

CATERPILLAR INC  
Form DEF 14A  
April 21, 2014

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

SCHEDULE 14A  
(RULE 14a-101)

INFORMATION REQUIRED IN PROXY  
STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the  
Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant:  X

Filed by a Party other than the Registrant:  
Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

X Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Caterpillar Inc.  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the  
Registrant)

Payment of Filing Fee (Check the appropriate box):

X No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11  
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- (4) Proposed maximum aggregate value of transaction:
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- (1) Amount Previously Paid:
  - (2) Form, Schedule or Registration Statement No.:
  - (3) Filing Party:
  - (4) Date Filed:
-

100 NE Adams Street  
Peoria, Illinois 61629

May 1, 2014

Dear Fellow Stockholder:

I am pleased to invite you to attend Caterpillar's annual meeting of stockholders on June 11, 2014. The meeting will be held at the Crossroads Arena, 2800 S. Harper Road, Corinth, MS 38834 beginning at 8:00 a.m. We hope that you will attend the meeting, but whether or not you are planning to attend, we encourage you to vote your shares. As always, every stockholder's vote is important.

This booklet includes a formal notice of the meeting and the proxy statement which, among other things, provides information on Caterpillar's corporate governance, executive compensation programs and the matters to be voted on at the meeting. The booklet also contains information about our business and 2013 financial performance. Our company continues to perform well and I encourage you to review the financial information contained in Appendix C.

If you wish to attend the meeting, you will need to request an admission ticket in advance. Procedures for requesting an admission ticket are described on page 62.

I thank you for your commitment to Caterpillar and urge you to vote your shares.

Sincerely yours,

Douglas R. Oberhelman  
Chairman and Chief Executive Officer

100 NE Adams Street  
Peoria, Illinois 61629

Notice of Annual Meeting of Stockholders  
of Caterpillar Inc.

Date: June 11, 2014

Time: 8:00 a.m.

Place: The Crossroads Arena, 2800 S. Harper Road, Corinth, MS 38834

The items of business are:

Elect as Directors the twelve nominees identified in this proxy statement, each for a term of one year.

Ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2014.

Approve, on a non-binding advisory basis, the compensation of our named executive officers.

Approve the Caterpillar Inc. 2014 Long-Term Incentive Plan.

Approve the Caterpillar Inc. Executive Short-Term Incentive Plan.

Vote on three stockholder proposals described in this proxy statement, if properly presented at the meeting.

Conduct any other business properly brought before the meeting or any adjournment or postponement of the meeting.

We initiated delivery of the proxy materials to stockholders on or about May 1, 2014. Stockholders at the close of business on April 14, 2014 will be entitled to notice of and to vote at the annual meeting and any adjournment or postponement. A list of registered stockholders is available at the Company's headquarters in Peoria, Illinois.

By order of the Board of Directors

Christopher M. Reitz

Corporate Secretary

May 1, 2014

If you wish to attend the meeting, you will need to request an admission ticket in advance. Procedures for requesting an admission ticket are described on page 62.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on June 11, 2014: This Notice of Annual Meeting and Proxy Statement and the 2013 General and Financial Information are available at [www.eproxyaccess.com/cat2014](http://www.eproxyaccess.com/cat2014).

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## PROXY SUMMARY

This summary highlights information contained elsewhere in this proxy statement. This summary does not contain all of the information you should consider. You should read the complete proxy statement and appendices before voting.

### 2013 Business Highlights

**Strong Operating Performance.** Despite a challenging sales environment, we had record operating cash flows for our Machinery and Power Systems (M&PS) businesses of \$9.0 billion in 2013. Our balance sheet ended the year stronger than it began with our M&PS debt-to-capital ratio dropping to 29.7 percent.

**Cash Returns to Stockholders.** In June of 2013 we increased our quarterly dividend by 15 percent to \$0.60 per share, marking 20 consecutive years that we have paid higher dividends to our stockholders. We also repurchased \$2.0 billion of our common stock in 2013.

**Market Position Strength.** For the third year in a row, we expanded our competitive lead in the global market place for construction and mining machines.

### Corporate Governance Highlights

#### BOARD STRUCTURE AND LEADERSHIP

Our Chief Executive Officer also serves as the Chairman of the Board and we have an independent director who is elected by the Board to serve as the Presiding Director, with broad authority and responsibility over Board governance and operations. Eleven of our twelve director nominees are independent. See “Board Composition and Leadership Structure” on page 5 for more information.

#### INVESTOR OUTREACH

We conduct an annual governance review and engage investors throughout the year to ensure that management and the Board understand and consider the issues that matter most to our stockholders. After considering feedback received from investors over the past year, the Board amended Caterpillar’s bylaws to provide for a majority vote standard in uncontested director elections. See “Investor Outreach” on page 10 for more information.

#### BOARD RISK OVERSIGHT

Our Board has oversight for risk management with a focus on the most significant risks facing the Company, including strategic, operational, financial, legal and compliance risks. See “Board’s Role in Risk Oversight” on page 6 for more information.

#### SUSTAINABILITY

We seek to provide products and solutions that make productive and efficient use of natural resources and reduce unnecessary impacts on the environment and the communities where we work and live. Our operational goals include a focus on energy conservation, reductions in greenhouse gas emissions and water and by-product materials management. See “Sustainability” on page 10 for more information.

#### CODE OF CONDUCT

Our code of conduct is called “Our Values in Action” and is the foundation of our corporate existence. Our Values in Action apply to all members of the Board and to all management and employees worldwide and embodies the high ethical standards that Caterpillar has upheld since its formation in 1925. See “Code of Conduct” on page 5 for more information.

## Executive Compensation Highlights

Our executive compensation programs are designed to align the actions of our Executive Officers with the long-term interests of our stockholders based on two fundamental principles: Pay for Performance and Pay at Risk. To that end, we structure the majority of our executive compensation around four objectives which we believe reflect our Pay for Performance and Pay at Risk philosophy:

1. Base salary is targeted to be the lowest percentage of total direct compensation.
2. Short-term incentive compensation is based on performance.
3. Long-term incentive compensation is based on Company performance.
4. Equity is a significant percentage of compensation.

The table below includes some, but not all, of the information included in the Summary Compensation Table.

NEO	Salary	Long and Short-Term Cash Incentives	Stock and Stock Option Awards	Total of All Columns
Douglas R. Oberhelman, Chairman & CEO	\$ 1,600,008	\$ 2,241,766	\$ 7,966,091	\$ 11,807,865
Bradley M. Halverson, Group President & CFO	\$ 661,872	\$ 747,012	\$ 2,266,520	\$ 3,675,404
Stuart L. Levenick, Group President	\$ 914,565	\$ 1,220,080	\$ 2,557,997	\$ 4,692,642
Edward J. Rapp, Group President	\$ 847,008	\$ 883,667	\$ 2,266,520	\$ 3,997,195
D. James Umpleby III, Group President	\$ 661,872	\$ 964,041	\$ 2,266,520	\$ 3,892,433
Gerard R. Vittecoq, Group President*	\$ 509,026	\$ 620,789	\$ 4,880,335	\$ 6,010,150
Steven H. Wunning, Group President	\$ 898,128	\$ 452,433	\$ 2,266,520	\$ 3,617,081

\* Mr. Vittecoq retired effective May 31, 2013.

## Meeting Agenda and Vote Recommendations

Company Proposals	Board Recommendation
Election of Directors	FOR each Nominee
Ratification of our Independent Registered Public Accounting Firm	FOR
Advisory Vote on Executive Compensation	FOR
Approval of the Caterpillar Inc. 2014 Long-Term Incentive Plan	FOR
Approval of the Caterpillar Inc. Executive Short-Term Incentive Plan	FOR
Stockholder Proposals	
Review of Global Corporate Standards	AGAINST
Sales to Sudan	AGAINST
Cumulative Voting	AGAINST
Transact other business that properly comes before the meeting	



## Election of Directors (Proposal 1)

You will find important information in “Proposal 1 - Election of Directors” on page 39 about the qualifications and experience of each of the director nominees whom you are being asked to elect. The Public Policy and Governance Committee performs an annual assessment to determine that our directors have the skills and experience to effectively oversee the Company. All of our directors have proven track records of leadership, sound judgment, integrity and a commitment to the success of our Company.

Nominee	Age	Director Since	Principal Occupation	Independent
David L. Calhoun	57	2011	Senior Managing Director of The Blackstone Group, L.P.	Yes
Daniel M. Dickinson	52	2006	Managing Partner of HCI Equity Partners	Yes
Juan Gallardo	66	1998	Chairman of Organización CULTIBA, S.A.B. de C.V.	Yes
Jesse J. Greene, Jr.	69	2011	Instructor at Columbia Business School and former Vice President of Financial Management and Chief Financial Risk Officer of International Business Machines Corporation	Yes
Jon M. Huntsman, Jr.	54	2012	Former United States Ambassador to China and former Governor of Utah	Yes
Peter A. Magowan	72	1993	Former President and Managing General Partner of the San Francisco Giants and former Chairman and CEO of Safeway Inc.	Yes
Dennis A. Muilenburg	50	2011	Vice Chairman, President and Chief Operating Officer of The Boeing Company	Yes
Douglas R. Oberhelman	61	2010	Chairman and CEO of Caterpillar Inc.	No
William A. Osborn	66	2000	Former Chairman and CEO of The Northern Trust Corporation	Yes
Edward B. Rust, Jr.	63	2003	Chairman, CEO and President of State Farm Mutual Automobile Insurance Company	Yes
Susan C. Schwab	59	2009	Professor at the University of Maryland School of Public Policy and a Strategic Advisor for Mayer Brown LLP; former United States Trade Representative	Yes
Miles D. White	59	2011	Chairman and CEO of Abbott Laboratories	Yes

## Ratification of our Independent Registered Public Accounting Firm (Proposal 2)

As a matter of good corporate governance, we are asking our stockholders to ratify the selection of PricewaterhouseCoopers as our independent registered public accounting firm for 2014. Set forth below is a summary of their fees for services provided in 2013 and 2012.

	(in millions)	
	2013	2012
Audit and Audit Related Fees	\$ 33.6	\$ 34.7
Tax Fees and Other	1.4	3.4
TOTAL	\$ 35.0	\$ 38.1

Additional information regarding “Proposal 2 - Ratification of our Independent Registered Public Accounting Firm” appears on page 42.

Advisory Vote on Executive Compensation (Proposal 3)

Our stockholders have the opportunity to cast a non-binding, advisory vote on the compensation of our named executive officers. Last year stockholders overwhelmingly supported our compensation program. In evaluating this proposal, we recommend that you review our Compensation Discussion and Analysis, which explains how and why the Compensation and Human Resources Committee arrived at its executive compensation actions and decisions for 2013.

Additional information regarding “Proposal 3 - Advisory Vote on Executive Compensation” appears on page 42.

Approval of the Caterpillar Inc. 2014 Long-Term Incentive Plan (Proposal 4)

We are asking our stockholders to approve the Caterpillar Inc. 2014 Long-Term Incentive Plan (2014 LTIP), which will facilitate the issuance of stock-based and other performance awards to our officers and others. The 2014 LTIP will only become effective upon stockholder approval and no awards will be made under the 2014 LTIP prior to that time. We recommend that you review the important information described in “Proposal 4 - Approval of the Caterpillar Inc. 2014 Long-Term Incentive Plan” on page 43 for more information on the 2014 LTIP.

Approval of the Caterpillar Inc. Executive Short-Term Incentive Plan (Proposal 5)

We are asking our stockholders to approve an amendment and restatement of the Caterpillar Inc. Executive Short-Term Incentive Plan, which will facilitate the issuance of tax deductible annual bonuses to our officers. We recommend that you review the important information described in “Proposal 5 - Approval of the Caterpillar Inc. Executive Short-Term Incentive Plan” on page 50 for more information on the ESTIP.

Stockholder Proposals (Proposals 6 - 8)

You will be asked to consider three stockholder proposals involving (i) a Review of Global Corporate Standards, (ii) Sales to Sudan and (iii) Cumulative Voting.

Even if you plan to attend our annual meeting in person, please cast your vote as soon as possible by:

using the Internet at [www.caterpillar.com/proxymaterials](http://www.caterpillar.com/proxymaterials)  
scanning this QR code to vote with your mobile device  
calling the number included on your proxy card or notice  
mailing your signed proxy or voting instruction form

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## PROXY STATEMENT

The Board of Directors (Board) of Caterpillar Inc. (Caterpillar, Company, we or us) is providing the notice, proxy statement and proxy card (Proxy Materials) in connection with the Company's solicitation of proxies to be voted at the 2014 annual meeting of stockholders (Annual Meeting) to be held on June 11, 2014, at the Crossroads Arena, 2800 S. Harper Road, Corinth, MS 38834 at 8:00 a.m., and at any adjournment or postponement of the meeting.

Voting your shares is an important way to participate in the governance of your Company. If your Caterpillar shares are held for you in a brokerage, bank or other institutional account, you are considered the beneficial owner of those shares. Your broker is not permitted to vote on your behalf on the election of directors and other matters to be considered at the Annual Meeting (except ratification of the selection of our auditors for 2014), unless you provide specific instructions by completing and returning the voting instruction form or following the instructions provided to you for voting your shares via telephone, mobile device or the Internet. For your vote to be counted, you must communicate your voting decisions to your broker, bank or other financial institution before the date of the Annual Meeting. If you have any questions about the proxy voting process, please contact the broker, bank or other financial institution where you hold your shares. See "Frequently Asked Questions Regarding Meeting Attendance and Voting" on page 58 for information on how to vote your shares.

Proxy Materials or a Notice of Internet Availability were first sent to stockholders on or about May 1, 2014. If you received a Notice of Internet Availability and would like to receive a paper copy of the proxy materials, please follow the instructions included in the Notice of Internet Availability. If you received a paper copy of the proxy materials and would like to register to receive a Notice of Internet Availability in the future, you can do so by any of the following methods:

• Internet - Go to [www.eproxyaccess.com/cat2014](http://www.eproxyaccess.com/cat2014) and follow the registration instructions.

• Telephone - From within the United States or Canada, call us free of charge at 1-866-580-7648. From locations outside the United States or Canada, please call +1-215-521-1342.

• Email - Send us an email at [cat@eproxyaccess.com](mailto:cat@eproxyaccess.com). Include the control number from your paper copy as the subject line and indicate that you wish to receive a Notice of Internet Availability and whether your request is for this meeting only or for all future meetings.

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## CORPORATE GOVERNANCE INFORMATION

### Corporate Governance Guidelines

Our Board has adopted Guidelines on Corporate Governance Issues (Corporate Governance Guidelines), which are available on our website at [www.caterpillar.com/governance](http://www.caterpillar.com/governance). The Corporate Governance Guidelines reflect the Board's commitment to oversee the effectiveness of policy and decision-making both at the Board and management level, with a view to enhancing stockholder value over the long-term.

### Code of Conduct

Caterpillar's code of conduct is called "Our Values in Action." Integrity, Excellence, Teamwork, Commitment and Sustainability are the core values identified in the code and are the foundation for Caterpillar's corporate existence. Our Values in Action apply to all members of the Board and to management and employees worldwide. These values embody the high ethical standards that Caterpillar has upheld since its formation in 1925. Our Values in Action is available on our website at [www.caterpillar.com/code](http://www.caterpillar.com/code).

The Audit Committee has established a means for the anonymous reporting (where permitted by law) of suspected or actual violations of the code of conduct, our enterprise policies or applicable laws, including those related to accounting practices, internal controls or auditing matters and procedures; theft or fraud of any amount; insider trading; performance and execution of contracts; conflicts of interest; violations of securities and antitrust laws; and violations of the Foreign Corrupt Practices Act.

Any employee, supplier, customer, stockholder or other interested party can submit a report via the following methods:

☎ Direct Telephone: 309-494-4393 (English only)

☎ Call Collect Helpline: 770-582-5275 (language translation available)

☎ Confidential Fax: 309-494-4818

✉ Email: [BusinessPractices@CAT.com](mailto:BusinessPractices@CAT.com)

🌐 Internet: [www.caterpillar.com/obp](http://www.caterpillar.com/obp)

### Board Composition and Leadership Structure

Presently, our Board consists of twelve directors. The 2014 director nominees consist of one nominee who serves as a member of management and eleven non-employee nominees. The non-employee director nominees are skilled and experienced leaders in business, education, government and public policy. They currently serve or have served as chief executives and members of senior management of large public and private for profit companies; as leaders of numerous nonprofit organizations; as U.S. federal and state government officials; and as members of academia. In these roles, the non-employee director nominees have been called upon to ask hard questions of management and provide advice on complex issues. Biographical information and qualifications of our director nominees are included under "Proposal 1 - Election of Directors" on page 39.

Directors are elected at each annual meeting to serve for a one-year term and until their respective successors are duly elected and qualified, subject to their earlier death, resignation or removal. In uncontested elections, directors are elected by a majority of the votes cast for such director. If an incumbent director does not receive a greater number of "for" votes than "against" votes, then such director must tender his or her resignation to the Board. In contested elections, directors are elected by a plurality vote. Directors must retire at the end of the year in which they reach the age of 72. If any nominee is unavailable for election, proxy holders will vote for another nominee proposed by the Board or, as an alternative, the Board may reduce the number of directors to be elected at the Annual Meeting.

The Board has elected the Chief Executive Officer as the Chairman of the Board. The Board has further elected the Chairman of the Public Policy and Governance Committee (PPGC) as the Presiding Director. The Presiding Director's duties and responsibilities include: (i) presiding at all meetings of the Board at which the Chairman is not present; (ii) serving as a liaison between the Chairman and the independent directors; (iii) approving information sent to the Board; (iv) approving meeting agendas for the Board; (v) approving meeting schedules to assure that there is sufficient time for discussion of all agenda items; (vi) authority to call meetings of the independent directors; and (vii) if requested by major stockholders, ensuring that he is available for consultation and direct communication. All directors play an active role in overseeing the Company's business both at the Board and committee levels.

The Board believes that this leadership structure - a combined Chairman of the Board and Chief Executive Officer (CEO), a Presiding Director, active and strong non-employee directors and committees led entirely by independent directors - is the most effective for the Company at this time. The Company's business is complex and its products are sold in more than 180 countries around the world. Because the CEO is closest to the many facets of the business, the Board believes the CEO is in the best position to lead most effectively and to serve in the critical role of Chairman of the Board. In addition, having a Chairman who also serves as the CEO allows timely communication with the Board on critical business matters given the complexity and global reach of our business. Further, most of the Company's products are sold through an extensive network of independent dealers around the world. Our dealership business model has historically required our CEO to have strong relationships with the leaders of our dealers. Having a single person as both Chairman of the Board and CEO ensures that the Company is represented by a single voice to dealers, stockholders, employees and other stakeholders.

#### Board's Role in Risk Oversight

The Board has oversight for risk management with a focus on the most significant risks facing the Company, including strategic, operational, financial and legal compliance risks. The Board's risk oversight process builds upon management's risk assessment and mitigation processes, which include an enterprise risk management program, regular internal management disclosure committee meetings, code of business conduct, quality standards and processes, an ethics and compliance office and comprehensive internal and external audit processes. The Board implements its risk oversight function both as a full Board and through delegation to Board committees, which meet regularly and report back to the full Board. Throughout the year, the Board and the committees to which it has delegated responsibility dedicate a portion of their meetings to review and discuss specific risk topics in greater detail. Strategic and operational risks are regularly discussed at Board meetings. The Board has delegated responsibility for the oversight of specific risks to Board committees as follows:

- |  |   |
|--|---|
| Audit Committee                            | <ul style="list-style-type: none"> <li>• Policies and processes relating to the financial statements, financial reporting, accounting and internal and external auditing functions of the Company</li> <li>• Enterprise risk management and the Company's ethics and compliance program</li> <li>• Cyber security, litigation and tax related matters</li> <li>• Hedging and derivatives practices</li> </ul> |
| Compensation and Human Resources Committee | <ul style="list-style-type: none"> <li>• Compensation philosophy and programs</li> <li>• Global workforce matters</li> </ul>  |
| Public Policy and Governance Committee     | <ul style="list-style-type: none"> <li>• Governance structure and processes and related person transactions</li> <li>• Health and safety and environmental risks</li> <li>• Political and charitable activities and reputational risks</li> </ul>   |

The Board believes that its leadership structure, discussed above, supports the risk oversight function of the Board.

### Board Meetings and Committees

The Board held seven meetings during 2013. The independent directors generally meet in executive session as part of each regularly scheduled Board meeting, with the Presiding Director serving as Chairman. Each director attended at least 75 percent of the total meetings of the Board and committee on which he or she served. Absent unavoidable conflict, directors are expected to attend the Annual Meeting. All directors attended the 2013 Annual Meeting.

During 2013, the Board had four standing committees: Audit, Compensation, Governance and Public Policy. Effective January 1, 2014, the standing committees were restructured into three - Audit, Compensation and Human Resources and Public Policy and Governance. Each committee meets periodically throughout the year, reports its actions and recommendations to the Board, receives reports from management, annually evaluates its performance and has the authority to retain outside advisors in its discretion. The current primary responsibilities of each committee are summarized below and set forth in more detail in each committee's written charter, which can be found on Caterpillar's website at [www.caterpillar.com/governance](http://www.caterpillar.com/governance). All committee members are independent under Company, NYSE and SEC standards applicable to Board and committee service and the Board has determined that each member of the Audit Committee is an "audit committee financial expert" as defined under SEC rules.

#### Audit Committee

- Selects and oversees the independent auditor
- Oversees our financial reporting activities, including our financial statements, annual report and the accounting standards and principles
- Discusses with management the Company's risk assessment and risk management framework
- Approves audit and non-audit services provided by the independent auditor
- Reviews the organization, scope and effectiveness of our internal audit function and our disclosure and internal controls
- Sets parameters for, and monitors the Company's hedging and derivatives practices
- Provides oversight for the Company's ethics and compliance programs
- Monitors the Company's litigation and tax compliance

Number of Meetings in 2013: 12

#### Compensation and Human Resources Committee

- Recommends the CEO's compensation to the Board and establishes the compensation of other executive officers
- Establishes, oversees and administers the Company's equity compensation and employee benefit plans
- Reviews incentive compensation arrangements to ensure that incentive pay does not encourage unnecessary risk-taking and reviews and discusses the relationship between risk management policies and practices, corporate strategy and executive compensation
- Recommends to the Board the compensation of directors
- Provides oversight of the Company's diversity and immigration practices and employee relations
- Furnishes an annual Compensation Committee Report on executive compensation and approves the Compensation Discussion and Analysis section in the Company's proxy statement

Number of Meetings in 2013: 8

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Public Policy and Governance Committee

- Makes recommendations to the Board regarding the size and composition of the Board and its committees, and the criteria to be used for the selection of candidates to serve on the Board
- Discusses and evaluates the qualifications of potential and incumbent directors and recommends the slate of director candidates to be nominated for election at the Annual Meeting
- Leads the Board in its annual self-evaluation process
- Oversees the Company's officer succession planning
- Oversees the Company's environmental, health and safety activities, including the Company's sustainable development initiatives
- Oversees the corporate governance structure
- Oversees matters of domestic and international public policy affecting the Company's business, such as trade policy and international trade negotiations and major global legislative and regulatory developments
- Annually reviews the Company's charitable and political contributions and policies
- Oversees investor and community relations

Number of meetings in 2013: Governance - 6; Public Policy - 6

Committee Membership

(as of January 1, 2014)

	Audit	Compensation & Human Resources	Public Policy & Governance	
David L. Calhoun				
Daniel M. Dickinson				
Juan Gallardo				
Jesse J. Greene, Jr.				
Jon M. Huntsman, Jr.				
Peter A. Magowan				= Chairman
Dennis A. Muilenburg				= Member
Douglas R. Oberhelman				
William A. Osborn				
Edward B. Rust, Jr.				
Susan C. Schwab				
Miles D. White				

## Director Nominations and Evaluations

### Process for Nominating and Evaluating Directors

Each director is responsible for overseeing the Company's business consistent with his or her fiduciary duty to stockholders. This responsibility requires highly skilled individuals with various qualities, attributes and professional experience. The Board and the PPGC consider the qualifications of incumbent directors and director candidates individually and in the broader context of the Board's overall composition and the Company's current and future needs.

The PPGC solicits and receives recommendations for potential director candidates from the Board and management. In its assessment of each potential candidate, the PPGC considers each candidate's integrity, honesty, judgment, independence, accountability, willingness to express independent thought, understanding of the Company's business and other factors that the PPGC determines are pertinent in light of the current needs of the Board. Candidates must have successful leadership experience and stature in their primary fields, with a background that demonstrates an understanding of business affairs as well as the complexities of a large, publicly held company. In addition, candidates must have a demonstrated ability to think strategically and make decisions with a forward-looking focus and the ability to assimilate relevant information on a broad range of complex topics. Moreover, candidates must have the ability to devote the time necessary to meet director responsibilities and serve on no more than five public company boards in addition to the Company's Board.

The following table summarizes certain key characteristics of the Company's businesses and the associated qualifications, skills and experience that the PPGC believes should be represented on the Board.

Business Characteristics	Qualifications, Skills and Experience
<ul style="list-style-type: none"> <li>• The Company's businesses involve complex acquisitions and financial transactions in many countries and in many currencies.</li> </ul>	<ul style="list-style-type: none"> <li>• High level of financial literacy</li> <li>• Mergers and acquisitions experience</li> </ul>
<ul style="list-style-type: none"> <li>• The Company is a global manufacturer with products sold in over 180 countries around the world.</li> </ul>	<ul style="list-style-type: none"> <li>• Manufacturing or logistics experience</li> <li>• Broad international exposure</li> <li>• Relevant executive experience</li> <li>• Diversity of race, ethnicity, gender, cultural background or professional experience</li> </ul>
<ul style="list-style-type: none"> <li>• Demand for many of the Company's products is tied to conditions in the global commodity, energy, construction and transportation markets.</li> </ul>	<ul style="list-style-type: none"> <li>• Experience in the evaluation of global economic conditions</li> <li>• Knowledge of commodity, energy, construction or transportation markets</li> </ul>
<ul style="list-style-type: none"> <li>• The Company's businesses require compliance with a variety of regulatory requirements across a number of countries and is impacted by the policies of various governmental entities.</li> </ul>	<ul style="list-style-type: none"> <li>• Governmental and international trade expertise</li> </ul>
<ul style="list-style-type: none"> <li>• The Board's responsibilities include understanding and overseeing the various risks facing the Company and ensuring that appropriate policies and procedures are in place to effectively manage risk.</li> </ul>	<ul style="list-style-type: none"> <li>• Risk oversight/management expertise</li> </ul>

The Board values diversity of talents, skills, abilities and experiences and believes that Board diversity of all types provides significant benefits to the Company. Although the Board has no specific diversity policy, the PPGC may also consider the diversity of the Board and potential director candidates in selecting new director candidates.



#### Stockholder Nominations

The PPGC also considers unsolicited inquiries and director nominees recommended by stockholders. Recommendations should be sent to the Corporate Secretary at 100 NE Adams Street, Peoria, Illinois 61629. Stockholders may nominate a director candidate to serve on the Board by following the procedures described in our bylaws. Deadlines for stockholder nominations for Caterpillar's 2015 annual meeting of stockholders are included in the "Stockholder Proposals and Director Nominations for the 2015 Annual Meeting" section on page 58.

#### Director Independence Determinations

The Company's Corporate Governance Guidelines establish that no more than two non-independent directors may serve on the Board at any point in time. A director is "independent" if he or she has no direct or indirect material relationship with the Company or with senior management of the Company and their respective affiliates. Annually, the Board makes an affirmative determination regarding the independence of each director based upon the recommendation of the PPGC and in accordance with the standards in the Company's Corporate Governance Guidelines, which are available on our website at [www.caterpillar.com/governance](http://www.caterpillar.com/governance).

Applying these standards, the Board determined that each of the directors met the independence standards except Mr. Oberhelman, who is a current employee of the Company.

#### Communication with the Board

You may communicate with any of our directors, our Board as a group, our non-management directors as a group or any Board committee as a group by sending an email to [Directors@CAT.com](mailto:Directors@CAT.com) or by mail to Caterpillar Inc. c/o Corporate Secretary at 100 NE Adams Street, Peoria, Illinois 61629. The Board has delegated to the Corporate Secretary, or his designee, responsibility for determining, in his discretion, whether the communication is appropriate for consideration. According to the policy adopted by the Board, the Corporate Secretary is required to direct all communications regarding personal grievances, administrative matters, the conduct of the Company's ordinary business operations, billing issues, product or service related inquiries, order requests and similar issues to the appropriate individual within the Company. All other communications are to be submitted to the Board as a group, to the particular director to whom it is directed or, if appropriate, to the Presiding Director or committee the Corporate Secretary believes to be the most appropriate recipient. If a legitimate communication is sent, you will receive a written acknowledgement from the Corporate Secretary's office confirming receipt of your communication.

#### Investor Outreach

We conduct an annual governance review and investor outreach throughout the year to ensure that management and the Board understand and consider the issues that matter most to our stockholders. During 2013, the Company conducted proactive investor outreach programs, including attending 11 investor conferences as well as other meetings with the investment community and meeting one-on-one or in small groups with more than 300 investors. Additionally, the Company periodically engages investors to discuss specific matters of importance to stockholders. We value our dialogue with our stockholders and believe our annual outreach efforts, which are in addition to the other communication channels available to our stockholders, help ensure our corporate governance practices continue to evolve and reflect the insights and perspectives of our many stakeholders.

After considering feedback received from investors in 2013, the Board amended the Company's bylaws to adopt a majority vote standard for uncontested director elections.

### Sustainability

We seek to provide work environments, products, services and solutions that make productive and efficient use of natural resources and reduce unnecessary impacts on the environment and the communities where we work and live. Our sustainability practices are focused on ways to maximize the life cycle benefits of our products while minimizing the economic, social and environmental costs of ownership. To this end, we are building engines that are more fuel efficient and have lower emissions, collaborating with customers to increase jobsite efficiency and growing our remanufacturing business, which keeps nonrenewable resources in circulation for multiple lifecycles. In addition, our operational goals include a focus on energy conservation and resources, greenhouse gas emissions reductions, water management and by-product materials management. Our annual Sustainability Report highlights our progress towards these goals and our ongoing commitment to sustainability. To learn more about the Company's sustainability efforts, please view our Sustainability Report by visiting [reports.caterpillar.com](http://reports.caterpillar.com).

### Political Contributions

We currently disclose on our website [www.caterpillar.com/contributions](http://www.caterpillar.com/contributions) a description of our oversight process for political contributions and an itemized list of corporate and employee PAC contributions to federal and state political candidates.

### Talent Management and Succession Planning

The Board is actively engaged and involved in talent management. This includes a detailed review of the Company's global leadership and succession plans with a focus on key positions at the senior officer level.

In addition, the committees of the Board regularly discuss the talent pipeline for specific critical roles. High potential leaders are given exposure and visibility to Board members through formal presentations and informal events. More broadly, the Committees of the Board are regularly updated on key talent indicators for the overall workforce, including diversity, recruiting and development programs.

### Related Party Transactions

Caterpillar's Board has adopted a written process governing the approval of transactions that are expected to exceed \$120,000 in any calendar year and that involve both the Company and any director, executive officer or their immediate family members. Under the process, all such transactions must be approved in advance by the PPGC.

Prior to entering into such a transaction, the director or officer must submit the details of the proposed transaction to the Company's chief legal officer, including whether the related person or his or her immediate family member has or will have a direct or indirect interest (other than solely as a result of being a director or a less than 10 percent beneficial owner of an entity involved in the transaction). The chief legal officer will then submit the matter to the PPGC for its consideration.

Based on information provided by the directors, the executive officers, and the chief legal officer, the PPGC determined that there are no related party transactions required to be disclosed in this proxy statement.

## Audit Fees and Approval Process

### Pre-Approval Process

The Audit Committee pre-approves all audit and non-audit services to be performed by the auditors. It has policies and procedures in place designed to ensure that the Company complies with the requirements for pre-approval set forth in the Sarbanes-Oxley Act and the SEC rules regarding auditor independence. These policies and procedures provide a mechanism whereby management can request and secure pre-approval of audit and non-audit services in an orderly manner with minimal disruption to normal business operations. The policies and procedures are detailed as to the particular service and do not delegate the Audit Committee's responsibility to management. These policies and procedures address any service provided by the auditors and any audit or audit-related services to be provided by any other audit service provider. The pre-approval process includes an annual and interim component.

### Annual Pre-Approval Process

Annually, not later than the Audit Committee meeting held in February of each year, management and the auditors jointly submit a service matrix of the types of audit and non-audit services that management may wish to have the auditors perform for the year. The service matrix categorizes the types of services by audit, audit-related, tax and all other services. Management and the auditors jointly submit an annual pre-approval limits request. The request lists aggregate pre-approval limits by service category. The request also lists known or anticipated services and associated fees. The Audit Committee approves or rejects the pre-approval limits and each of the listed services on the service matrix.

### Interim Pre-Approval Process

During the course of the year, the Audit Committee chairman has the authority to pre-approve requests for services that were not approved in the annual pre-approval process. However, all services, regardless of fee amounts, are subject to restrictions on the services allowable under the Sarbanes-Oxley Act and SEC rules regarding auditor independence. In addition, all fees are subject to ongoing monitoring by the Audit Committee.

## Independent Registered Public Accounting Firm Fee Information

Fees for professional services provided by our auditors included the following (in millions):

	2013	2012
Audit Fees <sup>1</sup>	\$ 32.4	\$ 31.9
Audit-Related Fees <sup>2</sup>	1.2	2.8
Tax Compliance Fees <sup>3</sup>	0.9	1.7
Tax Planning and Consulting Fees <sup>4</sup>	0.3	1.5
All Other Fees <sup>5</sup>	0.2	0.2
TOTAL	\$ 35.0	\$ 38.1

<sup>1</sup> "Audit Fees" principally includes audit and review of financial statements (including internal control over financial reporting), statutory and subsidiary audits, SEC registration statements, comfort letters and consents.

<sup>2</sup> "Audit-Related Fees" principally includes agreed upon procedures for securitizations, attestation services requested by management, accounting consultations, pre- or post- implementation reviews of processes or systems, financial due diligence and audits of employee benefit plan financial statements. Total fees paid directly by the benefit plans, and not by the Company, were \$0.7 in 2013 and 2012 and are not included in the amounts shown above.

<sup>3</sup> "Tax Compliance Fees" includes, among other things, statutory tax return preparation and review and advice on the impact of changes in local tax laws.

<sup>4</sup> "Tax Planning and Consulting Fees" includes, among other things, tax planning and advice and assistance with respect to transfer pricing issues.

<sup>5</sup> "All Other Fees" principally includes subscriptions to knowledge tools, attendance at training classes/seminars and other advisory services.



#### Audit Committee Report

The Audit Committee is comprised entirely of independent directors (as defined for members of an audit committee in SEC rules and the NYSE listing standards) and operates under a written charter adopted by the Board, a copy of which is available on our website at [www.caterpillar.com/governance](http://www.caterpillar.com/governance). Management is responsible for the Company's internal controls and the financial reporting process. The auditors are responsible for performing an independent audit of the Company's consolidated financial statements and internal control over financial reporting in accordance with standards established by the Public Company Accounting Oversight Board (PCAOB). The Audit Committee is responsible for monitoring these processes. In this regard, the Audit Committee meets periodically with management, the internal auditors and external auditors. The Audit Committee has the authority to conduct or authorize investigations into any matters within the scope of its responsibilities and the authority to retain outside counsel, experts and other advisors as it determines appropriate to assist it in conducting any investigations. The Audit Committee is responsible for selecting and, if appropriate, replacing the current auditors, PricewaterhouseCoopers LLP.

The Audit Committee has discussed with the Company's auditors the overall scope and execution of the independent audit and has reviewed and discussed the audited financial statements with management. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States. Discussions about the Company's audited financial statements included the auditors' judgments about the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements. The Audit Committee also discussed with the auditors other matters required by PCAOB auditing standards. Management, the internal auditors and the auditors also made presentations to the Audit Committee throughout the year on specific topics of interest, including the Company's: (i) enterprise risk assessment process; (ii) information technology systems and controls; (iii) income tax strategy and risks; (iv) derivatives policy and usage; (v) benefit plan fund management; (vi) 2013 integrated audit plan; (vii) updates on completion of the audit plan; (viii) critical accounting policies; (ix) assessment of the impact of new accounting guidance; (x) compliance with the internal controls required under Section 404 of the Sarbanes-Oxley Act; (xi) ethics and compliance program; (xii) risk management initiatives and controls for various acquisitions and business units; (xiii) strategy and management of the implementation of new systems; (xiv) cyber security and (xv) intellectual property.

The auditors provided to the Audit Committee the written communications required by applicable standards of the PCAOB regarding the independent accountant's communications with the Audit Committee concerning independence, and the Audit Committee discussed the auditors' independence with management and the auditors. The Audit Committee concluded that the auditors' independence had not been impaired.

Based on: (i) the Audit Committee's discussions with management and the auditors; (ii) the Audit Committee's review of the representations of management; and (iii) the report of the auditors to the Audit Committee, the Audit Committee recommended to the Board that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

By the members of the  
Audit Committee consisting of:  
William A. Osborn (Chairman)  
Daniel M. Dickinson  
Peter A. Magowan  
Dennis A. Muilenburg



## EXECUTIVE COMPENSATION INFORMATION

### Compensation Discussion and Analysis (CD&A)

#### Executive Summary

#### Business Performance

As illustrated above, our sales and revenues in 2013 were \$55.656 billion, a decrease of 16 percent from \$65.875 billion in 2012. The decline in sales and revenues was primarily driven by a decrease in sales of new machines for mining. Profit was \$3.789 billion, a decrease of 33 percent from \$5.681 billion in 2012. This resulted in Profit Per Share-diluted (PPS) of \$5.75 in 2013, which was down 32 percent from \$8.48 in 2012. Despite this challenging environment, the Company reported record Machinery and Power Systems (M&PS) operating cash flow of \$9.0 billion in 2013, and our M&PS debt-to-capital ratio was 29.7 percent down from 37.4 percent at year-end 2012. Strong cash flow enabled us to repurchase \$2.0 billion of Caterpillar common stock in 2013 and increase the quarterly dividend by 15 percent in June 2013, from \$0.52 to \$0.60 per share.

#### Compensation Philosophy and Objectives

The objective of the Company's executive compensation program is to attract, retain and motivate talented executive officers who will improve the Company's performance and provide strategic leadership. Additionally, the Compensation and Human Resources Committee of the Board of Directors (the Compensation Committee or Committee) designs compensation programs to align the actions of our Named Executive Officers (NEOs) with the long-term interests of our stockholders based on two fundamental concepts: Pay for Performance and Pay at Risk.

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Pay for Performance:

As shown in the chart above, in line with Caterpillar's pay for performance philosophy, Total Direct Compensation for the CEO decreased by 32 percent from \$17,392,496 in 2012 to \$11,807,865 in 2013.

CEO Non-Equity Incentive Plan Compensation in 2013, which reflects cash payments made under the Executive Short-Term Incentive Plan (ESTIP) and Long-Term Cash Performance Plan (LT CPP), decreased by 56 percent from \$5,049,988 in 2012 to \$2,241,766 in 2013.

The grant date fair market value of stock options awarded to the CEO was \$7,966,091 in 2013, compared with \$10,780,000 in 2012, a reduction of 26 percent.

On December 31, 2013, the closing price of Caterpillar's common stock as reported on the New York Stock Exchange (NYSE) was below the option exercise price for the stock options granted to the CEO in each of 2011 and 2012, which are due to vest in 2014 and 2015 respectively.

As shown in the "2013 Summary Compensation Table" on page 28, total compensation for the CEO decreased by 33 percent from \$22,374,744 in 2012 to \$14,989,569 in 2013.

Pay at Risk:

As illustrated below, for NEOs in position throughout 2013, on average over 80 percent of compensation was variable or "at risk" and tied to Caterpillar's performance:

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The Company's executive compensation design includes four principles that drive our Pay for Performance and Pay at Risk philosophy:

1. Base salary is targeted to be the lowest percentage of total direct compensation. Our NEOs have responsibility for overall Company performance so a significant amount of their compensation should be contingent on performance. To achieve this objective, base salary is targeted to be the lowest percentage of their compensation, compared with incentive pay and equity.
2. Short-term incentive compensation is based on performance. Short-term incentive compensation awarded under the ESTIP is based on the achievement of annual performance goals at the corporate and business unit levels. This drives accountability and rewards exceptional results. Payouts are subject to a threshold performance "trigger" and are not guaranteed.
3. Long-term incentive compensation is based on Company performance. We expect our executives to focus on the Company's continued success. LTCPP awards are tied to the Company's performance over a longer period of time. Executives have a higher ratio of long-term to short-term incentive compensation. Payouts are subject to a threshold performance "trigger" and are not guaranteed.
4. Equity is a significant percentage of compensation. Profitable growth is an important priority for the Company and our stockholders. To align the actions of our executives with the expectations of our stockholders and long-term Company performance, equity represents a significant percentage of their compensation.

#### Compensation Practices and Policies

The Committee engages in an ongoing review of the Company's executive compensation programs to ensure they support the compensation philosophy and objectives. In connection with this ongoing review, the Committee continues to implement and maintain what the Committee believes to be best practices for executive compensation. These best practices include the following, each of which reinforces our compensation philosophy:

**Stock ownership requirements** - Caterpillar stock ownership requirements for NEOs, discussed on page 23, are a minimum of 50 percent of the average number of shares or units granted to the NEO during the last five years, which as of year-end 2013, equated to over six times base salary for our CEO. Each of our NEOs has exceeded the company's stock ownership requirements.

**Benchmark process** - The Committee reviews the external marketplace in order to set market-based pay levels and considers market practices when making compensation decisions.

**Independent compensation consultant** - The Committee retains an independent compensation consultant.

**No individual change in control agreements** - The Company does not have any individual change in control agreements with its NEOs. Under the Company's short-term and long-term incentive plans, a termination of employment, in addition to a change in control, is required to trigger benefits.

**Compensation recoupment policy** - The Company may seek the reimbursement of bonus and incentive compensation or cancel unvested or deferred awards based on the misconduct of an executive officer that causes the Company to restate all or a portion of its financial statements.

**Prohibition on hedging, pledging and related transactions** - The Company prohibits NEOs, directors and employees from engaging in transactions involving Company securities that hedge or offset any decreases in the market value of such securities, including put or call options, pledges, any other form of hedging transactions, margin purchases of Company stock or short sales.

**No tax gross-ups** - The Company does not pay tax gross-ups for payments relating to a change in control or with respect to perquisites, with the exception of certain international relocation benefits.

**Equity grant policies** - The Company does not backdate, re-price or grant equity awards retroactively. The grant date for annual equity awards is the first Monday in March and the first business day in May for the Chairman's Awards.

### Say-on-Pay Consideration

In June 2013, the Company held a stockholder advisory vote on the compensation of our NEOs (Say-on-Pay). Our stockholders overwhelmingly approved the compensation of our NEOs, with over 95 percent of stockholder votes cast in favor of our Say-on-Pay resolution. The Compensation Committee reviewed these voting results and considered other factors in evaluating the Company's executive compensation programs as discussed in this Compensation Discussion and Analysis, including the Committee's assessment of the alignment of our compensation programs with the long-term interests of our stockholders and the relationship between our risk management policies and the incentive compensation we provide to our NEOs. In addition, the Committee considered executive compensation practices at other companies in our peer group (discussed below) to benchmark the types and amount of compensation the Company provides. After considering all of these factors, the Committee reaffirmed the elements of our executive compensation programs and the Company's Pay for Performance and Pay at Risk philosophy and did not make any changes to our executive compensation programs in response to the Say-on-Pay vote.

### Overview of Compensation Practices

#### The Compensation & Human Resources Committee

The Compensation Committee is responsible for the executive compensation program design and decision-making process for NEO compensation. The Committee regularly reviews executive compensation practices, including the methodologies for setting NEO total compensation, the goals of the program and the underlying compensation philosophy. The Committee also considers the recommendations and market data provided by its independent compensation consultant and makes decisions, as it deems appropriate, on executive compensation based on its assessment of performance and achievement of Company, business unit and individual goals. The Committee also exercises its judgment as to what is in the best interest of the Company and its stockholders. The responsibilities of the Compensation Committee are described more fully in its charter, which is available at [www.caterpillar.com/governance](http://www.caterpillar.com/governance).

#### Named Executive Officers

The Company's NEOs for 2013 were:

Executive	Title in 2013
Douglas R. Oberhelman	Chairman and Chief Executive Officer (CEO)
Bradley M. Halverson	Group President, Corporate Services and Chief Financial Officer (CFO)
Stuart L. Levenick	Group President, Customer & Dealer Support
Edward J. Rapp	Group President, Construction Industries
D. James Umpleby III	Group President, Energy & Power Systems
Gerard R. Vittecoq	Group President, Lean Manufacturing (retired May 31, 2013)
Steven H. Wunning	Group President, Resource Industries

#### Independent Compensation Consultant

The Compensation Committee retained Meridian Compensation Partners, LLC (Meridian) as its independent compensation consultant. Meridian provides executive and director compensation consulting services to the Committee, including advice regarding the design and implementation of such compensation programs, market information, regulatory updates and analyses and trends on executive base salary, short-term incentives, long-term incentives, benefits and perquisites. Interactions between Meridian and management are generally limited to discussions on behalf of the Committee or as required to compile information at the Committee's direction. During 2013, Meridian did not provide any other services to the Company. Based on these factors, its own evaluation of Meridian's independence pursuant to the requirements approved and adopted by the SEC & NYSE, and information provided by Meridian, the Committee has determined that the work performed by Meridian does not raise any conflicts of interest.

### Benchmarking

The Compensation Committee assesses the market competitiveness of our executive compensation program based on peer group data. The Compensation Committee relies on Meridian to compile and analyze peer group compensation data for the purposes of this assessment. In 2012, as part of its ongoing review of the Company's executive compensation program, the Compensation Committee instructed Meridian to re-evaluate the Company's peer group. Based on this review, Meridian recommended a revised peer group for 2013 compensation decisions based on the following criteria:

- Total revenue and market capitalization of the peer company relative to Caterpillar
- Global presence with a significant portion of non-U.S. revenue
- Relevance of the peer company's industry, including consideration of direct industry and talent competitors

Accordingly, for 2013 compensation decisions, the Compensation Committee revised the Company's peer group to align with key financial metrics of the Company and reflect a greater focus on companies in the industrial and manufacturing sectors.

In revising the peer group, the Committee approved the following deletions from the Company's peer group: Altria Group Inc., American Express Company, The Dow Chemical Company, International Business Machines Corporation, Johnson & Johnson, Lockheed Martin Corporation, PACCAR Inc., PepsiCo Inc., Pfizer Inc., Siemens Aktiengesellschaft, United Parcel Service Inc., Valero Energy Corporation and Weyerhaeuser Company and the following additions to the Company's peer group: Cisco Systems, Inc., The Coca-Cola Company, E.I. du Pont de Nemours and Company, Emerson Electric Co., Fluor Corporation, Halliburton Company, Illinois Tool Works Inc., Intel Corporation, Parker-Hannifin Corporation and Raytheon Company.

The revised peer group used for 2013 compensation decisions is shown below:

#### 2013 Peer Group

- |                                  |  |                                |
|----------------------------------|--|--------------------------------|
| • 3M Company                     | • E.I. du Pont de Nemours and Company* | • Illinois Tool Works Inc.*    |
| • Alcoa Inc.                     | • Emerson Electric Co.*                | • Intel Corporation*           |
| • Archer-Daniels-Midland Company | • FedEx Corporation                    | • Johnson Controls, Inc.       |
| • The Boeing Company             | • Fluor Corporation*                   | • Parker-Hannifin Corporation* |
| • Cisco Systems, Inc.*           | • Ford Motor Company                   | • The Procter & Gamble Company |
| • Coca-Cola Company*             | • General Dynamics Corporation         |                                |