

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



FORM 10-K

(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, 2009

OR

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

Commission File No. 1-768

CATERPILLAR INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

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

2. Stock-based compensation

On January 1, 2006, we adopted accounting guidance for share-based payments using the modified prospective transition method. Under the modified prospective transition method, we were required to record stock-based compensation expense for all awards granted after the date of adoption. Our stock-based compensation plans primarily provide for the granting of stock options, stock-settled stock appreciation rights (SARs) and restricted stock units (RSUs) to Officers and other key employees, as well as non-employee Directors. Stock options permit a holder to buy Caterpillar stock at the stock's price when the option was granted. SARs permit a holder the right to receive the value in shares of the appreciation in Caterpillar stock that occurred from the date the right was granted up to the date of exercise. A restricted stock unit (RSU) is an agreement to issue shares of Caterpillar stock at the time of vesting.

Our long-standing practices and policies specify all stock-based compensation awards are approved by the Compensation Committee (the Committee) of the Board of Directors on the date of grant. The stock-based award approval process specifies the number of awards granted, the terms of the award and the grant date. The same terms and conditions are consistently applied to all employee grants, including Officers. The Committee approves all individual Officer grants. The number of stock-based compensation awards included in an individual's award is determined based on the methodology approved by the Committee. In 2007, under the terms of the Caterpillar Inc. 2006 Long-Term Incentive Plan (approved by stockholders in June of 2006), the Compensation Committee approved the exercise price methodology to be the closing price of the Company stock on the date of the grant.

Common stock issued from Treasury stock under the plans totaled 3,571,268 for 2009, 4,807,533 for 2008 and 11,710,958 for 2007.

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

Our stock-based compensation plans allow for the immediate vesting upon separation for employees who meet the criteria for a "Long Service Separation" and who have fulfilled the requisite service period of six months. With the adoption of guidance on share-based payments, compensation expense is recognized over the period from the grant date to the end date of the requisite service period for employees who meet the immediate vesting upon retirement requirements. For those employees who become eligible for immediate vesting upon retirement subsequent to the requisite service period and prior to the completion of the vesting period, compensation expense is recognized over the period from grant date to the date eligibility is achieved.

Accounting guidance on share-based payments requires companies to estimate the fair value of options/SARs on the date of grant using an option-pricing model. The fair value of the option/SAR grant was estimated using a lattice-based option-pricing model. The lattice-based option-pricing model considers a range of assumptions related to volatility, risk-free interest rate and historical employee behavior. Expected volatility was based on historical and current implied volatilities from traded options on our stock. The risk-free rate was based on U.S. Treasury security yields at the time of grant. The weighted-average dividend yield was based on historical information. The expected life was determined from the lattice-based model. The lattice-based model incorporated exercise and post vesting forfeiture assumptions based on analysis of historical data. The following table provides the assumptions used in determining the fair value of the stock-based awards for the years ended December 31, 2009, 2008 and 2007, respectively.

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

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

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

At December 31, 2009, there was \$94 million of total unrecognized compensation cost from stock-based compensation arrangements granted under the plans, which is related to non-vested stock-based awards. The compensation expense is expected to be recognized over a weighted-average period of approximately 1.6 years.

Please refer to Tables I and II below for additional information on our stock-based awards.

TABLE I—Financial Information Related to Stock-based Compensation

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

Stock options/SARs outstanding and exercisable:

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

¹ Of the 6,823,227 awards granted during the year ended December 31, 2009, 6,260,647 were SARs. Of the 4,886,601 awards granted during the year ended December 31, 2008, 4,476,095 were SARs. Of the 4,426,803 awards granted during the year ended December 31, 2007, 4,195,188 were SARs.

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

³ The difference between a stock award's exercise price and the underlying stock's market price at December 31, 2009, for awards with market price greater than the exercise price. Amounts are in millions of dollars.

The computations of weighted-average exercise prices and aggregate intrinsic values are not applicable to RSUs since an RSU represents an agreement to issue shares of stock at the time of vesting. At December 31, 2009, there were 4,531,545 outstanding RSUs with a weighted average remaining contractual life of 1.4 years.

TABLE II— Additional Stock-based Award Information

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

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

In accordance with guidance on share-based payments, we classify stock-based compensation within cost of goods sold, selling, general and administrative expenses and research and development expenses corresponding to the same line item as the cash compensation paid to respective employees, officers and non-employee directors.

We currently use shares that have been repurchased through our stock repurchase program to satisfy share award exercises.

The cash tax benefits realized from stock awards exercised for December 31, 2009, 2008 and 2007 were \$26 million, \$60 million and \$167 million, respectively. We use the direct only method and tax law ordering approach to calculate the tax effects of stock-based compensation. In certain jurisdictions, tax deductions for exercises of stock-based awards did not generate a cash benefit. A tax benefit of approximately \$25 million will be recorded in APIC when these deductions reduce our future income taxes payable.



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-43133, 33-46194, 333-22041, 333-43983, 333-57512, 333-136265, 333-71468, 333-135465, 33-40393, 33-39120, 333-159262, 333-162837, 333-135123), Form S-8 (Nos. 2-97450, 333-37353, 33-8003, 333-03609, 333-41464, 333-98197, 333-115837, 333-32853, 33-32851, 333-111355, 333-128342, 333-135467, 333-133275, 333-133266, 333-133265, 333-141548) and Form S-4 (No. 333-121003) of Caterpillar Inc. of our report dated February 19, 2010 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/PricewaterhouseCoopers LLP
Peoria, Illinois
February 19, 2010