CATERPILLAR INC
Form 10-Q
November 01, 2013
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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 September 30, 2013
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 September 30, 2013, 636,355,991 shares of common stock of the registrant were outstanding.

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

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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 September 30, 2013	2012
Sales and revenues:		
Sales of Machinery and Power Systems	$12,678	$15,739
Revenues of Financial Products	745	706
Total sales and revenues	13,423	16,445
Operating costs:		
Cost of goods sold	9,774	11,639
Selling, general and administrative expenses	1,319	1,471
Research and development expenses	469	634
Interest expense of Financial Products	178	197
Other operating (income) expenses	282	(92)
Total operating costs	12,022	13,849
Operating profit	1,401	2,596
Interest expense excluding Financial Products	116	129
Other income (expense)	(24)	(17)
Consolidated profit before taxes	1,261	2,450
Provision (benefit) for income taxes	310	753
Profit of consolidated companies	951	1,697
Equity in profit (loss) of unconsolidated affiliated companies	(1)	5
Profit of consolidated and affiliated companies	950	1,702
Less: Profit (loss) attributable to noncontrolling interests	4	3
Profit [1]	$946	$1,699
Profit per common share	$1.48	$2.60
Profit per common share – diluted [2]	$1.45	$2.54
Weighted-average common shares outstanding (millions)		
– Basic	639.3	653.6

– Diluted[1] [2]	651.9	668.7
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.

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

	Three Months Ended September 30,	
	2013	2012
Profit of consolidated and affiliated companies	$950	$1,702
Other comprehensive income (loss), net of tax:		
Foreign currency translation, net of tax (provision)/benefit of: 2013 - $33; 2012 - $11	291	193
Pension and other postretirement benefits:		
Current year actuarial gain (loss), net of tax (provision)/benefit of: 2013 - $2; 2012 - $91	(3)	(155)
Amortization of actuarial (gain) loss, net of tax (provision)/benefit of: 2013 - $(67); 2012 - $(61)	129	114
Current year prior service credit (cost), net of tax (provision)/benefit of: 2013 - $0; 2012 - $(3)	—	4
Amortization of prior service (credit) cost, net of tax (provision)/benefit of: 2013 - $5; 2012 - $4	(9)	(8)
Amortization of transition (asset) obligation, net of tax (provision)/benefit of: 2013 - $(1); 2012 - $0	—	1
Derivative financial instruments:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2013 - $(15); 2012 - $5	26	(7)
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2013 - $(5); 2012 - $(5)	9	9
Available-for-sale securities:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2013 - $(6); 2012 - $(8)	9	12
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2013 - $0; 2012 - $0	(1)	(1)
Total other comprehensive income (loss), net of tax	451	162
Comprehensive income	1,401	1,864
Less: comprehensive income attributable to the noncontrolling interests	(4)	(3)
Comprehensive income attributable to stockholders	$1,397	$1,861

See accompanying notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30, 2013	2012
Sales and revenues:		
Sales of Machinery and Power Systems	$39,048	$47,711
Revenues of Financial Products	2,206	2,089
Total sales and revenues	41,254	49,800
Operating costs:		
Cost of goods sold	30,186	35,156
Selling, general and administrative expenses	4,130	4,328
Research and development expenses	1,579	1,853
Interest expense of Financial Products	552	599
Other operating (income) expenses	631	329
Total operating costs	37,078	42,265
Operating profit	4,176	7,535
Interest expense excluding Financial Products	356	352
Other income (expense)	(79)	141
Consolidated profit before taxes	3,741	7,324
Provision (benefit) for income taxes	943	2,314
Profit of consolidated companies	2,798	5,010
Equity in profit (loss) of unconsolidated affiliated companies	(1)	12
Profit of consolidated and affiliated companies	2,797	5,022
Less: Profit (loss) attributable to noncontrolling interests	11	38
Profit [1]	$2,786	$4,984
Profit per common share	$4.30	$7.64
Profit per common share – diluted [2]	$4.21	$7.44
Weighted-average common shares outstanding (millions)		
– Basic	647.6	652.0
– Diluted [2]	661.3	669.7

Cash dividends declared per common share	$1.12	$0.98

[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.

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

	Nine Months Ended September 30,	
	2013	2012
Profit of consolidated and affiliated companies	$2,797	$5,022
Other comprehensive income (loss), net of tax:		
Foreign currency translation, net of tax (provision)/benefit of: 2013 - $41; 2012 - $(5)	(255)	35
Pension and other postretirement benefits:		
Current year actuarial gain (loss), net of tax (provision)/benefit of: 2013 - $(14); 2012 - $83	24	(140)
Amortization of actuarial (gain) loss, net of tax (provision)/benefit of: 2013 - $(201); 2012 - $(181)	388	340
Current year prior service credit (cost), net of tax (provision)/benefit of: 2013 - $0; 2012 - $(1)	—	1
Amortization of prior service (credit) cost, net of tax (provision)/benefit of: 2013 - $14; 2012 - $12	(27)	(23)
Amortization of transition (asset) obligation, net of tax (provision)/benefit of: 2013 - $(1); 2012 - $0	1	2
Derivative financial instruments:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2013 - $(2); 2012 - $21	2	(35)
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2013 - $(24); 2012 - $(6)	42	10
Available-for-sale securities:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2013 - $(8); 2012 - $(13)	14	28
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2013 - $0; 2012 - $0	(1)	(3)
Total other comprehensive income (loss), net of tax	188	215
Comprehensive income	2,985	5,237
Less: comprehensive income attributable to the noncontrolling interests	(13)	(20)
Comprehensive income attributable to stockholders	$2,972	$5,217

See accompanying notes to Consolidated Financial Statements.

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

	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and short-term investments	$6,357	$5,490
Receivables – trade and other	8,649	10,092
Receivables – finance	9,161	8,860
Deferred and refundable income taxes	1,541	1,547
Prepaid expenses and other current assets	988	988
Inventories	13,392	15,547
Total current assets	40,088	42,524
Property, plant and equipment – net	16,588	16,461
Long-term receivables – trade and other	1,329	1,316
Long-term receivables – finance	14,585	14,029
Investments in unconsolidated affiliated companies	278	272
Noncurrent deferred and refundable income taxes	1,985	2,011
Intangible assets	3,718	4,016
Goodwill	6,968	6,942
Other assets	1,733	1,785
Total assets	$87,272	$89,356
Liabilities		
Current liabilities:		
Short-term borrowings:		
Machinery and Power Systems	$290	$636
Financial Products	5,557	4,651
Accounts payable	6,280	6,753
Accrued expenses	3,373	3,667
Accrued wages, salaries and employee benefits	1,391	1,911
Customer advances	2,699	2,978
Other current liabilities	1,854	2,055
Long-term debt due within one year:		
Machinery and Power Systems	1,110	1,113
Financial Products	6,565	5,991
Total current liabilities	29,119	29,755
Long-term debt due after one year:		
Machinery and Power Systems	7,951	8,666
Financial Products	18,064	19,086
Liability for postemployment benefits	10,785	11,085
Other liabilities	3,176	3,182
Total liabilities	69,095	71,774
Commitments and contingencies (Notes 10 and 13)		
Stockholders’ equity		

Common stock of $1.00 par value:		
Authorized shares: 2,000,000,000 Issued shares: (9/30/13 and 12/31/12 – 814,894,624) at paid-in amount	4,657	4,481
Treasury stock (9/30/13 – 178,538,633 shares; 12/31/12 – 159,846,131 shares) at cost	(11,914)	(10,074)
Profit employed in the business	31,614	29,558
Accumulated other comprehensive income (loss)	(6,247)	(6,433)
Noncontrolling interests	67	50
Total stockholders' equity	18,177	17,582
Total liabilities and stockholders' equity	$87,272	$89,356

See accompanying notes to Consolidated Financial Statements.

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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
Nine Months Ended September 30, 2012						
Balance at December 31, 2011	$4,273	$(10,281)	$25,219	$(6,328)	$46	$12,929
Profit of consolidated and affiliated companies	—	—	4,984	—	38	5,022
Foreign currency translation, net of tax	—	—	—	59	(24)	35
Pension and other postretirement benefits, net of tax	—	—	—	175	5	180
Derivative financial instruments, net of tax	—	—	—	(25)	—	(25)
Available-for-sale securities, net of tax	—	—	—	24	1	25
Change in ownership from noncontrolling interests	—	—	—	—	1	1
Dividends declared	—	—	(639)	—	—	(639)
Distribution to noncontrolling interests	—	—	—	—	(5)	(5)
Common shares issued from treasury stock for stock-based compensation: 6,400,328	(122)	163	—	—	—	41
Stock-based compensation expense	208	—	—	—	—	208
Net excess tax benefits from stock-based compensation	164	—	—	—	—	164
Cat Japan share redemption [1]	(74)	—	(23)	107	(10)	—
Balance at September 30, 2012	$4,449	$(10,118)	$29,541	$(5,988)	$52	$17,936
Nine Months Ended September 30, 2013						
Balance at December 31, 2012	$4,481	$(10,074)	$29,558	$(6,433)	$50	$17,582
Profit of consolidated and affiliated companies	—	—	2,786	—	11	2,797
Foreign currency translation, net of tax	—	—	—	(257)	2	(255)
Pension and other postretirement benefits, net of tax	—	—	—	386	—	386
Derivative financial instruments, net of tax	—	—	—	44	—	44
Available-for-sale securities, net of tax	—	—	—	13	—	13
Change in ownership from noncontrolling interests	(6)	—	—	—	14	8
Dividends declared	—	—	(730)	—	—	(730)
Distribution to noncontrolling interests	—	—	—	—	(10)	(10)
Common shares issued from treasury stock for stock-based compensation: 4,792,341	(83)	160	—	—	—	77
Stock-based compensation expense	196	—	—	—	—	196
Net excess tax benefits from stock-based compensation	69	—	—	—	—	69
Common shares repurchased: 23,484,843 [2]	—	(2,000)	—	—	—	(2,000)

Balance at September 30, 2013	$4,657	$(11,914)	$31,614	$(6,247)	$ 67	$18,177

[1] See Notes 12 and 17 regarding the Cat Japan share redemption.
[2] See Note 11 regarding shares repurchased.

See accompanying notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30, 2013	2012
Cash flow from operating activities:		
Profit of consolidated and affiliated companies	$2,797	$5,022
Adjustments for non-cash items:		
Depreciation and amortization	2,263	2,070
Other	377	(267)
Changes in assets and liabilities, net of acquisitions and divestitures:		
Receivables – trade and other	1,165	136
Inventories	1,911	(3,118)
Accounts payable	41	(334)
Accrued expenses	(227)	32
Accrued wages, salaries and employee benefits	(500)	(643)
Customer advances	(287)	306
Other assets – net	(74)	(20)
Other liabilities – net	145	34
Net cash provided by (used for) operating activities	7,611	3,218
Cash flow from investing activities:		
Capital expenditures – excluding equipment leased to others	(1,862)	(2,270)
Expenditures for equipment leased to others	(1,301)	(1,256)
Proceeds from disposals of leased assets and property, plant and equipment	593	840
Additions to finance receivables	(8,339)	(8,835)
Collections of finance receivables	6,790	6,567
Proceeds from sale of finance receivables	110	109
Investments and acquisitions (net of cash acquired)	(193)	(542)
Proceeds from sale of businesses and investments (net of cash sold)	168	1,009
Proceeds from sale of available-for-sale securities	297	243
Investments in available-for-sale securities	(312)	(299)
Other – net	(29)	82
Net cash provided by (used for) investing activities	(4,078)	(4,352)
Cash flow from financing activities:		
Dividends paid	(730)	(937)
Distribution to noncontrolling interests	(10)	(5)
Common stock issued, including treasury shares reissued	77	41
Treasury shares purchased	(2,000)	—
Excess tax benefit from stock-based compensation	70	165
Acquisitions of redeemable noncontrolling interests	—	(444)
Proceeds from debt issued (original maturities greater than three months):		
Machinery and Power Systems	145	2,015
Financial Products	6,854	9,617
Payments on debt (original maturities greater than three months):		

Machinery and Power Systems	(1,134)	(485)
Financial Products	(7,636)	(6,242)
Short-term borrowings – net (original maturities three months or less)	1,736	166
Net cash provided by (used for) financing activities	(2,628)	3,891
Effect of exchange rate changes on cash	(38)	(125)
Increase (decrease) in cash and short-term investments	867	2,632
Cash and short-term investments at beginning of period	5,490	3,057
Cash and short-term investments at end of period	$6,357	$5,689

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.

Non-cash activities: In 2012, $1,325 million of debentures with varying interest rates and maturity dates were exchanged for $1,722 million of 3.803% debentures due in 2042 and $179 million of cash. The $179 million of cash paid is included in Other liabilities - net in the operating activities section of the Consolidated Statement of Cash Flow.

See accompanying notes to Consolidated Financial Statements.

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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 and nine month periods ended September 30, 2013 and 2012, (b) the consolidated comprehensive income for the three and nine month periods ended September 30, 2013 and 2012, (c) the consolidated financial position at September 30, 2013 and December 31, 2012, (d) the consolidated changes in stockholders' equity for the nine month periods ended September 30, 2013 and 2012, and (e) the consolidated cash flow for the nine month periods ended September 30, 2013 and 2012. 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.

We have revised previously reported cash flows from operating and financing activities for the nine month period ended September 30, 2012 to correct for the impact of interest payments on certain Cat Financial bank borrowings. Cash provided by operating activities decreased from the amounts previously reported by $44 million for the nine month period ended September 30, 2012, and cash provided by financing activities increased by the same amount. Revisions will be made to previously reported amounts in future filings. Cash provided by operating activities will decrease by $57 million and $53 million for the years ended December 31, 2012 and 2011, respectively. Cash provided by financing activities will increase by the same amounts for the respective periods. Management has concluded that the impact was not material to any quarterly or annual period.

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, 2012 (2012 Form 10-K).

The December 31, 2012 financial position data included herein is derived from the audited consolidated financial statements included in the 2012 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 and Power Systems – Represents the aggregate total of Construction Industries, Resource Industries, Power Systems, and All Other 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 Insurance Holdings Inc. (Cat Insurance) and their respective subsidiaries.

2. New Accounting Guidance

Disclosures about offsetting assets and liabilities – In December 2011, the Financial Accounting Standards Board (FASB) issued accounting guidance on disclosures about offsetting assets and liabilities. The guidance requires entities to disclose both gross and net information about instruments and transactions that are offset in the statement of financial position, as well as instruments and transactions that are subject to an enforceable master netting arrangement or similar agreement. In January 2013, the FASB issued guidance clarifying the scope of the disclosures to apply only to derivatives, including bifurcated embedded derivatives, repurchase and reverse repurchase agreements, and securities lending and securities borrowing transactions. This guidance was effective January 1, 2013, with retrospective application required. The guidance did not have a material impact on our financial statements. See Note 4 for additional information.

Indefinite-lived intangible assets impairment testing – In July 2012, the FASB issued accounting guidance on the testing of indefinite-lived intangible assets for impairment. The guidance allows entities to first perform a qualitative assessment to determine the likelihood of an impairment for an indefinite-lived intangible asset and whether it is necessary to perform the quantitative impairment assessment currently required. This guidance was effective January 1, 2013 and did not have a material impact on our financial statements.

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Reporting of amounts reclassified out of accumulated other comprehensive income – In February 2013, the FASB issued accounting guidance on the reporting of reclassifications out of accumulated other comprehensive income. The guidance requires an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income if the amount is reclassified to net income in its entirety in the same reporting period. For other amounts not required to be reclassified in their entirety to net income in the same reporting period, a cross reference to other disclosures that provide additional detail about the reclassification amounts is required. This guidance was effective January 1, 2013 and did not have a material impact on our financial statements. See Note 12 for additional information.

Joint and several liability arrangements – In February 2013, the 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 is effective January 1, 2014, with retrospective application required. We do not expect the adoption to 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 is effective January 1, 2014. We do not expect the adoption to 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 in the financial statements if available under the applicable tax jurisdiction. The guidance is effective January 1, 2014. 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 $64 million and $196 million for the three and nine months ended September 30, 2013, respectively; and $69 million and $204 million for the three and nine months ended September 30, 2012, respectively.

The following table illustrates the type and fair value of the stock-based compensation awards granted during the nine month periods ended September 30, 2013 and 2012, respectively:

	2013		2012	
	Shares Granted	Fair Value Per Award	Shares Granted	Fair Value Per Award
Stock options	4,276,060	$28.34	3,224,203	$39.20
RSUs	1,614,870	$84.05	1,429,939	$104.61

The stock price on the date of grant was $89.75 and $110.09 for 2013 and 2012, respectively.

The following table provides the assumptions used in determining the fair value of the stock-based awards for the nine month periods ended September 30, 2013 and 2012, respectively:

	Grant Year	
	2013	2012
Weighted-average dividend yield	2.13%	2.16%
Weighted-average volatility	30.6%	35.0%
Range of volatilities	23.4-40.6%	33.3-40.4%
Range of risk-free interest rates	0.16-1.88%	0.17-2.00%
Weighted-average expected lives	8 years	7 years

As of September 30, 2013, the total remaining unrecognized compensation cost related to nonvested stock-based compensation awards was $232 million, which will be amortized over the weighted-average remaining requisite service periods of approximately 1.9 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.

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 and Power Systems 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

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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 and Power Systems foreign currency contracts are undesignated, including any hedges designed to protect our competitive exposure.

As of September 30, 2013, $15 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.

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 and Power Systems 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 with the intent to designate as fair value hedges at inception of the contract all fixed-to-floating interest rate swaps. Designation as a hedge of the fair value of our fixed-rate debt is performed to support hedge accounting.

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 September 30, 2013, $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 and Power Systems 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.

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Commodity Price Risk

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

Our Machinery and Power Systems 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.

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 September 30, 2013	December 31, 2012
Designated derivatives			
Foreign exchange contracts			
Machinery and Power Systems	Receivables – trade and other	$49	$28
Machinery and Power Systems	Long-term receivables – trade and other	1	—
Machinery and Power Systems	Accrued expenses	(24)	(66)
Interest rate contracts			
Financial Products	Receivables – trade and other	12	17
Financial Products	Long-term receivables – trade and other	130	209
Financial Products	Accrued expenses	(6)	(8)
		$162	$180
Undesignated derivatives			
Foreign exchange contracts			
Machinery and Power Systems	Receivables – trade and other	$42	$31
Machinery and Power Systems	Accrued expenses	(31)	(63)
Financial Products	Receivables – trade and other	13	10
Financial Products	Long-term receivables – trade and other	8	—
Financial Products	Accrued expenses	(7)	(6)
Interest rate contracts			
Financial Products	Receivables – trade and other	—	2
Financial Products	Accrued expenses	—	(1)
Commodity contracts			
Machinery and Power Systems	Receivables – trade and other	—	1
Machinery and Power Systems	Accrued expenses	(1)	—
		$24	$(26)

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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 September 30, 2013 Gains (Losses) on Derivatives	Three Months Ended September 30, 2013 Gains (Losses) on Borrowings	Three Months Ended September 30, 2012 Gains (Losses) on Derivatives	Three Months Ended September 30, 2012 Gains (Losses) on Borrowings
Interest rate contracts					
Financial Products	Other income (expense)	$(9)	$12	$7	$(3)
		$(9)	$12	$7	$(3)

	Classification	Nine Months Ended September 30, 2013 Gains (Losses) on Derivatives	Nine Months Ended September 30, 2013 Gains (Losses) on Borrowings	Nine Months Ended September 30, 2012 Gains (Losses) on Derivatives	Nine Months Ended September 30, 2012 Gains (Losses) on Borrowings
Interest rate contracts					
Financial Products	Other income (expense)	$(87)	$92	$4	$7
		$(87)	$92	$4	$7

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Cash Flow Hedges
(Millions of dollars)

	Three Months Ended September 30, 2013			
		Recognized in Earnings		
	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)	Classification of Gains (Losses)	Amount of Gains (Losses) Reclassified from AOCI to Earnings	Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts				
Machinery and Power Systems	$44	Other income (expense)	$(12)	$—
Interest rate contracts				
Machinery and Power Systems	—	Other income (expense)	(1)	—
Financial Products	(3)	Interest expense of Financial Products	(1)	—
	$41		$(14)	$—

	Three Months Ended September 30, 2012			
		Recognized in Earnings		
	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)	Classification of Gains (Losses)	Amount of Gains (Losses) Reclassified from AOCI to Earnings	Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts				
Machinery and Power Systems	$(6)	Other income (expense)	$(14)	$—
Interest rate contracts				
Machinery and Power Systems	—	Other income (expense)	1	—
Financial Products	(6)	Interest expense of Financial Products	(1)	—
	$(12)		$(14)	$—

	Nine Months Ended September 30, 2013			
		Recognized in Earnings		
	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)	Classification of Gains (Losses)	Amount of Gains (Losses) Reclassified from AOCI to Earnings	Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts				
Machinery and Power Systems	$4	Other income (expense)	$(60) [2]	$—
Interest rate contracts				
Machinery and Power Systems	—	Other income (expense)	(2)	—
Financial Products	—	Interest expense of Financial Products	(4)	—

	$4		$(66)	$—

Nine Months Ended September 30, 2012				
		Recognized in Earnings		
	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)	Classification of Gains (Losses)	Amount of Gains (Losses) Reclassified from AOCI to Earnings	Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts				
Machinery and Power Systems	$(48)	Other income (expense)	$(13)	$—
Interest rate contracts				
Financial Products	(8)	Interest expense of Financial Products	(3)	(1) [1]
	$(56)		$(16)	$(1)

[1] The ineffective portion recognized in earnings is included in Other income (expense).

[2] 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.

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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 September 30, 2013	Three Months Ended September 30, 2012
Foreign exchange contracts			
Machinery and Power Systems	Other income (expense)	$15	$(9)
Financial Products	Other income (expense)	3	5
Interest rate contracts			
Financial Products	Other income (expense)	(1)	—
Commodity contracts			
Machinery and Power Systems	Other income (expense)	2	3
		$19	$(1)

	Classification of Gains (Losses)	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Foreign exchange contracts			
Machinery and Power Systems	Other income (expense)	$7	$21
Financial Products	Other income (expense)	4	7
Interest rate contracts			
Financial Products	Other income (expense)	(1)	—
Commodity contracts			
Machinery and Power Systems	Other income (expense)	(2)	3
		$8	$31

We enter into International Swaps and Derivatives Association (ISDA) master netting agreements within Machinery & Power Systems 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 September 30, 2013 and December 31, 2012, no cash collateral was received or pledged under the master netting agreements.

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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:

September 30, 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 & Power Systems	$92	$—	$92	$(52)	$—	$40
Financial Products	163	—	163	(9)	—	154
Total	$255	$—	$255	$(61)	$—	$194

September 30, 2013				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 & Power Systems	$(56)	$—	$(56)	$52	$—	$(4)
Financial Products	(13)	—	(13)	9	—	(4)
Total	$(69)	$—	$(69)	$61	$—	$(8)

December 31, 2012				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 & Power Systems	$60	$—	$60	$(59)	$—	$1
Financial Products	238	—	238	(12)	—	226
Total	$298	$—	$298	$(71)	$—	$227

December 31, 2012				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 & Power Systems	$(129)	$—	$(129)	$59	$—	$(70)
Financial Products	(15)	—	(15)	12	—	(3)
Total	$(144)	$—	$(144)	$71	$—	$(73)

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5. Inventories

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

(Millions of dollars)	September 30, 2013	December 31, 2012
Raw materials	$3,138	$3,573
Work-in-process	2,749	2,920
Finished goods	7,221	8,767
Supplies	284	287
Total inventories	$13,392	$15,547

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: (Millions of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Sales	$349	$253	$916	$625
Cost of sales	284	206	722	492
Gross profit	$65	$47	$194	$133
Profit (loss)	$(6)	$17	$(31)	$39

Financial Position of unconsolidated affiliated companies: (Millions of dollars)	September 30, 2013	December 31, 2012
Assets:		
Current assets	$707	$715
Property, plant and equipment – net	714	529
Other assets	498	616
	1,919	1,860
Liabilities:		
Current liabilities	450	443
Long-term debt due after one year	887	708
Other liabilities	167	170
	1,504	1,321
Equity	$415	$539

Caterpillar's investments in unconsolidated affiliated companies: (Millions of dollars)	September 30, 2013	December 31, 2012
Investments in equity method companies	$268	$256
Plus: Investments in cost method companies	10	16
Total investments in unconsolidated affiliated companies	$278	$272

The change in the results of operations amounts for the three and nine months ended September 30, 2013 as compared to September 30, 2012 primarily relates to the third party logistics business, in which Caterpillar sold a majority interest on July 31, 2012. Under the terms of the agreement, Caterpillar retained a 35 percent equity interest.

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7. Intangible Assets and Goodwill

A. Intangible assets

Intangible assets are comprised of the following:

(Millions of dollars)	Weighted Amortizable Life (Years)	September 30, 2013 Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	15	$2,685	$(497)	$2,188
Intellectual property	11	1,816	(455)	1,361
Other	10	282	(131)	151
Total finite-lived intangible assets	13	4,783	(1,083)	3,700
Indefinite-lived intangible assets - In-process research & development		18	—	18
Total intangible assets		$4,801	$(1,083)	$3,718

	Weighted Amortizable Life (Years)	December 31, 2012 Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	15	$2,756	$(377)	$2,379
Intellectual property	12	1,767	(342)	1,425
Other	10	299	(105)	194
Total finite-lived intangible assets	13	4,822	(824)	3,998
Indefinite-lived intangible assets - In-process research & development		18	—	18
Total intangible assets		$4,840	$(824)	$4,016

During the third quarter of 2013, we acquired finite-lived intangible assets of $66 million due to the purchase of Johan Walter Berg AB. See Note 19 for details on this business combination.

Gross customer relationship intangibles of $123 million and related accumulated amortization of $17 million were reclassified from Intangible assets to assets held for sale and/or divested during the nine months ended September 30, 2013, and are not included in the September 30, 2013 balances in the table above. These transactions were related to the divestiture of portions of the Bucyrus distribution business. See Note 20 for additional information on divestitures and assets held for sale.

Amortization expense for the three and nine months ended September 30, 2013 was $91 million and $276 million, respectively. Amortization expense for the three and nine months ended September 30, 2012 was $101 million and $294 million, respectively. Amortization expense related to intangible assets is expected to be:

(Millions of dollars)

2013	2014	2015	2016	2017	Thereafter
$369	$374	$372	$360	$358	$2,161

B. Goodwill

During the third quarter of 2013, we recorded goodwill of $109 million related to the acquisition of Johan Walter Berg AB. See Note 19 for details on this business combination.

Goodwill of $47 million was reclassified to assets held for sale and/or divested during the nine months ended September 30, 2013, and is not included in the September 30, 2013 balance in the table below. These transactions were related to the divestiture of portions of the Bucyrus distribution business and the sale of certain Power Systems assets that were accounted for as a business. See Note 20 for additional information on divestitures and assets held for sale.

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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 and nine months ended September 30, 2013 or 2012.

The changes in the carrying amount of the goodwill by reportable segment for the nine months ended September 30, 2013 were as follows:

(Millions of dollars)

	December 31, 2012	Acquisitions [1]	Held for Sale and Business Divestitures [2]	Other Adjustments [3]	September 30, 2013
Construction Industries					
Goodwill	$382	$—	$—	$(46)	$336
Resource Industries					
Goodwill	4,559	—	(37)	1	4,523
Impairments	(602)	—	—	—	(602)
Net goodwill	3,957	—	(37)	1	3,921
Power Systems					
Goodwill	2,486	109	(10)	9	2,594
All Other [4]					
Goodwill	117	—	—	—	117
Consolidated total					
Goodwill	7,544	109	(47)	(36)	7,570
Impairments	(602)	—	—	—	(602)
Net goodwill	$6,942	$109	$(47)	$(36)	$6,968

[1] See Note 19 for additional details.
[2] See Note 20 for additional details.
[3] Other adjustments are comprised primarily of foreign currency translation.
[4] Includes All Other operating segment (See Note 15).

8. Available-For-Sale Securities

We have investments in certain debt and equity securities, primarily at Cat Insurance, 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.

(Millions of dollars)	September 30, 2013 Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value	December 31, 2012 Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value
Government debt						
U.S. treasury bonds	$11	$—	$11	$10	$—	$10
Other U.S. and non-U.S. government bonds	125	1	126	144	2	146
Corporate bonds						
Corporate bonds	648	24	672	626	38	664
Asset-backed securities	75	—	75	96	—	96
Mortgage-backed debt securities						
U.S. governmental agency	336	1	337	291	8	299
Residential	21	—	21	26	(1)	25
Commercial	87	6	93	117	10	127
Equity securities						
Large capitalization value	158	73	231	147	38	185
Smaller company growth	22	23	45	22	12	34
Total	$1,483	$128	$1,611	$1,479	$107	$1,586

During the three months ended September 30, 2013 and 2012, there were no charges for other-than-temporary declines in the market values of securities. During the nine months ended September 30, 2013 and 2012, charges for other-than-temporary declines in the market values of securities were $1 million. These charges were accounted for as realized losses and were included in Other income (expense) in the Consolidated Statement of Results of Operations. The cost basis for the impacted securities was adjusted to reflect these charges.

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

(Millions of dollars)	September 30, 2013 Less than 12 months [1] Fair Value	Unrealized Losses	12 months or more [1] Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Corporate bonds						
Corporate bonds	$174	$2	$—	$—	$174	$2
Asset-backed securities	4	—	20	2	24	2
Mortgage-backed debt securities						
U.S. governmental agency	145	4	56	1	201	5
Equity securities						
Large capitalization value	15	1	2	—	17	1
Total	$338	$7	$78	$3	$416	$10

(Millions of dollars)	December 31, 2012 Less than 12 months [1] Fair Value	Unrealized Losses	12 months or more [1] Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Corporate bonds						
Asset-backed securities	$—	$—	$20	$3	$20	$3
Mortgage-backed debt securities						
U.S. governmental agency	84	1	15	—	99	1
Residential	—	—	14	1	14	1
Equity securities						
Large capitalization value	25	2	10	1	35	3
Total	$109	$3	$59	$5	$168	$8

[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 September 30, 2013.

Mortgage-Backed Debt Securities. The unrealized losses on our investments in mortgage-backed securities and mortgage-related asset-backed securities relate mainly to the continuation of elevated housing delinquencies, default rates and higher market yields since the 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 September 30, 2013.

Equity Securities. Cat Insurance 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 third quarter of 2013 on generally favorable employment and housing data. The unrealized losses on investments in equity securities relate to uneven sector participation in the market recovery. We do not consider these investments to be other-than-temporarily impaired as of September 30, 2013.

The cost basis and fair value of the available-for-sale debt securities at September 30, 2013, 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.

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	September 30, 2013	
(Millions of dollars)	Cost Basis	Fair Value
Due in one year or less	$211	$214
Due after one year through five years	589	611
Due after five years through ten years	28	29
Due after ten years	31	30
U.S. governmental agency mortgage-backed securities	336	337
Residential mortgage-backed securities	21	21
Commercial mortgage-backed securities	87	93
Total debt securities – available-for-sale	$1,303	$1,335

Sales of Securities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions of dollars)	2013	2012	2013	2012
Proceeds from the sale of available-for-sale securities	$90	$66	$297	$243
Gross gains from the sale of available-for-sale securities	$2	$1	$4	$4
Gross losses from the sale of available-for-sale securities	$1	$—	$2	$—

9. Postretirement Benefits

A. Pension and postretirement benefit costs

In February 2012, we announced the closure of the Electro-Motive Diesel facility located in London, Ontario. As a result of the closure, we recognized a $37 million other postretirement benefits curtailment gain. This excludes a $21 million loss of a third-party receivable for other postretirement benefits that was eliminated due to the closure. In addition, a $10 million special termination benefit expense was recognized related to statutory pension benefits required to be paid to certain affected employees. As a result, a net gain of $6 million related to the facility closure was recognized in Other operating (income) expenses in the Consolidated Statement of Results of Operations for the nine months ended September 30, 2012.

In August 2012, we announced changes to our U.S. hourly pension plan, which impacted certain hourly employees. For the impacted employees, pension benefit accruals were frozen on January 1, 2013 or will freeze on January 1, 2016, at which time employees will become eligible for various provisions of company sponsored 401(k) plans including a matching contribution and an annual employer contribution. The plan changes resulted in a curtailment and required a remeasurement as of August 31, 2012. The curtailment and the remeasurement resulted in a net increase in our Liability for postemployment benefits of $243 million and a net loss of $153 million, net of tax, recognized in Accumulated other comprehensive income (loss). The increase in the liability was primarily due to a decline in the discount rate. Also, the curtailment resulted in expense of $7 million which was recognized in Other operating (income) expenses in the Consolidated Statement of Results of Operations for the three and nine months ended September 30, 2012.

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(Millions of dollars)	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	September 30,		September 30,		September 30,	
	2013	2012	2013	2012	2013	2012
For the three months ended:						
Components of net periodic benefit cost:						
Service cost	$49	$46	$31	$26	$24	$23
Interest cost	147	152	43	44	48	55
Expected return on plan assets	(208)	(204)	(59)	(53)	(14)	(15)
Amortization of:						
Transition obligation (asset)	—	—	—	—	1	1
Prior service cost (credit) [1]	4	5	—	1	(18)	(18)
Net actuarial loss (gain) [1]	136	126	33	24	27	25
Net periodic benefit cost	128	125	48	42	68	71
Adjustment for subsidiary pension plan [2]	31	—	—	—	—	—
Curtailments, settlements and special termination benefits [3]	—	7	—	6	—	—
Total cost included in operating profit	$159	$132	$48	$48	$68	$71
For the nine months ended:						
Components of net periodic benefit cost:						
Service cost	$147	$138	$93	$82	$79	$69
Interest cost	436	460	128	135	146	166
Expected return on plan assets	(624)	(610)	(176)	(160)	(42)	(47)
Amortization of:						
Transition obligation (asset)	—	—	—	—	2	2
Prior service cost (credit) [1]	13	15	1	1	(55)	(51)
Net actuarial loss (gain) [1]	409	374	99	72	81	75
Net periodic benefit cost	381	377	145	130	211	214
Adjustment for subsidiary pension plan [2]	31	—	—	—	—	—
Curtailments, settlements and special termination benefits [3]	—	7	3	28	—	(40)
Total cost included in operating profit	$412	$384	$148	$158	$211	$174
Weighted-average assumptions used to determine net cost:						
Discount rate	3.7%	4.3%	3.7%	4.3%	3.7%	4.3%
Expected return on plan assets	7.8%	8.0%	6.7%	7.1%	7.8%	8.0%
Rate of compensation increase	4.5%	4.5%	3.9%	3.9%	4.4%	4.4%

1 Prior service cost (credit) and net actuarial loss (gain) for both pension and other postretirement benefits are generally amortized using the straight-line method over the average remaining service period to the full retirement eligibility date of 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) and net actuarial loss (gain) are amortized using the straight-line method over the remaining life expectancy of those participants.

2 Charge to recognize a previously unrecorded liability related to a subsidiary's pension plans.

3 Curtailments, settlements and special termination benefits were recognized in Other operating (income) expenses in the Consolidated Statement of Results of Operations.

We made $118 million and $398 million of contributions to our pension plans during the three and nine months ended September 30, 2013, respectively. We currently anticipate full-year 2013 contributions of approximately $500 million, all of which are required. We made $195 million and $488 million of contributions to our pension plans during the three and nine months ended September 30, 2012, respectively.

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B. Defined contribution benefit costs

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions of dollars)	2013	2012	2013	2012
U.S. Plans	$74	$62	$218	$196
Non-U.S. Plans	16	15	47	46
	$90	$77	$265	$242

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 being financed. 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 September 30, 2013 and December 31, 2012, the related liability was $15 million and $14 million, respectively. 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)	September 30, 2013	December 31, 2012
Caterpillar dealer guarantees	$201	$180
Customer guarantees	53	77
Customer guarantees – supplier consortium	359	—
Third party logistics business guarantees	156	176
Other guarantees	35	53
Total guarantees	$804	$486

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

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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 September 30, 2013 and December 31, 2012, the SPC's assets of $1,044 million and $927 million, respectively, are primarily comprised of loans to dealers and the SPC's liabilities of $1,043 million and $927 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)	2013
Warranty liability, January 1	$1,477
Reduction in liability (payments)	(677)
Increase in liability (new warranties)	570
Warranty liability, September 30	$1,370

(Millions of dollars)	2012
Warranty liability, January 1	$1,308
Reduction in liability (payments)	(920)
Increase in liability (new warranties)	1,089
Warranty liability, December 31	$1,477

11. Profit Per Share

Computations of profit per share:	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions except per share data)	2013	2012	2013	2012
Profit for the period (A) [1]:	$946	$1,699	$2,786	$4,984
Determination of shares (in millions):				
Weighted-average number of common shares outstanding (B)	639.3	653.6	647.6	652.0
Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price	12.6	15.1	13.7	17.7
Average common shares outstanding for fully diluted computation (C) [2]	651.9	668.7	661.3	669.7
Profit per share of common stock:				
Assuming no dilution (A/B)	$1.48	$2.60	$4.30	$7.64
Assuming full dilution (A/C) [2]	$1.45	$2.54	$4.21	$7.44
Shares outstanding as of September 30 (in millions)			636.4	653.9

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

SARs and stock options to purchase 10,285,409 and 10,191,424 common shares were outstanding for the three and nine months ended September 30, 2013, respectively, which were not included in the computation of diluted earnings per share because the effect would have been antidilutive. For the three and nine months ended September 30, 2012, there were outstanding SARs and stock options to purchase 6,073,271 common shares which were antidilutive.

In February 2007, the Board of Directors authorized the repurchase of $7.5 billion of Caterpillar stock, and in December 2011, the authorization was extended through December 31, 2015. In April 2013, we entered into a definitive agreement with Citibank, N.A. to purchase shares of our common stock under an accelerated stock repurchase transaction (April

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ASR Agreement), which was completed in June 2013. In accordance with the terms of the April ASR Agreement, a total of 11.5 million shares of our common stock were repurchased at an aggregate cost to Caterpillar of $1.0 billion.

In July 2013, we entered into a definitive agreement with Société Générale to purchase shares of our common stock under an accelerated stock repurchase transaction (July ASR Agreement), which was completed in September 2013. In accordance with the terms of the July ASR Agreement, a total of 11.9 million shares of our common stock were repurchased at an aggregate cost to Caterpillar of $1.0 billion. Through the end of the third quarter of 2013, $5.8 billion of the $7.5 billion authorization was spent.

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
Balance at September 30, 2012 [1]	$432	$(6,454)	$(35)	$ 69	$(5,988)
Three Months Ended September 30, 2013					
Balance at June 30, 2013	$(92)	$(6,645)	$(33)	$ 72	$(6,698)
Other comprehensive income (loss) before reclassifications	291	(3)	26	9	323
Amounts reclassified from accumulated other comprehensive (income) loss	—	120	9	(1)	128
Other comprehensive income (loss)	291	117	35	8	451
Balance at September 30, 2013	$199	$(6,528)	$2	$ 80	$(6,247)
Nine Months Ended September 30, 2013					
Balance at December 31, 2012	$456	$(6,914)	$(42)	$ 67	$(6,433)
Other comprehensive income (loss) before reclassifications	(257)	24	2	14	(217)
Amounts reclassified from accumulated other comprehensive (income) loss	—	362	42	(1)	403
Other comprehensive income (loss)	(257)	386	44	13	186
Balance at September 30, 2013	$199	$(6,528)	$2	$ 80	$(6,247)

1 In conjunction with the Cat Japan share redemption, to reflect the increase in our ownership interest in Cat Japan from 67 percent to 100 percent, $107 million was reclassified to Accumulated other comprehensive income (loss) from other components of stockholders' equity and was not included in Comprehensive income during the second quarter of 2012. The amount was comprised of foreign currency translation of $167 million, pension and other postretirement benefits of $(61) million and available-for-sale securities of $1 million.

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

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(Millions of dollars)	Classification of income (expense)	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Pension and other postretirement benefits:			
Amortization of actuarial gain (loss)	Note 9 [1]	$(196)	$(589)
Amortization of prior service credit (cost)	Note 9 [1]	14	41
Amortization of transition asset (obligation)	Note 9 [1]	(1)	(2)
Reclassifications before tax		(183)	(550)
Tax (provision) benefit		63	188
Reclassifications net of tax		$(120)	$(362)
Derivative financial instruments:			
Foreign exchange contracts	Other income (expense)	$(12)	$(60)
Interest rate contracts	Other income (expense)	(1)	(2)
Interest rate contracts	Interest expense of Financial Products	(1)	(4)
Reclassifications before tax		(14)	(66)
Tax (provision) benefit		5	24
Reclassifications net of tax		$(9)	$(42)
Available-for-sale securities:			
Realized gain (loss)	Other income (expense)	$1	$1
Tax (provision) benefit		—	—
Reclassifications net of tax		$1	$1
Total reclassifications from Accumulated other comprehensive income (loss)		$(128)	$(403)

[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 costs are accrued against our earnings. In formulating that estimate, we do not consider amounts expected to be recovered from insurance companies or others. The amount recorded for environmental remediation is not material and is included in Accrued expenses in the Consolidated Statement of Financial Position.

We cannot reasonably estimate costs at sites in the very early stages of remediation. Currently, we have a few sites in the very early stages of remediation, and there is no more than a remote chance that a material amount for remedial activities at any individual site, or at all sites in the aggregate, will be required.

On October 24, 2013, Progress Rail Services Corporation (Progress Rail), a wholly-owned indirect subsidiary of Caterpillar Inc., 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. Because of the recent timing of the subpoena, the Company is unable to

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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.

We are also involved in 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 for the first nine months of 2013 reflects an estimated annual effective tax rate of 29 percent compared with 30.5 percent for 2012, excluding the items discussed below. The decrease is primarily due to the U.S. research and development tax credit that was expired in 2012, along with expected changes in our geographic mix of profits from a tax perspective.

The 2013 tax provision also includes a benefit of $87 million primarily related to the research and development tax credit that was retroactively extended for 2012 and a benefit of $55 million resulting from true-up of estimated amounts used in the tax provision to the 2012 U.S. tax return as filed in September 2013. This compares to an $81 million negative impact related to nondeductible goodwill in the first nine months of 2012.

15. Segment Information

A. Basis for segment information

Our Executive Office is comprised of five Group Presidents, a Senior 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 with the goal of improving our manufacturing and supply chain capabilities, driving sustained improvements in customer deliveries, improving operational efficiencies and building on recent product quality improvements. 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 Power Systems, 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. The Caterpillar Enterprise System Group is also a cost center and does not meet the definition of an operating segment. One Group President leads a smaller operating segment that is included in the All Other operating segment.

B. Description of segments

We have five 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 segment:

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, medium track-type tractors, track-type loaders, motor graders and pipe layers. In addition, Construction Industries has responsibility for Power Systems and three wholly-owned dealers in Japan and an integrated manufacturing cost center. Inter-segment sales are a source of revenue for this segment.

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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 mining trucks, underground mining equipment, electric rope shovels, draglines, hydraulic shovels, drills, highwall miners, tunnel boring equipment, large wheel loaders, off-highway trucks, articulated trucks, wheel tractor scrapers, wheel dozers, select work tools, forestry products, paving products, industrial and waste products, 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 and the acquisition of ERA Mining Machinery Limited, including its wholly-owned subsidiary Zhengzhou Siwei Mechanical & Electrical Manufacturing Co., Ltd., commonly known as Siwei, which was completed during the second quarter of 2012. Siwei primarily designs, manufactures, sells and supports underground coal mining equipment in China. Inter-segment sales are a source of revenue for this segment.

Power Systems: A segment primarily responsible for supporting customers using reciprocating engines, turbines and related parts across industries serving electric power, industrial, petroleum and marine applications as well as rail-related businesses. Responsibilities include business strategy, product design, product management, development, manufacturing, marketing, sales and product support of 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 petroleum industries; reciprocating engines supplied to the industrial industry as well as Caterpillar machinery; the business strategy, product design, product management, development, manufacturing, marketing, sales and product support of turbines and turbine-related services; the development, manufacturing, remanufacturing, maintenance, 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: Primarily includes activities such as: the remanufacturing of Cat® engines and components and remanufacturing services for other companies as well as the product management, development, manufacturing, marketing and product support of undercarriage, specialty products, hardened bar stock components and ground engaging tools primarily for Caterpillar products; logistics services; the product management, development, marketing, sales and product support of on-highway vocational trucks for North America; distribution services responsible for dealer development and administration, dealer portfolio management and ensuring the most efficient and effective distribution of machines, engines and parts. On July 31, 2012, we sold a majority interest in Caterpillar's third party logistics business. Inter-segment sales are a source of revenue for this segment. Results for the All Other operating segment 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 and Power Systems 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 and Power Systems operating leases is included in segment assets. The estimated financing component of the lease payments is excluded.

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- Currency exposures for Machinery and Power Systems 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.

- 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 and Power Systems 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 34 to 39 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.

- 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 September 30,
(Millions of dollars)

	2013						
	External sales and revenues	Inter-segment sales and revenues	Total sales and revenues	Depreciation and amortization	Segment profit	Segment assets at September 30	Capital expenditures
Construction Industries	$4,547	$68	$4,615	$145	$262	$8,489	$143
Resource Industries	3,004	208	3,212	192	409	11,703	106
Power Systems	4,922	471	5,393	161	883	9,013	125
Machinery and Power Systems	$12,473	$747	$13,220	$498	$1,554	$29,205	$374
Financial Products Segment	807	—	807	203	218	37,239	473
Total	$13,280	$747	$14,027	$701	$1,772	$66,444	$847

	2012						
	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	$4,904	$102	$5,006	$144	$459	$10,393	$247
Resource Industries	5,214	253	5,467	179	1,113	13,455	229
Power Systems	5,317	597	5,914	157	943	9,323	244
Machinery and Power Systems	$15,435	$952	$16,387	$480	$2,515	$33,171	$720
Financial Products Segment	776	—	776	179	190	36,563	432
Total	$16,211	$952	$17,163	$659	$2,705	$69,734	$1,152

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Reportable Segments
Nine Months Ended September 30,
(Millions of dollars)

2013	External sales and revenues	Inter-segment sales and revenues	Total sales and revenues	Depreciation and amortization	Segment profit	Segment assets at September 30	Capital expenditures
Construction Industries	$13,594	$262	$13,856	$426	$863	$8,489	$403
Resource Industries	10,251	661	10,912	558	1,436	11,703	358
Power Systems	14,590	1,328	15,918	468	2,436	9,013	390
Machinery and Power Systems	$38,435	$2,251	$40,686	$1,452	$4,735	$29,205	$1,151
Financial Products Segment	2,408	—	2,408	571	724	37,239	1,244
Total	$40,843	$2,251	$43,094	$2,023	$5,459	$66,444	$2,395

2012	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	$15,306	$355	$15,661	$414	$1,763	$10,393	$597
Resource Industries	15,382	909	16,291	510	3,707	13,455	603
Power Systems	15,815	1,952	17,767	442	2,737	9,323	610
Machinery and Power Systems	$46,503	$3,216	$49,719	$1,366	$8,207	$33,171	$1,810
Financial Products Segment	2,301	—	2,301	530	583	36,563	1,232
Total	$48,804	$3,216	$52,020	$1,896	$8,790	$69,734	$3,042

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Reconciliation of Sales and revenues:

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidating Adjustments	Consolidated Total
Three Months Ended September 30, 2013				
Total external sales and revenues from reportable segments	$12,473	$807	$—	$13,280
All Other operating segment	219	—	—	219
Other	(14)	18	(80)[1]	(76)
Total sales and revenues	$12,678	$825	$(80)	$13,423
Three Months Ended September 30, 2012				
Total external sales and revenues from reportable segments	$15,435	$776	$—	$16,211
All Other operating segment	318	—	—	318
Other	(14)	20	(90)[1]	(84)
Total sales and revenues	$15,739	$796	$(90)	$16,445

[1] Elimination of Financial Products revenues from Machinery and Power Systems.

Reconciliation of Sales and revenues:

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidating Adjustments	Consolidated Total
Nine Months Ended September 30, 2013				
Total external sales and revenues from reportable segments	$38,435	$2,408	$—	$40,843
All Other operating segment	647	—	—	647
Other	(34)	54	(256)[1]	(236)
Total sales and revenues	$39,048	$2,462	$(256)	$41,254
Nine Months Ended September 30, 2012				
Total external sales and revenues from reportable segments	$46,503	$2,301	$—	$48,804
All Other operating segment	1,246	—	—	1,246
Other	(38)	52	(264)[1]	(250)
Total sales and revenues	$47,711	$2,353	$(264)	$49,800

[1] Elimination of Financial Products revenues from Machinery and Power Systems.

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Reconciliation of Consolidated profit before taxes:

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidated Total
Three Months Ended September 30, 2013			
Total profit from reportable segments	$1,554	$218	$1,772
All Other operating segment	170	—	170
Cost centers	42	—	42
Corporate costs	(376)	—	(376)
Timing	77	—	77
Methodology differences:			
Inventory/cost of sales	(36)	—	(36)
Postretirement benefit expense	(174)	—	(174)
Financing costs	(120)	—	(120)
Equity in (profit) loss of unconsolidated affiliated companies	1	—	1
Currency	(32)	—	(32)
Other income/expense methodology differences	(58)	—	(58)
Other methodology differences	(1)	(4)	(5)
Total consolidated profit before taxes	$1,047	$214	$1,261
Three Months Ended September 30, 2012			
Total profit from reportable segments	$2,515	$190	$2,705
All Other operating segment	482	—	482
Cost centers	9	—	9
Corporate costs	(366)	—	(366)
Timing	(30)	—	(30)
Methodology differences:			
Inventory/cost of sales	9	—	9
Postretirement benefit expense	(177)	—	(177)
Financing costs	(130)	—	(130)
Equity in (profit) loss of unconsolidated affiliated companies	(5)	—	(5)
Currency	20	—	20
Interest rate swaps	2	—	2
Other income/expense methodology differences	(64)	—	(64)
Other methodology differences	(9)	4	(5)
Total consolidated profit before taxes	$2,256	$194	$2,450

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Reconciliation of Consolidated profit before taxes:

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidated Total
Nine Months Ended September 30, 2013			
Total profit from reportable segments	$4,735	$724	$5,459
All Other operating segment	547	—	547
Cost centers	100	—	100
Corporate costs	(1,160)	—	(1,160)
Timing	58	—	58
Methodology differences:			
Inventory/cost of sales	(139)	—	(139)
Postretirement benefit expense	(505)	—	(505)
Financing costs	(361)	—	(361)
Equity in (profit) loss of unconsolidated affiliated companies	1	—	1
Currency	(71)	—	(71)
Other income/expense methodology differences	(178)	—	(178)
Other methodology differences	(20)	10	(10)
Total consolidated profit before taxes	$3,007	$734	$3,741
Nine Months Ended September 30, 2012			
Total profit from reportable segments	$8,207	$583	$8,790
All Other operating segment	888	—	888
Cost centers	32	—	32
Corporate costs	(1,126)	—	(1,126)
Timing	(318)	—	(318)
Methodology differences:			
Inventory/cost of sales	(26)	—	(26)
Postretirement benefit expense	(508)	—	(508)
Financing costs	(357)	—	(357)
Equity in (profit) loss of unconsolidated affiliated companies	(12)	—	(12)
Currency	160	—	160
Interest rate swaps	2	—	2
Other income/expense methodology differences	(199)	—	(199)
Other methodology differences	(3)	1	(2)
Total consolidated profit before taxes	$6,740	$584	$7,324

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Reconciliation of Assets:

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidating Adjustments	Consolidated Total
September 30, 2013				
Total assets from reportable segments	$29,205	$37,239	$—	$66,444
All Other operating segment	1,442	—	—	1,442
Items not included in segment assets:				
Cash and short-term investments	4,108	—	—	4,108
Intercompany receivables	243	—	(243)	—
Investment in Financial Products	4,769	—	(4,769)	—
Deferred income taxes	3,883	—	(490)	3,393
Goodwill and intangible assets	3,567	—	—	3,567
Property, plant and equipment – net and other assets	1,057	—	—	1,057
Operating lease methodology difference	(287)	—	—	(287)
Liabilities included in segment assets	10,504	—	—	10,504
Inventory methodology differences	(2,610)	—	—	(2,610)
Other	(132)	(151)	(63)	(346)
Total assets	$55,749	$37,088	$(5,565)	$87,272
December 31, 2012				
Total assets from reportable segments	$33,171	$36,563	$—	$69,734
All Other operating segment	1,499	—	—	1,499
Items not included in segment assets:				
Cash and short-term investments	3,306	—	—	3,306
Intercompany receivables	303	—	(303)	—
Investment in Financial Products	4,433	—	(4,433)	—
Deferred income taxes	3,926	—	(516)	3,410
Goodwill and intangible assets	3,145	—	—	3,145
Property, plant and equipment – net and other assets	668	—	—	668
Operating lease methodology difference	(329)	—	—	(329)
Liabilities included in segment assets	11,293	—	—	11,293
Inventory methodology differences	(2,949)	—	—	(2,949)
Other	(182)	(107)	(132)	(421)
Total assets	$58,284	$36,456	$(5,384)	$89,356

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Reconciliations of Depreciation and amortization:

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidated Total
Three Months Ended September 30, 2013			
Total depreciation and amortization from reportable segments	$498	$203	$701
Items not included in segment depreciation and amortization:			
All Other operating segment	43	—	43
Cost centers	36	—	36
Other	(7)	6	(1)
Total depreciation and amortization	$570	$209	$779
Three Months Ended September 30, 2012			
Total depreciation and amortization from reportable segments	$480	$179	$659
Items not included in segment depreciation and amortization:			
All Other operating segment	41	—	41
Cost centers	23	—	23
Other	(9)	6	(3)
Total depreciation and amortization	$535	$185	$720

Reconciliations of Depreciation and amortization:

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidated Total
Nine Months Ended September 30, 2013			
Total depreciation and amortization from reportable segments	$1,452	$571	$2,023
Items not included in segment depreciation and amortization:			
All Other operating segment	127	—	127
Cost centers	104	—	104
Other	(9)	18	9
Total depreciation and amortization	$1,674	$589	$2,263
Nine Months Ended September 30, 2012			
Total depreciation and amortization from reportable segments	$1,366	$530	$1,896
Items not included in segment depreciation and amortization:			
All Other operating segment	125	—	125
Cost centers	64	—	64
Other	(32)	17	(15)
Total depreciation and amortization	$1,523	$547	$2,070

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Reconciliations of Capital expenditures:

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidating Adjustments	Consolidated Total
Three Months Ended September 30, 2013				
Total capital expenditures from reportable segments	$374	$473	$—	$847
Items not included in segment capital expenditures:				
All Other operating segment	88	—	—	88
Cost centers	41	—	—	41
Timing	5	—	—	5
Other	(18)	18	(15)	(15)
Total capital expenditures	$490	$491	$(15)	$966
Three Months Ended September 30, 2012				
Total capital expenditures from reportable segments	$720	$432	$—	$1,152
Items not included in segment capital expenditures:				
All Other operating segment	75	—	—	75
Cost centers	16	—	—	16
Timing	(40)	—	—	(40)
Other	8	35	(15)	28
Total capital expenditures	$779	$467	$(15)	$1,231

Reconciliations of Capital expenditures:

(Millions of dollars)	Machinery and Power Systems	Financial Products	Consolidating Adjustments	Consolidated Total
Nine Months Ended September 30, 2013				
Total capital expenditures from reportable segments	$1,151	$1,244	$—	$2,395
Items not included in segment capital expenditures:				
All Other operating segment	200	—	—	200
Cost centers	115	—	—	115
Timing	531	—	—	531
Other	(94)	66	(50)	(78)
Total capital expenditures	$1,903	$1,310	$(50)	$3,163
Nine Months Ended September 30, 2012				
Total capital expenditures from reportable segments	$1,810	$1,232	$—	$3,042
Items not included in segment capital expenditures:				
All Other operating segment	229	—	—	229
Cost centers	119	—	—	119
Timing	281	—	—	281
Other	(115)	109	(139)	(145)
Total capital expenditures	$2,324	$1,341	$(139)	$3,526

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16. Cat Financial Financing Activities

Credit quality of financing receivables and allowance for credit losses

Cat Financial applies a systematic methodology to determine the allowance for credit losses for finance receivables. Based upon Cat Financial's analysis of credit losses and risk factors, portfolio segments are as follows:

- Customer – Finance receivables with retail customers.
- Dealer – Finance receivables with Caterpillar dealers.

Cat Financial further evaluates portfolio segments by the class of finance receivables, which is defined as a level of information (below a portfolio segment) in which the finance receivables have the same initial measurement attribute and a similar method for assessing and monitoring credit risk. Typically, Cat Financial's finance receivables within a geographic area have similar credit risk profiles and methods for assessing and monitoring credit risk. Cat Financial's classes, which align with management reporting for credit losses, are as follows:

- North America – Finance receivables originated in the United States or Canada.
- Europe – Finance receivables originated in Europe, Africa, Middle East and the Commonwealth of Independent States.
- Asia Pacific – Finance receivables originated in Australia, New Zealand, China, Japan, South Korea and Southeast Asia.
- Mining – Finance receivables related to large mining customers worldwide.
- Latin America – Finance receivables originated in Central and South American countries and Mexico.
- Caterpillar Power Finance – Finance receivables related to marine vessels with Caterpillar engines worldwide and Caterpillar electrical power generation, gas compression and co-generation systems and non-Caterpillar equipment that is powered by these systems worldwide.

Impaired loans and finance leases
For all classes, a loan or finance lease is considered impaired, based on current information and events, if it is probable that Cat Financial will be unable to collect all amounts due according to the contractual terms of the loan or finance lease. Loans and finance leases reviewed for impairment include loans and finance leases that are past due, non-performing or in bankruptcy. Recognition of income is suspended and the loan or finance lease is placed on non-accrual status when management determines that collection of future income is not probable (generally after 120 days past due except in locations where local regulatory requirements dictate a different method, or in instances in which relevant information is known that warrants placing the loan or finance lease on non-accrual status). Accrual is resumed, and previously suspended income is recognized, when the loan or finance lease becomes contractually current and/or collection doubts are removed. Cash receipts on impaired loans or finance leases are recorded against the receivable and then to any unrecognized income.

During the second quarter of 2013, Cat Financial changed the classification of certain loans and finance leases previously reported as impaired. While these loans and finance leases had been incorrectly reported as impaired, the related allowance for these loans and finance leases was appropriately measured; therefore, this change had no impact on the allowance for credit losses. The impact of incorrectly reporting these loans and finance leases as impaired was not considered material to previously issued financial statements; however, prior period impaired loan and finance lease balances have been revised throughout Notes 16 and 18.

There were no impaired loans or finance leases as of September 30, 2013 or December 31, 2012, for the Dealer portfolio segment. The average recorded investment for impaired loans and finance leases for the Dealer portfolio segment was zero for the three and nine months ended September 30, 2013 and 2012.

Individually impaired loans and finance leases for the Customer portfolio segment were as follows:

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(Millions of dollars)	September 30, 2013 Recorded Investment	Unpaid Principal Balance	Related Allowance	December 31, 2012 Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired Loans and Finance Leases With No Allowance Recorded						
Customer						
North America	$20	$19	$—	$28	$27	$—
Europe	53	52	—	45	45	—
Asia Pacific	2	2	—	2	2	—
Mining	127	127	—	1	1	—
Latin America	16	16	—	7	7	—
Caterpillar Power Finance	305	304	—	295	295	—
Total	$523	$520	$—	$378	$377	$—
Impaired Loans and Finance Leases With An Allowance Recorded						
Customer						
North America	$16	$14	$4	$25	$23	$7
Europe	19	15	7	28	26	11
Asia Pacific	22	22	6	19	19	4
Mining	—	—	—	—	—	—
Latin America	62	62	18	30	30	8
Caterpillar Power Finance	94	89	25	113	109	24
Total	$213	$202	$60	$215	$207	$54
Total Impaired Loans and Finance Leases						
Customer						
North America	$36	$33	$4	$53	$50	$7
Europe	72	67	7	73	71	11
Asia Pacific	24	24	6	21	21	4
Mining	127	127	—	1	1	—
Latin America	78	78	18	37	37	8
Caterpillar Power Finance	399	393	25	408	404	24
Total	$736	$722	$60	$593	$584	$54

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(Millions of dollars)	Three Months Ended September 30, 2013 Average Recorded Investment	Interest Income Recognized	Three Months Ended September 30, 2012 Average Recorded Investment	Interest Income Recognized
Impaired Loans and Finance Leases With No Allowance Recorded				
Customer				
North America	$23	$—	$41	$1
Europe	52	—	45	—
Asia Pacific	3	—	3	—
Mining	96	2	9	1
Latin America	14	—	6	—
Caterpillar Power Finance	280	1	219	—
Total	$468	$3	$323	$2
Impaired Loans and Finance Leases With An Allowance Recorded				
Customer				
North America	$14	$—	$25	$—
Europe	21	—	27	1
Asia Pacific	18	—	15	—
Mining	—	—	—	—
Latin America	53	1	37	1
Caterpillar Power Finance	156	1	106	—
Total	$262	$2	$210	$2
Total Impaired Loans and Finance Leases				
Customer				
North America	$37	$—	$66	$1
Europe	73	—	72	1
Asia Pacific	21	—	18	—
Mining	96	2	9	1
Latin America	67	1	43	1
Caterpillar Power Finance	436	2	325	—
Total	$730	$5	$533	$4