% | \$ 28 | 0.2% | \$ 29 | 0.2% |
| 3 | 118 | 0.6% | 177 | 0.9% | 92 | 0.5% |
| 4 | 11 | 0.1% | 6 | 0.0% | 374 | 2.0% |
| 5 | 447 | 2.4% | 422 | 2.2% | 28 | 0.1% |
| 6 | 3,503 | 18.8% | 4,056 | 21.3% | 3,167 | 16.7% |
| 7-12 | 465 | 2.5% | 218 | 1.2% | 1,159 | 6.1% |
| | <u>\$ 4,606</u> | <u>24.7%</u> | <u>\$ 4,907</u> | <u>25.8%</u> | <u>\$ 4,849</u> | <u>25.6%</u> |

Revenues of *Financial Products* represent primarily finance and lease revenues of Cat Financial, a wholly owned subsidiary. Finance revenues are recognized over the term of the contract at a constant rate of return on the scheduled uncollected principal balance. Lease revenues are recognized in the period earned. Recognition of income is suspended when collection of future income is not probable. Accrual is resumed, and previously suspended income is recognized, when the receivable becomes contractually current and collection doubts are removed.

D. Inventories

Inventories are stated at the lower of cost or market. Cost is principally determined using the last-in, first-out (LIFO) method. The value of inventories on the LIFO basis represented about 80% of total inventories at December 31, 2002, 2001 and 2000.

If the FIFO (first-in, first-out) method had been in use, inventories would have been \$1,977, \$1,923 and \$2,065 higher than reported at December 31, 2002, 2001 and 2000, respectively.

E. Securitized receivables

When finance receivables are securitized, we retain interest in the receivables in the form of interest-only strips, servicing rights, cash reserve accounts and subordinate certificates. Gains or losses on the securitization are dependent on the purchase price being allocated between the carrying value of the securitized receivables and the retained interests based on their relative fair value. We estimate fair value based on the present value of future expected cash flows using key assumptions for credit losses, pre-payment speeds, forward yield curves and discount rates (see Note 5 of this Item 15).

F. Depreciation and amortization

Depreciation of plant and equipment is computed principally using accelerated methods. Amortization of purchased intangibles is

computed using the straight-line method, generally over a period of 15 years or less. Accumulated amortization was \$47, \$32 and \$21 at December 31, 2002, 2001 and 2000, respectively.

G. Shipping and handling costs

We include shipping and handling (including warehousing) costs incurred in connection with the distribution of replacement parts in the "Selling, general and administrative expenses" line of Statement 1. These amounts were \$244, \$241 and \$235 for the years ended December 31, 2002, 2001 and 2000, respectively.

H. Foreign currency translation

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

I. Derivative financial instruments

Our earnings and cash flow are subject to fluctuations due to changes in foreign currency exchange rates, interest rates and commodity prices. Our Risk Management Policy (Policy) allows for the use of derivative financial instruments to prudently manage foreign currency exchange rate, interest rate and commodity price exposure. Our Policy specifies that derivatives are not to be used for speculative purposes. Derivatives that we use are primarily foreign currency forward and option contracts, interest rate swaps and commodity forward and option contracts. Our derivative activities are subject to the management, direction and control of our financial officers. Risk management practices, including the use of financial derivative instruments, are presented to the Audit Committee of the board of directors at least annually.

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All derivatives are recognized on the balance sheet at their fair value. On the date the derivative contract is entered, we designate the derivative as (1) a hedge of the fair value of a recognized liability ("fair value" hedge), (2) a hedge of a forecasted transaction or the variability of cash flow to be paid ("cash flow" hedge), or (3) an "undesignated" instrument. Changes in the fair value of a derivative that is qualified, designated and highly effective as a fair value hedge, along with the gain or loss on the hedged liability that is attributable to the hedged risk, are recorded in current earnings. Changes in the fair value of a derivative that is qualified, designated and highly effective as a cash flow hedge are recorded in other comprehensive income until earnings are affected by the forecasted transaction or the variability of cash flow and are then reported in current earnings. Changes in the fair value of undesignated derivative instruments and the ineffective portion of designated derivative instruments are reported in current earnings.

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

We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flow of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, we discontinue hedge accounting prospectively, in accordance with Statement of Financial Accounting Standards No. 133 (SFAS 133). Please refer to Note 2 of this Item 15 for more information on derivatives.

J. Estimates in financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts. The more significant estimates include: residual values for leased assets, fair market values for goodwill impairment tests, impairment of available-for-sale securities, and reserves for warranty, product liability and insurance losses, postemployment benefits, post-sale discounts, credit losses and certain charges related to the sale of the MT series of our Challenger line of high-tech tractors and the closing of two facilities.

K. Accounting changes

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143 (SFAS 143), "Accounting for Asset Retirement Obligations." SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the

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carrying amount of the long-lived assets. As required by SFAS 143, we will adopt this new accounting standard on January 1, 2003. We believe the adoption of SFAS 143 will not have a material impact on our financial statements.

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146 (SFAS 146), "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 nullifies the guidance of the Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146 also establishes that fair value is the objective for the initial measurement of the liability. The provisions of SFAS 146 are required for exit or disposal activities that are initiated after December 31, 2002. We adopted SFAS 146 on October 1, 2002. Its adoption did not have any impact on our financial statements.

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In October 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 147 (SFAS 147), "Acquisitions of Certain Financial Institutions." SFAS 147 requires that the guidance provided by SFAS 141 "Business Combinations," SFAS 142 "Goodwill and Other Intangible Assets" and SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" will apply to acquisitions of financial institutions (previously covered under special industry guidance). The transition provisions of SFAS 147 were effective on October 1, 2002. The adoption of SFAS 147 did not have any impact on our financial statements.

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. As required by FIN 45, we adopted the disclosure requirements on December 31, 2002 (refer to Note 20 of this Item 15), and we will adopt the initial recognition and measurement provisions on a prospective basis for guarantees issued or modified after December 31, 2002. We believe the adoption of the recognition/measurement provisions will not have a material impact on our financial statements.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148 (SFAS 148), "Accounting for Stock-Based Compensation--Transition and Disclosure." This Statement amends FASB Statement No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We account for stock options using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Therefore, no compensation expense is recognized in association with our options. We adopted the disclosure requirements of SFAS 148 in December 2002.

Pro forma net income and earnings per share were:

| | Years ended December 31, | | |
|---------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|---------------|-----------------|
| | 2002 | 2001 | 2000 |
| Net income, as reported | \$ 798 | \$ 805 | \$ 1,053 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (65) | (57) | (45) |
| Pro forma net income | <u>\$ 733</u> | <u>\$ 748</u> | <u>\$ 1,008</u> |
| Profit per share of common stock: | | | |
| As reported: | | | |
| Basic | \$ 2.32 | \$ 2.35 | \$ 3.04 |
| Assuming dilution | \$ 2.30 | \$ 2.32 | \$ 3.02 |
| Pro forma: | | | |
| Basic | \$ 2.13 | \$ 2.18 | \$ 2.91 |
| Assuming dilution | \$ 2.13 | \$ 2.17 | \$ 2.90 |

2. Derivative financial instruments and risk management

A. Adoption of SFAS 133

We adopted SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and Financial Accounting Standards No. 138 effective January 1, 2001. Adoption of these new accounting standards resulted in cumulative after-tax reductions to profit and accumulated other comprehensive income of \$2 and \$12, respectively, in the first quarter of 2001. The adoption also immaterially impacted both assets and liabilities recorded on the balance sheet. During 2002 and 2001, we reclassified \$1 and \$5 of the transition adjustment from accumulated other comprehensive income to current earnings, respectively.

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B. Foreign currency exchange rate risk

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

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

We generally designate as cash flow hedges at inception of the contract any Australian dollar, Brazilian real, British pound, Canadian dollar, euro, Japanese yen, Mexican peso or Singapore dollar forward or option contracts that exceed 90 days in duration. Designation is performed on a specific exposure basis to support hedge accounting. The remainder of *Machinery and Engines* foreign currency contracts is undesignated. Losses of \$.4 and \$.2 on the undesignated contracts were recorded in current earnings ["Other income (expense)"] in Statement 1] for 2002 and 2001, respectively. Gains/(losses) of \$(.5) and \$.3 due to changes in time and volatility value on options were excluded from effectiveness calculations and included in current earnings ["Other income (expense)"] for 2002 and 2001, respectively. As of December 31, 2002, \$11 of deferred net gains included in equity ("Accumulated other comprehensive income" in Statement 3) is expected to be reclassified to current earnings ["Other income (expense)"] over the next 12 months. Last year, \$5 of deferred net gains was expected to be reclassified to current earnings. There were no circumstances where hedge treatment was discontinued during 2002 or 2001.

In managing foreign currency risk for our *Financial Products* operations, our objective is to minimize earnings volatility resulting from conversion and the remeasurement of net foreign currency balance sheet positions. Our Policy allows the use of foreign currency forward contracts to offset the risk of currency mismatch between our receivable and debt portfolio. All such foreign currency forward contracts are undesignated. "Other income (expense)" includes gains/(losses) of \$(96) and \$43 on the undesignated contracts for 2002 and 2001, respectively, substantially offset by balance sheet remeasurement and conversion gains and losses.

C. Interest rate risk

Interest rate movements create a degree of risk by affecting the amount of our interest payments and the value of our fixed rate debt. Our Policy is to use interest rate swap agreements and forward rate agreements to manage our exposure to interest rate changes and lower the cost of borrowed funds.

Our *Machinery and Engines* operations generally use fixed rate debt as a source of funding. Our objective is to minimize the cost of borrowed funds. Our policy allows us to enter fixed-to-floating interest rate swaps and forward rate agreements to meet that objective with the intent to designate as fair value hedges at inception of the contract all fixed-to-floating interest rate swaps. Designation as a hedge of the fair value of our fixed rate debt is performed to support hedge accounting. In 2001 gains on undesignated contracts of \$.3 were recorded in current earnings ["Other income (expense)"] for the year. In 2001 gains on designated interest rate derivatives of \$23 were offset by losses on hedged debt of \$18 in current earnings ["Other income (expense)"] for the year. During 2001, our *Machinery and Engines* operations liquidated all fixed-to-floating interest rate swaps. Deferred gains on liquidated fixed-to-floating interest rate swaps, which were previously designated as fair value hedges, are being amortized to earnings ratably over the remaining life of the hedged debt. Gains of \$8 and \$6 on the liquidated swaps were amortized to current earnings ["Other income (expense)"] for 2002 and 2001, respectively. We designate as cash flow hedges at inception of the contract all forward rate agreements. Designation as a hedge of the anticipated issuance of debt is performed to support hedge accounting. *Machinery and Engines* forward rate agreements are 100% effective. As of December 31, 2002, \$.3 of deferred net gains included in equity ("Accumulated other comprehensive income") is expected to be reclassified to current

earnings ["Other income (expense)"] over the next 12 months. Last year, \$.3 of deferred net gains was expected to be reclassified to current earnings. The reclassification of the remaining deferred gain to current earnings ["Other income (expense)"] will occur over a maximum of 30 years. There were no circumstances where hedge treatment was discontinued during 2002 or 2001.

Our *Financial Products* operations have a "match funding" objective whereby, within specified boundaries, the interest rate profile (fixed rate or floating rate) of their debt portfolio largely matches the interest rate profile of their receivable, or asset, portfolio. In connection with that objective, we use interest rate derivative instruments to modify the debt structure to match the receivable portfolio. This "match funding" reduces the risk of deteriorating margins between interest-bearing assets and interest-bearing liabilities, regardless of which direction interest rates move. We also use these instruments to gain an economic and/or competitive advantage through a lower cost of borrowed funds. This is accomplished by changing the characteristics of existing debt instruments or entering into new agreements in combination with the issuance of new debt.

Our Policy allows us to issue floating-to-fixed, fixed-to-floating and floating-to-floating interest rate swaps to meet the "match funding" objective. We designate as fair value hedges, at inception of the contract, all fixed-to-floating interest rate swaps. Designation as a hedge of the fair value of our fixed rate debt is performed to support hedge accounting. As *Financial Products* fixed-to-floating interest rate swaps are 100% effective, gains on designated interest rate derivatives of \$17 and \$44 were offset completely by losses on hedged debt of \$17 and \$44 in current earnings ["Other income (expense)"] for 2002 and 2001, respectively. *Financial Products* policy is to designate as cash flow hedges, at inception of the contract, most floating-to-fixed interest rate swaps. Designation as a hedge of the variability of cash flow is performed to support hedge accounting. Gains/(losses) of \$.4 and \$(1) due to ineffectiveness on floating-to-fixed interest rate swaps were included in current earnings ["Other income (expense)"] for 2002 and 2001, respectively. During the second quarter of 2002, we liquidated four fixed-to-floating interest rate swaps. Deferred gains on these swaps, which were previously designated as fair value hedges, are being amortized to earnings ratably over the remaining life of the hedged debt. Gains of \$1 were amortized to Interest expense for the year ended December 31, 2002. As of December 31, 2002, \$26 of deferred net losses included in equity ("Accumulated other comprehensive income") is expected to be reclassified to current earnings ("Interest expense of Financial Products" in Statement 1) over the next 12 months. Last year, \$30 of deferred net losses was expected to be reclassified to current earnings. There were no circumstances where hedge treatment was discontinued during 2002 or 2001.

D. Commodity price risk

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

Our *Machinery and Engines* operations purchase aluminum, copper and nickel embedded in the components we purchase from suppliers. Our suppliers pass on to us price changes in the commodity portion of the component cost.

Our objective is to reduce the cost of purchased materials. Our Policy allows us to enter commodity forward and option contracts to lock in the purchase price of the commodities within a four-year horizon. All such commodity forward and option contracts are undesignated. Gains/(losses) on the undesignated contracts of \$.9 and \$(8) were recorded in current earnings ["Other income (expense)"] for 2002 and 2001, respectively.

3. Other income (expense)

| | Years ended December 31, | | |
|---------------------------------|--------------------------|---------------|--------------|
| | 2002 | 2001 | 2000 |
| Investment and interest income | \$ 31 | 96 | \$ 96 |
| Foreign exchange (losses) gains | 13 | (29) | (78) |
| Miscellaneous income | 30 | 76 | 65 |
| | <u>\$ 74</u> | <u>\$ 143</u> | <u>\$ 83</u> |

4. Income taxes

The components of profit before taxes were:

| | Years ended December 31, | | |
|----------|--------------------------|----------|----------|
| | 2002 | 2001 | 2000 |
| U.S. | \$ 343 | \$ 741 | \$ 1,083 |
| Non-U.S. | 771 | 428 | 445 |
| | \$ 1,114 | \$ 1,169 | \$ 1,528 |

The components of the provision for income taxes were:

| | Years ended December 31, | | |
|----------------------------------|--------------------------|--------|--------|
| | 2002 | 2001 | 2000 |
| Current tax provision: | | | |
| U.S. Federal | \$ (62) | \$ 150 | \$ 177 |
| Non-U.S. | 210 | 174 | 196 |
| State (U.S.) | 1 | 11 | 14 |
| | \$ 149 | \$ 335 | \$ 387 |
| Deferred tax provision (credit): | | | |
| U.S. Federal | 172 | 65 | 83 |
| Non-U.S. | (20) | (34) | (35) |
| State (U.S.) | 11 | 1 | 12 |
| | 163 | 32 | 60 |
| Total provision for income taxes | \$ 312 | \$ 367 | \$ 447 |

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

| | Years ended December 31, | | |
|------------------------------------------------------------------------|--------------------------|--------|--------|
| | 2002 | 2001 | 2000 |
| U.S. statutory rate | 35.0% | 35.0% | 35.0% |
| (Decreases) increases in taxes resulting from: | | | |
| Benefit of foreign sales corporation/extraterritorial income exclusion | (4.4)% | (4.9)% | (3.8)% |
| Release valuation allowance | -- | -- | (2.6)% |
| Non-U.S. subsidiaries taxed at other than 35% | (3.4)% | (0.1)% | 1.6% |
| Other--net | 0.8% | 1.4% | (0.8)% |
| Provision for income taxes | 28.0% | 31.4% | 29.4% |

Years ended December 31,

We paid income taxes of \$124, \$379 and \$359 in 2002, 2001 and 2000, respectively.

We have recorded income tax expense at U.S. tax rates on all profits, except for undistributed profits of non-U.S. companies which are considered permanently invested. Determination of the amount of unrecognized deferred tax liability related to permanently invested profits is not feasible.

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Deferred income tax assets and liabilities:

| | December 31, | | |
|---------------------------------------------|-----------------|-----------------|-----------------|
| | 2002 | 2001 | 2000 |
| Deferred income tax assets: | | | |
| Postemployment benefits other than pensions | \$ 1,130 | \$ 1,112 | \$ 1,052 |
| Warranty reserves | 204 | 186 | 191 |
| Unrealized profit excluded from inventories | 219 | 212 | 176 |
| Net operating loss carryforwards | 224 | 207 | 183 |
| Inventory valuation method | 60 | 50 | 67 |
| Pension | 39 | -- | -- |
| Other | 205 | 279 | 247 |
| | <u>2,081</u> | <u>2,046</u> | <u>1,916</u> |
| Deferred income tax liabilities: | | | |
| Capital assets | (625) | (523) | (426) |
| Pension | -- | (182) | (202) |
| | <u>(625)</u> | <u>(705)</u> | <u>(628)</u> |
| Valuation allowance for deferred tax assets | (18) | (22) | (25) |
| Deferred income taxes--net | <u>\$ 1,438</u> | <u>\$ 1,319</u> | <u>\$ 1,263</u> |

SFAS 109 requires that individual tax-paying entities of the company offset all current deferred tax liabilities and assets within each particular tax jurisdiction and present them as a single amount in the Statement of Financial Position. A similar procedure is followed for all noncurrent deferred tax liabilities and assets. Amounts in different tax jurisdictions cannot be offset against each other. The amount of deferred income taxes at December 31, included on the following lines in Statement 3, are as follows:

| | 2002 | 2001 | 2000 |
|--------------------------------------|-----------------|-----------------|-----------------|
| Assets: | | | |
| Deferred and refundable income taxes | \$ 638 | \$ 423 | \$ 397 |
| Deferred income taxes | 850 | 938 | 907 |
| | <u>\$ 1,488</u> | <u>\$ 1,361</u> | <u>\$ 1,304</u> |
| Liabilities: | | | |

| | 2002 | 2001 | 2000 |
|---------------------------------------------|-----------------|-----------------|-----------------|
| Deferred and current income taxes payable | \$ 8 | \$ 6 | \$ 6 |
| Deferred income taxes and other liabilities | 42 | 36 | 35 |
| Deferred income taxes--net | \$ 1,438 | \$ 1,319 | \$ 1,263 |

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

In 2000, circumstances changed at our Brazilian subsidiary that allowed us to reduce the valuation allowance and recognize additional net deferred income tax assets.

As of December 31, 2002, amounts and expiration dates of net operating loss carryforwards in various non-U.S. taxing jurisdictions were:

| 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Unlimited | Total |
|------|------|-------|-------|-------|------|-------|-----------|--------|
| \$ 4 | \$ 8 | \$ 12 | \$ 16 | \$ 11 | \$ 1 | \$ 51 | \$ 705 | \$ 808 |

As of December 31, 2002, \$89 of regular foreign tax credit carryforwards were available in the United States. They will expire in 2007.

5. Finance receivables

Finance receivables are receivables of Cat Financial, which generally can be repaid or refinanced without penalty prior to contractual maturity. Total finance receivables reported in Statement 3 are net of an allowance for credit losses. The effective interest rate on these receivables is 7.1%.

Caterpillar Inc. utilizes inventory merchandising programs for its North American dealers. Certain dealer receivables, which arise from the sale of goods, are sold to Cat Financial at a discount. Some of these receivables are then securitized by Cat Financial into private-placement, revolving securitization facilities. Cat Financial services the dealer receivables, which are held in a securitization trust and receives an annual servicing fee of 1% of the average outstanding principle balance. Securitization of receivables is a cost-effective means of financing the business. Consolidated net discounts of \$10, \$24 and \$38 were recognized on securitization of dealer receivables during 2002, 2001 and 2000, respectively, and are included in "Other income (expense)" in Statement 1. Significant assumptions used to estimate the fair value of dealer receivables securitized during 2002, 2001 and 2000 include a discount rate of 4.8%, 7.2% and 9.2%, respectively. These rates reflect declining market interest rates. Other assumptions include a one-month weighted-average maturity, a weighted-average prepayment rate of 0% and expected credit losses of 0% for 2002, 2001 and 2000. Expected credit losses are assumed to be 0% because dealer receivables have historically had no losses and none are expected in the future. The net dealer receivables retained were \$1,145, \$772 and \$814 as of December 31, 2002, 2001 and 2000, respectively, and are included in "Receivables--finance" in Statement 3 and "Wholesale Notes" in Table I.

During 2002 and 2001, Cat Financial securitized retail installment sale contracts and finance leases into public asset-backed securitization facilities. These finance receivables, which are being held in securitization trusts, are secured by new and used equipment. Cat Financial retained servicing responsibilities and subordinated interests related to these securitizations. For 2002, subordinated interests included \$8 in subordinated certificates, an interest in certain future cash flows (excess) with an initial fair value of \$11 and a reserve account with an initial fair value of \$10. For 2001, subordinated interests included \$10 in subordinated certificates, an interest in certain future cash flows (excess) with an initial fair value of \$20 and a reserve account with an initial fair value of \$5. The company's retained interests generally are subordinate to the investors' interests. Net gains of \$18 and \$21 were recognized on these transactions in 2002 and 2001, respectively.

Significant assumptions used to estimate the fair value of the subordinated certificates were:

| 2002 | 2001 |
|------|------|
|------|------|

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| | | |
|----------------------------------|-------------|-------------|
| | <u> </u> | <u> </u> |
| Discount rate | 4.8% | 6.3% |
| Weighted-average prepayment rate | 14.0% | 14.0% |
| Expected credit losses | 1.0% | 0.6% |

Significant assumptions used to estimate the fair value of the excess and the reserve accounts were:

| | | |
|----------------------------------|-------------|-------------|
| | <u>2002</u> | <u>2001</u> |
| Discount rate | 14.0% | 13.6% |
| Weighted-average prepayment rate | 14.0% | 14.0% |
| Expected credit losses | 1.0% | 0.6% |

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The company receives annual servicing fees of approximately 1% of the unpaid note value.

During 2002, 2001 and 2000, Cat Financial serviced installment sale contracts and finance lease contracts that they securitized. Cat Financial receives a servicing fee of 1% of the average outstanding principal balance. As of December 31, 2002, 2001 and 2000, the subordinated retained interests in the public securitizations totaled \$47, \$51 and \$61, respectively. Key assumptions used to determine the fair value of the retained interests were:

| | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|------------------------------------------------------|-------------|-------------|-------------|
| Cash flow discount rates on subordinated tranches | 4.8-6.3% | 6.3-6.9% | 6.3-6.9% |
| Cash flow discount rates on other retained interests | 13.6-14.0% | 13.6% | 13.6% |
| Weighted-average maturity | 29 months | 27 months | 16 months |
| Average prepayment rate | 14.0% | 14.0% | 14.0% |
| Expected credit losses | 1.0% | 0.5% | 0.5% |

The investors and the securitization trusts have no recourse to Cat Financial's other assets for failure of debtors to pay when due.

We estimated the impact of individual 10% and 20% changes to the key economic assumptions used to determine the fair value of residual cash flow in retained interests on our income. An independent, adverse change to each key assumption had an immaterial impact on the fair value of residual cash flow.

The securitization facilities involved in Cat Financial's securitizations are qualifying special purpose entities and thus, in accordance with the Statement of Financial Standards No. 140 (SFAS 140), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," are not consolidated.

We consider an account past due if any portion of an installment is due and unpaid for more than 30 days. Recognition of income is suspended when management determines that collection of future income is not probable (generally after 120 days past due). Accrual is resumed, and previously suspended income is recognized, when the receivable becomes contractually current and collection doubts are removed. Investment in loans/finance leases on non-accrual status were \$370 and past due over 90 days and still accruing were \$72 as of December 31, 2002.

TABLE I--Finance Receivables Information

Contractual maturities of outstanding receivables:

| | <u>December 31, 2002</u> | | | |
|-----------------------|----------------------------------|--------------------------------------------------------|-------------------------------------------|--------------|
| | <u>Installment Contracts</u> | <u>Wholesale and Retail Finance Leases</u> | <u>Wholesale and Retail Notes</u> | <u>Total</u> |
| Amounts Due In | | | | |
| 2003 | \$ 1,642 | \$ 1,505 | \$ 3,181 | \$ 6,328 |

TABLE I--Finance Receivables Information

| 2004 | 1,063 | 1,051 | 973 | 3,087 |
|-----------------------|--------------|--------------|--------------|---------------|
| 2005 | 629 | 644 | 571 | 1,844 |
| 2006 | 274 | 303 | 361 | 938 |
| 2007 | 84 | 134 | 194 | 412 |
| Thereafter | 25 | 157 | 717 | 899 |
| | <u>3,717</u> | <u>3,794</u> | <u>5,997</u> | <u>13,508</u> |
| Residual value | -- | 910 | -- | 910 |
| Less: Unearned income | 240 | 479 | 30 | 749 |
| | <u>3,477</u> | <u>4,225</u> | <u>5,967</u> | <u>13,669</u> |
| Total | \$ 3,477 | \$ 4,225 | \$ 5,967 | \$ 13,669 |

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Impaired loans and leases:

| | 2002 | 2001 | 2000 |
|-------------------------------------------|--------|--------|--------|
| Average recorded investment | \$ 292 | \$ 323 | \$ 144 |
| At December 31: | | | |
| Recorded investment | \$ 366 | \$ 259 | \$ 265 |
| Less: Fair value of underlying collateral | 233 | 167 | 198 |
| Potential loss | \$ 133 | \$ 92 | \$ 67 |

Allowance for credit loss activity:

| | 2002 | 2001 | 2000 |
|--------------------------------------------------|--------|--------|--------|
| Balance at beginning of year | \$ 177 | \$ 163 | \$ 134 |
| Provision for credit losses | 109 | 97 | 62 |
| Receivables written off | (103) | (82) | (43) |
| Recoveries on receivables previously written off | 18 | 10 | 15 |
| Other--net | 6 | (11) | (5) |
| Balance at end of year | \$ 207 | \$ 177 | \$ 163 |

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

Cat Financial's net investment in financing leases:

| | December 31, | | |
|--------------------------------------------|--------------|----------|----------|
| | 2002 | 2001 | 2000 |
| Total minimum lease payments receivable | \$ 3,794 | \$ 3,606 | \$ 3,477 |
| Estimated residual value of leased assets: | | | |
| Guaranteed | 306 | 272 | 283 |
| Unguaranteed | 604 | 682 | 713 |

Cat Financial's net investment in financing leases:

| | | | |
|------------------------------------|--------------|--------------|--------------|
| | 4,704 | 4,560 | 4,473 |
| Less: Unearned income | 479 | 514 | 517 |
| | <u>4,225</u> | <u>4,046</u> | <u>3,956</u> |
| Net investment in financing leases | \$ 4,225 | \$ 4,046 | \$ 3,956 |

| | 2002 | | 2001 | | 2000 | |
|-----------------------------------------------------------------------|-----------------------|------------------------|-----------------------|------------------------|-----------------------|------------------------|
| | Dealer Receivables | Finance Receivables | Dealer Receivables | Finance Receivables | Dealer Receivables | Finance Receivables |
| Cash flow from securitizations: | | | | | | |
| Proceeds from initial sales of receivables | \$ -- | \$ 614 | \$ -- | \$ 600 | \$ 660 | \$ -- |
| Proceeds from subsequent sales of receivables into revolving facility | 1,696 | -- | 2,479 | -- | 2,686 | -- |
| Servicing fees received | 3 | 7 | 5 | 6 | 4 | 8 |
| Other cash flows | -- | -- | -- | -- | -- | 7 |
| Characteristics of securitized receivables: | | | | | | |
| At December 31: | | | | | | |
| Total securitized principal balance | \$ 240 | \$ 726 | \$ 500 | \$ 616 | \$ 710 | \$ 452 |
| Loans more than 30 days past due | -- | 32 | -- | 31 | -- | 22 |
| Weighted average maturity (in months) | 1 | 28 | 1 | 26 | 1 | 16 |
| For the year ended December 31: | | | | | | |
| Average securitized principal balance | 324 | 619 | 504 | 836 | 537 | 631 |
| Net credit losses | -- | 5 | -- | 3 | -- | 3 |

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

Please refer to Table I for additional finance receivables information and Note 17 and Table V of Note 17 for fair value information.

6. Inventories

| | December 31, | | |
|-----------------|--------------|--------------|--------------|
| | 2002 | 2001 | 2000 |
| Raw materials | \$ 806 | \$ 846 | \$ 766 |
| Work-in-process | 316 | 239 | 256 |
| Finished goods | 1,454 | 1,658 | 1,485 |
| Supplies | 187 | 182 | 185 |
| | <u>2,763</u> | <u>2,925</u> | <u>2,692</u> |

We had long-term material purchase obligations of approximately \$369 at December 31, 2002.

7. Property, plant and equipment

| | Useful Lives (Years) | December 31, | | |
|-----------------------------------------------------|----------------------------|-----------------|-----------------|-----------------|
| | | 2002 | 2001 | 2000 |
| Land | -- | \$ 149 | \$ 149 | \$ 143 |
| Buildings and land improvements | 20-45 | 3,039 | 3,077 | 3,016 |
| Machinery, equipment and other | 3-10 | 7,015 | 6,658 | 6,674 |
| Equipment leased to others | -- | 3,033 | 2,270 | 1,771 |
| Construction-in-process | -- | 305 | 636 | 312 |
| Total property, plant and equipment, at cost | | 13,541 | 12,790 | 11,916 |
| Less: Accumulated depreciation | | 6,495 | 6,187 | 5,965 |
| Property, plant and equipment--net | | \$ 7,046 | \$ 6,603 | \$ 5,951 |

We had commitments for the purchase or construction of capital assets of approximately \$202 at December 31, 2002.

Assets recorded under capital leases⁽¹⁾:

| | December 31, | | |
|-------------------------------------|--------------|---------------|---------------|
| | 2002 | 2001 | 2000 |
| Gross capital leases ⁽²⁾ | \$ 259 | \$ 444 | \$ 622 |
| Less: Accumulated depreciation | 170 | 318 | 483 |
| Net capital leases | \$ 89 | \$ 126 | \$ 139 |

⁽¹⁾ Included in Property, plant and equipment table above.

⁽²⁾ Consists primarily of machinery and equipment.

Equipment leased to others (primarily by *Financial Products*):

| | December 31, | | |
|----------------------------------------------|-----------------|-----------------|-----------------|
| | 2002 | 2001 | 2000 |
| Equipment leased to others--at original cost | \$ 3,033 | \$ 2,270 | \$ 1,771 |
| Less: Accumulated depreciation | 809 | 629 | 479 |
| Equipment leased to others--net | \$ 2,224 | \$ 1,641 | \$ 1,292 |

At December 31, 2002, scheduled minimum rental payments to be received for equipment leased to others were:

| 2003 | 2004 | 2005 | 2006 | 2007 | After 2007 |
|--------|--------|--------|-------|-------|---------------|
| \$ 482 | \$ 322 | \$ 190 | \$ 88 | \$ 33 | \$ 15 |

8. Investment in unconsolidated affiliated companies

The company's investment in affiliated companies accounted for by the equity method consists primarily of a 50% interest in Shin Caterpillar Mitsubishi Ltd. (SCM) located in Japan. Combined financial information of the unconsolidated affiliated companies accounted for by the equity method (generally on a three month lag, e.g., SCM results reflect the periods ending September 30) was as follows:

| | Years ended December 31, | | |
|-------------------------------|--------------------------|----------|----------|
| | 2002 | 2001 | 2000 |
| Results of Operations: | | | |
| Sales | \$ 2,734 | \$ 2,493 | \$ 2,773 |
| Cost of sales | 2,168 | 1,971 | 2,220 |
| Gross profit | 566 | 522 | 553 |
| Profit (loss) | \$ (1) | \$ 9 | \$ (56) |
| Caterpillar's profit (loss) | \$ (4) | \$ 3 | \$ (28) |

| | December 31, | | |
|-------------------------------------------------------------------------|--------------|----------|----------|
| | 2002 | 2001 | 2000 |
| Financial Position: | | | |
| Assets: | | | |
| Current assets | \$ 1,389 | \$ 1,451 | \$ 1,583 |
| Property, plant and equipment--net | 1,209 | 986 | 1,000 |
| Other assets | 493 | 290 | 352 |
| | 3,091 | 2,727 | 2,935 |
| Liabilities: | | | |
| Current liabilities | \$ 1,117 | \$ 1,257 | \$ 1,284 |
| Long-term debt due after one year | 808 | 414 | 557 |
| Other liabilities | 249 | 281 | 253 |
| | 2,174 | 1,952 | 2,094 |
| Ownership | \$ 917 | \$ 775 | \$ 841 |
| Caterpillar's investment in unconsolidated affiliated companies: | | | |
| Investment in equity method companies | \$ 437 | \$ 437 | \$ 429 |
| Plus: Investment in cost method companies | 310 | 350 | 122 |
| Investment in unconsolidated affiliated companies | \$ 747 | \$ 787 | \$ 551 |

At December 31, 2002, consolidated "Profit employed in the business" in Statement 2 included \$73 representing undistributed profit of the unconsolidated affiliated companies. In 2002, 2001 and 2000, we received \$4, \$4 and \$4, respectively, in dividends from unconsolidated affiliated companies.

Certain investments in unconsolidated affiliated companies are accounted for using the cost method. During first quarter 2001, Cat Financial invested for a limited partnership interest in a venture financing structure associated with Caterpillar's rental strategy in the United Kingdom.

9. Intangible assets and goodwill

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142 (SFAS 142), "Goodwill and Other Intangible Assets." SFAS 142 addresses financial accounting and reporting for intangible assets and goodwill. The Statement requires that goodwill and intangible assets having indefinite useful lives not be amortized, but rather be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives. As required by SFAS 142, we adopted this new accounting standard on January 1, 2002. Upon adoption, we performed the required transitional impairment tests of goodwill and indefinite-lived intangible assets. Application of the transitional impairment provisions of SFAS 142 did not result in an impairment loss.

As of December 31, 2002, total intangible assets were \$281. This included \$191 of pension-related intangible assets. The remaining \$90 represents the net carrying value of intellectual property. The gross carrying amount of the intellectual property was \$137 with accumulated amortization of \$47. Amortization expense for the year was \$13. Amortization expense related to intangible assets is expected to be:

| 2003 | 2004 | 2005 | 2006 | 2007 | Thereafter |
|-------|-------|-------|-------|------|------------|
| \$ 16 | \$ 14 | \$ 14 | \$ 12 | \$ 8 | \$ 26 |

During the year ended December 31, 2002, no goodwill was acquired, impaired or disposed. Goodwill amortization expense was \$85 and \$81 for 2001 and 2000, respectively. Excluding goodwill amortization expense, profit for 2001 and 2000 was \$863 (\$2.51 per share-basic, \$2.49 per share-diluted) and \$1,108 (\$3.19 per share-basic, \$3.18 per share-diluted), respectively.

10. Available-for-sale securities

Cat Insurance and Caterpillar Investment Management Ltd. had investments in certain debt and equity securities at December 31, 2002 and 2001, that have been classified as available-for-sale in accordance with Statement of Financial Accounting Standards No. 115 (SFAS 115) and recorded at fair value based upon quoted market prices. These fair values are included in "Other assets" in Statement 3. Gains and losses arising from the revaluation of available-for-sale securities are included, net of applicable deferred income taxes, in equity ("Accumulated other comprehensive income" in Statement 3). Realized gains and losses on sales of investments are determined using the average cost method for debt instruments and the FIFO method for equity securities.

| | December 31, 2002 | | |
|-------------------|-------------------|----------------------------|---------------|
| | Cost Basis | Pre-Tax Net Gains (Losses) | Fair Value |
| Government debt | \$ 89 | \$ -- | \$ 89 |
| Corporate bonds | 208 | 1 | 209 |
| Equity securities | 220 | (51) | 169 |
| | <u>\$ 517</u> | <u>\$ (50)</u> | <u>\$ 467</u> |

| | December 31, 2001 | | |
|-------------------|-------------------|----------------------------|---------------|
| | Cost Basis | Pre-Tax Net Gains (Losses) | Fair Value |
| Government debt | \$ 80 | \$ -- | \$ 80 |
| Corporate bonds | 157 | 1 | 158 |
| Equity securities | 200 | (40) | 160 |
| | <u>\$ 437</u> | <u>\$ (39)</u> | <u>\$ 398</u> |

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The fair value of the available-for-sale debt securities at December 31, 2002, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations.

| | Fair Value |
|----------------------------------------|------------|
| Due in one year or less | \$ 14 |
| Due after one year through five years | \$ 128 |
| Due after five years through ten years | \$ 28 |
| Due after ten years | \$ 128 |

Proceeds from sales of investments in debt and equity securities during 2002 and 2001 were \$288 and \$246, respectively. Gross gains of \$9 and \$2 and gross losses of \$2 and \$5 have been included in current earnings as a result of these sales for 2002 and 2001, respectively.

During 2002, we recognized a \$41 pretax charge in accordance with the application of SFAS 115 for "other than temporary" declines in the market value of securities in the Cat Insurance investment portfolio.

11. Postemployment benefit plans

A. Pension plans

We have both U.S. and non-U.S. pension plans covering substantially all of our employees. The defined benefit plans provide a benefit based on years of service and/or the employee's average earnings near retirement.

Please refer to Table II of this Note 11 for additional financial information.

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TABLE II--Financial Information Related to Pension Plans

| | U.S. Pensions Benefits | | | Non-U. S. Pension Benefits | | |
|--------------------------------------|------------------------|----------|----------|----------------------------|----------|----------|
| | 2002 | 2001 | 2000 | 2002 | 2001 | 2000 |
| Change in benefit obligation: | | | | | | |
| Benefit obligation, January 1 | \$ 7,382 | \$ 6,921 | \$ 6,536 | \$ 1,229 | \$ 1,168 | \$ 1,200 |

TABLE II--Financial Information Related to Pension Plans

| | | | | | | |
|-------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Service cost | 115 | 99 | 98 | 38 | 35 | 33 |
| Interest cost | 529 | 516 | 486 | 70 | 65 | 66 |
| Business combinations | -- | -- | -- | -- | 2 | -- |
| Plan amendments | -- | 2 | 1 | -- | 2 | 1 |
| Actuarial losses (gains) | 395 | 389 | 329 | 135 | (17) | 58 |
| Foreign currency exchange rates | -- | -- | -- | 100 | 21 | (145) |
| Participant contributions | -- | -- | -- | 10 | 9 | 11 |
| Benefits paid | (611) | (545) | (529) | (65) | (56) | (56) |
| Special termination benefits ⁽¹⁾ | 34 | -- | -- | -- | -- | -- |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Benefit obligation, December 31 | \$ 7,844 | \$ 7,382 | \$ 6,921 | \$ 1,517 | \$ 1,229 | \$ 1,168 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Change in plan assets: | | | | | | |
| Fair value of plan assets, January 1 | \$ 7,431 | \$ 8,203 | \$ 8,411 | \$ 1,050 | \$ 1,287 | \$ 1,289 |
| Actual return on plan assets | (512) | (230) | 316 | (87) | (217) | 161 |
| Business combinations | -- | -- | -- | -- | 2 | -- |
| Foreign currency exchange rate changes | -- | -- | -- | 72 | 12 | (160) |
| Company contributions | 135 | 3 | 5 | 44 | 13 | 42 |
| Participant contributions | -- | -- | -- | 10 | 9 | 11 |
| Benefits paid | (611) | (545) | (529) | (65) | (56) | (56) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Fair value of plan assets, December 31 | \$ 6,443 | \$ 7,431 | \$ 8,203 | \$ 1,024 | \$ 1,050 | \$ 1,287 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Over (under) funded, December 31 | \$ (1,401) | \$ 49 | \$ 1,282 | \$ (493) | \$ (179) | \$ 119 |
| Unrecognized prior service cost | 278 | 327 | 375 | 33 | 36 | 37 |
| Unrecognized net actuarial (gain) loss | 2,009 | 318 | (1,142) | 547 | 198 | (99) |
| Unrecognized net obligation existing at adoption of SFAS 87 | -- | -- | 1 | 9 | 7 | 4 |
| Contributions made after measurement date | -- | -- | -- | 22 | 4 | -- |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net amount recognized in financial position | \$ 886 | \$ 694 | \$ 516 | \$ 118 | \$ 66 | \$ 61 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Components of net amount recognized in financial position: | | | | | | |
| Prepaid benefit costs | \$ 1,071 | \$ 953 | \$ 795 | \$ 154 | \$ 99 | \$ 106 |
| Accrued benefit liabilities | (185) | (259) | (279) | (36) | (33) | (45) |
| Intangible assets | 156 | 185 | -- | 35 | 25 | 1 |
| Adjustment for minimum pension liability | (911) | (323) | -- | (434) | (130) | (3) |
| Accumulated other comprehensive income | 755 | 138 | -- | 399 | 105 | 2 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net asset (liability) recognized | \$ 886 | \$ 694 | \$ 516 | \$ 118 | \$ 66 | \$ 61 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Components of net periodic benefit cost: | | | | | | |
| Service cost | \$ 115 | \$ 99 | \$ 98 | \$ 38 | \$ 35 | \$ 33 |
| Interest cost | 529 | 516 | 486 | 70 | 65 | 66 |
| Expected return on plan assets | (783) | (806) | (768) | (94) | (90) | (86) |
| Amortization of: | | | | | | |
| Net asset existing at adoption of SFAS 87 | -- | -- | (19) | (2) | (1) | (4) |
| Prior service cost ⁽²⁾ | 50 | 49 | 71 | 5 | 5 | 5 |

TABLE II--Financial Information Related to Pension Plans

| | | | | | | |
|--------------------------------------------------------|---------|----------|----------|-------|-------|-------|
| Net actuarial (gain) loss | (1) | (34) | (59) | -- | (1) | (3) |
| Total (benefit) cost included in results of operations | \$ (90) | \$ (176) | \$ (191) | \$ 17 | \$ 13 | \$ 11 |

Rate assumptions:

| | | | | | | |
|-----------------------------------------------------------------|------|-------|-------|------|------|------|
| Assumed discount rate ⁽³⁾ | 7.0% | 7.3% | 7.8% | 5.4% | 5.8% | 6.0% |
| Expected rate of compensation increase ⁽³⁾ | 4.0% | 4.0% | 4.0% | 3.2% | 3.5% | 4.0% |
| Expected long-term rate of return on plan assets ⁽⁴⁾ | 9.8% | 10.0% | 10.0% | 7.6% | 7.8% | 7.8% |

(1) Amount recognized as expense in 2001 in conjunction with the U.S. salaried and management employee reduction. Please refer to Note 24 in this Item 15 for additional information.

(2) Prior service costs are amortized using the straight-line method over the average remaining service period of employees expected to receive benefits from the plan amendment.

(3) Weighted-average rates as of December 31.

(4) Weighted-average rates used in determining consolidated expense. The weighted-average rates for 2003 are 9.0% and 7.1% for U.S. and non-U.S. plans, respectively.

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The following amounts relate to our pension plans with accumulated benefit obligations in excess of plan assets:

| | U.S. Pension Benefits | | | Non-U.S. Pension Benefits | | |
|--------------------------------|-----------------------|------------|------------|---------------------------|------------|---------|
| | At December 31, | | | At December 31, | | |
| | 2002 | 2001 | 2000 | 2002 | 2001 | 2000 |
| Accumulated benefit obligation | \$ (3,416) | \$ (3,010) | \$ (2,901) | \$ (1,334) | \$ (1,088) | \$ (36) |
| Projected benefit obligation | \$ (3,439) | \$ (3,011) | \$ (2,902) | \$ (1,490) | \$ (1,203) | \$ (41) |
| Fair value of plan assets | \$ 2,345 | \$ 2,462 | \$ 2,813 | \$ 990 | \$ 1,015 | \$ 20 |

B. Other postretirement benefit plans

We have defined-benefit retirement health care and life insurance plans for substantially all of our U.S. employees. Plan amendments made in 2002 included an increase in retiree cost sharing of health care benefits, elimination of company payments for Medicare part B premiums and significant reductions in retiree life insurance.

Please refer to Table III below for additional financial information.

TABLE III--Financial Information Related to Other Postretirement Benefit Plans

| | Other Postretirement Benefits | | |
|--------------------------------------|-------------------------------|----------|----------|
| | 2002 | 2001 | 2000 |
| Change in benefit obligation: | | | |
| Benefit obligation, January 1 | \$ 4,514 | \$ 3,869 | \$ 3,821 |
| Service cost | 80 | 72 | 71 |
| Interest cost | 292 | 289 | 292 |
| Plan amendments | (474) | 16 | -- |
| Actuarial losses (gains) | 340 | 528 | (65) |
| Foreign currency exchange rates | 2 | 2 | -- |
| Participant contributions | 5 | 4 | 3 |

TABLE III--Financial Information Related to Other Postretirement Benefit Plans

| | | | |
|-------------------------------------------------------------------|-------------------|-------------------|-------------------|
| Benefits paid | (294) | (266) | (253) |
| | <u> </u> | <u> </u> | <u> </u> |
| Benefit obligation, December 31 | \$ 4,465 | \$ 4,514 | \$ 3,869 |
| | <u> </u> | <u> </u> | <u> </u> |
| Change in plan assets: | | | |
| Fair value of plan assets, January 1 | \$ 1,109 | \$ 1,324 | \$ 1,291 |
| Actual return on plan assets | (113) | (71) | 22 |
| Participant contributions | 5 | 4 | 3 |
| Benefits paid | (294) | (266) | (247) |
| Employer funding of benefits paid | 142 | 118 | 255 |
| | <u> </u> | <u> </u> | <u> </u> |
| Fair value of plan assets, December 31 | \$ 849 | \$ 1,109 | \$ 1,324 |
| | <u> </u> | <u> </u> | <u> </u> |
| Over (under) funded, December 31 | \$ (3,616) | \$ (3,405) | \$ (2,545) |
| Unrecognized prior service cost | (283) | 167 | 171 |
| Unrecognized net actuarial (gain) loss | 976 | 413 | (317) |
| Contributions made after measurement date | 20 | 17 | -- |
| | <u> </u> | <u> </u> | <u> </u> |
| Net amount recognized in financial position | \$ (2,903) | \$ (2,808) | \$ (2,691) |
| | <u> </u> | <u> </u> | <u> </u> |
| Components of net amount recognized in financial position: | | | |
| Accrued benefit liabilities | \$ (2,903) | \$ (2,808) | \$ (2,691) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net asset (liability) recognized | \$ (2,903) | \$ (2,808) | \$ (2,691) |
| | <u> </u> | <u> </u> | <u> </u> |
| Components of net periodic benefit cost: | | | |
| Service cost | \$ 80 | \$ 72 | \$ 71 |
| Interest cost | 292 | 289 | 292 |
| Expected return on plan assets | (115) | (136) | (123) |
| Amortization of: | | | |
| Prior service cost ⁽¹⁾ | (22) | 21 | 19 |
| Net actuarial (gain) loss | 5 | (9) | -- |
| | <u> </u> | <u> </u> | <u> </u> |
| Total (benefit) cost included in results of operations | \$ 240 | \$ 237 | \$ 259 |
| | <u> </u> | <u> </u> | <u> </u> |
| Rate assumptions: | | | |
| Assumed discount rate ⁽²⁾ | 7.0% | 7.3% | 7.8% |
| Expected rate of compensation increase ⁽²⁾ | 4.0% | 4.0% | 4.0% |
| Expected long-term rate of return on plan assets ⁽³⁾ | 9.8% | 10.0% | 10.0% |

TABLE III--Financial Information Related to Other Postretirement Benefit Plans

For measurement purposes, a 9.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003. This rate was assumed to decrease gradually to 4.5% for 2009.

(1) Prior service costs are amortized using the straight-line method over the average remaining service period of employees affected by the plan amendment.

(2) Weighted-average rates as of December 31.

(3) Weighted-average rates used in determining consolidated expense. The weighted-average rate for 2003 is 9.0%.

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Effects of a one-percentage-point change in the assumed health care cost trend rates for 2002:

| | <u>One-percentage-point increase</u> | <u>One-percentage-point decrease</u> |
|--------------------------------------------------------------------------------------------------------------|--------------------------------------|--------------------------------------|
| Approximate effect on the total of service and interest cost components of other postretirement benefit cost | \$ 31 | \$ (26) |
| Approximate effect on accumulated postretirement benefit obligation | \$ 272 | \$ (230) |

C. Other postemployment benefit plans

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

D. Summary of long-term liability:

| | <u>December 31,</u> | | |
|---------------------------------------------|---------------------|-----------------|-----------------|
| | <u>2002</u> | <u>2001</u> | <u>2000</u> |
| Pensions: | | | |
| U.S. pensions | \$ 911 | \$ 323 | \$ -- |
| Non-U.S. pensions | 434 | 130 | 3 |
| Total pensions | 1,345 | 453 | 3 |
| Postretirement benefits other than pensions | 2,614 | 2,578 | 2,441 |
| Other postemployment benefits | 79 | 72 | 70 |
| | <u>\$ 4,038</u> | <u>\$ 3,103</u> | <u>\$ 2,514</u> |

12. Short-term borrowings

| | <u>December 31,</u> | | |
|------------------------|---------------------|-------------|-------------|
| | <u>2002</u> | <u>2001</u> | <u>2000</u> |
| Machinery and Engines: | | | |
| Notes payable to banks | \$ 64 | \$ 219 | \$ 104 |
| Commercial paper | -- | -- | 237 |
| Other | -- | -- | 28 |
| | <u>64</u> | <u>219</u> | <u>369</u> |

| | December 31, | | |
|------------------------------------|-----------------|-----------------|---------------|
| | 2002 | 2001 | 2000 |
| Financial Products: | | | |
| Notes payable to banks | 174 | 126 | 92 |
| Commercial paper | 1,682 | 1,715 | 400 |
| Other | 255 | 120 | 110 |
| | <u>2,111</u> | <u>1,961</u> | <u>602</u> |
| Total short-term borrowings | \$ 2,175 | \$ 2,180 | \$ 971 |

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

| | December 31, | | |
|------------------------|--------------|------|------|
| | 2002 | 2001 | 2000 |
| Notes payable to banks | 5.7% | 5.6% | 6.9% |
| Commercial paper | 2.5% | 2.5% | 5.9% |
| Other | 2.8% | 3.4% | 6.8% |

Please refer to Note 17 and Table V for fair value information on short-term borrowings.

13. Long-term debt

| | December 31, | | |
|---------------------------------------------------------------------|--------------|--------------|--------------|
| | 2002 | 2001 | 2000 |
| Machinery and Engines: | | | |
| Notes--6.000% due 2003 | \$ -- | \$ 253 | \$ 252 |
| Notes--6.550% due 2011 | 249 | 249 | -- |
| Debentures--9.000% due 2006 | 209 | 211 | 203 |
| Debentures--6.000% due 2007 | 189 | 180 | 162 |
| Debentures--7.250% due 2009 | 318 | 321 | 300 |
| Debentures--9.375% due 2011 | 123 | 123 | 123 |
| Debentures--9.750% due 2000-2019 | -- | -- | 139 |
| Debentures--9.375% due 2021 | 236 | 236 | 236 |
| Debentures--8.000% due 2023 | 199 | 199 | 199 |
| Debentures--6.625% due 2028 | 299 | 299 | 299 |
| Debentures--7.300% due 2031 | 348 | 348 | -- |
| Debentures--6.950% due 2042 | 249 | -- | -- |
| Debentures--7.375% due 2097 | 297 | 297 | 297 |
| Medium-term notes | 25 | 26 | 96 |
| Capital lease obligations | 538 | 467 | 474 |
| Commercial paper supported by revolving credit agreements (Note 14) | -- | 130 | -- |
| Other | 124 | 153 | 74 |
| | <u>3,403</u> | <u>3,492</u> | <u>2,854</u> |
| Total Machinery and Engines | 3,403 | 3,492 | 2,854 |
| Financial Products: | | | |
| Commercial paper supported by revolving credit agreements (Note 14) | \$ 1,825 | \$ 1,755 | \$ 2,732 |

| | December 31, | | |
|------------------------------------------------|------------------|------------------|------------------|
| | | | |
| Medium-term notes | 6,298 | 5,972 | 5,687 |
| Other | 70 | 72 | 61 |
| Total Financial Products | 8,193 | 7,799 | 8,480 |
| Total long-term debt due after one year | \$ 11,596 | \$ 11,291 | \$ 11,334 |

All outstanding notes and debentures are unsecured. The capital lease obligations are collateralized by leased manufacturing equipment and/or security deposits.

The 6% notes due in 2003, classified as debt due within one year, may be redeemed in whole at their principal amount if we are required to pay additional taxes or duties as a result of a change in tax law and that obligation cannot be reasonably avoided. In addition, if the identity of beneficial owners of the notes must be disclosed in certain circumstances, we would be required either to redeem the notes or satisfy the information disclosure requirement through the payment of certain taxes or charges. We also may purchase the 6% notes at any time in the open market.

The 6% debentures due in 2007, were sold at significant original issue discounts (\$144). This issue is carried net of the unamortized portion of its discount, which is amortized as interest expense over the life of the issue. These debentures have a principal at maturity of \$250 and an effective annual cost of 13.3%. We may redeem them, at our option, at an amount equal to the respective principal at maturity.

We may redeem the 6.55% notes and the 7.25%, 6.625%, 7.3%, 6.95% and 7.375% debentures in whole or in part at our option at any time at a redemption price equal to the greater of 100% of the principal amount of the debentures to be redeemed or the sum of the present value of the remaining scheduled payments.

The terms of other notes and debentures do not specify a redemption option prior to maturity.

The medium-term notes are offered on a continuous basis through agents and are primarily at fixed rates. At December 31, 2002, *Machinery and Engines* medium-term notes had a weighted average interest rate of 8.1% with one to two years remaining to maturity. *Financial Products* medium-term notes have a weighted average interest rate of 3.7% with remaining maturities up to 13 years at December 31, 2002.

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The aggregate amounts of maturities of long-term debt during each of the years 2003 through 2007, including amounts due within one year and classified as current, are:

| | December 31, | | | | |
|-----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| Machinery and Engines | \$ 258 | \$ 67 | \$ 18 | \$ 231 | \$ 204 |
| Financial Products | 3,654 | 2,714 | 1,474 | 981 | 818 |
| | \$ 3,912 | \$ 2,781 | \$ 1,492 | \$ 1,212 | \$ 1,022 |

Interest paid on short-term and long-term borrowings for 2002, 2001 and 2000 was \$815, \$1,009 and \$930, respectively.

Please refer to Note 17 and Table V in this Item 15 for fair value information on long-term debt.

14. Credit commitments

| | December 31, 2002 | | |
|------------------------------|-------------------------|-------------------------|-------------------------|
| | Consolidated | Machinery and Engines | Financial Products |
| Credit lines available: | | | |
| Global credit facility | \$ 4,550 ⁽¹⁾ | \$ 4,550 ⁽¹⁾ | \$ 3,950 ⁽¹⁾ |
| Other external | 1,353 | 542 | 811 |
| Intercompany | -- | 500 ⁽²⁾ | 826 ⁽²⁾ |
| Total credit lines available | 5,903 | 5,592 | 5,587 |
| Utilized credit | 238 | 64 | 174 |
| Unused credit | \$ 5,665 | \$ 5,528 | \$ 5,413 |

⁽¹⁾ A global credit facility of \$4,550 is available to both *Machinery and Engines* and *Financial Products* (Cat Financial) to support commercial paper programs. Cat Financial may use up to 90% of the available facility subject to a maximum debt to equity and a minimum interest coverage ratio. *Machinery and Engines* may use up to 100% of the available facility subject to a minimum level of net worth. Based on these restrictions, and the allocation decisions of available credit made by management, the portion of the facility available to Cat Financial at December 31, 2002, was \$3,950. The facility is comprised of two components; \$2,425 expiring in September 2003 and \$2,125 expiring in September 2006. The facility expiring in September 2003 has a provision which allows Caterpillar to obtain a one-year term loan in September 2003 that matures in September 2004.

⁽²⁾ Represents variable lending agreements between Caterpillar Inc. and Cat Financial.

Based on long-term credit agreements, \$1,825, \$1,885 and \$2,732 of commercial paper outstanding at December 31, 2002, 2001 and 2000, respectively, was classified as long-term debt due after one year.

15. Capital stock

A. Stock options

In 1996, stockholders approved the Stock Option and Long-Term Incentive Plan (the Plan) providing for the granting of options to purchase common stock to officers and other key employees, as well as non-employee directors. The Plan reserves 47 million shares of common stock for issuance (39 million under the Plan and 8 million under prior stock option plans). Options vest at the rate of one-third per year over the three year period following the date of grant, and have a maximum term of 10 years. Common shares issued under stock options, including treasury shares reissued, totaled 882,580, 693,444 and 346,333, in 2002, 2001 and 2000, respectively.

The Plan grants options which have exercise prices equal to the average market price on the date of grant. As required by SFAS 148, a summary of the pro forma net income and profit per share amounts is shown in Note 1K on Page A-9. The fair value of each option grant is estimated at the date of grant using the Black-Scholes option-pricing model.

Please refer to Table IV for additional financial information on our stock options.

TABLE IV--Financial Information Related to Capital Stock

Changes in the status of common shares subject to issuance under options:

| 2002 | | 2001 | | 2000 | |
|--------|---------------------------------|--------|---------------------------------|--------|---------------------------------|
| Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| | | | | | |

TABLE IV--Financial Information Related to Capital Stock

Fixed Options:

| | | | | | | |
|----------------------------------------------------------------|-------------------|----------|-------------------|----------|-------------------|----------|
| Outstanding at beginning of year | 32,295,230 | \$ 47.34 | 26,336,074 | \$ 44.49 | 20,404,176 | \$ 45.90 |
| Granted to officers and key employees | 8,050,864 | \$ 50.72 | 7,512,206 | \$ 53.53 | 6,621,858 | \$ 38.41 |
| Granted to outside directors | 52,000 | \$ 58.87 | 52,000 | \$ 45.51 | 44,000 | \$ 43.75 |
| Exercised | (1,580,754) | \$ 26.41 | (1,273,361) | \$ 23.64 | (543,090) | \$ 19.49 |
| Lapsed | (95,976) | \$ 50.28 | (331,689) | \$ 47.13 | (190,870) | \$ 55.17 |
| Outstanding at end of year | <u>38,721,364</u> | \$ 48.91 | <u>32,295,230</u> | \$ 47.34 | <u>26,336,074</u> | \$ 44.49 |
| Options exercisable at year-end | 23,909,130 | \$ 48.23 | 19,062,802 | \$ 45.74 | 15,214,347 | \$ 42.47 |
| Weighted-average fair value of options granted during the year | \$14.85 | | \$14.56 | | \$10.92 | |

Stock options outstanding and exercisable:

| Exercise Prices | Options Outstanding | | | Options Exercisable | |
|------------------|---------------------------|-----------------------------------------------------|---------------------------------|---------------------------|---------------------------------|
| | # Outstanding at 12/31/02 | Weighted-Average Remaining Contractual Life (Years) | Weighted-Average Exercise Price | # Outstanding at 12/31/02 | Weighted-Average Exercise Price |
| \$ 15.19-\$18.77 | 264,617 | 0.4 | \$ 18.66 | 264,617 | \$ 18.66 |
| \$ 26.77-\$39.19 | 10,479,468 | 5.5 | \$ 35.26 | 8,535,350 | \$ 34.55 |
| \$ 43.75-\$62.34 | 27,977,279 | 7.5 | \$ 54.30 | 15,109,163 | \$ 56.47 |
| | <u>38,721,364</u> | 6.9 | \$ 48.91 | <u>23,909,130</u> | \$ 48.23 |

Weighted-average assumptions used in determining fair value of option grants:

| | Grant Year | | |
|--------------------------|------------|---------|---------|
| | 2002 | 2001 | 2000 |
| Dividend yield | 2.55% | 2.49% | 2.11% |
| Expected volatility | 35.0% | 30.1% | 26.4% |
| Risk-free interest rates | 4.13% | 4.88% | 6.20% |
| Expected lives | 5 years | 5 years | 5 years |

B. Restricted stock

The Plan permits the award of restricted stock to officers and other key employees, as well as non-employee directors. During 2002, 2001 and 2000, officers and other key employees were awarded 52,475 shares, 143,686 shares and 52,032 shares, respectively, of restricted stock. During 2002, 8,450 restricted shares (in phantom form) were awarded to officers and other key employees. During 2001 and 2000, non-employee directors were granted 9,750 shares and 9,050 shares, respectively, of restricted stock.

C. Stockholders' rights plan

We are authorized to issue 5,000,000 shares of preferred stock, of which 2,000,000 shares have been designated as Series A Junior Participating Preferred Stock of \$1 par value. None of the preferred shares have been issued.

Stockholders would receive certain preferred stock purchase rights if someone acquired or announced a tender offer to acquire

15% or more of outstanding Caterpillar stock. In essence, those rights would permit each holder (other than the acquiring person) to purchase one share of Caterpillar stock at a 50% discount for every share owned. The rights, designed to protect the interests of Caterpillar stockholders during a takeover attempt, expire December 11, 2006.

16. Profit per share

Stock options to purchase 27,881,279, 19,886,054 and 12,636,262 shares of common stock at a weighted-average price of \$54.34, \$55.79 and \$57.14 were outstanding during 2002, 2001 and 2000, respectively, but were not included in the computation of diluted profit per share because the options' exercise price was greater than the average market price of the common shares.

17. Fair values of financial instruments

We used the following methods and assumptions to estimate the fair value of our financial instruments:

Cash and short-term investments--carrying amount approximated fair value.

Long-term investments (other than investments in unconsolidated affiliated companies)--fair value was estimated based on quoted market prices.

Foreign currency forward and option contracts--fair value of forward contracts was determined by discounting the future cash flow resulting from the differential between the contract price and the forward rate. Fair value of option contracts was determined by using the Black-Scholes model.

Finance receivables--fair value was estimated by discounting the future cash flow using current rates, representative of receivables with similar remaining maturities. Historical bad-debt experience also was considered.

Short-term borrowings--carrying amount approximated fair value.

Long-term debt--for *Machinery and Engines* notes and debentures, fair value was estimated based on quoted market prices. For *Financial Products*, fair value was estimated by discounting the future cash flow using our current borrowing rates for similar types and maturities of debt, except for floating rate notes and commercial paper supported by revolving credit agreements for which the carrying amounts were considered a reasonable estimate of fair value.

Interest rate swaps--fair value was estimated based on the amount that we would receive or pay to terminate our agreements as of year end.

Please refer to Table V for the fair values of our financial instruments.

TABLE V--Fair Values of Financial Instruments

| | 2002 | | 2001 | | 2000 | | Reference # |
|---------------------------------------------------------------------------------|-----------------|------------|-----------------|------------|-----------------|------------|----------------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value | |
| Asset (Liability) At December 31 | | | | | | | |
| Cash and short-term investments | \$ 309 | \$ 309 | \$ 400 | \$ 400 | \$ 334 | \$ 334 | Statement 3, Note 18 |
| Long-term investments | 874 | 874 | 791 | 791 | 741 | 741 | Note 18 |
| Foreign currency contracts | 47 | 47 | 2 | 2 | (30) | (34) | Note 2 |
| Finance receivables-- net (excluding finance type leases ⁽¹⁾) | 12,093 | 12,177 | 10,931 | 10,957 | 10,479 | 10,582 | Note 5 |
| Short-term borrowings | 2,175 | 2,175 | (2,180) | (2,180) | (971) | (971) | Note 12 |
| Long-term debt (including amounts due within one year) | | | | | | | |

TABLE V--Fair Values of Financial Instruments

| Machinery and Engines | 3,661 | 4,185 | (3,565) | (3,749) | (3,058) | (3,198) | Note 13 | |
|------------------------------|--------|--------|----------|----------|----------|----------|---------|--|
| Financial Products | 11,847 | 12,118 | (10,857) | (11,048) | (11,038) | (11,154) | Note 13 | |
| Interest rate swaps | | | | | | | | |
| Machinery and Engines-- | | | | | | | | |
| in a net receivable position | -- | -- | -- | -- | -- | 25 | Note 2 | |
| in a net payable position | -- | -- | -- | -- | (1) | -- | Note 2 | |
| Financial Products-- | | | | | | | | |
| in a net receivable position | 84 | 84 | 58 | 58 | 8 | 27 | Note 2 | |
| in a net payable position | (85) | (85) | (71) | (71) | -- | (25) | Note 2 | |

(1) Excluded items have a net carrying value at December 31, 2002, 2001 and 2000 of \$1,369, \$1,185 and \$1,087, respectively.
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18. Concentration of credit risk

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

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

Finance receivables primarily represent receivables under installment sales contracts, receivables arising from leasing transactions and notes receivable. Receivables from customers in construction-related industries made up approximately one-third of total finance receivables at December 31, 2002, 2001 and 2000. We generally maintain a secured interest in the equipment financed. No single customer or region represents a significant concentration of credit risk.

Short-term and long-term investments are held with high quality institutions and, by policy, the amount of credit exposure to any one institution is limited. Long-term investments are comprised of investments which collateralize capital lease obligations (see Note 13) and investments of Cat Insurance supporting insurance reserve requirements.

Outstanding derivative instruments, with notional amounts totaling \$6,983, \$5,872 and \$6,794, and terms generally ranging up to five years, were held at December 31, 2002, 2001 and 2000, respectively. Collateral is not required of the counterparties or of our company. We do not anticipate nonperformance by any of the counterparties. Our exposure to credit loss in the event of nonperformance by the counterparties is limited to only those gains that we have recorded, but have not yet received, cash payment. At December 31, 2002, 2001 and 2000, the exposure to credit loss was \$176, \$80 and \$30, respectively.

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

19. Operating leases

We lease certain computer and communications equipment, transportation equipment and other property through operating leases. Total rental expense for operating leases was \$240, \$256 and \$267 for 2002, 2001 and 2000, respectively.

Minimum payments for operating leases having initial or remaining non-cancelable terms in excess of one year are:

| Years ended December 31, | | | | | | |
|--------------------------|------|------|------|------|------------|-------|
| 2003 | 2004 | 2005 | 2006 | 2007 | After 2007 | Total |
| | | | | | | |

Years ended December 31,

\$ 185 \$ 154 \$ 102 \$ 72 \$ 53 \$ 300 \$ 866

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20. Guarantees and product warranty

We have guaranteed to repurchase loans of certain Caterpillar dealers from the Dealer Capital Asset Trust (DCAT) in the event of default. These guarantees arose in conjunction with Cat Financial's relationship with third party dealers who sell Caterpillar equipment. These guarantees have terms ranging from one to four years and are secured primarily by dealer assets. At December 31, 2002, the total amount outstanding under these guarantees was \$290 and the related book value was zero. For guarantees entered into after December 31, 2002, we will record a liability in accordance with FIN 45.

Our product warranty liability is determined by applying historical claim rate experience to the current field population and dealer inventory. Generally, historical claim rates are developed using a 12-month rolling average of actual warranty payments. These rates are applied to the field population and dealer inventory to determine the liability.

| | 2002 | 2001 | 2000 |
|---------------------------------|--------|--------|--------|
| Warranty liability, January 1 | \$ 652 | \$ 615 | \$ 578 |
| Payments | (494) | (478) | (471) |
| Provision for warranty | 535 | 515 | 508 |
| Warranty liability, December 31 | \$ 693 | \$ 652 | \$ 615 |

21. Environmental and legal matters

The company is regulated by federal, state and international environmental laws governing our use of substances and control of emissions. Compliance with these existing laws has not had a material impact on our capital expenditures, earnings or competitive position.

We are cleaning up hazardous waste at a number of locations, often with other companies, pursuant to federal and state laws. When it is likely we will pay clean-up costs at a site and those costs can be estimated, the costs are charged against our earnings. In making that estimate, we do not consider amounts expected to be recovered from insurance companies and others.

The amount set aside for environmental cleanup is not material and is included in "Accrued expenses" in Statement 3. If a range of liability estimates is available on a particular site, we accrue the lower end of that range.

We cannot estimate costs on sites in the very early stages of cleanup. Currently, we have five sites in the very early stages of cleanup, and there is no more than a remote chance that a material amount for cleanup will be required.

Pursuant to a consent decree Caterpillar entered with the United States Environmental Protection Agency (EPA), the company was required to meet certain emission standards by October 2002. The decree provides that if the manufacturers were unable to meet the standards at that time they would be required to pay a non-conformance penalty (NCP) on each engine sold that did not meet the standard. The amount of the NCP would be based on how close to meeting the standard the engine came - the more out of compliance the higher the penalty. The company began shipping lower emission engines in October 2002 as a bridge until fully compliant Advanced Combustion Emission Reduction Technology (ACERT) engines are introduced in 2003.

The consent decree also provided the ability to "bank" emissions credits prior to October 2002 that could be used to offset non-conforming engines produced after January 1, 2003. That is, if a company was able to produce and sell engines that were below the applicable standard prior to October 2002, then the company could apply the emission credits created by those engines to engines produced after January 1, 2003 that do not meet the consent decree standard. For example, an engine produced and sold prior to October 2002 that produced 3.5 grams of NOx as compared to 4.0 gram standard would create a 0.5 gram credit. This credit would be "banked" to be used to offset the NOx deficiency of an engine produced after January 1, 2003 that did not meet the consent decree standard. Given this scenario, a company could produce and sell a 3.0 gram engine in 2003 without paying an NCP even though the engine exceeds the 2.5 gram standard. Caterpillar has a legal right, as described in the consent decree, to

use its banked credits as offsets against NCPs for non-compliant engines produced after December 31, 2002. The EPA has approved the process by which the credits are calculated.

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We produced and sold 70,399 medium heavy-duty engines prior to October 2002 that yielded emissions below the applicable standard for that period, resulting in 20,987.8 Mg of medium heavy-duty banked credits. We expect to produce approximately 26,800 non-conforming medium heavy-duty engines after January 1, 2003, but we do not expect to pay any NCPs on these medium-duty engines in 2003 due to our banked credits. We produced and sold 958 heavy-duty engines in 2002 resulting in 1,230.2 Mg of heavy-duty banked credits. Of the approximately 25,800 non-conforming heavy-duty engines we expect to build after January 1, 2003, these banked credits are expected to offset the NCPs on approximately 3,000 of these units.

We began production of medium heavy-duty ACERT engines complying with the EPA emissions standards in early 2003. Caterpillar received certification from the EPA in January 2003 for the C9 diesel engine, the first of our new engines equipped with ACERT Technology. We began shipping of the C9 -- which was certified to the more stringent Transit Bus standards - in March. We received certification for our second ACERT equipped model, the C7 in March and this engine will be in production in June of 2003.

We anticipate that our heavy heavy-duty models -- the C13 and C15 (the ACERT versions of the current C-12 and C-15, respectively) -- will be in full production by October and the C11 (the ACERT version of the current C-10) will be in full production by December after the EPA has certified each engine. As a result, we do not anticipate paying NCPs beyond 2003.

The certification process is described in the consent decree and the regulations, and includes the following:

- The durability of the engine is established through testing to determine if the engine emissions change with time. An emissions deterioration factor is determined that represents the amount of emission deterioration that would be expected over the useful life of the engine.
- An emission data engine is tested according to the regulations. Emission levels are determined on various steady state and transient tests.
- The results from the two tests are submitted to the EPA in a certification application as proof that the engine meets the requirements along with additional information and a request that a certificate be granted.
- The EPA reviews the application and if all the regulatory requirements are met, a certificate is issued.
- If the engine exceeds the standard, the EPA issues a certificate for either a banked or an NCP engine. The NCP engine certificate requires Production Compliance Auditing (PCA) testing.

After receipt of the EPA certificate manufacturing and shipment of the certified engines can begin. Each engine is labeled to indicate that it is certified.

Our expense for NCPs was \$40 million in 2002. This amount was based on levels that we believed the engines would perform when tested. For 2002, we paid NCPs on 6,195 heavy-duty units and 7,198 medium heavy-duty units, and in 2003 we estimate we will pay NCPs on 22,858 heavy-duty units. The actual NCP amount will not be known until final testing with the EPA is completed with all models during 2003. Our estimates of the NCP amounts are based on our knowledge of how each of the engine models is expected to perform in PCA testing. Caterpillar can make fairly accurate predictions of the emissions profiles of its engines due to its engineering knowledge, development process, and prior testing of its engines during development. PCA testing on medium heavy-duty engines has now been completed; PCA testing on heavy heavy-duty engines is on going. Therefore, while PCA testing has not been concluded, we are confident that our NCP and credit-consumption estimates will be fairly accurate.

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Aside from \$142 million in customary research and development expenses, emissions standard changes negatively impacted our 2002 financial results by \$24 million (\$17 million after tax) as NCPs (\$40 million pre-tax), product cost increases and ramp-up production costs (\$4 million pre-tax) were partially offset by price increases for these engines (\$20 million pre-tax). We recorded the \$40 million for NCPs when the bridge engines were produced, and either have paid or will pay the EPA from an escrow account no later than 30 days after PCA testing on an engine class is complete. For example, on January 31, 2003, Caterpillar deposited \$41.4 million (the recorded \$40 million based on our estimates plus an additional \$1.4 million following the completion of PCA testing) with an escrow agent for estimated NCPs related to fourth quarter 2002 bridge engine production. This included \$17 million for

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medium heavy-duty engine models and \$24.4 million for heavy-duty engine models. After completion of EPA testing of "high horsepower" medium heavy-duty engines, on March 11, 2003 Caterpillar released \$8 million from the escrow account to the EPA. After completion of testing of the remaining medium heavy-duty engine models, on March 25, 2003 Caterpillar released the remaining \$9 million from the medium heavy-duty engine escrow account and paid an additional \$900,000 to the EPA because the tested level of NCPs for that engine family was slightly higher per engine than was anticipated at the time of the January 31 escrow deposit.

The following table reflects the 2002 impact of the emission standard changes:

| 2002 | |
|--------------------------------------------------|----------------|
| (millions of dollars) | |
| Price (Engines Sold x Price Increase) | \$ 20 |
| Incremental Costs (Cost of Additional Materials) | (4) |
| NCPs (Engines Sold x Projected NCP per Engine) | (40) |
| Net Effect Pre-Tax | \$ (24) |
| Tax | 7 |
| Net Effect After Tax | \$ (17) |

In addition to the above, the consent decree required Caterpillar to pay a fine of \$25 million, which was expensed in 1998 and to make investments totaling \$35 million in environmental-related products by July 7, 2007. Total qualifying investments to date for these projects is \$21 million, of which \$10 million was made in 2002. A future benefit is expected to be realized from these environmental projects related to Caterpillar's ability to capitalize on the technologies it developed in complying with its environmental project obligations. In short, Caterpillar expects to receive a positive net return on the environmental projects by being able to market the technology it developed.

As of December 31, 2002 we expect the net unfavorable impact of emission standard changes in 2003 to be no more than 2002 as we estimate that significantly higher NCPs (approximately \$93 million pre-tax), product cost increases and ramp-up production costs (approximately \$76 million pre-tax), will be partially offset by price increases for bridge and ACERT engines (approximately \$153 million pre-tax). For example, we estimate that we will sell 8,728 C-12 engines in 2003 that will be subject to NCPs. We also estimate that the blended (there are multiple models of the C-12) NCP per engine will be \$5,103. Caterpillar is not required to make any payment to the EPA for these engines until PCA testing for the engine model has been completed. However, Caterpillar is required to place an amount equal to its estimated NCPs for that engine model into an escrow account on a quarterly basis. As a result, we will record approximately \$93 million for NCPs as the bridge engines are produced and once PCA testing is completed for an engine model, we will pay the EPA the NCPs on these engine sales out of the established escrow accounts on a quarterly basis.

The following table reflects the projected 2003 impact of the emission standard changes:

| 2003 | |
|---------------------------------------------------------------------------|----------------|
| (millions of dollars) | |
| Price (Bridge or ACERT Price Increase x Projected Engine Sales) | \$ 153 |
| Incremental Costs (Cost of Additional Materials) | (76) |
| NCPs (Projected NCP per Engine x Projected Engine Sales - banked credits) | (93) |
| Net Effect Pre-Tax | \$ (16) |
| Tax | 4 |

| | | |
|----------------------|----|------|
| Net Effect After Tax | \$ | (12) |
|----------------------|----|------|

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As reflected in this table, our projections for 2003 are subject to assumptions regarding projected NCPs, price increases and volumes. For example, our estimate of NCPs per engine could change from the \$3600 average per heavy-duty engine based on the results of on-going EPA testing; this testing could impact both the NCP level per engine and the utilization of banked credits. However, we are able to make fairly accurate predictions of the results of the EPA tests due to our engineering knowledge, development process and internal testing during development. Our net price increase for heavy-duty bridge engines was successfully implemented on October 1, 2002; this increase was competitive with price increases implemented by other engine manufacturers on that date. With the introduction of ACERT engines in 2003, there will be an additional price increase to truck manufacturers that purchase our engines. This increase has been communicated to the truck manufacturers and is based on the additional value that we expect truck owners to receive from ACERT engines compared to our competitors as a result of better fuel economy, less maintenance and greater durability. The ultimate net price increase we are able to achieve for our ACERT engines is dependent upon marketplace acceptance of these engines versus competitive alternatives. While we estimate volume to the best of our ability, industry volume is an issue out of our control.

We will revise our disclosures in future filings accordingly if the actual NCP amount in 2003 vary materially from our projections, if the market unexpectedly will not bear the planned price increase or if our estimated volumes prove to have been materially too conservative or optimistic.

On January 16, 2002, Caterpillar commenced an action against Navistar International Transportation Corporation and International Truck and Engine Corporation (Navistar). Caterpillar seeks a declaratory judgment upholding a long-term purchase contract plus damages arising from Navistar's alleged breach of contract. On January 22, 2003, Caterpillar filed its First Amended Complaint to add four additional defendants and to add claims alleging that two of the new defendants colluded with Navistar to utilize technology misappropriated from Caterpillar. At December 31, 2002, the past due receivable from Navistar related to this case was \$104 million. On January 17, 2002, Navistar commenced an action against Caterpillar that alleges we breached various aspects of the long-term purchase contract. On April 2, 2002, the Court granted Caterpillar's Motion for Involuntary Dismissal of this action; Navistar subsequently asserted its claims as counterclaims in the action Caterpillar filed in Peoria. We believe Navistar's claims are without merit, and resolution of these matters will not have a material impact on our financial statements.

On May 7, 2002, International Truck and Engine Corporation (International) commenced an action against Caterpillar in the Circuit Court of DuPage County, Illinois that alleges Caterpillar breached various aspects of a long-term agreement term sheet. In its third amended complaint, International seeks a declaration from the court that the term sheet constitutes a legally binding contract for the sale of heavy-duty engines at specified prices through the end of 2006, alleges that Caterpillar breached the term sheet by raising certain prices effective October 1, 2002, and also alleges that Caterpillar breached an obligation to negotiate a comprehensive long-term agreement referenced in the term sheet. International further claims that Caterpillar improperly restricted the supply of heavy-duty engines to International from June through September 2002. International seeks damages "in an amount to be determined at trial" and injunctive relief. Caterpillar filed an answer denying International's claims and has filed a counterclaim seeking a declaration that the term sheet has effectively been terminated. Caterpillar denies International's claims and will vigorously contest them. The company further believes that final resolution of this matter will not have a material impact on our financial statements. This matter is not related to the breach of contract action brought by Caterpillar against International currently pending in the Circuit Court of Peoria County, Illinois.

22. Segment information

A. Basis for segment information

The company is organized based on a decentralized structure that has established accountabilities to continually improve business focus and increase our ability to react quickly to changes in both the global business cycle and competitors' actions. Our current structure uses a product, geographic matrix organization comprised of multiple profit and service center divisions.

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Caterpillar is a highly integrated company. The majority of our profit centers are product focused. They are primarily responsible for the design, manufacture and ongoing support of their products. However, some of these product-focused profit centers also have marketing responsibilities. We also have geographically-based profit centers that are focused primarily on marketing. However, most of these profit centers also have some manufacturing responsibilities. One of our profit centers provides various financial services to our customers and dealers. The service center divisions perform corporate functions and provide centralized services.

We have developed an internal measurement system to evaluate performance and to drive continuous improvement. This measurement system, which is not based on generally accepted accounting principles (GAAP), is intended to motivate desired behavior of employees and drive performance. It is not intended to measure a division's contribution to enterprise results. The sales and cost information used for internal purposes varies significantly from our consolidated, externally reported information resulting in substantial reconciling items. Each division has specific performance targets and is evaluated and compensated based on achieving those targets. Performance targets differ from division to division; therefore, meaningful comparisons cannot be made among the profit or service center divisions. It is the comparison of actual results to budgeted results that makes our internal reporting valuable to management. Consequently, we feel that the financial information required by Statement of Financial Accounting Standards No. 131 (SFAS 131) "Disclosures about Segments of an Enterprise and Related Information" has limited value for our external readers.

Due to Caterpillar's high level of integration and our concern that segment disclosures based on SFAS 131 requirements have limited value to external readers, we are continuing to disclose financial results for our three lines of business (Machinery, Engines and Financial Products) in our Management's Discussion and Analysis in Item 7 of this Form 10-K/A.

B. Description of segments

The profit center divisions meet the SFAS 131 definition of "operating segments;" however, the service center divisions do not. Several of the profit centers have similar characteristics and have been aggregated. The following is a brief description of our seven reportable segments and the business activities included in the "All other" category.

Asia/Pacific Marketing: Primarily responsible for marketing products through dealers in Australia, Asia (excluding Japan) and the Pacific Rim. Also includes the regional manufacturing of some products which also are produced by *Construction & Mining Products*.

Construction & Mining Products: Primarily responsible for the design, manufacture and ongoing support of small, medium and large machinery used in a variety of construction and mining applications. Also includes the design, manufacture, procurement and marketing of components and control systems that are consumed primarily in the manufacturing of our machinery.

EAME Marketing: Primarily responsible for marketing products through dealers in Europe, Africa, the Middle East and the Commonwealth of Independent States. Also includes the regional manufacturing of some products which are also produced by *Construction & Mining Products* and *Power Products*.

Finance & Insurance Services: Provides financing to customers and dealers for the purchase and lease of Caterpillar and other equipment, as well as some financing for Caterpillar sales to dealers. Financing plans include operating and finance leases, installment sale contracts, working capital loans and wholesale financing plans. The division also provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment.

Latin America Marketing: Primarily responsible for marketing products through dealers in Latin America. Also includes the regional manufacturing of some products that also are produced by *Construction & Mining Products* and *Power Products*.

Power Products: Primarily responsible for the design, manufacture, marketing and ongoing support of reciprocating and turbine engines along with related systems. These engines and related systems are used in products manufactured in other segments, on-highway trucks and locomotives; and in a variety of construction, electric power generation, marine, petroleum and industrial applications.

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North America Marketing: Primarily responsible for marketing products (excluding *Power Products*) through dealers in the United States and Canada.

All other: Primarily includes activities such as: service support and parts distribution to Caterpillar dealers worldwide; the design, manufacture and ongoing support of agricultural machinery and paving products; logistics services for other companies; service tools for Caterpillar dealers; and the remanufacture of Caterpillar engines and components.

C. Segment measurement and reconciliations

Please refer to Table VI for financial information regarding our segments. There are several accounting differences between our segment reporting and our GAAP-based external reporting. Our segments are measured on an accountable basis; therefore, only those items for which divisional management is directly responsible are included in the determination of segment profit/(loss) and assets. The following is a list of the more significant accounting differences:

- Generally, liabilities are managed at the corporate level and are not included in segment operations. Segment accountable assets generally include inventories, receivables, property, plant and equipment.
- We account for intersegment transfers using a system of market-based prices. With minor exceptions, each of the profit centers either sells or purchases virtually all of its products to or from other profit centers within the company. Our high level of integration results in our internally reported sales being approximately double that of our consolidated, externally reported sales.
- Segment inventories and cost of sales are valued using a current cost methodology.
- Postretirement benefit expenses are split; segments are generally responsible for service and prior services costs, with the remaining elements of net periodic benefit cost included as a methodology difference.
- Interest expense is imputed (i.e., charged) to profit centers based on their level of accountable assets. This calculation takes into consideration the corporate debt to debt-plus-equity ratio and a weighted-average corporate interest rate.
- In general, foreign currency fluctuations are neutralized for segment reporting.
- Accountable profit is determined on a pretax basis.

TABLE VI--Segment Information

Business Segments:

Machinery and Engines

| | Asia/ Pacific Marketing | Construction & Mining Products | EAME Marketing | Latin America Marketing | Power Products | North America Marketing | All Other | Total | Financing & Insurance Services | Consolidated Total |
|---------------------------------|-------------------------------|--------------------------------------|-------------------|-------------------------------|-------------------|-------------------------------|--------------|--------|-----------------------------------------|-----------------------|
| 2002 | | | | | | | | | | |
| External sales and revenues | \$ 1,660 | 237 | 2,828 | 1,313 | 5,736 | 5,575 | 1,253 | 18,602 | 1,779 | \$ 20,381 |
| Intersegment sales and revenues | \$ 4 | 6,728 | 1,784 | 181 | 3,996 | 152 | 1,926 | 14,771 | -- | \$ 14,771 |
| Total sales and revenues | \$ 1,664 | 6,965 | 4,612 | 1,494 | 9,732 | 5,727 | 3,179 | 33,373 | 1,779 | \$ 35,152 |
| Depreciation and amortization | \$ 12 | 209 | 49 | 25 | 293 | -- | 69 | 657 | 417 | \$ 1,074 |
| Imputed interest expense | \$ 12 | 67 | 30 | 6 | 124 | 36 | 66 | 341 | 540 | \$ 881 |
| Accountable profit (loss) | \$ 113 | 431 | 135 | 72 | 34 | 64 | 323 | 1,172 | 268 | \$ 1,440 |
| Accountable assets at Dec. 31 | \$ 436 | 2,184 | 912 | 485 | 4,025 | 1,574 | 2,371 | 11,987 | 17,417 | \$ 29,404 |
| Capital Expenditures | \$ 13 | 179 | 63 | 13 | 238 | 2 | 81 | 589 | 1,177 | \$ 1,766 |
| 2001 | | | | | | | | | | |
| External sales and revenues | \$ 1,408 | 230 | 2,847 | 1,501 | 5,844 | 5,878 | 1,263 | 18,971 | 1,717 | \$ 20,688 |
| Intersegment sales and revenues | \$ 12 | 7,167 | 1,814 | 145 | 4,684 | 219 | 1,859 | 15,900 | 1 | \$ 15,901 |
| Total sales and revenues | \$ 1,420 | 7,397 | 4,661 | 1,646 | 10,528 | 6,097 | 3,122 | 34,871 | 1,718 | \$ 36,589 |
| Depreciation and amortization | \$ 12 | 211 | 58 | 26 | 380 | -- | 71 | 758 | 315 | \$ 1,073 |
| Imputed interest expense | \$ 13 | 70 | 27 | 8 | 117 | 61 | 67 | 363 | 673 | \$ 1,036 |
| Accountable profit (loss) | \$ 25 | 507 | 147 | 61 | 220 | 56 | 245 | 1,261 | 346 | \$ 1,607 |
| Accountable assets at Dec. 31 | \$ 441 | 2,450 | 826 | 587 | 3,946 | 1,369 | 2,463 | 12,082 | 15,437 | \$ 27,519 |
| Capital Expenditures | \$ 10 | 270 | 59 | 21 | 335 | -- | 140 | 835 | 858 | \$ 1,693 |

TABLE VI--Segment Information

| 2000 | | | | | | | | | | | | |
|---------------------------------|----|-------|-------|-------|-------|--------|-------|-------|--------|--------|----|--------|
| External sales and revenues | \$ | 1,377 | 222 | 2,768 | 1,303 | 6,247 | 5,861 | 1,062 | 18,840 | 1,527 | \$ | 20,367 |
| Intersegment sales and revenues | \$ | 7 | 7,070 | 1,885 | 123 | 4,711 | 173 | 1,907 | 15,876 | -- | \$ | 15,876 |
| Total sales and revenues | \$ | 1,384 | 7,292 | 4,653 | 1,426 | 10,958 | 6,034 | 2,969 | 34,716 | 1,527 | \$ | 36,243 |
| Depreciation and amortization | \$ | 11 | 211 | 60 | 27 | 345 | -- | 63 | 717 | 237 | \$ | 954 |
| Imputed interest expense | \$ | 9 | 60 | 27 | 10 | 101 | 88 | 65 | 360 | 703 | \$ | 1,063 |
| Accountable profit (loss) | \$ | 64 | 581 | 194 | 33 | 489 | 85 | 197 | 1,643 | 253 | \$ | 1,896 |
| Accountable assets at Dec. 31 | \$ | 405 | 2,267 | 906 | 592 | 3,867 | 1,739 | 2,377 | 12,153 | 14,185 | \$ | 26,338 |
| Capital Expenditures | \$ | 8 | 204 | 67 | 24 | 254 | 1 | 94 | 652 | 659 | \$ | 1,311 |

Reconciliations:

| | (Unaudited) | | | | | | | |
|----------------------------------------------------------|-----------------------|--------------------------------|---------------------------|--------------------|----|-------|----|--------|
| | Machinery and Engines | Financial & Insurance Services | Consolidating Adjustments | Consolidated Total | | | | |
| Sales & Revenues | | | | | | | | |
| 2002 | | | | | | | | |
| Total external sales and revenues from business segments | \$ | 18,602 | \$ | 1,779 | \$ | -- | \$ | 20,381 |
| Other | | 46 | | (101) | | (174) | | (229) |
| Total sales and revenues | \$ | 18,648 | \$ | 1,678 | \$ | (174) | \$ | 20,152 |
| 2001 | | | | | | | | |
| Total external sales and revenues from business segments | \$ | 18,971 | \$ | 1,717 | \$ | -- | \$ | 20,688 |
| Other | | 56 | | (72) | | (222) | | (238) |
| Total sales and revenues | \$ | 19,027 | \$ | 1,645 | \$ | (222) | \$ | 20,450 |
| 2000 | | | | | | | | |
| Total external sales and revenues from business segments | \$ | 18,840 | \$ | 1,527 | \$ | -- | \$ | 20,367 |
| Other | | 73 | | (62) | | (203) | | (192) |
| Total sales and revenues | \$ | 18,913 | \$ | 1,465 | \$ | (203) | \$ | 20,175 |

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Reconciliations:

| | (Unaudited) | | |
|--|-----------------------|--------------------------------|--------------------|
| | Machinery and Engines | Financial & Insurance Services | Consolidated Total |

Reconciliations:

Profit before taxes

| 2002 | | | |
|-------------------------------------------------|-------------------|-------------------|-------------------|
| Total accountable profit from business segments | \$ 1,172 | \$ 268 | \$ 1,440 |
| Corporate costs | (242) | -- | (242) |
| Methodology differences: | | | |
| Inventory/cost of sales | (313) | -- | (313) |
| Postretirement benefit expense | 125 | -- | 125 |
| Financing costs | (32) | -- | (32) |
| Other methodology differences | 74 | 19 | 93 |
| Other | 43 | -- | 43 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total profit before taxes | \$ 827 | \$ 287 | \$ 1,114 |
| | <u> </u> | <u> </u> | <u> </u> |

| 2001 | | | |
|--------------------------------------------------|-------------------|-------------------|-------------------|
| Total accountable profit from business segments | \$ 1,261 | \$ 346 | \$ 1,607 |
| Corporate costs | (291) | -- | (291) |
| Other charges not allocated to business segments | (153) | -- | (153) |
| Methodology differences: | | | |
| Inventory/cost of sales | (107) | -- | (107) |
| Postretirement benefit expense | 185 | -- | 185 |
| Financing costs | (114) | -- | (114) |
| Other methodology differences | (23) | 11 | (12) |
| Methodology changes in segment reporting | 3 | (12) | (9) |
| Other | 63 | -- | 63 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total profit before taxes | \$ 824 | \$ 345 | \$ 1,169 |
| | <u> </u> | <u> </u> | <u> </u> |

| 2000 | | | |
|-------------------------------------------------|-------------------|-------------------|-------------------|
| Total accountable profit from business segments | \$ 1,643 | \$ 253 | \$ 1,896 |
| Corporate costs | (232) | -- | (232) |
| Methodology differences: | | | |
| Inventory/cost of sales | (399) | -- | (399) |
| Postretirement benefit expense | 195 | -- | 195 |
| Financing costs | (138) | -- | (138) |
| Other methodology differences | 32 | 25 | 57 |
| Methodology changes in segment reporting | 72 | -- | 72 |
| Other | 77 | -- | 77 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total profit before taxes | \$ 1,250 | \$ 278 | \$ 1,528 |
| | <u> </u> | <u> </u> | <u> </u> |

Reconciliations:

| (Unaudited) | | | | |
|--------------------|----------------------------------|---------------------------------------------------|--------------------------------------|-------------------------------|
| | Machinery and Engines | Financial & Insurance Services | Consolidating Adjustments | Consolidated Total |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Reconciliations:**Assets**

| 2002 | | | | | | | | |
|-----------------------------------------------------|-----------|---------------|-----------|---------------|-----------|----------------|-----------|---------------|
| Total accountable assets from business segments | \$ | 11,987 | \$ | 17,417 | \$ | -- | \$ | 29,404 |
| Items not included in segment assets: | | | | | | | | |
| Cash and short-term investments | | 146 | | 163 | | -- | | 309 |
| Intercompany trade receivables | | 917 | | 343 | | (1,260) | | -- |
| Investment in affiliated companies | | 283 | | -- | | -- | | 283 |
| Investment in Financial Products | | 1,961 | | -- | | (1,961) | | -- |
| Deferred income taxes and prepaids | | 2,802 | | 75 | | (133) | | 2,744 |
| Intangible assets and other assets | | 1,541 | | -- | | -- | | 1,541 |
| Service center assets | | 810 | | -- | | -- | | 810 |
| Dealer receivables double counted in segment assets | | (1,857) | | -- | | -- | | (1,857) |
| Liabilities included in segment assets | | 848 | | -- | | -- | | 848 |
| Inventory methodology differences | | (1,590) | | -- | | -- | | (1,590) |
| Other | | 245 | | 149 | | (35) | | 359 |
| Total assets | \$ | 18,093 | \$ | 18,147 | \$ | (3,389) | \$ | 32,851 |

| 2001 | | | | | | | | |
|-----------------------------------------------------|-----------|---------------|-----------|---------------|-----------|----------------|-----------|---------------|
| Total accountable assets from business segments | \$ | 12,082 | \$ | 15,437 | \$ | -- | \$ | 27,519 |
| Items not included in segment assets: | | | | | | | | |
| Cash and short-term investments | | 251 | | 149 | | -- | | 400 |
| Intercompany trade receivables | | 405 | | 355 | | (760) | | -- |
| Investment in affiliated companies | | 345 | | -- | | -- | | 345 |
| Investment in Financial Products | | 1,662 | | -- | | (1,662) | | -- |
| Deferred income taxes and prepaids | | 2,472 | | 55 | | (74) | | 2,453 |
| Intangible assets and other assets | | 1,445 | | -- | | -- | | 1,445 |
| Service center assets | | 844 | | -- | | -- | | 844 |
| Dealer receivables double counted in segment assets | | (1,757) | | -- | | -- | | (1,757) |
| Liabilities included in segment assets | | 853 | | -- | | -- | | 853 |
| Inventory methodology differences | | (1,571) | | -- | | -- | | (1,571) |
| Other | | 244 | | (101) | | (17) | | 126 |
| Total assets | \$ | 17,275 | \$ | 15,895 | \$ | (2,513) | \$ | 30,657 |

| 2000 | | | | | | | | |
|-------------------------------------------------|----|---------|----|--------|----|---------|----|---------|
| Total accountable assets from business segments | \$ | 12,153 | \$ | 14,185 | \$ | -- | \$ | 26,338 |
| Items not included in segment assets: | | | | | | | | |
| Cash and short-term investments | | 206 | | 128 | | -- | | 334 |
| Intercompany trade receivables | | 559 | | 445 | | (1,004) | | -- |
| Investment in affiliated companies | | 450 | | -- | | -- | | 450 |
| Investment in Financial Products | | 1,620 | | -- | | (1,620) | | -- |
| Deferred income taxes and prepaids | | 2,356 | | 30 | | (63) | | 2,323 |
| Intangible assets and other assets | | 1,549 | | -- | | -- | | 1,549 |
| Service center assets | | 453 | | -- | | -- | | 453 |
| | | (1,790) | | -- | | -- | | (1,790) |

| | | | | |
|-----------------------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Dealer receivables double counted in segment assets | | | | |
| Liabilities included in segment assets | 696 | -- | -- | 696 |
| Inventory methodology differences | (1,653) | -- | -- | (1,653) |
| Other | (45) | (170) | (21) | (236) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total assets | \$ 16,554 | \$ 14,618 | \$ (2,708) | \$ 28,464 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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Enterprise-wide Disclosures:**External sales and revenues from products and services:**

| | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|--------------------|-----------------|-----------------|-----------------|
| Machinery | \$ 11,975 | \$ 12,158 | \$ 11,857 |
| Engines | 6,673 | 6,869 | 7,056 |
| Financial Products | 1,504 | 1,423 | 1,262 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total consolidated | \$ 20,152 | \$ 20,450 | \$ 20,175 |
| | <u> </u> | <u> </u> | <u> </u> |

Information about Geographic Areas:

| | <u>Sales & Revenues⁽¹⁾</u> | | | <u>Net property, plant and equipment</u> | | |
|-----------------------|-------------------------------------------|-----------------|-----------------|------------------------------------------|----------------------|----------------------|
| | <u>December 31,</u> | | | | | |
| | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> |
| Inside United States | \$ 9,291 | \$ 10,033 | \$ 10,076 | \$ 4,524 | \$ 4,351 | \$ 3,854 |
| Outside United States | 10,861 | 10,417 | 10,099 | 2,522 ⁽²⁾ | 2,252 ⁽²⁾ | 2,097 ⁽²⁾ |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total | \$ 20,152 | \$ 20,450 | \$ 20,175 | \$ 7,046 | \$ 6,603 | \$ 5,951 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

⁽¹⁾ Sales of machinery and engines are based on dealer location. Revenues from services provided are based on where service is rendered.

⁽²⁾ Amount includes \$680, \$681 and \$628 of net property, plant and equipment located in the United Kingdom as of December 31, 2002, 2001 and 2000, respectively.

Reconciling items are created based on accounting differences between segment reporting and our consolidated, external reporting. Please refer to Table V in Note 17 for financial information regarding significant reconciling items. Most of our reconciling items are self-explanatory given the above explanations of accounting differences. However, for the reconciliation of profit, we have grouped the reconciling items as follows:

- **Corporate costs:** Certain corporate costs are not charged to our segments. These costs are related to corporate requirements and strategies that are considered to be for the benefit of the entire organization.
- **Methodology differences:** See previous discussion of significant accounting differences between segment reporting and consolidated, external reporting.
- **Methodology changes in segment reporting:** Estimated restatements of prior periods to reflect changes in our internal-reporting methodology.

23. Alliances and acquisitions

In fourth quarter 2001, we entered a software alliance with Ford Motor Company to develop a world-class logistics information system to increase the speed at which service repair parts are delivered to market.

24. Other charges

| | 2001 Charge | Asset Impairments | 2002 Activity* | 12/31/02 Balance |
|---------------------------|----------------|----------------------|-------------------|---------------------|
| Challenger: | | | | |
| Asset impairments | \$ 32 | \$ (32) | \$ -- | \$ -- |
| Exit costs | 49 | -- | (38) | 11 |
| | <u>81</u> | <u>(32)</u> | <u>(38)</u> | <u>11</u> |
| Shrewsbury: | | | | |
| Asset impairments | 16 | (16) | -- | -- |
| Redundancy | 10 | -- | (6) | 4 |
| Exit costs | 4 | -- | (2) | 2 |
| | <u>30</u> | <u>(16)</u> | <u>(8)</u> | <u>6</u> |
| U.S. employment reduction | 34 | -- | (34) | -- |
| Other asset impairments | 8 | (8) | -- | -- |
| Total | \$ 153 | \$ (56) | \$ (80) | \$ 17 |

* All amounts were paid in cash except for the U.S. employment reduction of \$34 which was reclassified to our pension accounts. Please refer to Table II in Note 11.

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During the fourth quarter of 2001, we recorded pretax charges of \$153 related to the sale of the Challenger agricultural tractor line to AGCO, charges related to ceasing engine production at our Shrewsbury, England plant, planned U.S. salaried and management employment reductions and other asset impairment charges. These charges were recorded in the "Other Operating Expenses" line in Statement 1. Planned employee reductions were 495 for Shrewsbury and 433 for the U.S. employment reduction. Challenger assets were held in our *All Other* segment and Shrewsbury assets are held in our *Power Products* segment.

During 2002, we reduced the Challenger exit cost reserve by \$38, primarily for cash outlays for research and development expenses and manufacturing equipment in accordance with the contract with AGCO. We reduced the Shrewsbury redundancy reserve by \$6 for separation benefits for 225 employees. As planned, the U.S. employment reduction was achieved entirely through voluntary retirements. As a result, the reserve of \$34 was reclassified to our pension accounts upon completion of the retirement program.

Future cash outlays for contractual commitments for the Challenger of approximately \$2 per year will continue through 2008. Most of the diesel engine production at our Shrewsbury, England plant ceased in 2002; however, it has taken longer than anticipated to finalize the design of one replacement engine. As a result, some diesel engine production at Shrewsbury will continue through 2003. The reserve will be reduced as redundancy and exit costs are incurred through 2003.

25. Selected quarterly financial results (unaudited)

2002 Quarter

| | 2002 Quarter | | | |
|-----------------------------------|--------------|----------|----------|----------|
| | 1st | 2nd | 3rd | 4th |
| Sales and revenues | \$ 4,409 | \$ 5,291 | \$ 5,075 | \$ 5,377 |
| Less: Revenues | 365 | 376 | 375 | 388 |
| Sales | 4,044 | 4,915 | 4,700 | 4,989 |
| Cost of goods sold | 3,205 | 3,856 | 3,690 | 3,958 |
| Gross margin | 839 | 1,059 | 1,010 | 1,031 |
| Profit | 80 | 200 | 213 | 305 |
| Profit per common share | \$.23 | \$.58 | \$.62 | \$.89 |
| Profit per common share --diluted | \$.23 | \$.58 | \$.61 | \$.88 |

| | 2001 Quarter | | | |
|-----------------------------------|--------------|----------|----------|----------|
| | 1st | 2nd | 3rd | 4th |
| Sales and revenues | \$ 4,810 | \$ 5,488 | \$ 5,056 | \$ 5,096 |
| Less: Revenues | 349 | 356 | 357 | 361 |
| Sales | 4,461 | 5,132 | 4,699 | 4,735 |
| Cost of goods sold | 3,462 | 3,955 | 3,669 | 3,666 |
| Gross margin | 999 | 1,177 | 1,030 | 1,069 |
| Profit | 162 | 271 | 205 | 167 |
| Profit per common share | \$.47 | \$.79 | \$.60 | \$.49 |
| Profit per common share --diluted | \$.47 | \$.78 | \$.59 | \$.48 |

2.

Financial Statement Schedule:

- All schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto incorporated by reference.

(b) There were eight reports (dated October 10, October 11, October 15, October 16 (2), November 8 (2), and December 19, 2002) filed on Form 8-K pursuant to Item 5 during the last quarter of 2002 and five additional reports filed on Form 8-K (dated January 23 (2), February 7, February 10 and February 18, 2003). No financial statements were filed as part of those reports.

(c) Exhibits:

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3.1

Restated Certificate of Incorporation (incorporated by reference from Exhibit 3(i) to the Form 10-Q filed for the quarter ended March 31, 1998).

3.2

Certificate of Designation, Preferences and Rights of the Terms of the Series A Junior Participating Preferred Stock (incorporated by reference from Exhibit 2 to Form 8-A filed December 11, 1996).

3.3

Bylaws, amended and restated as of February 10, 1999 (incorporated by reference from Exhibit 3.3 to the Form 10-K for the year ended December 31, 1998).

4

Third Amended and Restated Rights Agreement dated as of June 12, 2003, between Caterpillar Inc. and Mellon Investor Services LLC.

10.1

Caterpillar Inc. 1996 Stock Option and Long-Term Incentive Plan, amended and restated as of April 10, 2002 (incorporated by reference from Exhibit 10.1 to the Form 10-K for the year ended December 31, 2002). **

10.2

Caterpillar Inc. 1987 Stock Option Plan, as amended and restated and Long Term Incentive Supplement, amended and restated as of December 31, 2000 (incorporated by reference from Exhibit 10.2 to the Form 10-K for the year ended December 31, 2002). **

10.3

Supplemental Pension Benefit Plan, as amended and restated (incorporated by reference from Exhibit 10.3 to the Form 10-K for the year ended December 31, 1999).

10.4

Supplemental Employees' Investment Plan, as amended and restated through December 1, 2002 (incorporated by reference from Exhibit 10.4 to the Form 10-K for the year ended December 31, 2002). **

10.5

Caterpillar Inc. Executive Incentive Compensation Plan, effective as of January 1, 2002 (incorporated by reference from Exhibit 10.5 to the Form 10-K for the year ended December 31, 2002). **

10.6

Directors' Deferred Compensation Plan, as amended and restated through April 12, 1999 (incorporated by reference from Exhibit 10.6 to the Form 10-K for the year ended December 31, 1999). **

10.7

Directors' Charitable Award Program (incorporated by reference from Exhibit 10(h) to the Form 10-K for the year ended December 31, 1993). **

10.8

Deferred Employees' Investment Plan, as amended and restated through December 1, 2002 (incorporated by reference from Exhibit 10.8 to the Form 10-K for the year ended December 31, 2002). **

11

Statement re: Computation of per Share Earnings (incorporated by reference from Exhibit 11 to the Form 10-K for the year ended December 31, 2002).

12

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Statement Setting Forth Computation of Ratios of Profit to Fixed Charges (incorporated by reference from Exhibit 12 to the Form 10-K for the year ended December 31, 2002).

13

Annual Report to Security Holders attached as an Appendix to the company's 2003 Annual Meeting Proxy Statement (incorporated by reference from Exhibit 13 to the Form 10-K for the year ended December 31, 2002).

21

Subsidiaries and Affiliates of the Registrant (incorporated by reference from Exhibit 21 to the Form 10-K for the year ended December 31, 2002).

23

Consent of Independent Accountants.

99.1

Certification of Glen A. Barton, Chairman and Chief Executive Officer of Caterpillar Inc. and F. Lynn McPheeters, Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 203 of the Sarbanes-Oxley Act of 2002.

99.2

Certification of Glen A. Barton, Chairman and Chief Executive Officer of Caterpillar Inc. and F. Lynn McPheeters, Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.3

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Form 11-K/A for Caterpillar Foreign Service Employees' Stock Purchase Plan (incorporated by reference from Exhibit 99.2 to the Form 10-K/A filed with the SEC on May 29, 2003 for the year ended December 31, 2002).

99.4

Form 11-K for Employees' Investment Plan (incorporated by reference from Exhibit 99.3 to the Form 10-K/A filed with the SEC on May 29, 2003 for the year ended December 31, 2002).

99.5

Form 11-K for Savings and Investment Plan (incorporated by reference from Exhibit 99.4 to the Form 10-K/A filed with the SEC on May 29, 2003 for the year ended December 31, 2002).

99.6

Form 11-K for Tax Deferred Savings Plan (incorporated by reference from Exhibit 99.5 to the Form 10-K/A filed with the SEC on May 29, 2003 for the year ended December 31, 2002).

** Compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 14(c) of this Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CATERPILLAR INC.

(Registrant)

July 15, 2003

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

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

July 15, 2003

/s/ Glen A. Barton
(Glen A. Barton)

Chairman of the Board, Director and Chief Executive Officer

July 15, 2003

/s/ Vito H. Baumgartner
(Vito H. Baumgartner)

Group President

July 15, 2003

/s/ Douglas R. Oberhelman

Group President

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(Douglas R. Oberhelman)

| | | |
|---------------|---------------------------------------------------------|-----------------------------------------------|
| July 15, 2003 | <u>/s/ James W. Owens</u> (James W. Owens) | Group President |
| July 15, 2003 | <u>/s/ Gerald L. Shaheen</u> (Gerald L. Shaheen) | Group President |
| July 15, 2003 | <u>/s/ Richard L. Thompson</u> (Richard L. Thompson) | Group President |
| July 15, 2003 | <u>/s/ F. Lynn McPheeters</u> (F. Lynn McPheeters) | Vice President and Chief Financial Officer |
| July 15, 2003 | <u>/s/ David B. Burritt</u> (David B. Burritt) | Controller and Chief Accounting Officer |

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| | | |
|---------------|---------------------------------------------------|----------|
| July 15, 2003 | <u>/s/ W. Frank Blount</u> (W. Frank Blount) | Director |
| July 15, 2003 | <u>/s John R. Brazil</u> (John R. Brazil) | Director |
| July 15, 2003 | <u>/s/ John T. Dillon</u> (John T. Dillon) | Director |
| July 15, 2003 | <u>/s/ Eugene V. Fife</u> (Eugene V. Fife) | Director |
| July 15, 2003 | <u>/s/ Gail D. Fosler</u> (Gail D. Fosler) | Director |
| July 15, 2003 | <u>/s/ Juan Gallardo</u> (Juan Gallardo) | Director |
| July 15, 2003 | <u>/s/ David R. Goode</u> (David R. Goode) | Director |
| July 15, 2003 | <u>/s/ Peter A. Magowan</u> (Peter A. Magowan) | Director |
| July 15, 2003 | <u>/s/ William A. Osborn</u> | Director |

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(William A. Osborn)

July 15, 2003

/s/ Gordon R. Parker
(Gordon R. Parker)

Director

July 15, 2003

/s/ Charles D. Powell
(Lord Charles D. Powell)

Director

July 15, 2003

/s/ Joshua I. Smith
(Joshua I. Smith)

Director

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