CATERPILLAR INC
Form 10-Q
May 02, 2014
Table of Contents

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

FORM 10-Q
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014
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 Number: 1-768
CATERPILLAR INC.
(Exact name of registrant as specified in its charter)

Delaware	37-0602744
(State or other jurisdiction of incorporation)	(IRS Employer I.D. No.)
100 NE Adams Street, Peoria, Illinois	61629
(Address of principal executive offices)	(Zip Code)

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

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 x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
At March 31, 2014, 624,233,901 shares of common stock of the registrant were outstanding.

Table of Contents

Table of Contents

* Item omitted because no answer is called for or item is not applicable.

Table of Contents

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

Caterpillar Inc.
Consolidated Statement of Results of Operations
(Unaudited)
(Dollars in millions except per share data)

	Three Months Ended March 31,	
	2014	2013
Sales and revenues:		
Sales of Machinery, Energy & Transportation	$12,493	$12,484
Revenues of Financial Products	748	726
Total sales and revenues	13,241	13,210
Operating costs:		
Cost of goods sold	9,437	9,639
Selling, general and administrative expenses	1,292	1,390
Research and development expenses	508	562
Interest expense of Financial Products	160	189
Other operating (income) expenses	446	212
Total operating costs	11,843	11,992
Operating profit	1,398	1,218
Interest expense excluding Financial Products	110	120
Other income (expense)	54	29
Consolidated profit before taxes	1,342	1,127
Provision (benefit) for income taxes	418	246
Profit of consolidated companies	924	881
Equity in profit (loss) of unconsolidated affiliated companies	1	1
Profit of consolidated and affiliated companies	925	882
Less: Profit (loss) attributable to noncontrolling interests	3	2
Profit [1]	$922	$880
Profit per common share	$1.47	$1.34
Profit per common share – diluted [2]	$1.44	$1.31
Weighted-average common shares outstanding (millions)		
– Basic	626.7	656.2

– Diluted[1,2]	639.3	671.6
Cash dividends declared per common share	$—	$—

[1] Profit attributable to common stockholders.
[2] Diluted by assumed exercise of stock-based compensation awards using the treasury stock method.

See accompanying notes to Consolidated Financial Statements.

Table of Contents

Caterpillar Inc.
Consolidated Statement of Comprehensive Income
(Unaudited)
(Dollars in millions)

	Three Months Ended March 31,	
	2014	2013
Profit of consolidated and affiliated companies	$925	$882
Other comprehensive income (loss), net of tax:		
Foreign currency translation, net of tax (provision)/benefit of: 2014 - $0; 2013 - $(21)	39	(366)
Pension and other postretirement benefits:		
Current year actuarial gain (loss), net of tax (provision)/benefit of: 2014 - $0; 2013 - $(10)	—	15
Amortization of actuarial (gain) loss, net of tax (provision)/benefit of: 2014 - $(44); 2013 - $(67)	86	129
Amortization of prior service (credit) cost, net of tax (provision)/benefit of: 2014 - $3; 2013 - $5	(6)	(9)
Amortization of transition (asset) obligation, net of tax (provision)/benefit of: 2014 - $0; 2013 - $0	—	1
Derivative financial instruments:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2014 - $10; 2013 - $18	(16)	(31)
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2014 - $3; 2013 - $(7)	(5)	11
Available-for-sale securities:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2014 - $(3); 2013 - $(8)	8	15
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2014 - $4; 2013 - $0	(10)	(1)
Total other comprehensive income (loss), net of tax	96	(236)
Comprehensive income	1,021	646
Less: comprehensive income attributable to the noncontrolling interests	(2)	(2)
Comprehensive income attributable to stockholders	$1,019	$644

See accompanying notes to Consolidated Financial Statements.

Table of Contents

Caterpillar Inc.
Consolidated Statement of Financial Position
(Unaudited)
(Dollars in millions)

	March 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and short-term investments	$5,345	$6,081
Receivables – trade and other	8,565	8,413
Receivables – finance	8,834	8,763
Deferred and refundable income taxes	1,401	1,553
Prepaid expenses and other current assets	935	900
Inventories	12,888	12,625
Total current assets	37,968	38,335
Property, plant and equipment – net	16,716	17,075
Long-term receivables – trade and other	1,284	1,397
Long-term receivables – finance	15,206	14,926
Investments in unconsolidated affiliated companies	266	272
Noncurrent deferred and refundable income taxes	700	594
Intangible assets	3,509	3,596
Goodwill	6,986	6,956
Other assets	1,762	1,745
Total assets	$84,397	$84,896
Liabilities		
Current liabilities:		
Short-term borrowings:		
Machinery, Energy & Transportation	$18	$16
Financial Products	4,497	3,663
Accounts payable	6,731	6,560
Accrued expenses	3,454	3,493
Accrued wages, salaries and employee benefits	1,475	1,622
Customer advances	2,500	2,360
Dividends payable	—	382
Other current liabilities	1,845	1,849
Long-term debt due within one year:		
Machinery, Energy & Transportation	759	760
Financial Products	6,016	6,592
Total current liabilities	27,295	27,297
Long-term debt due after one year:		
Machinery, Energy & Transportation	7,998	7,999
Financial Products	18,803	18,720
Liability for postemployment benefits	6,715	6,973
Other liabilities	3,217	3,029
Total liabilities	64,028	64,018
Commitments and contingencies (Notes 10 and 13)		

Stockholders’ equity		
Common stock of $1.00 par value:		
Authorized shares: 2,000,000,000 Issued shares: (3/31/14 and 12/31/13 – 814,894,624) at paid-in amount	4,773	4,709
Treasury stock (3/31/14 – 190,660,723 shares; 12/31/13 – 177,072,282 shares) at cost	(13,442)	(11,854)
Profit employed in the business	32,775	31,854
Accumulated other comprehensive income (loss)	(3,801)	(3,898)
Noncontrolling interests	64	67
Total stockholders’ equity	20,369	20,878
Total liabilities and stockholders’ equity	$84,397	$84,896

See accompanying notes to Consolidated Financial Statements.

Table of Contents

Caterpillar Inc.
Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)
(Dollars in millions)

	Common stock	Treasury stock	Profit employed in the business	Accumulated other comprehensive income (loss)	Noncontrolling interests	Total
Three Months Ended March 31, 2013						
Balance at December 31, 2012	$4,481	$(10,074)	$29,558	$(6,433)	$50	$17,582
Profit of consolidated and affiliated companies	—	—	880	—	2	882
Foreign currency translation, net of tax	—	—	—	(366)	—	(366)
Pension and other postretirement benefits, net of tax	—	—	—	136	—	136
Derivative financial instruments, net of tax	—	—	—	(20)	—	(20)
Available-for-sale securities, net of tax	—	—	—	14	—	14
Distribution to noncontrolling interests	—	—	—	—	(8)	(8)
Common shares issued from treasury stock for stock-based compensation: 2,436,453	(61)	69	—	—	—	8
Stock-based compensation expense	49	—	—	—	—	49
Net excess tax benefits from stock-based compensation	41	—	—	—	—	41
Balance at March 31, 2013	$4,510	$(10,005)	$30,438	$(6,669)	$44	$18,318
Three Months Ended March 31, 2014						
Balance at December 31, 2013	$4,709	$(11,854)	$31,854	$(3,898)	$67	$20,878
Profit of consolidated and affiliated companies	—	—	922	—	3	925
Foreign currency translation, net of tax	—	—	—	40	(1)	39
Pension and other postretirement benefits, net of tax	—	—	—	80	—	80
Derivative financial instruments, net of tax	—	—	—	(21)	—	(21)
Available-for-sale securities, net of tax	—	—	—	(2)	—	(2)
Change in ownership from noncontrolling interests	—	—	—	—	2	2
Dividends declared	—	—	(1)	—	—	(1)
Distribution to noncontrolling interests	—	—	—	—	(7)	(7)
Common shares issued from treasury stock for stock-based compensation: 4,522,294	(58)	150	—	—	—	92
Stock-based compensation expense	53	—	—	—	—	53
Net excess tax benefits from stock-based compensation	69	—	—	—	—	69
Common shares repurchased: 18,110,735 [1]	—	(1,738)	—	—	—	(1,738)
Balance at March 31, 2014	$4,773	$(13,442)	$32,775	$(3,801)	$64	$20,369

[1] See Note 11 regarding shares repurchased.

See accompanying notes to Consolidated Financial Statements.

Table of Contents

Caterpillar Inc.
Consolidated Statement of Cash Flow
(Unaudited)
(Millions of dollars)

	Three Months Ended March 31,	
	2014	2013
Cash flow from operating activities:		
Profit of consolidated and affiliated companies	$925	$882
Adjustments for non-cash items:		
Depreciation and amortization	781	723
Other	115	98
Changes in assets and liabilities, net of acquisitions and divestitures:		
Receivables – trade and other	(37)	209
Inventories	(270)	308
Accounts payable	403	118
Accrued expenses	27	(121)
Accrued wages, salaries and employee benefits	(152)	(742)
Customer advances	145	(47)
Other assets – net	26	41
Other liabilities – net	(66)	(45)
Net cash provided by (used for) operating activities	1,897	1,424
Cash flow from investing activities:		
Capital expenditures – excluding equipment leased to others	(454)	(896)
Expenditures for equipment leased to others	(285)	(336)
Proceeds from disposals of leased assets and property, plant and equipment	184	176
Additions to finance receivables	(2,634)	(2,715)
Collections of finance receivables	2,215	2,219
Proceeds from sale of finance receivables	20	66
Investments and acquisitions (net of cash acquired)	(5)	—
Proceeds from sale of businesses and investments (net of cash sold)	13	98
Proceeds from sale of available-for-sale securities	115	98
Investments in available-for-sale securities	(105)	(123)
Other – net	(12)	(46)
Net cash provided by (used for) investing activities	(948)	(1,459)
Cash flow from financing activities:		
Dividends paid	(383)	—
Distribution to noncontrolling interests	(7)	(8)
Contribution from noncontrolling interests	2	—
Common stock issued, including treasury shares reissued	92	8
Treasury shares purchased	(1,738)	—
Excess tax benefit from stock-based compensation	69	41
Proceeds from debt issued (original maturities greater than three months):		
Machinery, Energy & Transportation	6	54
Financial Products	2,146	2,665
Payments on debt (original maturities greater than three months):		

Machinery, Energy & Transportation	(9)	(26)
Financial Products	(2,773)	(2,576)
Short-term borrowings – net (original maturities three months or less)	944	387
Net cash provided by (used for) financing activities	(1,651)	545
Effect of exchange rate changes on cash	(34)	(18)
Increase (decrease) in cash and short-term investments	(736)	492
Cash and short-term investments at beginning of period	6,081	5,490
Cash and short-term investments at end of period	$5,345	$5,982

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.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1.A. Basis of Presentation

In the opinion of management, the accompanying financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of (a) the consolidated results of operations for the three month periods ended March 31, 2014 and 2013, (b) the consolidated comprehensive income for the three month periods ended March 31, 2014 and 2013, (c) the consolidated financial position at March 31, 2014 and December 31, 2013, (d) the consolidated changes in stockholders' equity for the three month periods ended March 31, 2014 and 2013, and (e) the consolidated cash flow for the three month periods ended March 31, 2014 and 2013. The financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission. Certain amounts for prior periods have been reclassified to conform to the current period financial statement presentation.

Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with the audited financial statements and notes thereto included in our Company's annual report on Form 10-K for the year ended December 31, 2013 (2013 Form 10-K).

The December 31, 2013 financial position data included herein is derived from the audited consolidated financial statements included in the 2013 Form 10-K but does not include all disclosures required by U.S. GAAP.

B. Nature of Operations

Information in our financial statements and related commentary are presented in the following categories:

Machinery, Energy & Transportation – Represents the aggregate total of Construction Industries, Resource Industries, Energy & Transportation, and All Other operating segments and related corporate items and eliminations.

Financial Products – Primarily includes the company's Financial Products Segment. This category includes Caterpillar Financial Services Corporation (Cat Financial), Caterpillar Financial Insurance Services (Insurance Services) and their respective subsidiaries.

2. New Accounting Guidance

Joint and several liability arrangements – In February 2013, the Financial Accounting Standards Board (FASB) issued accounting guidance on the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements. The guidance requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The entity is also required to disclose the nature and amount of the obligation as well as any other information about those obligations. This guidance was effective January 1, 2014, with retrospective application required. The guidance did not have a material impact on our financial statements.

Parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity – In March 2013, the FASB issued accounting guidance on the parent's accounting for the cumulative translation adjustment (CTA) upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. The new standard clarifies existing guidance regarding when the CTA should be released into earnings upon various deconsolidation and consolidation transactions. This guidance was effective January 1, 2014. The guidance did not have a material impact on our financial statements.

Presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists – In July 2013, the FASB issued accounting guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward

Table of Contents

in the financial statements if available under the applicable tax jurisdiction. The guidance was effective January 1, 2014. The guidance did not have a material impact on our financial statements.

Reporting discontinued operations and disclosures of disposals of components of an entity – In April 2014, the FASB issued accounting guidance for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The guidance defines a discontinued operation as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. This guidance is effective January 1, 2015. We do not expect the adoption to have a material impact on our financial statements.

3. Stock-Based Compensation

Accounting for stock-based compensation requires that the cost resulting from all stock-based payments be recognized in the financial statements based on the grant date fair value of the award. Stock-based compensation primarily consists of stock options, restricted stock units (RSUs) and stock-settled stock appreciation rights (SARs). We recognized pretax stock-based compensation cost in the amount of $53 million and $49 million for the three months ended March 31, 2014 and 2013, respectively.

The following table illustrates the type and fair value of the stock-based compensation awards granted during the three month periods ended March 31, 2014 and 2013, respectively:

	2014		2013	
	Shares Granted	Fair Value Per Award	Shares Granted	Fair Value Per Award
Stock options	4,448,218	$29.52	4,276,060	$28.34
RSUs	1,429,512	$89.18	1,614,870	$84.05

The stock price on the date of grant was $96.31 and $89.75 for 2014 and 2013, respectively.

The following table provides the assumptions used in determining the fair value of the stock-based awards for the three month periods ended March 31, 2014 and 2013, respectively:

	Grant Year	
	2014	2013
Weighted-average dividend yield	2.15%	2.13%
Weighted-average volatility	28.2%	30.6%
Range of volatilities	18.4-36.2%	23.4-40.6%
Range of risk-free interest rates	0.12-2.60%	0.16-1.88%
Weighted-average expected lives	8 years	8 years

As of March 31, 2014, the total remaining unrecognized compensation cost related to nonvested stock-based compensation awards was $395 million, which will be amortized over the weighted-average remaining requisite service periods of approximately 2.4 years.

4. Derivative Financial Instruments and Risk Management

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 exposures. Our policy specifies that derivatives are not to be used for speculative purposes. Derivatives that we use are primarily foreign currency forward, option, and cross currency contracts, interest rate swaps, and commodity forward and option contracts. Our derivative activities are subject to the management, direction and control of our senior 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.

Table of Contents

All derivatives are recognized on the Consolidated Statement of Financial Position at their fair value. On the date the derivative contract is entered into, we designate the derivative as (1) a hedge of the fair value of a recognized asset or 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 recognized asset or 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 Accumulated other comprehensive income (loss) (AOCI), to the extent effective, on the Consolidated Statement of Financial Position until they are reclassified to earnings in the same period or periods during which the hedged transaction affects earnings. Changes in the fair value of undesignated derivative instruments and the ineffective portion of designated derivative instruments are reported in current earnings. Cash flow from designated derivative financial instruments are classified within the same category as the item being hedged on the Consolidated Statement of Cash Flow. Cash flow from undesignated derivative financial instruments are included in the investing category on the Consolidated Statement of Cash Flow.

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 assets and liabilities on the Consolidated Statement of Financial Position 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 designated derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flow of hedged items. When a derivative is determined not to be highly effective as a hedge or the underlying hedged transaction is no longer probable, we discontinue hedge accounting prospectively, in accordance with the derecognition criteria for hedge accounting.

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 currencies, thereby creating exposure to movements in exchange rates.

Our Machinery, Energy & Transportation 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 five years.

We generally designate as cash flow hedges at inception of the contract any Australian dollar, Brazilian real, British pound, Canadian dollar, Chinese yuan, euro, Indian rupee, Japanese yen, Mexican peso, Singapore dollar or Swiss franc forward or option contracts that meet the requirements for hedge accounting and the maturity extends beyond the current quarter-end. Designation is performed on a specific exposure basis to support hedge accounting. The remainder of Machinery, Energy & Transportation foreign currency contracts are undesignated, including any hedges designed to protect our competitive exposure.

As of March 31, 2014, $12 million of deferred net gains, net of tax, included in equity (AOCI in the Consolidated Statement of Financial Position), are expected to be reclassified to current earnings (Other income (expense) in the

Consolidated Statement of Results of Operations) over the next twelve months when earnings are affected by the hedged transactions. The actual amount recorded in Other income (expense) will vary based on exchange rates at the time the hedged transactions impact earnings.

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, and future transactions denominated in foreign currencies. Our policy allows the use of foreign currency forward, option and cross currency contracts to offset the risk of currency mismatch between our receivables and debt, and exchange rate risk associated with future transactions denominated in foreign currencies. Substantially all such foreign currency forward, option and cross currency contracts are undesignated.

Table of Contents

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 practice is to use interest rate derivatives to manage our exposure to interest rate changes and, in some cases, lower the cost of borrowed funds.

Our Machinery, Energy & Transportation 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 into fixed-to-floating interest rate swaps and forward rate agreements to meet that objective. We designate fixed-to-floating interest rate swaps as fair value hedges at inception of the contract, and we designate certain forward rate agreements as cash flow hedges at inception of the contract.

As of March 31, 2014, $3 million of deferred net losses, net of tax, included in equity (AOCI in the Consolidated Statement of Financial Position), related to Machinery, Energy & Transportation forward rate agreements, are expected to be reclassified to current earnings (Other income (expense) in the Consolidated Statement of Results of Operations) over the next twelve months. The actual amount recorded in Other income (expense) will vary based on interest rates at the time the hedged transactions impact earnings.

Financial Products operations has a match-funding policy that addresses interest rate risk by aligning the interest rate profile (fixed or floating rate) of Cat Financial's debt portfolio with the interest rate profile of their receivables portfolio within predetermined ranges on an ongoing basis. In connection with that policy, we use interest rate derivative instruments to modify the debt structure to match assets within the receivables portfolio. This matched funding reduces the volatility of margins between interest-bearing assets and interest-bearing liabilities, regardless of which direction interest rates move.

Our policy allows us to use fixed-to-floating, floating-to-fixed, and floating-to-floating interest rate swaps to meet the match-funding objective. We designate fixed-to-floating interest rate swaps as fair value hedges to protect debt against changes in fair value due to changes in the benchmark interest rate. We designate most floating-to-fixed interest rate swaps as cash flow hedges to protect against the variability of cash flows due to changes in the benchmark interest rate.

As of March 31, 2014, $3 million of deferred net losses, net of tax, included in equity (AOCI in the Consolidated Statement of Financial Position), related to Financial Products floating-to-fixed interest rate swaps, are expected to be reclassified to current earnings (Interest expense of Financial Products in the Consolidated Statement of Results of Operations) over the next twelve months. The actual amount recorded in Interest expense of Financial Products will vary based on interest rates at the time the hedged transactions impact earnings.

We have, at certain times, liquidated fixed-to-floating and floating-to-fixed interest rate swaps at both Machinery, Energy & Transportation and Financial Products. The gains or losses associated with these swaps at the time of liquidation are amortized into earnings over the original term of the previously designated hedged item.

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, Energy & Transportation operations purchase base and precious metals embedded in the components we purchase from suppliers. Our suppliers pass on to us price changes in the commodity portion of the component cost. In addition, we are subject to price changes on energy products such as natural gas and diesel fuel purchased for operational use.

Our objective is to minimize volatility in the price of these commodities. Our policy allows us to enter into commodity forward and option contracts to lock in the purchase price of a portion of these commodities within a five-year horizon. All such commodity forward and option contracts are undesignated.

Table of Contents

The location and fair value of derivative instruments reported in the Consolidated Statement of Financial Position are as follows:

(Millions of dollars)

	Consolidated Statement of Financial Position Location	Asset (Liability) Fair Value March 31, 2014	December 31, 2013
Designated derivatives			
Foreign exchange contracts			
Machinery, Energy & Transportation	Receivables – trade and other	$38	$54
Machinery, Energy & Transportation	Accrued expenses	(19)	(39)
Interest rate contracts			
Machinery, Energy & Transportation	Accrued expenses	(38)	—
Financial Products	Receivables – trade and other	11	7
Financial Products	Long-term receivables – trade and other	97	115
Financial Products	Accrued expenses	(6)	(6)
		$83	$131
Undesignated derivatives			
Foreign exchange contracts			
Machinery, Energy & Transportation	Receivables – trade and other	$12	$19
Machinery, Energy & Transportation	Accrued expenses	(2)	(1)
Financial Products	Receivables – trade and other	4	7
Financial Products	Long-term receivables – trade and other	7	9
Financial Products	Accrued expenses	(6)	(4)
Commodity contracts			
Machinery, Energy & Transportation	Receivables – trade and other	1	—
Machinery, Energy & Transportation	Accrued expenses	(2)	—
		$14	$30

The total notional amounts of the derivative instruments are as follows:

(Millions of dollars)

	March 31, 2014	December 31, 2013
Machinery, Energy & Transportation	$4,493	$3,565
Financial Products	$6,517	$6,743

The notional amounts of the derivative financial instruments do not represent amounts exchanged by the parties. The amounts exchanged by the parties are calculated by reference to the notional amounts and by other terms of the derivatives, such as foreign currency exchange rates, interest rates, or commodity prices.

Table of Contents

The effect of derivatives designated as hedging instruments on the Consolidated Statement of Results of Operations is as follows:

Fair Value Hedges
(Millions of dollars)

	Classification	Three Months Ended March 31, 2014 Gains (Losses) on Derivatives	Three Months Ended March 31, 2014 Gains (Losses) on Borrowings	Three Months Ended March 31, 2013 Gains (Losses) on Derivatives	Three Months Ended March 31, 2013 Gains (Losses) on Borrowings
Interest rate contracts					
Financial Products	Other income (expense)	$(13)	$15	$(29)	$30
		$(13)	$15	$(29)	$30

Cash Flow Hedges
(Millions of dollars)

Three Months Ended March 31, 2014

	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)	Recognized in Earnings: Classification of Gains (Losses)	Recognized in Earnings: Amount of Gains (Losses) Reclassified from AOCI to Earnings	Recognized in Earnings: Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts				
Machinery, Energy & Transportation	$13	Other income (expense)	$10	$—
Interest rate contracts				
Machinery, Energy & Transportation	(37)	Other income (expense)	(1)	—
Financial Products	(2)	Interest expense of Financial Products	(1)	—
	$(26)		$8	$—

Three Months Ended March 31, 2013

	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)	Recognized in Earnings: Classification of Gains (Losses)	Recognized in Earnings: Amount of Gains (Losses) Reclassified from AOCI to Earnings	Recognized in Earnings: Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts				
Machinery, Energy & Transportation	$(49)	Other income (expense)	$(17) [1]	$—
Interest rate contracts				
Financial Products	—	Interest expense of Financial Products	(1)	—

$(49)		$(18)	$—

[1] Includes $3 million loss reclassified from AOCI to Other income (expense) in 2013 as certain derivatives were dedesignated as the related transactions are no longer probable to occur.

The effect of derivatives not designated as hedging instruments on the Consolidated Statement of Results of Operations is as follows:

(Millions of dollars)

	Classification of Gains (Losses)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Foreign exchange contracts			
Machinery, Energy & Transportation	Other income (expense)	$11	$(20)
Financial Products	Other income (expense)	(5)	(15)
Commodity contracts			
Machinery, Energy & Transportation	Other income (expense)	(1)	(1)
		$5	$(36)

13

Table of Contents

We enter into International Swaps and Derivatives Association (ISDA) master netting agreements within Machinery, Energy & Transportation and Financial Products that permit the net settlement of amounts owed under their respective derivative contracts. Under these master netting agreements, net settlement generally permits the company or the counterparty to determine the net amount payable for contracts due on the same date and in the same currency for similar types of derivative transactions. The master netting agreements generally also provide for net settlement of all outstanding contracts with a counterparty in the case of an event of default or a termination event.

Collateral is generally not required of the counterparties or of our company under the master netting agreements. As of March 31, 2014 and December 31, 2013, no cash collateral was received or pledged under the master netting agreements.

Table of Contents

The effect of the net settlement provisions of the master netting agreements on our derivative balances upon an event of default or termination event is as follows:

March 31, 2014				Gross Amounts Not Offset in the Statement of Financial Position		
(Millions of dollars)	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Assets Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount of Assets
Derivatives						
Machinery, Energy & Transportation	$51	$—	$51	$(39)	$—	$12
Financial Products	119	—	119	(7)	—	112
Total	$170	$—	$170	$(46)	$—	$124

March 31, 2014				Gross Amounts Not Offset in the Statement of Financial Position		
(Millions of dollars)	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Liabilities Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Pledged	Net Amount of Liabilities
Derivatives						
Machinery, Energy & Transportation	$(61)	$—	$(61)	$39	$—	$(22)
Financial Products	(12)	—	(12)	7	—	(5)
Total	$(73)	$—	$(73)	$46	$—	$(27)

December 31, 2013				Gross Amounts Not Offset in the Statement of Financial Position		
(Millions of dollars)	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Assets Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount of Assets
Derivatives						
Machinery, Energy & Transportation	$73	$—	$73	$(32)	$—	$41
Financial Products	138	—	138	(9)	—	129
Total	$211	$—	$211	$(41)	$—	$170

December 31, 2013				Gross Amounts Not Offset in the Statement of Financial Position		
(Millions of dollars)	Gross Amount of	Gross Amounts Offset in the	Net Amount of Liabilities	Financial Instruments	Cash Collateral	Net Amount

	Recognized Liabilities	Statement of Financial Position	Presented in the Statement of Financial Position		Pledged	of Liabilities
Derivatives						
Machinery, Energy & Transportation	$(40)	$—	$(40)	$32	$—	$(8)
Financial Products	(10)	—	(10)	9	—	(1)
Total	$(50)	$—	$(50)	$41	$—	$(9)

15

Table of Contents

5. Inventories

Inventories (principally using the last-in, first-out (LIFO) method) are comprised of the following:

(Millions of dollars)	March 31, 2014	December 31, 2013
Raw materials	$3,031	$2,966
Work-in-process	2,760	2,589
Finished goods	6,801	6,785
Supplies	296	285
Total inventories	$12,888	$12,625

6. Investments in Unconsolidated Affiliated Companies

Combined financial information of the unconsolidated affiliated companies accounted for by the equity method (generally on a lag of 3 months or less) was as follows:

Results of Operations of unconsolidated affiliated companies:	Three Months Ended	
(Millions of dollars)	March 31,	
	2014	2013
Sales	$390	$258
Cost of sales	301	205
Gross profit	$89	$53
Profit (loss)	$(14)	$(3)

Financial Position of unconsolidated affiliated companies:	March 31,	December 31,
(Millions of dollars)	2014	2013
Assets:		
Current assets	$695	$683
Property, plant and equipment – net	686	710
Other assets	582	608
	1,963	2,001
Liabilities:		
Current liabilities	466	437
Long-term debt due after one year	890	900
Other liabilities	216	262
	1,572	1,599
Equity	$391	$402

Caterpillar’s investments in unconsolidated affiliated companies:	March 31,	December 31,
(Millions of dollars)	2014	2013
Investments in equity method companies	$256	$262
Plus: Investments in cost method companies	10	10
Total investments in unconsolidated affiliated companies	$266	$272

Table of Contents

7. Intangible Assets and Goodwill

A. Intangible assets

Intangible assets are comprised of the following:

(Millions of dollars)	Weighted Amortizable Life (Years)	March 31, 2014 Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	15	$2,643	$(575)	$2,068
Intellectual property	11	1,752	(459)	1,293
Other	11	239	(109)	130
Total finite-lived intangible assets	14	4,634	(1,143)	3,491
Indefinite-lived intangible assets - In-process research & development		18	—	18
Total intangible assets		$4,652	$(1,143)	$3,509

	Weighted Amortizable Life (Years)	December 31, 2013 Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	15	$2,653	$(539)	$2,114
Intellectual property	11	1,821	(495)	1,326
Other	10	274	(136)	138
Total finite-lived intangible assets	13	4,748	(1,170)	3,578
Indefinite-lived intangible assets - In-process research & development		18	—	18
Total intangible assets		$4,766	$(1,170)	$3,596

Amortization expense for the three months ended March 31, 2014 and 2013 was $92 million and $94 million, respectively. Amortization expense related to intangible assets is expected to be:

(Millions of dollars)

2014	2015	2016	2017	2018	Thereafter
$365	$357	$335	$333	$329	$1,882

B. Goodwill

We test goodwill for impairment annually and whenever events or circumstances make it more likely than not that an impairment may have occurred. We perform our annual goodwill impairment test as of October 1 and monitor for interim triggering events on an ongoing basis. Goodwill is reviewed for impairment utilizing a qualitative assessment or a two-step process. We have an option to make a qualitative assessment of a reporting unit's goodwill for impairment. If we choose to perform a qualitative assessment and determine the fair value more likely than not exceeds the carrying value, no further evaluation is necessary. For reporting units where we perform the two-step process, the first step requires us to compare the fair value of each reporting unit, which we primarily determine using an income approach based on the present value of discounted cash flows, to the respective carrying value, which includes goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is higher than the fair value, there is an indication that an impairment may exist and the second step is required. In step two, the implied fair value of goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss. No goodwill for reporting units was impaired during the three months ended March 31, 2014 or 2013.

As discussed in Note 15, effective January 1, 2014, we revised our reportable segments in line with the changes to our organizational structure. Our reporting units did not significantly change as a result of the changes to our reportable segments. The segment information for 2013 has been retrospectively adjusted to conform to the 2014 presentation.

Table of Contents

The changes in carrying amount of goodwill by reportable segment for the three months ended March 31, 2014 were as follows:

(Millions of dollars)

	December 31, 2013	Acquisitions	Held for Sale and Business Divestitures [1]	Other Adjustments [2]	March 31, 2014
Construction Industries					
Goodwill	$291	$—	$—	$15	$306
Resource Industries					
Goodwill	4,468	—	(2)	10	4,476
Impairments	(580)	—	—	—	(580)
Net goodwill	3,888	—	(2)	10	3,896
Energy & Transportation					
Goodwill	2,600	3	—	4	2,607
All Other [3]					
Goodwill	199	—	—	—	199
Impairments	(22)	—	—	—	(22)
Net goodwill	177	—	—	—	177
Consolidated total					
Goodwill	7,558	3	(2)	29	7,588
Impairments	(602)	—	—	—	(602)
Net goodwill	$6,956	$3	$(2)	$29	$6,986

[1] See Note 18 for additional details.
[2] Other adjustments are comprised primarily of foreign currency translation.
[3] Includes All Other operating segments (See Note 15).

8. Available-For-Sale Securities

We have investments in certain debt and equity securities, primarily at Insurance Services, that have been classified as available-for-sale and recorded at fair value based upon quoted market prices. These investments are primarily included in Other assets in the Consolidated Statement of Financial Position. Unrealized 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 (loss) in the Consolidated Statement of Financial Position). Realized gains and losses on sales of investments are generally determined using the FIFO (first-in, first-out) method for debt instruments and the specific identification method for equity securities. Realized gains and losses are included in Other income (expense) in the Consolidated Statement of Results of Operations.

Table of Contents

(Millions of dollars)	March 31, 2014 Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value	December 31, 2013 Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value
Government debt						
U.S. treasury bonds	$10	$—	$10	$10	$—	$10
Other U.S. and non-U.S. government bonds	117	1	118	119	1	120
Corporate bonds						
Corporate bonds	629	22	651	612	21	633
Asset-backed securities	76	1	77	72	—	72
Mortgage-backed debt securities						
U.S. governmental agency	326	—	326	322	(1)	321
Residential	17	1	18	18	—	18
Commercial	70	6	76	87	6	93
Equity securities						
Large capitalization value	164	74	238	173	81	254
Smaller company growth	24	24	48	25	24	49
Total	$1,433	$129	$1,562	$1,438	$132	$1,570

During the three months ended March 31, 2014 and 2013, there were no charges for other-than-temporary declines in the market values of securities.

Table of Contents

Investments in an unrealized loss position that are not other-than-temporarily impaired:

	March 31, 2014					
	Less than 12 months [1]		12 months or more [1]		Total	
(Millions of dollars)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds						
Corporate bonds	$159	$1	$1	$—	$160	$1
Asset-backed securities	5	—	17	1	22	1
Mortgage-backed debt securities						
U.S. governmental agency	98	2	105	4	203	6
Equity securities						
Large capitalization value	20	1	1	—	21	1
Total	$282	$4	$124	$5	$406	$9

	December 31, 2013					
	Less than 12 months [1]		12 months or more [1]		Total	
(Millions of dollars)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds						
Corporate bonds	$159	$2	$1	$—	$160	$2
Asset-backed securities	6	—	20	1	26	1
Mortgage-backed debt securities						
U.S. governmental agency	140	4	65	2	205	6
Total	$305	$6	$86	$3	$391	$9

[1] Indicates length of time that individual securities have been in a continuous unrealized loss position.

Corporate Bonds. The unrealized losses on our investments in corporate bonds and asset-backed securities relate to changes in interest rates and credit-related yield spreads since time of purchase. We do not intend to sell the investments and it is not likely that we will be required to sell the investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of March 31, 2014.

Mortgage-Backed Debt Securities. The unrealized losses on our investments in mortgage-backed securities relate to changes in interest rates and credit-related yield spreads since time of purchase. We do not intend to sell the investments and it is not likely that we will be required to sell these investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of March 31, 2014.

Equity Securities. Insurance Services maintains a well-diversified equity portfolio consisting of two specific mandates: large capitalization value stocks and smaller company growth stocks. U.S. equity valuations were generally higher during the first quarter of 2014 on generally favorable economic data. The unrealized losses on our investments in equity securities relate to inherent risks of individual holdings and/or their respective sectors. We do not consider these investments to be other-than-temporarily impaired as of March 31, 2014.

The cost basis and fair value of the available-for-sale debt securities at March 31, 2014, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay and creditors may have the right to call obligations.

20

Table of Contents

(Millions of dollars)	March 31, 2014 Cost Basis	Fair Value
Due in one year or less	$155	$156
Due after one year through five years	614	635
Due after five years through ten years	33	35
Due after ten years	30	30
U.S. governmental agency mortgage-backed securities	326	326
Residential mortgage-backed securities	17	18
Commercial mortgage-backed securities	70	76
Total debt securities – available-for-sale	$1,245	$1,276

Sales of Securities:

(Millions of dollars)	Three Months Ended March 31, 2014	2013
Proceeds from the sale of available-for-sale securities	$115	$98
Gross gains from the sale of available-for-sale securities	$14	$1
Gross losses from the sale of available-for-sale securities	$—	$—

9. Postretirement Benefits

A. Pension and postretirement benefit costs

(Millions of dollars)	U.S. Pension Benefits March 31, 2014	2013	Non-U.S. Pension Benefits March 31, 2014	2013	Other Postretirement Benefits March 31, 2014	2013
For the three months ended:						
Components of net periodic benefit cost:						
Service cost	$39	$49	$28	$31	$20	$24
Interest cost	162	145	46	43	53	49
Expected return on plan assets [1]	(221)	(208)	(65)	(59)	(13)	(14)
Amortization of:						
Transition obligation (asset)	—	—	—	—	—	1
Prior service cost (credit) [2]	4	4	—	—	(13)	(18)
Net actuarial loss (gain) [3]	98	136	22	33	10	27
Total cost included in operating profit	$82	$126	$31	$48	$57	$69
Weighted-average assumptions used to determine net cost:						
Discount rate	4.6%	3.7%	4.1%	3.7%	4.6%	3.7%
Expected rate of return on plan assets	7.8%	7.8%	6.9%	6.7%	7.8%	7.8%
Rate of compensation increase	4.0%	4.5%	4.2%	3.9%	4.0%	4.4%

1 Expected return on plan assets developed using calculated market-related value of plan assets which recognizes differences in expected and actual returns over a three-year period.

2 Prior service cost (credit) for both pension and other postretirement benefits are generally amortized using the straight-line method over the average remaining service period of active employees expected to receive benefits from the plan. For pension plans in which all or almost all of the plan's participants are inactive and other

postretirement benefit plans in which all or almost all of the plan's participants are fully eligible for benefits under the plan, prior service cost (credit) are amortized using the straight-line method over the remaining life expectancy of those participants.

3 Net actuarial loss (gain) for pension and other postretirement benefit plans are generally amortized using the straight-line method over the average remaining service period of active employees expected to receive benefits from the plan. For plans in which all or almost all of the plan’s participants are inactive, net actuarial loss (gain) are amortized using the straight-line method over the remaining life expectancy of the inactive participants.

Table of Contents

We made $279 million of contributions to our pension plans during the three months ended March 31, 2014. We currently anticipate full-year 2014 contributions of approximately $510 million, all of which are required. We made $142 million of contributions to our pension plans during the three months ended March 31, 2013.

B. Defined contribution benefit costs

Total company costs related to our defined contribution plans were as follows:

	Three Months Ended March 31,	
(Millions of dollars)	2014	2013
U.S. Plans	$81	$83
Non-U.S. Plans	20	14
	$101	$97

10. Guarantees and Product Warranty

We have provided an indemnity to a third-party insurance company for potential losses related to performance bonds issued on behalf of Caterpillar dealers. The bonds are issued to insure governmental agencies against nonperformance by certain dealers. We also provided guarantees to a third-party related to the performance of contractual obligations by certain Caterpillar dealers. The guarantees cover potential financial losses incurred by the third-party resulting from the dealers' nonperformance.

We provide loan guarantees to third-party lenders for financing associated with machinery purchased by customers. These guarantees have varying terms and are secured by the machinery. In addition, Cat Financial participates in standby letters of credit issued to third parties on behalf of their customers. These standby letters of credit have varying terms and beneficiaries and are secured by customer assets.

We have provided a guarantee to one of our customers in Brazil related to the performance of contractual obligations by a supplier consortium to which one of our Caterpillar subsidiaries is a member. The guarantees cover potential damages (some of them capped) incurred by the customer resulting from the supplier consortium's non-performance. The guarantee will expire when the supplier consortium performs all its contractual obligations, which is expected to be completed in 2022.

We have provided guarantees to third-party lessors for certain properties leased by Cat Logistics Services, LLC, in which we sold a 65 percent equity interest in the third quarter of 2012. The guarantees are for the possibility that the third party logistics business would default on real estate lease payments. The guarantees were granted at lease inception, which was prior to the divestiture, and generally will expire at the end of the lease terms.

No loss has been experienced or is anticipated under any of these guarantees. At March 31, 2014 and December 31, 2013, the related liability was $13 million. The maximum potential amount of future payments (undiscounted and without reduction for any amounts that may possibly be recovered under recourse or collateralized provisions) we could be required to make under the guarantees are as follows:

(Millions of dollars)	March 31, 2014	December 31, 2013
Caterpillar dealer guarantees	$201	$193

Customer guarantees	62	62
Customer guarantees – supplier consortium	365	364
Third party logistics business guarantees	145	151
Other guarantees	35	35
Total guarantees	$808	$805

Table of Contents

Cat Financial provides guarantees to repurchase certain loans of Caterpillar dealers from a special-purpose corporation (SPC) that qualifies as a variable interest entity. The purpose of the SPC is to provide short-term working capital loans to Caterpillar dealers. This SPC issues commercial paper and uses the proceeds to fund its loan program. Cat Financial has a loan purchase agreement with the SPC that obligates Cat Financial to purchase certain loans that are not paid at maturity. Cat Financial receives a fee for providing this guarantee, which provides a source of liquidity for the SPC. Cat Financial is the primary beneficiary of the SPC as their guarantees result in Cat Financial having both the power to direct the activities that most significantly impact the SPC's economic performance and the obligation to absorb losses, and therefore Cat Financial has consolidated the financial statements of the SPC. As of March 31, 2014 and December 31, 2013, the SPC's assets of $981 million and $1,005 million, respectively, are primarily comprised of loans to dealers and the SPC's liabilities of $981 million and $1,005 million, respectively, are primarily comprised of commercial paper. The assets of the SPC are not available to pay Cat Financial's creditors. Cat Financial may be obligated to perform under the guarantee if the SPC experiences losses. No loss has been experienced or is anticipated under this loan purchase agreement.

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 based on actual warranty experience for each product by machine model/engine size by customer or dealer location (inside or outside North America). Specific rates are developed for each product shipment month and are updated monthly based on actual warranty claim experience.

(Millions of dollars)	2014
Warranty liability, January 1	$1,367
Reduction in liability (payments)	(278)
Increase in liability (new warranties)	288
Warranty liability, March 31	$1,377

(Millions of dollars)	2013
Warranty liability, January 1	$1,477
Reduction in liability (payments)	(938)
Increase in liability (new warranties)	828
Warranty liability, December 31	$1,367

11. Profit Per Share

Computations of profit per share:	Three Months Ended March 31,	
(Dollars in millions except per share data)	2014	2013
Profit for the period (A) [1]:	$922	$880
Determination of shares (in millions):		
Weighted-average number of common shares outstanding (B)	626.7	656.2
Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price	12.6	15.4
Average common shares outstanding for fully diluted computation (C) [2]	639.3	671.6
Profit per share of common stock:		
Assuming no dilution (A/B)	$1.47	$1.34
Assuming full dilution (A/C) [2]	$1.44	$1.31
Shares outstanding as of March 31 (in millions)	624.2	657.5

[1] Profit attributable to common stockholders.
[2] Diluted by assumed exercise of stock-based compensation awards using the treasury stock method.

Table of Contents

SARs and stock options to purchase 10,415,733 and 10,312,876 common shares were outstanding for the three months ended March 31, 2014 and 2013, respectively, which were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

In February 2007, the Board of Directors authorized the repurchase of $7.5 billion of Caterpillar common stock (the 2007 Authorization), and in December 2011, the 2007 Authorization was extended through December 2015. In January 2014, we completed the 2007 Authorization and entered into a definitive agreement with Citibank, N.A. to purchase shares of our common stock under an accelerated stock repurchase transaction (January ASR Agreement), which was completed in March 2014. In accordance with the terms of the January ASR Agreement, a total of approximately 18.1 million shares of our common stock were repurchased at an aggregate cost to Caterpillar of approximately $1.7 billion.

In January 2014, the Board approved a new authorization to repurchase up to $10 billion of Caterpillar common stock, which will expire on December 31, 2018.

12. Accumulated Other Comprehensive Income (Loss)

Comprehensive income and its components are presented in the Consolidated Statement of Comprehensive Income. Changes in Accumulated other comprehensive income (loss), net of tax, included in the Consolidated Statement of Changes in Stockholders' Equity, consisted of the following:

(Millions of dollars)	Foreign currency translation	Pension and other postretirement benefits	Derivative financial instruments	Available-for-sale securities	Total
Three Months Ended March 31, 2014					
Balance at December 31, 2013	$176	$(4,152)	$(5)	$ 83	$(3,898)
Other comprehensive income (loss) before reclassifications	40	—	(16)	8	32
Amounts reclassified from accumulated other comprehensive (income) loss	—	80	(5)	(10)	65
Other comprehensive income (loss)	40	80	(21)	(2)	97
Balance at March 31, 2014	$216	$(4,072)	$(26)	$ 81	$(3,801)
Three Months Ended March 31, 2013					
Balance at December 31, 2012	$456	$(6,914)	$(42)	$ 67	$(6,433)
Other comprehensive income (loss) before reclassifications	(366)	15	(31)	15	(367)
Amounts reclassified from accumulated other comprehensive (income) loss	—	121	11	(1)	131
Other comprehensive income (loss)	(366)	136	(20)	14	(236)
Balance at March 31, 2013	$90	$(6,778)	$(62)	$ 81	$(6,669)

The effect of the reclassifications out of Accumulated other comprehensive income (loss) on the Consolidated Statement of Results of Operations is as follows:

Table of Contents

(Millions of dollars)	Classification of income (expense)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Pension and other postretirement benefits:			
Amortization of actuarial gain (loss)	Note 9 [1]	$(130)	$(196)
Amortization of prior service credit (cost)	Note 9 [1]	9	14
Amortization of transition asset (obligation)	Note 9 [1]	—	(1)
Reclassifications before tax		(121)	(183)
Tax (provision) benefit		41	62
Reclassifications net of tax		$(80)	$(121)
Derivative financial instruments:			
Foreign exchange contracts	Other income (expense)	$10	$(17)
Interest rate contracts	Other income (expense)	(1)	—
Interest rate contracts	Interest expense of Financial Products	(1)	(1)
Reclassifications before tax		8	(18)
Tax (provision) benefit		(3)	7
Reclassifications net of tax		$5	$(11)
Available-for-sale securities:			
Realized gain (loss) on sale of securities	Other income (expense)	$14	$1
Tax (provision) benefit		(4)	—
Reclassifications net of tax		$10	$1
Total reclassifications from Accumulated other comprehensive income (loss)		$(65)	$(131)

[1] Amounts are included in the calculation of net periodic benefit cost. See Note 9 for additional information.

13. Environmental and Legal Matters

The company is regulated by federal, state and international environmental laws governing our use, transport and disposal of substances and control of emissions. In addition to governing our manufacturing and other operations, these laws often impact the development of our products, including, but not limited to, required compliance with air emissions standards applicable to internal combustion engines. We have made, and will continue to make, significant research and development and capital expenditures to comply with these emissions standards.

We are engaged in remedial activities at a number of locations, often with other companies, pursuant to federal and state laws. When it is probable we will pay remedial costs at a site, and those costs can be reasonably estimated, the investigation, remediation, and operating and maintenance costs are accrued against our earnings. Costs are accrued based on consideration of currently available data and information with respect to each individual site, including available technologies, current applicable laws and regulations, and prior remediation experience. Where no amount within a range of estimates is more likely, we accrue the minimum. Where multiple potentially responsible parties are involved, we consider our proportionate share of the probable costs. In formulating the estimate of probable costs, we do not consider amounts expected to be recovered from insurance companies or others. We reassess these accrued amounts on a quarterly basis. The amount recorded for environmental remediation is not material and is included in

Accrued expenses in the Consolidated Statement of Financial Position. There is no more than a remote chance that a material amount for remedial activities at any individual site, or at all the sites in the aggregate, will be required.

On March 20, 2014, Brazil’s Administrative Council for Economic Defense (CADE) published a Technical Opinion which named 18 companies and over 100 individuals as defendants, including two subsidiaries of Caterpillar Inc., MGE - Equipamentos e Serviços Ferroviários Ltda. (MGE) and Caterpillar Brasil Ltda. The publication of the Technical Opinion opened CADE's official administrative investigation into allegations that the defendants participated in anticompetitive bid activity for the construction and maintenance of metro and train networks in Brazil. While companies cannot be held

Table of Contents

criminally liable for anticompetitive conduct in Brazil, criminal charges have been brought against one current and one former employee of MGE involving the same conduct alleged by CADE. The Company has responded to all requests for information from the authorities. The Company is unable to predict the outcome or reasonably estimate the potential loss; however, we currently believe that this matter will not have a material adverse effect on the Company's consolidated results of operation, financial position or liquidity.

On February 19, 2014, Progress Rail Services Corporation (Progress Rail), a wholly-owned subsidiary of Caterpillar Inc., received information from the California Air Resources Board (CARB) Enforcement Division indicating it is contemplating an enforcement proceeding with potential monetary sanctions in excess of $100,000 in connection with a notice of violation received by Progress Rail on March 15, 2013 alleging violations of air emissions regulations applicable to compression ignition mobile cargo handling equipment operating at California ports or intermodal rail yards. Despite uncertainty regarding the applicability of these regulations, Progress Rail, in coordination with CARB, implemented certain corrective action measures. Progress Rail is cooperating with CARB to resolve this matter. The Company is unable to predict the outcome; however, we currently believe that this matter will not have a material adverse effect on the Company's consolidated results of operation, financial position or liquidity.

On October 24, 2013, Progress Rail received a grand jury subpoena from the U.S. District Court for the Central District of California. The subpoena requests documents and information from Progress Rail, United Industries Corporation, a wholly-owned subsidiary of Progress Rail, and Caterpillar Inc. relating to allegations that Progress Rail conducted improper or unnecessary railcar inspections and repairs and improperly disposed of parts, equipment, tools and other items. In connection with this subpoena, Progress Rail was informed by the U.S. Attorney for the Central District of California that it is a target of a criminal investigation into potential violations of environmental laws and alleged improper business practices. The Company is cooperating with the authorities. The Company is unable to predict the outcome or reasonably estimate the potential loss; however, we currently believe that this matter will not have a material adverse effect on the Company's consolidated results of operation, financial position or liquidity.

In addition, we are involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance liability (including claimed asbestos and welding fumes exposure), contracts, employment issues, environmental matters or intellectual property rights. The aggregate range of reasonably possible losses in excess of accrued liabilities, if any, associated with these unresolved legal actions is not material. In some cases, we cannot reasonably estimate a range of loss because there is insufficient information regarding the matter. However, there is no more than a remote chance that any liability arising from these matters would be material. Although it is not possible to predict with certainty the outcome of these unresolved legal actions, we believe that these actions will not individually or in the aggregate have a material adverse effect on our consolidated results of operations, financial position or liquidity.

14. Income Taxes

The provision for income taxes reflects an estimated annual tax rate of 29.5 percent for both the first quarter of 2014 and 2013, excluding the items discussed below. The increase from the full-year 2013 rate of 28.5 percent is primarily due to the expiration of the U.S. research and development tax credit.

The provision for income taxes in the first quarter of 2014 also includes a charge of $55 million to correct for an error which resulted in an understatement of tax liabilities for prior years. This error had the effect of overstating profit by $27 million and $28 million for the years ended December 31, 2013 and 2012, respectively. These amounts are not material to the financial statements of any affected period. This charge was offset by a $33 million benefit to reflect a settlement with the U.S. Internal Revenue Service (IRS) related to 1992 through 1994 which resulted in a $16 million benefit to remeasure previously unrecognized tax benefits and a $17 million benefit to adjust related interest, net of tax. The first quarter of 2013 tax provision also included a benefit of $87 million primarily related to the U.S. research and development tax credit that was extended for 2012.

Table of Contents

It is reasonably possible that the amount of unrecognized tax benefits will change in the next 12 months. The IRS is currently examining our U.S. tax returns for 2007 to 2009 including the impact of a loss carryback to 2005. While we have not yet received a Revenue Agent's Report generally issued at the end of the field examination process, we have received Notices of Proposed Adjustment from the IRS relating to U.S. taxation of profits earned by one of our non-U.S. subsidiaries, Caterpillar SARL, from certain parts transactions and to the disallowance of foreign tax credits incurred in connection with unrelated financings. We disagree with these proposed adjustments, which the IRS did not propose in previous audits of U.S. tax returns in which the same tax positions were taken. To the extent that adjustments are assessed upon completion of the field examination relating to these matters, we would vigorously contest the adjustments in appeals. The completion of the field examination for this audit is expected in the next 12 months. In our major non-U.S. jurisdictions, tax years are typically subject to examination for three to eight years. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, liquidity or results of operations. Due to the uncertainty related to the timing and potential outcome of these matters, we can not estimate the range of reasonably possible change in unrecognized tax benefits in the next 12 months.

15. Segment Information

A. Basis for segment information

Our Executive Office is comprised of five Group Presidents, a Senior Vice President, an Executive Vice President and a CEO. Group Presidents are accountable for a related set of end-to-end businesses that they manage. The Senior Vice President leads the Caterpillar Enterprise System Group, which was formed during the second quarter of 2013, and the Executive Vice President leads the Law and Public Policy Division. The CEO allocates resources and manages performance at the Group President level. As such, the CEO serves as our Chief Operating Decision Maker and operating segments are primarily based on the Group President reporting structure.

Three of our operating segments, Construction Industries, Resource Industries and Energy & Transportation are led by Group Presidents. One operating segment, Financial Products, is led by a Group President who has responsibility for Corporate Services. Corporate Services is a cost center primarily responsible for the performance of certain support functions globally and to provide centralized services; it does not meet the definition of an operating segment. One Group President leads three smaller operating segments that are included in the All Other operating segments. The Caterpillar Enterprise System Group and Law and Public Policy Division are cost centers and do not meet the definition of an operating segment.

Effective January 1, 2014, responsibility for paving products, forestry products, industrial and waste products and tunnel boring equipment moved from Resource Industries to the All Other operating segments. The responsibility for select work tools was moved from Resource Industries to Construction Industries, and the responsibility for administration of three wholly-owned dealers in Japan moved from Construction Industries to the All Other operating segments. In addition, restructuring costs in 2013 were included in operating segments and are now a reconciling item between Segment profit and Consolidated profit before taxes. The segment information for 2013 has been retrospectively adjusted to conform to the 2014 presentation.

B. Description of segments

We have seven operating segments, of which four are reportable segments. Following is a brief description of our reportable segments and the business activities included in the All Other operating segments:

Construction Industries: A segment primarily responsible for supporting customers using machinery in infrastructure and building construction applications. Responsibilities include business strategy, product design, product management and development, manufacturing, marketing and sales and product support. The product portfolio includes backhoe loaders, small wheel loaders, small track-type tractors, skid steer loaders, multi-terrain loaders, mini excavators, compact wheel loaders, select work tools, small, medium and large track excavators, wheel excavators, medium wheel loaders, compact track loaders, medium track-type tractors, track-type loaders, motor graders and pipe layers. In addition, Construction Industries has responsibility for an integrated manufacturing cost center. Inter-segment sales are a source of revenue for this segment.

Resource Industries: A segment primarily responsible for supporting customers using machinery in mining and quarrying applications. Responsibilities include business strategy, product design, product management and development, manufacturing, marketing and sales and product support. The product portfolio includes large track-type tractors, large

Table of Contents

mining trucks, hard rock vehicles, longwall miners, electric rope shovels, draglines, hydraulic shovels, drills, highwall miners, large wheel loaders, off-highway trucks, articulated trucks, wheel tractor scrapers, wheel dozers, select work tools, machinery components and electronics and control systems. Resource Industries also manages areas that provide services to other parts of the company, including integrated manufacturing and research and development. In addition, segment profit includes the impact from divestiture of portions of the Bucyrus distribution business. Inter-segment sales are a source of revenue for this segment.

Energy & Transportation (formerly Power Systems): A segment primarily responsible for supporting customers using reciprocating engines, turbines, diesel-electric locomotives and related parts across industries serving power generation, industrial, oil and gas and transportation applications, including marine and rail-related businesses. Responsibilities include business strategy, product design, product management, development, manufacturing, marketing, sales and product support of turbines and turbine-related services, reciprocating engine powered generator sets, integrated systems used in the electric power generation industry, reciprocating engines and integrated systems and solutions for the marine and oil and gas industries; reciprocating engines supplied to the industrial industry as well as Caterpillar machinery; the business strategy, product design, product management, development, manufacturing, remanufacturing, leasing, and service of diesel-electric locomotives and components and other rail-related products and services. Inter-segment sales are a source of revenue for this segment.

Financial Products Segment: 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 segment also provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment.

All Other operating segments: Primarily includes activities such as: the remanufacturing of Cat® engines and components and remanufacturing services for other companies as well as the business strategy, product management, development, manufacturing, marketing and product support of undercarriage, specialty products, hardened bar stock components and ground engaging tools primarily for Cat products, paving products, forestry products, industrial and waste products, and tunnel boring equipment; the product management, development, marketing, sales and product support of on-highway vocational trucks for North America; parts distribution; distribution services responsible for dealer development and administration including three wholly-owned dealers in Japan, dealer portfolio management and ensuring the most efficient and effective distribution of machines, engines and parts. Results for the All Other operating segments are included as a reconciling item between reportable segments and consolidated external reporting.

C. Segment measurement and reconciliations

There are several methodology differences between our segment reporting and our external reporting. The following is a list of the more significant methodology differences:

- Machinery, Energy & Transportation segment net assets generally include inventories, receivables, property, plant and equipment, goodwill, intangibles, accounts payable, and customer advances. Liabilities other than accounts payable and customer advances are generally managed at the corporate level and are not included in segment operations. Financial Products Segment assets generally include all categories of assets.

- Segment inventories and cost of sales are valued using a current cost methodology.

- Goodwill allocated to segments is amortized using a fixed amount based on a 20 year useful life. This methodology difference only impacts segment assets; no goodwill amortization expense is included in segment profit. In addition, only a portion of goodwill for certain acquisitions made in 2011 or later has been allocated to segments.

- The present value of future lease payments for certain Machinery, Energy & Transportation operating leases is included in segment assets. The estimated financing component of the lease payments is excluded.

- Currency exposures for Machinery, Energy & Transportation are generally managed at the corporate level and the effects of changes in exchange rates on results of operations within the year are not included in segment profit. The net difference created in the translation of revenues and costs between exchange rates used for U.S. GAAP reporting and exchange rates used for segment reporting are recorded as a methodology difference.

Table of Contents

- Postretirement benefit expenses are split; segments are generally responsible for service and prior service costs, with the remaining elements of net periodic benefit cost included as a methodology difference.

- Machinery, Energy & Transportation segment profit is determined on a pretax basis and excludes interest expense, gains and losses on interest rate swaps and other income/expense items. Financial Products Segment profit is determined on a pretax basis and includes other income/expense items.

Reconciling items are created based on accounting differences between segment reporting and our consolidated external reporting. Please refer to pages 30 to 34 for financial information regarding significant reconciling items. Most of our reconciling items are self-explanatory given the above explanations. For the reconciliation of profit, we have grouped the reconciling items as follows:

- Corporate costs: These costs are related to corporate requirements and strategies that are considered to be for the benefit of the entire organization.

- Restructuring costs: Primarily costs for employee severance and long-lived asset impairments. A table, Reconciliation of Restructuring Costs on page 32, has been included to illustrate how segment profit would have been impacted by the restructuring costs. See Note 19 for more information.

- Methodology differences: See previous discussion of significant accounting differences between segment reporting and consolidated external reporting.

- Timing: Timing differences in the recognition of costs between segment reporting and consolidated external reporting.

Reportable Segments
Three Months Ended March 31,
(Millions of dollars)

	2014						
	External sales and revenues	Inter-segment sales and revenues	Total sales and revenues	Depreciation and amortization	Segment profit	Segment assets at March 31	Capital expenditures
Construction Industries	$5,064	$75	$5,139	$134	$688	$7,061	$64
Resource Industries	2,123	113	2,236	173	149	10,141	24
Energy & Transportation	4,776	550	5,326	156	827	8,346	76
Machinery, Energy & Transportation	$11,963	$738	$12,701	$463	$1,664	$25,548	$164
Financial Products Segment	817	—	817	219	240	37,415	269
Total	$12,780	$738	$13,518	$682	$1,904	$62,963	$433

	2013						
	External sales and revenues	Inter-segment sales and revenues	Total sales and revenues	Depreciation and amortization	Segment profit	Segment assets at December 31	Capital expenditures

Construction Industries	$4,219	$99	$4,318	$115	$228	$7,607	$100
Resource Industries	3,353	128	3,481	164	459	10,389	100
Energy & Transportation	4,405	396	4,801	151	591	8,492	104
Machinery, Energy & Transportation	$11,977	$623	$12,600	$430	$1,278	$26,488	$304
Financial Products Segment	795	—	795	180	273	36,980	320
Total	$12,772	$623	$13,395	$610	$1,551	$63,468	$624

Table of Contents

Reconciliation of Sales and revenues:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total
Three Months Ended March 31, 2014				
Total external sales and revenues from reportable segments	$11,963	$817	$—	$12,780
All Other operating segments	554	—	—	554
Other	(24)	14	(83)[1]	(93)
Total sales and revenues	$12,493	$831	$(83)	$13,241
Three Months Ended March 31, 2013				
Total external sales and revenues from reportable segments	$11,977	$795	$—	$12,772
All Other operating segments	517	—	—	517
Other	(10)	19	(88)[1]	(79)
Total sales and revenues	$12,484	$814	$(88)	$13,210

[1] Elimination of Financial Products revenues from Machinery, Energy & Transportation.

Table of Contents

Reconciliation of Consolidated profit before taxes:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidated Total
Three Months Ended March 31, 2014			
Total profit from reportable segments	$1,664	$240	$1,904
All Other operating segments	235	—	235
Cost centers	52	—	52
Corporate costs	(366)	—	(366)
Timing	(41)	—	(41)
Restructuring costs	(149)	—	(149)
Methodology differences:			
Inventory/cost of sales	14	—	14
Postretirement benefit expense	(102)	—	(102)
Financing costs	(114)	—	(114)
Equity in (profit) loss of unconsolidated affiliated companies	(1)	—	(1)
Currency	(26)	—	(26)
Other income/expense methodology differences	(60)	—	(60)
Other methodology differences	(4)	—	(4)
Total consolidated profit before taxes	$1,102	$240	$1,342
Three Months Ended March 31, 2013			
Total profit from reportable segments	$1,278	$273	$1,551
All Other operating segments	205	—	205
Cost centers	40	—	40
Corporate costs	(350)	—	(350)
Timing	54	—	54
Restructuring costs	(7)	—	(7)
Methodology differences:			
Inventory/cost of sales	(36)	—	(36)
Postretirement benefit expense	(165)	—	(165)
Financing costs	(124)	—	(124)
Equity in (profit) loss of unconsolidated affiliated companies	(1)	—	(1)
Currency	15	—	15
Other income/expense methodology differences	(52)	—	(52)
Other methodology differences	(20)	17	(3)
Total consolidated profit before taxes	$837	$290	$1,127

Table of Contents

Reconciliation of Restructuring costs:

As noted above, restructuring costs are a reconciling item between Segment profit and Consolidated profit before taxes. Had we included the amounts in the segments' results, the profit would have been as shown below:
Reconciliation of Restructuring costs:

(Millions of dollars)	Segment profit	Restructuring costs	Segment profit with restructuring costs
Three Months Ended March 31, 2014			
Construction Industries	$688	$(131)	$557
Resource Industries	149	(11)	138
Energy & Transportation	827	(3)	824
Financial Products Segment	240	—	240
All Other operating segments	235	(4)	231
Total	$2,139	$(149)	$1,990
Three Months Ended March 31, 2013			
Construction Industries	$228	$(2)	$226
Resource Industries	459	(2)	457
Energy & Transportation	591	(2)	589
Financial Products Segment	273	—	273
All Other operating segments	205	(1)	204
Total	$1,756	$(7)	$1,749

Table of Contents

Reconciliation of Assets:

(Millions of dollars)	Machinery, Energy & Transportation