



# Stop Bulldozing Peace!

## Vote YES on Proposal #5

### 2009 Caterpillar Military Sales Shareholder Proposal.

#### **Resolution Proposed by Stockholder**

Whereas: the United States exports weapon and related military equipment and services through foreign military sales (government-to-government), direct commercial weapons sales (U.S. companies to foreign buyers), equipment leases, transfers of excess defense materiel and emergency drawdowns of weaponry.

In 2007, the United States ranked first in arms transfer *agreements* with developing nations with \$12.2 billion or 28.8% of these agreements. The United States also ranked first in the value of arms *deliveries* to developing nations at \$7.6 billion, or 44.2% of all such deliveries. The weapons sold range from ammunition to tanks, supersonic combat aircraft, missiles and submarines. (“Conventional Arms Transfers to Developing Nations, 2000-2007,” Congressional Research Service, Report for Congress, October 23, 2008)

Although it does not produce weapons systems, Caterpillar has, in the past, sold dual use equipment such as bulldozers through foreign military sales; however, the frequency and volume of sales is unknown. Nor is there precise information on which countries have received Caterpillar equipment.

Resolved: Shareholders request that, within six months of the annual meeting, the Board of Directors provide a comprehensive report, at reasonable cost and omitting proprietary and classified information, on Caterpillar’s foreign sales of weapons related products, and other equipment and services related to those products for the past 10 years, including the country of destination for the products.



#### **Supporting Statement of Stockholder**

We believe with the American Red Cross that “the greater the availability of arms, the greater the violations of human rights and international humanitarian law.” Global security is security of all people. We are seeing an increase in human rights abuses inflicted on women, people of minority ethnicities, personnel of NGOs offering medical and other human services as well as employees of corporations servicing DOD contracts. Use of Caterpillar equipment by foreign militaries in actions that violate human rights and international humanitarian law raises issues for Caterpillar corporate policy and risks damage to the Company’s reputation.

Therefore, we believe it is reasonable that the report include:

1. Processes used to determine and promote foreign sales;
2. Criteria for choosing countries with which to do business;
3. A description of procedures used to negotiate foreign arms sales, government-to-government and direct commercial sales and the percentage of sales for each category;
4. For the past ten years, categories of military equipment or components, including dual use items exported for the past five years, with as much statistical information as permissible; contracts for servicing/maintaining equipment; offset agreements; and licensing and/or co-production with foreign governments.

**Caterpillar Response to PROPOSAL 5 — Report on Foreign Military Sales**  
(on other side)



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### 2009 Caterpillar Military Sales Shareholder Proposal.

#### **Caterpillar Statement in Opposition**

After thoughtful consideration, the board recommends voting **AGAINST** this proposal because it believes completing the requested report is an inappropriate use of company resources. The company does not manufacture or sell weapons or weapon systems. It does, however, sell a limited amount of commercial equipment modified for military purposes (modified equipment) to foreign governments. These sales are predominantly performed one of two ways:

- i. federally sponsored programs — most notably the Foreign Military Sales Program (program), or
- ii. to company dealers who then sell such equipment to foreign governments.

As provided above, the company sells modified equipment to foreign governments under the program, although the overwhelming majority of sales performed by the company under the program involves ordinary equipment and not modified equipment. Under the program, the U.S. government provides financing to eligible foreign governments or organizations for the procurement of defense articles and services as well as ordinary commercial products. The U.S. government then sources these requests with U.S. manufacturers and administers the resulting contract. Sales and services under the program may be made only after the U.S. government has determined that the sale is consistent with the national security, foreign policy and economic interests of the U.S. The company has procedures and processes in place to ensure that sales of modified equipment and ordinary equipment made under the program are performed in accordance with the program and all other U.S. laws and regulations. In 2008, the company's total sales and revenues under the program were approximately \$18.9 million, which largely represents sales of ordinary equipment. These sales account for approximately 0.04 percent of the company's 2008 sales and revenues of \$51.324 billion.

In addition, the company sells modified equipment to its dealers who then sell such equipment to foreign governments. In 2008, sales of modified equipment to company dealers who then sold such equipment to foreign governments were very limited and amounted to approximately \$11.9 million — approximately 0.02 percent of the company's 2008 sales and revenues. The company also sold ordinary equipment to company dealers who then sold such ordinary equipment to foreign governments. However, pursuant to the language of the proposal, sales of ordinary equipment to foreign governments are outside the scope of this response. Given the company's relatively small volume of sales of modified equipment to foreign governments in 2008, under both of the above-described methods, the board believes that it would be an inappropriate use of the company's resources to complete the requested report.

Moreover, any sales of modified equipment (and ordinary equipment) by the company under the program are a matter of public record through information provided by the U.S. government. The Department of Defense and Department of State provide notification of such sales to Congress, which is also made available to the public. Therefore, the board believes that producing the requested report would be, for the most part, duplicative and unnecessary.

The board believes that to allocate the necessary resources to complete a detailed report addressing an insignificant portion of the company's business is an inappropriate use of company resources and not in the best interests of the company or its stockholders.

**FOR THESE REASONS, YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS VOTING  
“AGAINST” PROPOSAL 5.**