

CATERPILLAR INC  
Form 10-Q  
October 30, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

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  
(Address of principal executive offices)

61629  
(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 ☒ 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 ☒ 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 ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

At September 30, 2015, 582,233,801 shares of common stock of the registrant were outstanding.

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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,	
	2015	2014
Sales and revenues:		
Sales of Machinery, Energy & Transportation	\$ 10,285	\$ 12,758
Revenues of Financial Products	677	791
Total sales and revenues	10,962	13,549
Operating costs:		
Cost of goods sold	7,954	9,634
Selling, general and administrative expenses	1,225	1,446
Research and development expenses	534	533
Interest expense of Financial Products	142	157
Other operating (income) expenses	394	387
Total operating costs	10,249	12,157
Operating profit	713	1,392
Interest expense excluding Financial Products	127	128
Other income (expense)	(68)	) 117
Consolidated profit before taxes	518	1,381
Provision (benefit) for income taxes	144	364
Profit of consolidated companies	374	1,017
Equity in profit (loss) of unconsolidated affiliated companies	(3)	) 4
Profit of consolidated and affiliated companies	371	1,021
Less: Profit (loss) attributable to noncontrolling interests	3	4
Profit <sup>1</sup>	\$368	\$1,017
Profit per common share	\$0.63	\$1.66
Profit per common share – diluted <sup>2</sup>	\$0.62	\$1.63
Weighted-average common shares outstanding (millions)		
– Basic	588.4	611.5
– Diluted <sup>3</sup>	594.8	622.8

Cash dividends declared per common share	\$—	\$—
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<sup>1</sup> Profit attributable to common stockholders.

<sup>2</sup> 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,	
	2015	2014
Profit of consolidated and affiliated companies	\$371	\$1,021
Other comprehensive income (loss), net of tax:		
Foreign currency translation, net of tax (provision)/benefit of: 2015 - \$(5); 2014 - \$(44)	(235)	(710)
Pension and other postretirement benefits:		
Current year actuarial gain (loss), net of tax (provision)/benefit of: 2015 - \$(21); 2014 - \$(2)	44	4
Amortization of actuarial (gain) loss, net of tax (provision)/benefit of: 2015 - \$(56); 2014 - \$(44)	108	86
Current year prior service credit (cost), net of tax (provision)/benefit of: 2015 - \$(1); 2014 - \$(1)	1	—
Amortization of prior service (credit) cost, net of tax (provision)/benefit of: 2015 - \$5; 2014 - \$3	(8)	(6)
Derivative financial instruments:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2015 - \$7; 2014 - \$17	(12)	(30)
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2015 - \$(11); 2014 - \$1	20	—
Available-for-sale securities:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2015 - \$10; 2014 - \$5	(15)	(5)
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2015 - \$9; 2014 - \$7	(18)	(13)
Total other comprehensive income (loss), net of tax	(115)	(674)
Comprehensive income	256	347
Less: comprehensive income attributable to the noncontrolling interests	(2)	(4)
Comprehensive income attributable to stockholders	\$254	\$343

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,	
	2015	2014
Sales and revenues:		
Sales of Machinery, Energy & Transportation	\$33,829	\$38,642
Revenues of Financial Products	2,152	2,298
Total sales and revenues	35,981	40,940
Operating costs:		
Cost of goods sold	25,559	29,268
Selling, general and administrative expenses	3,932	4,175
Research and development expenses	1,612	1,557
Interest expense of Financial Products	440	470
Other operating (income) expenses	1,068	1,205
Total operating costs	32,611	36,675
Operating profit	3,370	4,265
Interest expense excluding Financial Products	381	358
Other income (expense)	76	236
Consolidated profit before taxes	3,065	4,143
Provision (benefit) for income taxes	870	1,201
Profit of consolidated companies	2,195	2,942
Equity in profit (loss) of unconsolidated affiliated companies	1	6
Profit of consolidated and affiliated companies	2,196	2,948
Less: Profit (loss) attributable to noncontrolling interests	7	10
Profit <sup>1</sup>	\$2,189	\$2,938
Profit per common share	\$3.66	\$4.73
Profit per common share – diluted <sup>2</sup>	\$3.62	\$4.64
Weighted-average common shares outstanding (millions)		
– Basic	597.9	620.6
– Diluted <sup>3</sup>	605.3	632.7
Cash dividends declared per common share	\$1.47	\$1.30

<sup>1</sup> Profit attributable to common stockholders.

<sup>2</sup> 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,	
	2015	2014
Profit of consolidated and affiliated companies	\$2,196	\$2,948
Other comprehensive income (loss), net of tax:		
Foreign currency translation, net of tax (provision)/benefit of: 2015 - \$(60); 2014 - \$(52)	(810)	(643)
Pension and other postretirement benefits:		
Current year actuarial gain (loss), net of tax (provision)/benefit of: 2015 - \$(35); 2014 - \$(7)	68	14
Amortization of actuarial (gain) loss, net of tax (provision)/benefit of: 2015 - \$(168); 2014 - \$(132)	326	258
Current year prior service credit (cost), net of tax (provision)/benefit of: 2015 - \$(1); 2014 - \$(1)	1	1
Amortization of prior service (credit) cost, net of tax (provision)/benefit of: 2015 - \$14; 2014 - \$10	(26)	(18)
Derivative financial instruments:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2015 - \$9; 2014 - \$33	(15)	(57)
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2015 - \$(40); 2014 - \$7	69	(10)
Available-for-sale securities:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2015 - \$10; 2014 - \$(6)	(13)	18
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2015 - \$10; 2014 - \$11	(21)	(23)
Total other comprehensive income (loss), net of tax	(421)	(460)
Comprehensive income	1,775	2,488
Less: comprehensive income attributable to the noncontrolling interests	2	(9)
Comprehensive income attributable to stockholders	\$1,777	\$2,479

See accompanying notes to Consolidated Financial Statements.



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Caterpillar Inc.

Consolidated Statement of Financial Position

(Unaudited)

(Dollars in millions)

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and short-term investments	\$6,046	\$7,341
Receivables – trade and other	6,783	7,737
Receivables – finance	8,862	9,027
Deferred and refundable income taxes	1,446	1,739
Prepaid expenses and other current assets	993	818
Inventories	11,150	12,205
Total current assets	35,280	38,867
Property, plant and equipment – net	15,955	16,577
Long-term receivables – trade and other	1,266	1,364
Long-term receivables – finance	13,551	14,644
Investments in unconsolidated affiliated companies	231	257
Noncurrent deferred and refundable income taxes	1,559	1,404
Intangible assets	2,841	3,076
Goodwill	6,546	6,694
Other assets	1,740	1,798
Total assets	\$78,969	\$84,681
Liabilities		
Current liabilities:		
Short-term borrowings:		
Machinery, Energy & Transportation	\$12	\$9
Financial Products	6,068	4,699
Accounts payable	5,206	6,515
Accrued expenses	3,306	3,548
Accrued wages, salaries and employee benefits	1,678	2,438
Customer advances	1,610	1,697
Dividends payable	—	424
Other current liabilities	1,698	1,754
Long-term debt due within one year:		
Machinery, Energy & Transportation	516	510
Financial Products	5,739	6,283
Total current liabilities	25,833	27,877
Long-term debt due after one year:		
Machinery, Energy & Transportation	8,997	9,493
Financial Products	16,211	18,291
Liability for postemployment benefits	8,638	8,963
Other liabilities	3,322	3,231
Total liabilities	63,001	67,855

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Commitments and contingencies (Notes 10 and 13)

Stockholders' equity

Common stock of \$1.00 par value:

Authorized shares: 2,000,000,000

	5,190	5,016
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Issued shares: (9/30/15 and 12/31/14 – 814,894,624) at paid-in amount

Treasury stock (9/30/15 – 232,660,823 shares; 12/31/14 – 208,728,065 shares) at cost	(17,642	) (15,726	)
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Profit employed in the business	35,191	33,887
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Accumulated other comprehensive income (loss)	(6,843	) (6,431	)
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Noncontrolling interests	72	80
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Total stockholders' equity	15,968	16,826
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Total liabilities and stockholders' equity	\$78,969	\$84,681
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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, 2014						
Balance at December 31, 2013	\$4,709	\$(11,854)	\$31,854	\$(3,898)	) \$ 67	\$20,878
Profit of consolidated and affiliated companies	—	—	2,938	—	10	2,948
Foreign currency translation, net of tax	—	—	—	(642)	) (1	) (643
Pension and other postretirement benefits, net of tax	—	—	—	255	—	255
Derivative financial instruments, net of tax	—	—	—	(67)	) —	(67
Available-for-sale securities, net of tax	—	—	—	(5)	) —	(5
Change in ownership from noncontrolling interests	—	—	—	—	4	4
Dividends declared	—	—	(815	) —	—	(815
Distribution to noncontrolling interests	—	—	—	—	(7	) (7
Common shares issued from treasury stock for stock-based compensation: 9,338,857	(109	) 327	—	—	—	218
Stock-based compensation expense	207	—	—	—	—	207
Net excess tax benefits from stock-based compensation	161	—	—	—	—	161
Common shares repurchased: 41,762,325 <sup>1</sup>	—	(4,238	) —	—	—	(4,238
Balance at September 30, 2014	\$4,968	\$(15,765)	\$33,977	\$(4,357)	) \$ 73	\$18,896
Nine Months Ended September 30, 2015						
Balance at December 31, 2014	\$5,016	\$(15,726)	\$33,887	\$(6,431)	) \$ 80	\$16,826
Profit of consolidated and affiliated companies	—	—	2,189	—	7	2,196
Foreign currency translation, net of tax	—	—	—	(801)	) (9	) (810
Pension and other postretirement benefits, net of tax	—	—	—	369	—	369
Derivative financial instruments, net of tax	—	—	—	54	—	54
Available-for-sale securities, net of tax	—	—	—	(34)	) —	(34
Dividends declared	—	—	(885	) —	—	(885
Distribution to noncontrolling interests	—	—	—	—	(7	) (7
Common shares issued from treasury stock for stock-based compensation: 2,843,506	(75	) 109	—	—	—	34
Stock-based compensation expense	240	—	—	—	—	240
Net excess tax benefits from stock-based compensation	7	—	—	—	—	7
Common shares repurchased: 25,841,608 <sup>1</sup>	—	(2,025	) —	—	—	(2,025
Other	2	—	—	—	1	3
Balance at September 30, 2015	\$5,190	\$(17,642)	\$35,191	\$(6,843)	) \$ 72	\$15,968

<sup>1</sup> 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,	
	2015	2014
Cash flow from operating activities:		
Profit of consolidated and affiliated companies	\$2,196	\$2,948
Adjustments for non-cash items:		
Depreciation and amortization	2,272	2,368
Other	354	327
Changes in assets and liabilities, net of acquisitions and divestitures:		
Receivables – trade and other	614	393
Inventories	840	(859)
Accounts payable	(893)	) 518
Accrued expenses	(25)	) (44)
Accrued wages, salaries and employee benefits	(704)	) 648
Customer advances	(36)	) (132)
Other assets – net	(108)	) (104)
Other liabilities – net	354	123
Net cash provided by (used for) operating activities	4,864	6,186
Cash flow from investing activities:		
Capital expenditures – excluding equipment leased to others	(946)	) (1,072)
Expenditures for equipment leased to others	(1,251)	) (1,310)
Proceeds from disposals of leased assets and property, plant and equipment	473	681
Additions to finance receivables	(7,099)	) (8,464)
Collections of finance receivables	6,849	7,264
Proceeds from sale of finance receivables	101	154
Investments and acquisitions (net of cash acquired)	(140)	) (18)
Proceeds from sale of businesses and investments (net of cash sold)	174	196
Proceeds from sale of securities	238	347
Investments in securities	(296)	) (769)
Other – net	(76)	) (12)
Net cash provided by (used for) investing activities	(1,973)	) (3,003)
Cash flow from financing activities:		
Dividends paid	(1,309)	) (1,197)
Distribution to noncontrolling interests	(7)	) (7)
Contribution from noncontrolling interests	—	2
Common stock issued, including treasury shares reissued	34	218
Treasury shares purchased	(2,025)	) (4,238)
Excess tax benefit from stock-based compensation	20	162
Proceeds from debt issued (original maturities greater than three months):		
Machinery, Energy & Transportation	3	1,991
Financial Products	4,079	7,112
Payments on debt (original maturities greater than three months):		

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Machinery, Energy & Transportation	(513	) (779	)
Financial Products	(6,259	) (7,114	)
Short-term borrowings – net (original maturities three months or less)	1,922	791	
Net cash provided by (used for) financing activities	(4,055	) (3,059	)
Effect of exchange rate changes on cash	(131	) (123	)
Increase (decrease) in cash and short-term investments	(1,295	) 1	
Cash and short-term investments at beginning of period	7,341	6,081	
Cash and short-term investments at end of period	\$6,046	\$6,082	

All short-term investments, which consist primarily of highly liquid investments with original maturities of three months or less, are considered to be cash equivalents.

See accompanying notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1.A. Nature of operations

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

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

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

B. Basis of presentation

In the opinion of management, the accompanying unaudited 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, 2015 and 2014, (b) the consolidated comprehensive income for the three and nine month periods ended September 30, 2015 and 2014, (c) the consolidated financial position at September 30, 2015 and December 31, 2014, (d) the consolidated changes in stockholders' equity for the nine month periods ended September 30, 2015 and 2014 and (e) the consolidated cash flow for the nine month periods ended September 30, 2015 and 2014. 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.

As previously disclosed, in connection with the preparation of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, we concluded that certain non-cash transactions should be excluded from both changes in Receivables-trade and other and Accounts payable when preparing our Consolidated Statement of Cash Flow. Accordingly, we prepared our Consolidated Statement of Cash Flow for the nine months ended September 30, 2014 on that basis. We subsequently concluded that our prior policy of including those transactions in the changes in Receivables-trade and other and Accounts payable is acceptable. Accordingly, we prepared our Consolidated Statement of Cash Flow for the year ended December 31, 2014 using our prior policy. We have revised our Consolidated Statement of Cash Flow to increase Receivables-trade and other and decrease Accounts payable by \$149 million for the nine months ended September 30, 2014. The revisions did not impact net cash provided by operating activities.

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, 2014 (2014 Form 10-K).

The December 31, 2014 financial position data included herein is derived from the audited consolidated financial statements included in the 2014 Form 10-K but does not include all disclosures required by U.S. GAAP.

Unconsolidated Variable Interest Entities (VIEs)

We have affiliates, suppliers and dealers that are VIEs of which we are not the primary beneficiary. Although we have provided financial support, we do not have the power to direct the activities that most significantly impact the

economic performance of each entity.



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Our maximum exposure to loss from VIEs for which we are not the primary beneficiary was as follows:

(Millions of dollars)	September 30, 2015	December 31, 2014
Receivables - trade and other	\$48	\$36
Receivables - finance	492	216
Long-term receivables - finance	63	285
Investments in unconsolidated affiliated companies	28	83
Guarantees	98	129
Total	\$729	\$749

## 2. New accounting guidance

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

Revenue recognition – In May 2014, the FASB issued new revenue recognition guidance to provide a single, comprehensive revenue recognition model for all contracts with customers. Under the new guidance, an entity will recognize revenue to depict the transfer of promised goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. A five step model has been introduced for an entity to apply when recognizing revenue. The new guidance also includes enhanced disclosure requirements, and is effective January 1, 2018, with early adoption permitted for January 1, 2017. Entities have the option to apply the new guidance under a retrospective approach to each prior reporting period presented, or a modified retrospective approach with the cumulative effect of initially applying the new guidance recognized at the date of initial application within the Consolidated Statement of Changes in Stockholders' Equity. We are in the process of evaluating the application and implementation of the new guidance.

Variable interest entities (VIE) – In February 2015, the FASB issued accounting guidance on the consolidation of VIEs. The new guidance revises previous guidance by establishing an analysis for determining whether a limited partnership or similar entity is a VIE and whether outsourced decision-maker fees are considered variable interests. In addition, the new guidance revises how a reporting entity evaluates economics and related parties when assessing who should consolidate a VIE. This guidance is effective January 1, 2016. We do not expect the adoption to have a material impact on our financial statements.

Presentation of debt issuance costs – In April 2015, the FASB issued accounting guidance which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. Prior to the issuance of the new guidance, debt issuance costs were required to be presented in the balance sheet as an asset. This guidance is effective January 1, 2016. We do not expect the adoption to have a material impact on our financial statements.

Fair value disclosures for investments in certain entities that calculate net asset value per share – In May 2015, the FASB issued accounting guidance which removes the requirement to categorize within the fair value hierarchy investments measured at net asset value (or its equivalent) as a practical expedient for fair value. The new guidance requires that the amount of these investments continue to be disclosed to reconcile the fair value hierarchy disclosure to the balance sheet. The guidance is effective January 1, 2016 and will be applied retrospectively with early adoption

permitted. We do not expect the adoption to have a material impact on our financial statements.

Simplifying the measurement of inventory – In July 2015, the FASB issued accounting guidance which requires that inventory be measured at the lower of cost or net realizable value. Prior to the issuance of the new guidance, inventory was measured at the lower of cost or market. Replacing the concept of market with the single measurement of net realizable value is intended to create efficiencies for preparers. Inventory measured using the last-in, first-out (LIFO) method and the retail inventory method are not impacted by the new guidance. The guidance is effective January 1, 2017. We do not expect the adoption to have a material impact on our financial statements.

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Simplifying the accounting for measurement-period adjustments – In September 2015, the FASB issued accounting guidance which eliminates the requirement for an acquirer in a business combination to restate prior period financial statements for measurement period adjustments. An acquirer in a business combination is required to report provisional amounts when measurements are incomplete at the end of the reporting period covering the business combination. Prior to the issuance of the new guidance, an acquirer was required to adjust such provisional amounts by restating prior period financial statements. Under the new guidance, the acquirer will recognize the measurement-period adjustment in the period the adjustment is determined. The guidance is effective January 1, 2016 and will be applied prospectively with early adoption permitted. 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). Stock-based compensation awards granted prior to 2015 will vest three years after the date of grant (cliff vesting). The awards granted in 2015 will vest according to a three-year graded vesting schedule. One-third of the award will become vested on the first anniversary of the grant date, one-third of the award will become vested on the second anniversary of the grant date and one-third of the award will become vested on the third anniversary of the grant date. Stock-based compensation expense will be recognized on a straight-line basis over the requisite service period for awards with terms that specify cliff or graded vesting and contain only service conditions.

Upon separation from service, if the participant is 55 years of age or older with more than five years of service, the participant meets the criteria for a "Long Service Separation". Prior to 2015, our stock-based compensation award terms allowed for the immediate vesting upon separation for employees who met the criteria for a "Long Service Separation" and fulfilled a requisite service period of six months. For these employees, compensation expense was recognized over the period from the grant date to the end date of the six-month requisite service period. Our stock-based compensation award terms for the 2015 grant allowed for the immediate vesting upon separation for employees who met the criteria for a "Long Service Separation" with no requisite service period. For these employees, compensation expense for the 2015 grant was recognized immediately on the grant date. For employees who become eligible for immediate vesting under a "Long Service Separation" subsequent to the grant date and prior to the completion of the vesting period, compensation expense is recognized over the period from grant date to the date eligibility is achieved. If the "Long Service Separation" criteria are met, the vested options/SARs will have a life that is the lesser of ten years from the original grant date or five years from the separation date.

We recognized pretax stock-based compensation expense in the amount of \$48 million and \$240 million for the three and nine months ended September 30, 2015, respectively; and \$70 million and \$207 million for the three and nine months ended September 30, 2014, respectively. The change in stock-based compensation expense for the third quarter was primarily due to the change in award terms for participants that met the criteria for a "Long Service Separation", as the removal of the six-month requisite service period results in higher expense in the first quarter (period of grant) and lower expense over the following two quarters.

The following table illustrates the type and fair value of the stock-based compensation awards granted during the nine month periods ended September 30, 2015 and 2014, respectively:

2015

2014

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	Shares Granted	Weighted-Average Fair Value Per Share	Weighted-Average Grant Date Stock Price	Shares Granted	Weighted-Average Fair Value Per Share	Weighted-Average Grant Date Stock Price
Stock options	7,939,497	\$ 23.61	\$ 83.34	4,448,218	\$ 29.52	\$ 96.31
RSUs	1,822,729	\$ 77.54	\$ 83.01	1,429,512	\$ 89.18	\$ 96.31

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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, 2015 and 2014, respectively:

	Grant Year	
	2015	2014
Weighted-average dividend yield	2.27%	2.15%
Weighted-average volatility	28.4%	28.2%
Range of volatilities	19.9-35.9%	18.4-36.2%
Range of risk-free interest rates	0.22-2.08%	0.12-2.60%
Weighted-average expected lives	8 years	8 years

As of September 30, 2015, the total remaining unrecognized compensation expense related to nonvested stock-based compensation awards was \$261 million, which will be amortized over the weighted-average remaining requisite service periods of approximately 2.0 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.

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Our Machinery, Energy & Transportation operations purchase, manufacture and sell products in many locations around the world. As we have a diversified revenue and cost base, we manage our future foreign currency cash flow exposure on a net basis. We use foreign currency forward and option contracts to manage unmatched foreign currency cash inflow and outflow. Our objective is to minimize the risk of exchange rate movements that would reduce the U.S. dollar value of our foreign currency cash flow. Our policy allows for managing anticipated foreign currency cash flow for up to five years. As of September 30, 2015, the maximum term of these outstanding contracts was approximately 15 months.

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

As of September 30, 2015, \$19 million of deferred net losses, 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.

Our Machinery, Energy & Transportation operations generally use fixed-rate debt as a source of funding. Our objective is to minimize the cost of borrowed funds. Our policy allows us to enter into fixed-to-floating interest rate swaps and forward rate agreements to meet that objective. We designate fixed-to-floating interest rate swaps as fair value hedges at inception of the contract, and we designate certain forward rate agreements as cash flow hedges at inception of the contract.

As of September 30, 2015, \$4 million of deferred net losses, net of tax, included in equity (AOCI in the Consolidated Statement of Financial Position), related to Machinery, Energy & Transportation forward rate agreements, are expected to be reclassified to current earnings (Interest expense excluding Financial Products in the Consolidated Statement of Results of Operations) over the next twelve months.

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, 2015, \$1 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



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Operations) over the next twelve months. The actual amount recorded in Interest expense of Financial Products will vary based on interest rates at the time the hedged transactions impact earnings.

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

## Commodity Price Risk

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

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

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

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, 2015	December 31, 2014
Designated derivatives			
Foreign exchange contracts			
Machinery, Energy & Transportation	Receivables – trade and other	\$ 16	\$ 25
Machinery, Energy & Transportation	Accrued expenses	(47	) (134
Machinery, Energy & Transportation	Other liabilities	(2	) —
Interest rate contracts			
Financial Products	Receivables – trade and other	1	6
Financial Products	Long-term receivables – trade and other	65	73
Financial Products	Accrued expenses	(4	) (8
		\$ 29	) \$(38
Undesignated derivatives			
Foreign exchange contracts			
Machinery, Energy & Transportation	Receivables – trade and other	\$ 6	\$ 2
Machinery, Energy & Transportation	Accrued expenses	(11	) (43
Financial Products	Receivables – trade and other	3	5
Financial Products	Long-term receivables – trade and other	35	17
Financial Products	Accrued expenses	(5	) (15
Commodity contracts			
Machinery, Energy & Transportation	Accrued expenses	(12	) (14

\$16 \$(48 )

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

(Millions of dollars)	September 30, 2015	December 31, 2014
Machinery, Energy & Transportation	\$2,198	\$3,128
Financial Products	\$3,785	\$5,249

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

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, 2015		Three Months Ended September 30, 2014	
		Gains (Losses) on Derivatives	Gains (Losses) on Borrowings	Gains (Losses) on Derivatives	Gains (Losses) on Borrowings
Interest rate contracts					
Financial Products	Other income (expense)	\$3	\$(3)	\$(19)	\$1
		\$3	\$(3)	\$(19)	\$1
	Classification	Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
		Gains (Losses) on Derivatives	Gains (Losses) on Borrowings	Gains (Losses) on Derivatives	Gains (Losses) on Borrowings
Interest rate contracts					
Financial Products	Other income (expense)	\$(11)	\$10	\$(38)	\$24
		\$(11)	\$10	\$(38)	\$24

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## Cash Flow Hedges

Three Months Ended September 30, 2015				
(Millions of dollars)	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)		Recognized in Earnings Classification of Gains (Losses)	
			Amount of Gains (Losses) Reclassified from AOCI to Earnings	Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts				
Machinery, Energy & Transportation	\$ (18	)	Other income (expense)	\$ (29 ) \$—
Interest rate contracts				
Machinery, Energy & Transportation	—		Interest expense excluding Financial Products	(1 ) —
Financial Products	(1	)	Interest expense of Financial Products	(1 ) —
	\$ (19	)		\$ (31 ) \$—
Three Months Ended September 30, 2014				
	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)		Recognized in Earnings Classification of Gains (Losses)	
			Amount of Gains (Losses) Reclassified from AOCI to Earnings	Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts				
Machinery, Energy & Transportation	\$ (45	)	Other income (expense)	\$ 4 \$—
Interest rate contracts				
Machinery, Energy & Transportation	—		Interest expense excluding Financial Products	(1 ) —
Financial Products	(2	)	Interest expense of Financial Products	(2 ) —
	\$ (47	)		\$ 1 \$—
Nine Months Ended September 30, 2015				
	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)		Recognized in Earnings Classification of Gains (Losses)	
			Amount of Gains (Losses) Reclassified from AOCI to Earnings	Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts				
Machinery, Energy & Transportation	\$ (25	)	Other income (expense)	\$ (101 ) \$—
Interest rate contracts				
Machinery, Energy & Transportation	—		Interest expense excluding Financial Products	(4 ) —
Financial Products	1			(4 ) —

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		Interest expense of Financial Products			
		\$(24	)	\$(109	) \$—
Nine Months Ended September 30, 2014					
		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, Energy & Transportation	\$(20	) Other income (expense)		\$24	\$—
Interest rate contracts					
Machinery, Energy & Transportation	(63	) Interest expense excluding Financial Products		(3	) —
Financial Products	(7	) Interest expense of Financial Products		(4	) —
	\$(90	)		\$17	\$—

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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, 2015	Three Months Ended September 30, 2014
Foreign exchange contracts			
Machinery, Energy & Transportation	Other income (expense)	\$7	\$(44)
Financial Products	Other income (expense)	6	(19)
Commodity contracts			
Machinery, Energy & Transportation	Other income (expense)	(8)	(6)
		\$5	\$(69)
	Classification of Gains (Losses)	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Foreign exchange contracts			
Machinery, Energy & Transportation	Other income (expense)	\$(22)	\$(35)
Financial Products	Other income (expense)	(18)	(36)
Commodity contracts			
Machinery, Energy & Transportation	Other income (expense)	(15)	(3)
		\$(55)	\$(74)

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

Collateral is generally not required of the counterparties or of our company under the master netting agreements. As of September 30, 2015 and December 31, 2014, 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, 2015				Gross Amounts Not Offset in the Statement of Financial Position		
(Millions of dollars)	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Assets Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount of Assets
Derivatives						
Machinery, Energy & Transportation	\$22	\$—	\$22	\$(20 )	\$—	\$2
Financial Products	104	—	104	(7 )	—	97
Total	\$126	\$—	\$126	\$(27 )	\$—	\$99
September 30, 2015				Gross Amounts Not Offset in the Statement of Financial Position		
(Millions of dollars)	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Liabilities Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Pledged	Net Amount of Liabilities
Derivatives						
Machinery, Energy & Transportation	\$(72 )	\$—	\$(72 )	\$20	\$—	\$(52 )
Financial Products	(9 )	—	(9 )	7	—	(2 )
Total	\$(81 )	\$—	\$(81 )	\$27	\$—	\$(54 )
December 31, 2014				Gross Amounts Not Offset in the Statement of Financial Position		
(Millions of dollars)	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Assets Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount of Assets
Derivatives						
Machinery, Energy & Transportation	\$27	\$—	\$27	\$(27 )	\$—	\$—
Financial Products	101	—	101	(8 )	—	93
Total	\$128	\$—	\$128	\$(35 )	\$—	\$93
December 31, 2014				Gross Amounts Not Offset in the Statement of Financial Position		
(Millions of dollars)						

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	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Liabilities Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Pledged	Net Amount of Liabilities
Derivatives						
Machinery, Energy & Transportation	\$(191 )	\$—	\$(191 )	\$27	\$—	\$(164 )
Financial Products	(23 )	—	(23 )	8	—	(15 )
Total	\$(214 )	\$—	\$(214 )	\$35	\$—	\$(179 )



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## 5. Inventories

Inventories are valued at the lower of cost or market, principally using the last-in, first-out (LIFO) method, and are comprised of the following:

(Millions of dollars)	September 30, 2015	December 31, 2014
Raw materials	\$2,862	\$2,986
Work-in-process	1,987	2,455
Finished goods	6,042	6,504
Supplies	259	260
Total inventories	\$ 11,150	\$ 12,205

## 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,	
	2015	2014	2015	2014
Sales	\$205	\$453	\$558	\$1,253
Cost of sales	166	357	437	974
Gross profit	\$39	\$96	\$121	\$279
Profit (loss)	\$(10	) \$(7	) \$(2	) \$(17

Financial Position of unconsolidated affiliated companies: (Millions of dollars)	September 30, 2015	December 31, 2014
Assets:		
Current assets	\$506	\$716
Property, plant and equipment – net	187	653
Other assets	198	557
	891	1,926
Liabilities:		
Current liabilities	298	518
Long-term debt due after one year	206	867
Other liabilities	13	215
	517	1,600
Equity	\$374	\$326

Caterpillar's investments in unconsolidated affiliated companies:

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(Millions of dollars)	September 30, 2015	December 31, 2014
Investments in equity method companies	\$188	\$248
Plus: Investments in cost method companies	43	9
Total investments in unconsolidated affiliated companies	\$231	\$257

The changes in the 2015 results of operations, financial position and investments in equity method companies noted above are primarily related to the sale of Caterpillar's 35 percent equity interest in the third party logistics business, formerly Caterpillar Logistics Services LLC. In February 2015, we sold our interest to an affiliate of The Goldman Sachs Group,

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Inc. and investment funds affiliated with Rhône Capital LLC for \$177 million, which was comprised of \$167 million in cash and a \$10 million note receivable included in Long-term receivables - trade and other in the Consolidated Statement of Financial Position. As a result of the sale, we recognized a pretax gain of \$120 million (included in Other income (expense)) and derecognized the carrying value of our noncontrolling interest of \$57 million, which was previously included in Investments in unconsolidated affiliated companies in the Consolidated Statement of Financial Position. The gain on the disposal is included as a reconciling item between Segment profit and Consolidated profit before taxes. The sale of this investment supports Caterpillar's increased focus on growth opportunities in its core businesses.

### 7. Intangible assets and goodwill

#### A. Intangible assets

Intangible assets are comprised of the following:

(Millions of dollars)	Weighted Amortizable Life (Years)	September 30, 2015		
		Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	15	\$2,427	\$(773)	) \$1,654
Intellectual property	11	1,720	(645)	) 1,075
Other	13	187	(75)	) 112
Total finite-lived intangible assets	14	\$4,334	\$(1,493)	) \$2,841

  

	Weighted Amortizable Life (Years)	December 31, 2014		
		Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	15	\$2,489	\$(669)	) \$1,820
Intellectual property	11	1,724	(578)	) 1,146
Other	11	239	(129)	) 110
Total finite-lived intangible assets	14	\$4,452	\$(1,376)	) \$3,076

Amortization expense for the three and nine months ended September 30, 2015 was \$81 million and \$255 million, respectively. Amortization expense for the three and nine months ended September 30, 2014 was \$91 million and \$276 million, respectively. Amortization expense related to intangible assets is expected to be:

(Millions of dollars)

Remaining Three Months of 2015	2016	2017	2018	2019	Thereafter
\$88	\$327	\$325	\$319	\$317	\$1,465

#### B. Goodwill

We test goodwill for impairment annually and whenever events or circumstances make it more likely than not that an impairment may have occurred. We perform our annual goodwill impairment test as of October 1 and monitor for

interim triggering events on an ongoing basis. Goodwill is reviewed for impairment utilizing a qualitative assessment or a two-step process. We have an option to make a qualitative assessment of a reporting unit's goodwill for impairment. If we choose to perform a qualitative assessment and determine the fair value more likely than not exceeds the carrying value, no further evaluation is necessary. For reporting units where we perform the two-step process, the first step requires us to compare the fair value of each reporting unit, which we primarily determine using an income approach based on the present value of discounted cash flows, to the respective carrying value, which includes goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is higher than the fair value, there is an indication that an impairment may exist and the second step is required. In step two, the implied fair value of goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill,

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the difference is recognized as an impairment loss. No goodwill was impaired during the nine months ended September 30, 2015 or 2014.

During 2015, we acquired net assets with related goodwill of \$21 million in the Energy & Transportation segment.

The changes in carrying amount of goodwill by reportable segment for the nine months ended September 30, 2015 were as follows:

(Millions of dollars)	December 31, 2014	Acquisitions	Other Adjustments <sup>1</sup>	September 30, 2015	
Construction Industries					
Goodwill	\$275	\$—	\$(10	) \$265	
Resource Industries					
Goodwill	4,287	—	(119	) 4,168	
Impairments	(580	) —	—	(580	)
Net goodwill	3,707	—	(119	) 3,588	
Energy & Transportation					
Goodwill	2,542	21	(38	) 2,525	
All Other <sup>2</sup>					
Goodwill	192	—	(2	) 190	
Impairments	(22	) —	—	(22	)
Net goodwill	170	—	(2	) 168	
Consolidated total					
Goodwill	7,296	21	(169	) 7,148	
Impairments	(602	) —	—	(602	)
Net goodwill	\$6,694	\$21	\$(169	) \$6,546	

<sup>1</sup> Other adjustments are comprised primarily of foreign currency translation.

<sup>2</sup> Includes All Other operating segments (See Note 15).

## 8. Available-for-sale securities

We have investments in certain debt and equity securities, primarily at Insurance Services, that have been classified as available-for-sale and recorded at fair value. 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 specific identification method for debt and equity securities and are included in Other income (expense) in the Consolidated Statement of Results of Operations.

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The cost basis and fair value of available-for-sale securities were as follows:

(Millions of dollars)	September 30, 2015			December 31, 2014		
	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value
Government debt						
U.S. treasury bonds	\$13	\$—	\$13	\$10	\$—	\$10
Other U.S. and non-U.S. government bonds	82	1	83	94	—	94
Corporate bonds						
Corporate bonds	700	13	713	677	16	693
Asset-backed securities	96	1	97	103	2	105
Mortgage-backed debt securities						
U.S. governmental agency	270	4	274	292	2	294
Residential	13	—	13	15	—	15
Commercial	59	3	62	63	4	67
Equity securities						
Large capitalization value	212	38	250	150	83	233
Real estate investment trust (REIT)	8	—	8	—	—	—
Smaller company growth	31	19	50	17	26	43
Total	\$1,484	\$79	\$1,563	\$1,421	\$133	\$1,554

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

(Millions of dollars)	September 30, 2015		12 months or more <sup>1</sup>		Total Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Corporate bonds						
Corporate bonds	\$155	\$2	\$23	\$—	\$178	\$2
Mortgage-backed debt securities						
U.S. governmental agency	15	—	60	1	75	1
Equity securities						
Large capitalization value	84	8	1	—	85	8
Small company growth	13	2	—	—	13	2
Total	\$267	\$12	\$84	\$1	\$351	\$13
December 31, 2014						
(Millions of dollars)	Less than 12 months <sup>1</sup>		12 months or more <sup>1</sup>		Total Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Corporate bonds						
Corporate bonds	\$195	\$1	\$32	\$—	\$227	\$1
Mortgage-backed debt securities						
U.S. governmental agency	34	—	140	3	174	3
Equity securities						
Large capitalization value	15	2	1	—	16	2
Total	\$244	\$3	\$173	\$3	\$417	\$6

<sup>1</sup> 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 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, 2015.

**Mortgage-Backed Debt Securities.** The unrealized losses on our investments in mortgage-backed securities relate to changes in interest rates and credit-related yield spreads since time of purchase. We do not intend to sell the investments and it is not likely that we will be required to sell these investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of September 30, 2015.

**Equity Securities.** The unrealized losses on our investments in equity securities relate to inherent risks of individual holdings and/or their respective sectors. We do not consider these investments to be other-than-temporarily impaired as of September 30, 2015.

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The cost basis and fair value of the available-for-sale debt securities at September 30, 2015, 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.

(Millions of dollars)	September 30, 2015	
	Cost Basis	Fair Value
Due in one year or less	\$102	\$102
Due after one year through five years	739	752
Due after five years through ten years	21	22
Due after ten years	29	30
U.S. governmental agency mortgage-backed securities	270	274
Residential mortgage-backed securities	13	13
Commercial mortgage-backed securities	59	62
Total debt securities – available-for-sale	\$1,233	\$1,255

## Sales of Securities:

(Millions of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Proceeds from the sale of available-for-sale securities	\$110	\$125	\$238	\$347
Gross gains from the sale of available-for-sale securities	\$32	\$22	\$38	\$36
Gross losses from the sale of available-for-sale securities	\$1	\$1	\$2	\$1



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## 9. Postretirement benefits

## A. Pension and postretirement benefit costs

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
(Millions of dollars)	September 30,		September 30,		September 30,	
	2015	2014	2015	2014	2015	2014
For the three months ended:						
Components of net periodic benefit cost:						
Service cost	\$45	\$39	\$28	\$28	\$26	\$19
Interest cost	151	162	37	47	46	54
Expected return on plan assets <sup>1</sup>	(220 )	(221 )	(66 )	(66 )	(13 )	(13 )
Amortization of:						
Prior service cost (credit) <sup>2</sup>	1	5	—	—	(14 )	(14 )
Net actuarial loss (gain) <sup>3</sup>	126	98	25	22	13	10
Net periodic benefit cost	103	83	24	31	58	56
Curtailments, settlements and termination benefits <sup>4</sup>	—	—	7	5	—	—
Total cost included in operating profit	\$103	\$83	\$31	\$36	\$58	\$56
For the nine months ended:						
Components of net periodic benefit cost:						
Service cost	\$136	\$118	\$85	\$83	\$76	\$62
Interest cost	454	486	115	139	138	160
Expected return on plan assets <sup>1</sup>	(659 )	(664 )	(199 )	(195 )	(39 )	(39 )
Amortization of:						
Prior service cost (credit) <sup>2</sup>	1	13	—	—	(41 )	(41 )
Net actuarial loss (gain) <sup>3</sup>	380	294	75	65	39	31
Net periodic benefit cost	312	247	76	92	173	173
Curtailments, settlements and termination benefits <sup>4</sup>	—	—	10	12	—	—
Total cost included in operating profit	\$312	\$247	\$86	\$104	\$173	\$173
Weighted-average assumptions used to determine net cost:						
Discount rate	3.8	% 4.6	% 3.3	% 4.1	% 3.9	% 4.6
Expected rate of return on plan assets	7.4	% 7.8	% 6.8	% 6.9	% 7.8	% 7.8
Rate of compensation increase	4.0	% 4.0	% 4.0	% 4.2	% 4.0	% 4.0

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

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

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

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

We made \$36 million and \$149 million of contributions to our pension plans during the three and nine months ended September 30, 2015, respectively. We currently anticipate full-year 2015 contributions of approximately \$180 million, all of which are required. We made \$68 million and \$455 million of contributions to our pension plans during the three and nine months ended September 30, 2014, respectively.

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## B. Defined contribution benefit costs

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

(Millions of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
U.S. Plans	\$31	\$62	\$188	\$232
Non-U.S. Plans	19	21	58	62
	\$50	\$83	\$246	\$294

The decrease in the U.S. defined contribution benefit costs for the three and nine months ended September 30, 2015 is primarily due to fair value adjustments related to our non-qualified deferred compensation plans.

## 10. Guarantees and product warranty

## Caterpillar dealer performance guarantees

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 have varying terms and are issued to insure governmental agencies against nonperformance by certain dealers. We also provided guarantees to third-parties related to the performance of contractual obligations by certain Caterpillar dealers. These guarantees have varying terms and cover potential financial losses incurred by the third-parties resulting from the dealers' nonperformance.

## Customer loan guarantees

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

## Supplier consortium performance guarantee

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 guarantee covers 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 2025.

## Third party logistics business lease guarantees

We have provided guarantees to third-party lessors for certain properties leased by a third party logistics business, formerly Caterpillar Logistics Services LCC, in which we sold our 35 percent equity interest in the first quarter of 2015 (see Note 6). 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 and generally will expire at the end of the lease terms.

No significant loss has been experienced or is anticipated under any of these guarantees. At September 30, 2015 and December 31, 2014, the related liability was \$13 million and \$12 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:

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(Millions of dollars)	September 30, 2015	December 31, 2014
Caterpillar dealer performance guarantees	\$220	\$209
Customer loan guarantees	58	49
Supplier consortium performance guarantee	294	321
Third party logistics business lease guarantees	112	129
Other guarantees	23	32
Total guarantees	\$707	\$740

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 its guarantees result in Cat Financial having both the power to direct the activities that most significantly impact the SPC's economic performance and the obligation to absorb losses, and therefore Cat Financial has consolidated the financial statements of the SPC. As of September 30, 2015 and December 31, 2014, the SPC's assets of \$1,289 million and \$1,086 million, respectively, are primarily comprised of loans to dealers and the SPC's liabilities of \$1,288 million and \$1,085 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)	2015
Warranty liability, January 1	\$1,426
Reduction in liability (payments)	(650 )
Increase in liability (new warranties)	604
Warranty liability, September 30	\$1,380

(Millions of dollars)	2014
Warranty liability, January 1	\$1,367
Reduction in liability (payments)	(1,071 )
Increase in liability (new warranties)	1,130 <sup>1</sup>
Warranty liability, December 31	\$1,426

<sup>1</sup> The increase in liability includes approximately \$170 million for changes in estimates for pre-existing warranties due to higher than expected actual warranty claim experience.



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### 11. Profit per share

Computations of profit per share: (Dollars in millions except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Profit for the period (A) <sup>1</sup>	\$368	\$1,017	\$2,189	\$2,938
Determination of shares (in millions):				
Weighted-average number of common shares outstanding (B)	588.4	611.5	597.9	620.6
Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price	6.4	11.3	7.4	12.1
Average common shares outstanding for fully diluted computation (C) <sup>2</sup>	594.8	622.8	605.3	632.7
Profit per share of common stock:				
Assuming no dilution (A/B)	\$0.63	\$1.66	\$3.66	\$4.73
Assuming full dilution (A/C) <sup>2</sup>	\$0.62	\$1.63	\$3.62	\$4.64
Shares outstanding as of September 30 (in millions)			582.2	605.4

<sup>1</sup> Profit attributable to common stockholders.

<sup>2</sup> Diluted by assumed exercise of stock-based compensation awards using the treasury stock method.

SARs and stock options to purchase 22,281,448 common shares were outstanding for the three and nine months ended September 30, 2015, which were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive. For the three and nine months ended September 30, 2014, there were outstanding SARs and stock options to purchase 7,494,204 and 10,288,573 common shares which were anti-dilutive.

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

In January 2014, the Board approved a new authorization to repurchase up to \$10.0 billion of Caterpillar common stock, which will expire on December 31, 2018. In July 2014, we entered into definitive agreements with Société Générale to purchase shares of our common stock under accelerated stock repurchase transactions (July 2014 ASR Agreements) which were completed in September 2014. In accordance with the terms of the July 2014 ASR Agreements, a total of approximately 23.7 million shares of our common stock were repurchased at an aggregate cost to Caterpillar of \$2.5 billion.

In July 2015, we entered into a definitive agreement with Citibank, N.A. to purchase shares of our common stock under an accelerated stock repurchase transaction (July 2015 ASR Agreement), which was completed in September 2015. Pursuant to the terms of the July 2015 ASR Agreement, a total of approximately 19.6 million shares of our common stock were repurchased at an aggregate cost to Caterpillar of \$1.5 billion. For the nine months ended September 30, 2015, a total of 25.8 million shares of our common stock were repurchased at an aggregate cost to Caterpillar of \$2.0 billion. Through the end of the third quarter of 2015, approximately \$4.5 billion of the \$10.0 billion authorization was spent.





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## 12. Accumulated other comprehensive income (loss)

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

(Millions of dollars)	Foreign currency translation	Pension and other postretirement benefits	Derivative financial instruments	Available-for-sale securities	Total
Three Months Ended September 30, 2015					
Balance at June 30, 2015	\$(1,555)	) \$(5,183)	) \$(73)	) \$ 82	\$(6,729)
Other comprehensive income (loss) before reclassifications	(234)	) 45	(12)	) (15)	(216)
Amounts reclassified from accumulated other comprehensive (income) loss	—	100	20	(18)	102
Other comprehensive income (loss)	(234)	) 145	8	(33)	(114)
Balance at September 30, 2015	\$(1,789)	) \$(5,038)	) \$(65)	) \$ 49	\$(6,843)
Three Months Ended September 30, 2014					
Balance at June 30, 2014	\$244	) \$(3,981)	) \$(42)	) \$ 96	\$(3,683)
Other comprehensive income (loss) before reclassifications	(710)	) 4	(30)	) (5)	(741)
Amounts reclassified from accumulated other comprehensive (income) loss	—	80	—	(13)	67
Other comprehensive income (loss)	(710)	) 84	(30)	) (18)	(674)
Balance at September 30, 2014	\$(466)	) \$(3,897)	) \$(72)	) \$ 78	\$(4,357)
Nine Months Ended September 30, 2015					
Balance at December 31, 2014	\$(988)	) \$(5,407)	) \$(119)	) \$ 83	\$(6,431)
Other comprehensive income (loss) before reclassifications	(801)	) 69	(15)	) (13)	(760)
Amounts reclassified from accumulated other comprehensive (income) loss	—	300	69	(21)	348
Other comprehensive income (loss)	(801)	) 369	54	(34)	(412)

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Balance at September 30, 2015	\$ (1,789	) \$ (5,038	) \$ (65	) \$ 49	\$ (6,843 )
Nine Months Ended September 30, 2014					
Balance at December 31, 2013	\$ 176	\$ (4,152	) \$ (5	) \$ 83	\$ (3,898 )
Other comprehensive income (loss) before reclassifications	(642	) 15	(57	) 18	(666 )
Amounts reclassified from accumulated other comprehensive (income) loss	—	240	(10	) (23	) 207
Other comprehensive income (loss)	(642	) 255	(67	) (5	) (459 )
Balance at September 30, 2014	\$ (466	) \$ (3,897	) \$ (72	) \$ 78	\$ (4,357 )

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

(Millions of dollars)	Classification of income (expense)	Three Months Ended September 30,	
		2015	2014
Pension and other postretirement benefits:			
Amortization of actuarial gain (loss)	Note 9 <sup>1</sup>	\$(164	) \$(130
Amortization of prior service credit (cost)	Note 9 <sup>1</sup>	13	9
Reclassifications before tax		(151	) (121
Tax (provision) benefit		51	41
Reclassifications net of tax		\$(100	) \$(80
Derivative financial instruments:			
Foreign exchange contracts	Other income (expense)	\$(29	) \$4
Interest rate contracts	Interest expense excluding Financial Products	(1	) (1
Interest rate contracts	Interest expense of Financial Products	(1	) (2
Reclassifications before tax		(31	) 1
Tax (provision) benefit		11	(1
Reclassifications net of tax		\$(20	) \$—
Available-for-sale securities:			
Realized gain (loss)	Other income (expense)	\$27	\$20
Tax (provision) benefit		(9	) (7
Reclassifications net of tax		\$18	\$13
Total reclassifications from Accumulated other comprehensive income (loss)		\$(102	) \$(67

<sup>1</sup> Amounts are included in the calculation of net periodic benefit cost. See Note 9 for additional information.

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(Millions of dollars)	Classification of income (expense)	Nine Months Ended September 30,	
		2015	2014
Pension and other postretirement benefits:			
Amortization of actuarial gain (loss)	Note 9 <sup>1</sup>	\$(494	) \$(390
Amortization of prior service credit (cost)	Note 9 <sup>1</sup>	40	28
Reclassifications before tax		(454	) (362
Tax (provision) benefit		154	122
Reclassifications net of tax		\$(300	) \$(240
Derivative financial instruments:			
Foreign exchange contracts	Other income (expense)	\$(101	) \$24
Interest rate contracts	Interest expense excluding Financial Products	(4	) (3
Interest rate contracts	Interest expense of Financial Products	(4	) (4
Reclassifications before tax		(109	) 17
Tax (provision) benefit		40	(7
Reclassifications net of tax		\$(69	) \$10
Available-for-sale securities:			
Realized gain (loss)	Other income (expense)	\$31	\$34
Tax (provision) benefit		(10	) (11
Reclassifications net of tax		\$21	\$23
Total reclassifications from Accumulated other comprehensive income (loss)		\$(348	) \$(207

<sup>1</sup> Amounts are included in the calculation of net periodic benefit cost. See Note 9 for additional information.

### 13. Environmental and legal matters

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

We are engaged in remedial activities at a number of locations, often with other companies, pursuant to federal and state laws. When it is probable we will pay remedial costs at a site, and those costs can be reasonably estimated, the investigation, remediation, and operating and maintenance costs are accrued against our earnings. Costs are accrued based on consideration of currently available data and information with respect to each individual site, including available technologies, current applicable laws and regulations, and prior remediation experience. Where no amount within a range of estimates is more likely, we accrue the minimum. Where multiple potentially responsible parties are involved, we consider our proportionate share of the probable costs. In formulating the estimate of probable costs, we

do not consider amounts expected to be recovered from insurance companies or others. We reassess these accrued amounts on a quarterly basis. The amount recorded for environmental remediation is not material and is included in Accrued expenses in the Consolidated Statement of Financial Position. We believe there is no more than a remote chance that a material amount for remedial activities at any individual site, or at all the sites in the aggregate, will be required.

On January 8, 2015, the Company received a grand jury subpoena from the U.S. District Court for the Central District of Illinois. The subpoena requests documents and information from the Company relating to, among other things, financial

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information concerning U.S. and non-U.S. Caterpillar subsidiaries (including undistributed profits of non-U.S. subsidiaries and the movement of cash among U.S. and non-U.S. subsidiaries). The Company has received additional subpoenas relating to this investigation requesting additional documents and information relating to, among other things, the purchase and resale of replacement parts by Caterpillar Inc. and non-U.S. Caterpillar subsidiaries, dividend distributions of certain non-U.S. Caterpillar subsidiaries, and Caterpillar SARL and related structures. The Company is cooperating with this investigation. The Company is unable to predict the outcome or reasonably estimate any potential loss; however, we currently believe that this matter will not have a material adverse effect on the Company's consolidated results of operations, financial position or liquidity.

On September 12, 2014, the SEC notified the Company that it was conducting an informal investigation relating to Caterpillar SARL and related structures. The SEC asked the Company to preserve relevant documents and, on a voluntary basis, the Company made a presentation to the staff of the SEC on these topics and is producing documents responsive to a voluntary request made by the SEC. The Company is cooperating with the SEC regarding this investigation. The Company is unable to predict the outcome or reasonably estimate any potential loss; however, we currently believe that this matter will not have a material adverse effect on the Company's consolidated results of operations, financial position or liquidity.

On September 10, 2014, the SEC issued to Caterpillar a subpoena seeking information concerning the Company's accounting for the goodwill relating to its acquisition of Bucyrus International Inc. in 2011 and related matters. The Company has received additional subpoenas relating to this investigation, and the Company is cooperating with the SEC regarding its ongoing investigation. The Company is unable to predict the outcome or reasonably estimate any potential loss; however, we currently believe that this matter will not have a material adverse effect on the Company's consolidated results of operations, financial position or liquidity.

On March 20, 2014, Brazil's Administrative Council for Economic Defense (CADE) published a Technical Opinion which named 18 companies and over 100 individuals as defendants, including two subsidiaries of Caterpillar Inc., MGE - Equipamentos e Serviços Ferroviários Ltda. (MGE) and Caterpillar Brasil Ltda. The publication of the Technical Opinion opened CADE's official administrative investigation into allegations that the defendants participated in anticompetitive bid activity for the construction and maintenance of metro and train networks in Brazil. While companies cannot be held criminally liable for anticompetitive conduct in Brazil, criminal charges have been brought against two current employees of MGE and one former employee of MGE involving the same conduct alleged by CADE. The Company has responded to all requests for information from the authorities. The Company is unable to predict the outcome or reasonably estimate the potential loss; however, we currently believe that this matter will not have a material adverse effect on the Company's consolidated results of operations, financial position or liquidity.

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

In addition, we are involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance liability (including claimed asbestos and welding fumes exposure), contracts, employment issues, environmental

matters or intellectual property rights. The aggregate range of reasonably possible losses in excess of accrued liabilities, if any, associated with these unresolved legal actions is not material. In some cases, we cannot reasonably estimate a range of loss because there is insufficient information regarding the matter. However, we believe 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.

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### 14. Income taxes

The provision for income taxes for the first nine months of 2015 reflects an estimated annual tax rate of 27 percent compared with 29.5 percent for the first nine months of 2014, excluding the items discussed below. The decrease is primarily due to a more favorable expected geographic mix of profits from a tax perspective in 2015, including the impact of restructuring costs primarily at higher U.S. tax rates. The impact of the U.S. research and development tax credit is not included in either the first nine months of 2015 or 2014 as it was renewed for 2014 in the fourth quarter of 2014 and has not been renewed for 2015.

The provision for income taxes for the first nine months of 2015 also includes a \$42 million net charge to increase unrecognized tax benefits by \$68 million as discussed below, offset by a benefit of \$26 million to record U.S. refund claims related to prior tax years currently under examination. The provision for income taxes for the first nine months of 2014 also included a net benefit of \$21 million to adjust prior years' U.S. taxes and interest.

On January 30, 2015, we received a Revenue Agent's Report (RAR) from the IRS indicating the end of the field examination of our U.S. tax returns for 2007 to 2009 including the impact of a loss carryback to 2005. The RAR proposed tax increases and penalties for these years of approximately \$1 billion primarily related to two significant areas that we are vigorously contesting through the IRS Appeals process. In the first area, the IRS has proposed to tax in the United States profits earned from certain parts transactions by one of our non-U.S. subsidiaries, Caterpillar SARL (CSARL), based on the IRS examination team's application of the "substance-over-form" or "assignment-of-income" judicial doctrines. We believe that the relevant transactions complied with applicable tax laws and did not violate judicial doctrines. We have filed U.S. tax returns on this same basis for years after 2009. Based on the information currently available, we do not anticipate a significant increase or decrease to our unrecognized tax benefits for this matter within the next 12 months. We currently believe the ultimate disposition of this matter will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

In the second area, the IRS disallowed approximately \$125 million of foreign tax credits that arose as a result of certain financings unrelated to CSARL. As previously disclosed, we have been monitoring several court cases involving other taxpayers relating to the disallowance of their foreign tax credits. In the third quarter of 2015, decisions of the U.S. Court of Appeals for the Second Circuit involving other taxpayers caused us to conclude the benefits of this uncertain tax position are no longer more likely than not to be sustained based on technical merits. As tax benefits related to this tax position can no longer be recognized in the financial statements, we increased unrecognized tax benefits by \$68 million. We will continue to monitor ongoing court cases involving other taxpayers for information that may impact our analysis of this tax position.

### 15. Segment information

#### A. Basis for segment information

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

Three of our operating segments, Construction Industries, Resource Industries and Energy & Transportation are led by Group Presidents. One operating segment, Financial Products, is led by a Group President who also has responsibility



for Corporate Services. Corporate Services is a cost center primarily responsible for the performance of certain support functions globally and to provide centralized services; it does not meet the definition of an operating segment. One Group President leads three smaller operating segments that are included in the All Other operating segments. The Caterpillar Enterprise System Group and Law and Public Policy Division are cost centers and do not meet the definition of an operating segment.

Effective January 1, 2015, responsibility for product management for certain components moved from Resource Industries to Energy & Transportation. Segment information for 2014 has been retrospectively adjusted to conform to the 2015 presentation.

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B. Description of segments

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

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

**Resource Industries:** A segment primarily responsible for supporting customers using machinery in mining and quarrying applications. Responsibilities include business strategy, product design, product management and development, manufacturing, marketing and sales and product support. The product portfolio includes large track-type tractors, large mining trucks, hard rock vehicles, longwall miners, electric rope shovels, draglines, hydraulic shovels, drills, highwall miners, large wheel loaders, off-highway trucks, articulated trucks, wheel tractor scrapers, wheel dozers, select work tools, machinery components and electronics and control systems. Resource Industries also manages areas that provide services to other parts of the company, including integrated manufacturing and research and development. In addition, segment profit includes the impact from divestiture of portions of the Bucyrus distribution business. Inter-segment sales are a source of revenue for this segment.

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

**Financial Products Segment:** Provides financing to customers and dealers for the purchase and lease of Caterpillar and other equipment, as well as some financing for Caterpillar sales to dealers. Financing plans include operating and finance leases, installment sale contracts, working capital loans and wholesale financing plans. The segment also provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment.

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

C. Segment measurement and reconciliations

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

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

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

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

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

Currency exposures for Machinery, Energy & Transportation are generally managed at the corporate level and the effects of changes in exchange rates on results of operations within the year are not included in segment profit. The net difference created in the translation of revenues and costs between exchange rates used for U.S. GAAP reporting and exchange rates used for segment reporting is 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, Energy & Transportation segment profit is determined on a pretax basis and excludes interest expense 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 39 to 45 for financial information regarding significant reconciling items. Most of our reconciling items are self-explanatory given the above explanations. For the reconciliation of profit, we have grouped the reconciling items as follows:

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

Restructuring and related costs: Primarily costs for employee separations, long-lived asset impairments and contract terminations. Beginning in the third quarter of 2015, restructuring costs also include other exit-related costs associated with the consolidation of manufacturing facilities as we expect these costs to be significant as we implement the restructuring plan that was announced on September 24, 2015. Other exit-related costs are primarily for equipment relocation and accelerated depreciation. A table, Reconciliation of Restructuring and related costs on page 42, has been included to illustrate how segment profit would have been impacted by the restructuring and related costs. See Note 18 for more information.

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

Timing: Timing differences in the recognition of costs between segment reporting and consolidated external reporting. For example, certain costs are reported on the cash basis for segment reporting and the accrual basis for consolidated external reporting.

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## Reportable Segments

Three Months Ended September 30,  
(Millions of dollars)

	2015						
	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	\$3,792	\$34	\$3,826	\$118	\$378	\$5,712	\$54
Resource Industries	1,796	93	1,889	158	(68 )	8,682	66
Energy & Transportation	4,213	417	4,630	161	635	8,670	160
Machinery, Energy & Transportation	\$9,801	\$544	\$10,345	\$437	\$945	\$23,064	\$280
Financial Products Segment	752	—	752	210	207	35,414	359
Total	\$10,553	\$544	\$11,097	\$647	\$1,152	\$58,478	\$639
	2014						
	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	\$4,471	\$67	\$4,538	\$129	\$483	\$6,596	\$82
Resource Industries	2,172	105	2,277	172	122	9,497	65
Energy & Transportation	5,585	570	6,155	165	1,151	8,470	146
Machinery, Energy & Transportation	\$12,228	\$742	\$12,970	\$466	\$1,756	\$24,563	\$293
Financial Products Segment	851	—	851	229	220	37,011	427
Total	\$13,079	\$742	\$13,821	\$695	\$1,976	\$61,574	\$720

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

	2015						
	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	\$12,928	\$130	\$13,058	\$359	\$1,705	\$5,712	\$139
Resource Industries	5,715	268	5,983	482	17	8,682	134
Energy & Transportation	13,519	1,418	14,937	477	2,527	8,670	527
Machinery, Energy & Transportation	\$32,162	\$1,816	\$33,978	\$1,318	\$4,249	\$23,064	\$800
Financial Products Segment	2,332	—	2,332	638	618	35,414	995
Total	\$34,494	\$1,816	\$36,310	\$1,956	\$4,867	\$58,478	\$1,795
	2014						
	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	\$14,942	\$198	\$15,140	\$394	\$1,845	\$6,596	\$225
Resource Industries	6,536	318	6,854	514	379	9,497	165
Energy & Transportation	15,536	1,706	17,242	483	3,012	8,470	317
Machinery, Energy & Transportation	\$37,014	\$2,222	\$39,236	\$1,391	\$5,236	\$24,563	\$707
Financial Products Segment	2,502	—	2,502	665	704	37,011	1,206
Total	\$39,516	\$2,222	\$41,738	\$2,056	\$5,940	\$61,574	\$1,913

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## Reconciliation of Sales and revenues:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total
Three Months Ended September 30, 2015				
Total external sales and revenues from reportable segments	\$9,801	\$752	\$—	\$10,553
All Other operating segments	506	—	—	506
Other	(22	) 20	(95	) <sup>1</sup> (97
Total sales and revenues	\$10,285	\$772	\$(95	) \$10,962

## Three Months Ended September 30, 2014

Total external sales and revenues from reportable segments	\$12,228	\$851	\$—	\$13,079
All Other operating segments	583	—	—	583
Other	(53	) 24	(84	) <sup>1</sup> (113
Total sales and revenues	\$12,758	\$875	\$(84	) \$13,549

<sup>1</sup> Elimination of Financial Products revenues from Machinery, Energy & Transportation.

## Reconciliation of Sales and revenues:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total
Nine Months Ended September 30, 2015				
Total external sales and revenues from reportable segments	\$32,162	\$2,332	\$—	\$34,494
All Other operating segments	1,729	—	—	1,729
Other	(62	) 58	(238	) <sup>1</sup> (242
Total sales and revenues	\$33,829	\$2,390	\$(238	) \$35,981

## Nine Months Ended September 30, 2014

Total external sales and revenues from reportable segments	\$37,014	\$2,502	\$—	\$39,516
All Other operating segments	1,720	—	—	1,720
Other	(92	) 55	(259	) <sup>1</sup> (296
Total sales and revenues	\$38,642	\$2,557	\$(259	) \$40,940

<sup>1</sup> Elimination of Financial Products revenues from Machinery, Energy & Transportation.

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## Reconciliation of Consolidated profit before taxes:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidated Total	
Three Months Ended September 30, 2015				
Total profit from reportable segments	\$945	\$207	\$1,152	
All Other operating segments	196	—	196	
Cost centers	58	—	58	
Corporate costs	(376	) —	(376	)
Timing	38	—	38	
Restructuring and related costs	(101	) —	(101	)
Methodology differences:				
Inventory/cost of sales	(22	) —	(22	)
Postretirement benefit expense	(78	) —	(78	)
Financing costs	(128	) —	(128	)
Equity in (profit) loss of unconsolidated affiliated companies	4	—	4	
Currency	(157	) —	(157	)
Other income/expense methodology differences	(51	) —	(51	)
Other methodology differences	(16	) (1	) (17	)
Total consolidated profit before taxes	\$312	\$206	\$518	
Three Months Ended September 30, 2014				
Total profit from reportable segments	\$1,756	\$220	\$1,976	
All Other operating segments	228	—	228	
Cost centers	31	—	31	
Corporate costs	(408	) —	(408	)
Timing	(125	) —	(125	)
Restructuring costs	(81	) —	(81	)
Methodology differences:				
Inventory/cost of sales	6	—	6	
Postretirement benefit expense	(84	) —	(84	)
Financing costs	(136	) —	(136	)
Equity in (profit) loss of unconsolidated affiliated companies	(4	) —	(4	)
Currency	39	—	39	
Other income/expense methodology differences	(55	) —	(55	)
Other methodology differences	(9	) 3	(6	)
Total consolidated profit before taxes	\$1,158	\$223	\$1,381	



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## Reconciliation of Consolidated profit before taxes:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidated Total
Nine Months Ended September 30, 2015			
Total profit from reportable segments	\$4,249	\$618	\$4,867
All Other operating segments	638	—	638
Cost centers	139	—	139
Corporate costs	(1,307)	) —	(1,307)
Timing	15	—	15
Restructuring and related costs	(226)	) —	(226)
Methodology differences:			
Inventory/cost of sales	(30)	) —	(30)
Postretirement benefit expense	(301)	) —	(301)
Financing costs	(394)	) —	(394)
Equity in (profit) loss of unconsolidated affiliated companies	—	—	—
Currency	(257)	) —	(257)
Other income/expense methodology differences	(48)	) —	(48)
Other methodology differences	(33)	) 2	(31)
Total consolidated profit before taxes	\$2,445	\$620	\$3,065
Nine Months Ended September 30, 2014			
Total profit from reportable segments	\$5,236	\$704	\$5,940
All Other operating segments	686	—	686
Cost centers	105	—	105
Corporate costs	(1,201)	) —	(1,201)
Timing	(205)	) —	(205)
Restructuring costs	(344)	) —	(344)
Methodology differences:			
Inventory/cost of sales	29	—	29
Postretirement benefit expense	(304)	) —	(304)
Financing costs	(373)	) —	(373)
Equity in (profit) loss of unconsolidated affiliated companies	(6)	) —	(6)
Currency	16	—	16
Other income/expense methodology differences	(186)	) —	(186)
Other methodology differences	(13)	) (1)	) (14)
Total consolidated profit before taxes	\$3,440	\$703	\$4,143

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## Reconciliation of Restructuring and related costs:

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

## Reconciliation of Restructuring and related costs:

(Millions of dollars)	Segment profit	Restructuring and related costs	Segment profit with restructuring and related costs
Three Months Ended September 30, 2015			
Construction Industries	\$378	\$(22	) \$356
Resource Industries	(68	) (40	) (108
Energy & Transportation	635	(10	) 625
Financial Products Segment	207	—	207
All Other operating segments	196	(16	) 180
Total	\$1,348	\$(88	) \$1,260
Three Months Ended September 30, 2014			
Construction Industries	\$483	\$(30	) \$453
Resource Industries	122	(31	) 91
Energy & Transportation	1,151	(5	) 1,146
Financial Products Segment	220	—	220
All Other operating segments	228	(12	) 216
Total	\$2,204	\$(78	) \$2,126

## Reconciliation of Restructuring and related costs:

(Millions of dollars)	Segment profit	Restructuring and related costs	Segment profit with restructuring and related costs
Nine Months Ended September 30, 2015			
Construction Industries	\$1,705	\$(61	) \$1,644
Resource Industries	17	(83	) (66
Energy & Transportation	2,527	(24	) 2,503
Financial Products Segment	618	—	618
All Other operating segments	638	(35	) 603
Total	\$5,505	\$(203	) \$5,302
Nine Months Ended September 30, 2014			
Construction Industries	\$1,845	\$(257	) \$1,588
Resource Industries	379	(52	) 327
Energy & Transportation	3,012	(11	) 3,001
Financial Products Segment	704	—	704
All Other operating segments	686	(18	) 668
Total	\$6,626	\$(338	) \$6,288



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## Reconciliation of Assets:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total
September 30, 2015				
Total assets from reportable segments	\$23,064	\$35,414	\$—	\$58,478
All Other operating segments	2,675	—	—	2,675
Items not included in segment assets:				
Cash and short-term investments	4,808	—	—	4,808
Intercompany receivables	1,172	—	(1,172)	—
Investment in Financial Products	4,160	—	(4,160)	—
Deferred income taxes	3,552	—	(700)	2,852
Goodwill and intangible assets	3,583	—	—	3,583
Property, plant and equipment – net and other assets	1,221	—	—	1,221
Operating lease methodology difference	(211)	) —	—	(211)
Liabilities included in segment assets	8,608	—	—	8,608
Inventory methodology differences	(2,629)	) —	—	(2,629)
Other	(357)	) —	(59)	(416)
Total assets	\$49,646	\$35,414	\$(6,091)	\$78,969
December 31, 2014				
Total assets from reportable segments	\$24,563	\$37,011	\$—	\$61,574
All Other operating segments	2,810	—	—	2,810
Items not included in segment assets:				
Cash and short-term investments	6,317	—	—	6,317
Intercompany receivables	1,185	—	(1,185)	—
Investment in Financial Products	4,488	—	(4,488)	—
Deferred income taxes	3,627	—	(674)	2,953
Goodwill and intangible assets	3,492	—	—	3,492
Property, plant and equipment – net and other assets	1,174	—	—	1,174
Operating lease methodology difference	(213)	) —	—	(213)
Liabilities included in segment assets	9,837	—	—	9,837
Inventory methodology differences	(2,697)	) —	—	(2,697)
Other	(395)	) (102)	) (69)	(566)
Total assets	\$54,188	\$36,909	\$(6,416)	\$84,681

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## Reconciliations of Depreciation and amortization:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidated Total	
Three Months Ended September 30, 2015				
Total depreciation and amortization from reportable segments	\$437	\$210	\$647	
Items not included in segment depreciation and amortization:				
All Other operating segments	68	—	68	
Cost centers	39	—	39	
Other	(6	) 10	4	
Total depreciation and amortization	\$538	\$220	\$758	
Three Months Ended September 30, 2014				
Total depreciation and amortization from reportable segments	\$466	\$229	\$695	
Items not included in segment depreciation and amortization:				
All Other operating segments	70	—	70	
Cost centers	37	—	37	
Other	(10	) 6	(4	)
Total depreciation and amortization	\$563	\$235	\$798	

## Reconciliations of Depreciation and amortization:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidated Total	
Nine Months Ended September 30, 2015				
Total depreciation and amortization from reportable segments	\$1,318	\$638	\$1,956	
Items not included in segment depreciation and amortization:				
All Other operating segments	202	—	202	
Cost centers	115	—	115	
Other	(27	) 26	(1	)
Total depreciation and amortization	\$1,608	\$664	\$2,272	
Nine Months Ended September 30, 2014				
Total depreciation and amortization from reportable segments	\$1,391	\$665	\$2,056	
Items not included in segment depreciation and amortization:				
All Other operating segments	209	—	209	
Cost centers	111	—	111	
Other	(26	) 18	(8	)
Total depreciation and amortization	\$1,685	\$683	\$2,368	

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## Reconciliations of Capital expenditures:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total	
Three Months Ended September 30, 2015					
Total capital expenditures from reportable segments	\$280	\$359	\$—	\$639	
Items not included in segment capital expenditures:					
All Other operating segments	68	—	—	68	
Cost centers	52	—	—	52	
Timing	(35	) —	—	(35	)
Other	(29	) 35	(4	) 2	
Total capital expenditures	\$336	\$394	\$(4	) \$726	
Three Months Ended September 30, 2014					
Total capital expenditures from reportable segments	\$293	\$427	\$—	\$720	
Items not included in segment capital expenditures:					
All Other operating segments	93	—	—	93	
Cost centers	17	—	—	17	
Timing	10	—	—	10	
Other	(18	) 37	(12	) 7	
Total capital expenditures	\$395	\$464	\$(12	) \$847	

## Reconciliations of Capital expenditures:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total
Nine Months Ended September 30, 2015				
Total capital expenditures from reportable segments	\$800	\$995	\$—	\$1,795
Items not included in segment capital expenditures:				
All Other operating segments	159	—	—	159
Cost centers	98	—	—	98
Timing	199	—	—	199
Other	(161	) 130	(23	) (54
Total capital expenditures	\$1,095	\$1,125	\$(23	) \$2,197
Nine Months Ended September 30, 2014				
Total capital expenditures from reportable segments	\$707	\$1,206	\$—	\$1,913
Items not included in segment capital expenditures:				
All Other operating segments	187	—	—	187
Cost centers	66	—	—	66
Timing	239	—	—	239
Other	(66	) 89	(46	) (23
Total capital expenditures	\$1,133	\$1,295	\$(46	) \$2,382



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### 16. Cat Financial financing activities

#### Credit quality of finance 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 finance receivables

For all classes, a finance receivable 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 finance receivable. Finance receivables reviewed for impairment include those that are past due, non-performing or in bankruptcy. Recognition of income is suspended and the finance receivable 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 finance receivable on non-accrual status). Accrual is resumed, and previously suspended income is recognized, when the finance receivable becomes contractually current and/or collection doubts are removed. Cash receipts on impaired finance receivables are recorded against the receivable and then to any unrecognized income.

There were no impaired finance receivables as of September 30, 2015 or December 31, 2014, for the Dealer portfolio segment. The average recorded investment for impaired finance receivables within the Dealer portfolio segment was zero for the three and nine months ended September 30, 2015 and 2014.



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Individually impaired finance receivables for the Customer portfolio segment were as follows:

(Millions of dollars)	September 30, 2015			December 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
<b>Impaired Finance Receivables With No Allowance Recorded</b>						
Customer						
North America	\$10	\$10	\$—	\$14	\$14	\$—
Europe	43	42	—	44	43	—
Asia Pacific	2	1	—	1	1	—
Mining	56	56	—	29	29	—
Latin America	31	31	—	34	34	—
Caterpillar Power Finance	191	191	—	129	128	—
Total	\$333	\$331	\$—	\$251	\$249	\$—
<b>Impaired Finance Receivables With An Allowance Recorded</b>						
Customer						
North America	\$13	\$13	\$3	\$6	\$6	\$1
Europe	9	8	4	12	12	4
Asia Pacific	36	36	5	29	29	8
Mining	13	13	5	138	137	9
Latin America	60	60	22	42	42	12
Caterpillar Power Finance	89	88	39	135	134	41
Total	\$220	\$218	\$78	\$362	\$360	\$75
<b>Total Impaired Finance Receivables</b>						
Customer						
North America	\$23	\$23	\$3	\$20	\$20	\$1
Europe	52	50	4	56	55	4
Asia Pacific	38	37	5	30	30	8
Mining	69	69	5	167	166	9
Latin America	91	91	22	76	76	12
Caterpillar Power Finance	280	279	39	264	262	41
Total	\$553	\$549	\$78	\$613	\$609	\$75

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(Millions of dollars)	Three Months Ended September 30, 2015		Three Months Ended September 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Finance Receivables With No Allowance Recorded				
Customer				
North America	\$10	\$1	\$19	\$—
Europe	43	—	47	1
Asia Pacific	1	—	—	—
Mining	63	—	29	—
Latin America	32	—	37	—
Caterpillar Power Finance	165	1	143	1
Total	\$314	\$2	\$275	\$2
Impaired Finance Receivables With An Allowance Recorded				
Customer				
North America	\$10	\$—	\$10	\$—
Europe	15	—	24	1
Asia Pacific	41	—	26	—
Mining	9	—	127	2
Latin America	69	1	27	1
Caterpillar Power Finance	125	2	100	1
Total	\$269	\$3	\$314	\$5
Total Impaired Finance Receivables				
Customer				
North America	\$20	\$1	\$29	\$—
Europe	58	—	71	2
Asia Pacific	42	—	26	—
Mining	72	—	156	2
Latin America	101	1	64	1
Caterpillar Power Finance	290	3	243	2
Total	\$583	\$5	\$589	\$7

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(Millions of dollars)	Nine Months Ended September 30, 2015 Average Recorded Investment	Interest Income Recognized	Nine Months Ended September 30, 2014 Average Recorded Investment	Interest Income Recognized
Impaired Loans and Finance Leases With No Allowance Recorded Customer				
North America	\$12	\$1	\$22	\$1
Europe	43	—	47	1
Asia Pacific	2	—	4	—
Mining	80	3	82	3
Latin America	32	—	29	—
Caterpillar Power Finance	157	3	174	4
Total	\$326	\$7	\$358	\$9
Impaired Loans and Finance Leases With An Allowance Recorded Customer				
North America	\$7	\$—	\$10	\$—
Europe	15	1	21	1
Asia Pacific	33	1	18	1
Mining	47	1	75	4
Latin America	56	2	24	1
Caterpillar Power Finance	128	3	84	2
Total	\$286	\$8	\$232	\$9
Total Impaired Loans and Finance Leases Customer				
North America	\$19	\$1	\$32	\$1
Europe	58	1	68	2
Asia Pacific	35	1	22	1
Mining	127	4	157	7
Latin America	88	2	53	1
Caterpillar Power Finance	285	6	258	6
Total	\$612	\$15	\$590	\$18

## Non-accrual and past due finance receivables

For all classes, Cat Financial considers a finance receivable past due if any portion of a contractual payment is due and unpaid for more than 30 days. Recognition of income is suspended and the finance receivable 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 finance receivable on non-accrual status). Accrual is resumed, and previously suspended income is recognized, when the finance receivable becomes contractually current and/or collection doubts are removed.

As of September 30, 2015 and December 31, 2014, there were no finance receivables on non-accrual status for the Dealer portfolio segment.

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The investment in customer finance receivables on non-accrual status was as follows:

(Millions of dollars)	September 30, 2015	December 31, 2014
Customer		
North America	\$30	\$27
Europe	46	28
Asia Pacific	25	54
Mining	133	62
Latin America	260	201
Caterpillar Power Finance	114	96
Total	\$608	\$468

Aging related to finance receivables was as follows:

(Millions of dollars)	September 30, 2015			Total Past Due	Current	Total Finance Receivables	91+ Still Accruing
	31-60 Days Past Due	61-90 Days Past Due	91+ Days Past Due				
Customer							
North America	\$46	\$18	\$29	\$93	\$7,562	\$7,655	\$4
Europe	29	11	48	88	2,399	2,487	7
Asia Pacific	45	23	34	102	1,745	1,847	10
Mining	18	1	58	77	1,771	1,848	—
Latin America	42	42	204	288	1,919	2,207	—
Caterpillar Power Finance	6	—	47	53	3,119	3,172	6
Dealer							
North America	—	—	—	—	2,283	2,283	—
Europe	—	—	—	—	149	149	—
Asia Pacific	—	—	—	—	525	525	—
Mining	—	—	—	—	4	4	—
Latin America	—	—	—	—	559	559	—
Caterpillar Power Finance	—	—	—	—	3	3	—
Total	\$186	\$95	\$420	\$701	\$22,038	\$22,739	\$27

(Millions of dollars)	December 31, 2014			Total Past Due	Current	Total Finance Receivables	91+ Still Accruing
	31-60 Days Past Due	61-90 Days Past Due	91+ Days Past Due				
Customer							
North America	\$46	\$8	\$27	\$81	\$7,192	\$7,273	\$4
Europe	16	23	29	68	2,607	2,675	6
Asia Pacific	29	22	69	120	2,316	2,436	16
Mining	28	—	11	39	2,084	2,123	—
Latin America	55	23	196	274	2,583	2,857	8

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Caterpillar Power Finance Dealer	1	4	64	69	3,079	3,148	1
North America	—	—	—	—	2,189	2,189	—
Europe	—	—	—	—	153	153	—
Asia Pacific	—	—	—	—	566	566	—
Mining	—	—	—	—	—	—	—
Latin America	—	—	—	—	646	646	—
Caterpillar Power Finance	—	—	—	—	—	—	—
Total	\$ 175	\$ 80	\$ 396	\$ 651	\$ 23,415	\$ 24,066	\$ 35

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## Allowance for credit loss activity

An analysis of the allowance for credit losses was as follows:

(Millions of dollars)	September 30, 2015			
Allowance for Credit Losses:	Customer	Dealer	Total	
Balance at beginning of year	\$388	\$10	\$398	
Receivables written off	(151	) —	(151	)
Recoveries on receivables previously written off	32	—	32	
Provision for credit losses	89	(1	) 88	
Other	(22	) —	(22	)
Balance at end of period	\$336	\$9	\$345	
Individually evaluated for impairment	\$78	\$—	\$78	
Collectively evaluated for impairment	258	9	267	
Ending Balance	\$336	\$9	\$345	
Recorded Investment in Finance Receivables:				
Individually evaluated for impairment	\$553	\$—	\$553	
Collectively evaluated for impairment	18,663	3,523	22,186	
Ending Balance	\$19,216	\$3,523	\$22,739	

(Millions of dollars)	December 31, 2014			
Allowance for Credit Losses:	Customer	Dealer	Total	
Balance at beginning of year	\$365	\$10	\$375	
Receivables written off	(151	) —	(151	)
Recoveries on receivables previously written off	47	—	47	
Provision for credit losses	150	—	150	
Other	(23	) —	(23	)
Balance at end of year	\$388	\$10	\$398	
Individually evaluated for impairment	\$75	\$—	\$75	
Collectively evaluated for impairment	313	10	323	
Ending Balance	\$388	\$10	\$398	
Recorded Investment in Finance Receivables:				
Individually evaluated for impairment	\$613	\$—	\$613	
Collectively evaluated for impairment	19,899	3,554	23,453	
Ending Balance	\$20,512	\$3,554	\$24,066	

## Credit quality of finance receivables

The credit quality of finance receivables is reviewed on a monthly basis. Credit quality indicators include performing and non-performing. Non-performing is defined as finance receivables currently over 120 days past due and/or on non-accrual status or in bankruptcy. Finance receivables not meeting the criteria listed above are considered

performing. Non-performing finance receivables have the highest probability for credit loss. The allowance for credit losses attributable to non-performing finance receivables is based on the most probable source of repayment, which is normally the liquidation of collateral. In determining collateral value, Cat Financial estimates the current fair market value of the collateral less selling costs. In addition, Cat Financial considers credit enhancements such as additional collateral and contractual third-party guarantees in determining the allowance for credit losses attributable to non-performing finance receivables.



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The recorded investment in performing and non-performing finance receivables was as follows:

(Millions of dollars)	September 30, 2015			December 31, 2014		
	Customer	Dealer	Total	Customer	Dealer	Total
Performing						
North America	\$7,625	\$2,283	\$9,908	\$7,246	\$2,189	\$9,435
Europe	2,441	149	2,590	2,647	153	2,800
Asia Pacific	1,822	525	2,347	2,382	566	2,948
Mining	1,715	4	1,719	2,061	—	2,061
Latin America	1,947	559	2,506	2,656	646	3,302
Caterpillar Power Finance	3,058	3	3,061	3,052	—	3,052
Total Performing	\$18,608	\$3,523	\$22,131	\$20,044	\$3,554	\$23,598
Non-Performing						
North America	\$30	\$—	\$30	\$27	\$—	\$27
Europe	46	—	46	28	—	28
Asia Pacific	25	—	25	54	—	54
Mining	133	—	133	62	—	62
Latin America	260	—	260	201	—	201
Caterpillar Power Finance	114	—	114	96	—	96
Total Non-Performing	\$608	\$—	\$608	\$468	\$—	\$468
Performing & Non-Performing						
North America	\$7,655	\$2,283	\$9,938	\$7,273	\$2,189	\$9,462
Europe	2,487	149	2,636	2,675	153	2,828
Asia Pacific	1,847	525	2,372	2,436	566	3,002
Mining	1,848	4	1,852	2,123	—	2,123
Latin America	2,207	559	2,766	2,857	646	3,503
Caterpillar Power Finance	3,172	3	3,175	3,148	—	3,148
Total	\$19,216	\$3,523	\$22,739	\$20,512	\$3,554	\$24,066

### Troubled Debt Restructurings

A restructuring of a finance receivable constitutes a troubled debt restructuring (TDR) when the lender grants a concession it would not otherwise consider to a borrower experiencing financial difficulties. Concessions granted may include extended contract maturities, inclusion of interest only periods, below market interest rates, extended skip payment periods and reduction of principal and/or accrued interest.

TDRs are reviewed along with other finance receivables as part of management's ongoing evaluation of the adequacy of the allowance for credit losses. The allowance for credit losses attributable to TDRs is based on the most probable source of repayment, which is normally the liquidation of collateral. In determining collateral value, Cat Financial estimates the current fair market value of the collateral less selling costs. In addition, Cat Financial considers credit enhancements such as additional collateral and contractual third-party guarantees in determining the allowance for credit losses attributable to TDRs. There were no remaining commitments to lend additional funds to a borrower whose terms have been modified in a TDR as of September 30, 2015 and December 31, 2014.

There were no finance receivables modified as TDRs during the three and nine months ended September 30, 2015 or 2014 for the Dealer portfolio segment.



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Finance receivables in the Customer portfolio segment modified as TDRs during the three and nine months ended September 30, 2015 and 2014, were as follows:

(Millions of dollars)	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
	Number of Contracts	Pre-TDR Recorded Investment	Post-TDR Recorded Investment	Number of Contracts	Pre-TDR Recorded Investment	Post-TDR Recorded Investment
Customer						
North America	6	\$—	\$—	20	\$9	\$3
Europe	4	—	—	—	—	—
Asia Pacific	1	1	1	—	—	—
Mining	2	15	14	45	122	124
Latin America	10	1	2	45	3	3
Caterpillar Power Finance	8	93	79	7	44	46
Total <sup>1</sup>	31	\$110	\$96	117	\$178	\$176

(Millions of dollars)	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
	Number of Contracts	Pre-TDR Recorded Investment	Post-TDR Recorded Investment	Number of Contracts	Pre-TDR Recorded Investment	Post-TDR Recorded Investment
Customer						
North America	10	\$1	\$1	24	\$11	\$5
Europe	23	2	2	8	7	7
Asia Pacific	19	1	1	—	—	—
Mining	2	15	14	47	165	157
Latin America	10	1	2	47	32	31
Caterpillar Power Finance	12	197	180	13	80	81
Total <sup>1</sup>	76	\$217	\$200	139	\$295	\$281

<sup>1</sup> Modifications include extended contract maturities, inclusion of interest only periods, below market interest rates, extended skip payment periods and reduction of principal and/or accrued interest.

TDRs in the Customer portfolio segment with a payment default during the three and nine months ended September 30, 2015 and 2014, which had been modified within twelve months prior to the default date, were as follows:

(Millions of dollars)	Three Months Ended September 30, 2015		Three Months Ended September 30, 2014	
	Number of Contracts	Post-TDR Recorded Investment	Number of Contracts	Post-TDR Recorded Investment
Customer				
North America	5	\$—	3	\$—
Europe	—	—	5	1
Total	5	\$—	8	\$1

  

(Millions of dollars)	Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
	Number of	Post-TDR	Number of	Post-TDR

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	Contracts	Recorded Investment	Contracts	Recorded Investment
Customer				
North America	10	\$1	10	\$1
Europe	—	—	12	2
Latin America	1	—	—	—
Total	11	\$1	22	\$3

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### 17. Fair value disclosures

#### A. Fair value measurements

The guidance on fair value measurements defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. This guidance also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. In accordance with this guidance, fair value measurements are classified under the following hierarchy:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.

Level 3 – Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

When available, we use quoted market prices to determine fair value, and we classify such measurements within Level 1. In some cases where market prices are not available, we make use of observable market based inputs to calculate fair value, in which case the measurements are classified within Level 2. If quoted or observable market prices are not available, fair value is based upon valuations in which one or more significant inputs are unobservable, including internally developed models that use, where possible, current market-based parameters such as interest rates, yield curves and currency rates. These measurements are classified within Level 3.

Fair value measurements are classified according to the lowest level input or value-driver that is significant to the valuation. A measurement may therefore be classified within Level 3 even though there may be significant inputs that are readily observable.

Fair value measurement includes the consideration of nonperformance risk. Nonperformance risk refers to the risk that an obligation (either by a counterparty or Caterpillar) will not be fulfilled. For financial assets traded in an active market (Level 1 and certain Level 2), the nonperformance risk is included in the market price. For certain other financial assets and liabilities (certain Level 2 and Level 3), our fair value calculations have been adjusted accordingly.

#### Available-for-sale securities

Our available-for-sale securities, primarily at Insurance Services, include a mix of equity and debt instruments (see Note 8 for additional information). Fair values for our U.S. treasury bonds and large capitalization value and smaller company growth equity securities are based upon valuations for identical instruments in active markets. The fair value of our investment in a real estate investment trust (REIT) is based on the net asset value (NAV) of the investment. Fair values for other government bonds, corporate bonds and mortgage-backed debt securities are based upon models that take into consideration such market-based factors as recent sales, risk-free yield curves and prices of similarly rated bonds.

#### Derivative financial instruments

The fair value of interest rate swap derivatives is primarily based on models that utilize the appropriate market-based forward swap curves and zero-coupon interest rates to determine discounted cash flows. The fair value of foreign

currency and commodity forward, option and cross currency contracts is based on a valuation model that discounts cash flows resulting from the differential between the contract price and the market-based forward rate.

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Assets and liabilities measured on a recurring basis at fair value, primarily related to Financial Products, included in our Consolidated Statement of Financial Position as of September 30, 2015 and December 31, 2014 are summarized below:

(Millions of dollars)	September 30, 2015			Total Assets / Liabilities, at Fair Value
	Level 1	Level 2	Level 3	
Assets				
Available-for-sale securities				
Government debt				
U.S. treasury bonds	\$ 13	\$—	\$—	\$ 13
Other U.S. and non-U.S. government bonds	—	83	—	83
Corporate bonds				
Corporate bonds	—	713	—	713
Asset-backed securities	—	97	—	97
Mortgage-backed debt securities				
U.S. governmental agency	—	274	—	274
Residential	—	13	—	13
Commercial	—	62	—	62
Equity securities				
Large capitalization value	250	—	—	250
REIT	—	—	8	8
Smaller company growth	50	—	—	50
Total available-for-sale securities	313	1,242	8	1,563
Derivative financial instruments, net	—	45	—	45
Total Assets	\$313	\$1,287	\$8	\$1,608
(Millions of dollars)	December 31, 2014			Total Assets / Liabilities, at Fair Value
	Level 1	Level 2	Level 3	
Assets				
Available-for-sale securities				
Government debt				
U.S. treasury bonds	\$ 10	\$—	\$—	\$ 10
Other U.S. and non-U.S. government bonds	—	94	—	94
Corporate bonds				
Corporate bonds	—	693	—	693
Asset-backed securities	—	105	—	105
Mortgage-backed debt securities				
U.S. governmental agency	—	294	—	294
Residential	—	15	—	15
Commercial	—	67	—	67
Equity securities				
Large capitalization value	233	—	—	233
Smaller company growth	43	—	—	43
Total available-for-sale securities	286	1,268	—	1,554

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Total Assets	\$286	\$1,268	\$—	\$1,554
Liabilities				
Derivative financial instruments, net	\$—	\$86	\$—	\$86
Total Liabilities	\$—	\$86	\$—	\$86

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The fair value of our REIT investment is measured based on NAV, which is considered a Level 3 input. A roll-forward of our REIT investment for the nine months ended September 30, 2015 is as follows:

(Millions of dollars)	REIT
Balance at December 31, 2014	\$—
Purchases of securities	8
Sale of securities	—
Gains (losses) included in Accumulated other comprehensive income (loss)	—
Balance at September 30, 2015	\$8

In addition to the amounts above, Cat Financial impaired loans are subject to measurement at fair value on a nonrecurring basis. A loan is considered impaired when management determines that collection of contractual amounts due is not probable. In these cases, an allowance for credit losses may be established based primarily on the fair value of associated collateral. As the collateral's fair value is based on observable market prices and/or current appraised values, the impaired loans are classified as Level 2 measurements. Cat Financial had impaired loans with a fair value of \$94 million and \$248 million as of September 30, 2015 and December 31, 2014, respectively.

#### B. Fair values of financial instruments

In addition to the methods and assumptions we use to record the fair value of financial instruments as discussed in the Fair value measurements section above, we used the following methods and assumptions to estimate the fair value of our financial instruments:

##### Cash and short-term investments

Carrying amount approximated fair value.

##### Restricted cash and short-term investments

Carrying amount approximated fair value. Restricted cash and short-term investments are included in Prepaid expenses and other current assets in the Consolidated Statement of Financial Position.

##### Finance receivables

Fair value was estimated by discounting the future cash flows using current rates, representative of receivables with similar remaining maturities.

##### Wholesale inventory receivables

Fair value was estimated by discounting the future cash flows using current rates, representative of receivables with similar remaining maturities.

##### Short-term borrowings

Carrying amount approximated fair value.

##### Long-term debt

Fair value for fixed and floating rate debt was estimated based on quoted market prices.

##### Guarantees

The fair value of guarantees is based upon our estimate of the premium a market participant would require to issue the same guarantee in a stand-alone arms-length transaction with an unrelated party. If quoted or observable market prices are not available, fair value is based upon internally developed models that utilize current market-based assumptions.



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Please refer to the table below for the fair values of our financial instruments.

(Millions of dollars)	Fair Value of Financial Instruments				Fair Value Levels	Reference
	September 30, 2015	December 31, 2014				
	Carrying Amount	Fair Value	Carrying Amount	Fair Value		
Assets						
Cash and short-term investments	\$6,046	\$6,046	\$7,341	\$7,341	1	
Restricted cash and short-term investments	44	44	62	62	1	
Available-for-sale securities	1,563	1,563	1,554	1,554	1, 2 & 3	Note 8
Finance receivables – net (excluding finance leases <sup>1</sup> )	16,153	15,995	16,426	16,159	3	Note 16
Wholesale inventory receivables – net (excluding finance leases <sup>1</sup> )	1,885	1,816	1,774	1,700	3	Note 16
Interest rate swaps – net	62	62	71	71	2	Note 4
Liabilities						
Short-term borrowings	6,080	6,080	4,708	4,708	1	
Long-term debt (including amounts due within one year)						
Machinery, Energy & Transportation	9,513	10,838	10,003	11,973	2	
Financial Products	21,950	22,311	24,574	25,103	2	
Foreign currency contracts – net	5	5	143	143	2	Note 4
Commodity contracts – net	12	12	14	14	2	Note 4
Guarantees	13	13	12	12	3	Note 10

<sup>1</sup> Total excluded items have a net carrying value at September 30, 2015 and December 31, 2014 of \$6,670 million and \$7,638 million, respectively.

## 18. Restructuring costs

Our accounting for employee separations is dependent upon how the particular program is designed. For voluntary programs, eligible separation costs are recognized at the time of employee acceptance unless the acceptance requires explicit approval by the Company. For involuntary programs, eligible costs are recognized when management has approved the program, the affected employees have been properly notified and the costs are estimable.

For the three and nine months ended September 30, 2015, we recognized \$89 million and \$214 million, respectively, of restructuring costs in Other operating (income) expenses in the Consolidated Statement of Results of Operations, which included \$60 million of employee separation costs and \$29 million of long-lived asset impairments and other restructuring costs for the three months ended September 30, 2015 and \$180 million of employee separation costs and \$34 million of long-lived asset impairments and other restructuring costs for the nine months ended September 30, 2015. The restructuring costs in 2015 were primarily related to several restructuring programs across the company. For the three and nine months ended September 30, 2014, we recognized \$81 million and \$344 million, respectively, of restructuring costs, which included \$46 million of employee separation costs and \$35 million of long-lived asset impairments and other restructuring costs for the three months ended September 30, 2014 and \$295 million of employee separation costs and \$49 million of long-lived asset impairments and other restructuring costs for the nine months ended September 30, 2014. For the first nine months of 2014, the restructuring costs were primarily related to

a reduction in workforce at our Gosselies, Belgium, facility.

Restructuring costs for the year ended December 31, 2014 were \$441 million which included \$382 million of employee separation costs, \$33 million of long-lived asset impairments and \$26 million of other restructuring costs. The restructuring costs in 2014 were primarily related to a reduction in workforce at our Gosselies, Belgium, facility.

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Restructuring costs are a reconciling item between Segment profit and Consolidated profit before taxes. See Note 15 for more information.

The following table summarizes the 2014 and 2015 employee separation activity:

(Millions of dollars)	Total
Liability balance at December 31, 2013	\$89
Increase in liability (separation charges)	382
Reduction in liability (payments and other adjustments)	(289 )
Liability balance at December 31, 2014	\$182
Increase in liability (separation charges)	180
Reduction in liability (payments and other adjustments)	(197 )
Liability balance at September 30, 2015	\$165

The remaining liability balance as of September 30, 2015 represents costs for employees who have either not yet separated from the Company or whose full severance has not yet been paid. The majority of these remaining costs are expected to be paid in 2015 and 2016.

In December 2013, we announced a restructuring plan for our Gosselies, Belgium, facility. This restructuring plan was designed to improve the competitiveness of our European manufacturing footprint and achieve competitiveness in our European operations by refocusing our current Gosselies operations on final machine assembly, test and paint with limited component and fabrication operations. This action includes reshaping our supply base for more efficient sourcing, improving factory efficiencies and workforce reductions and was approved by the Belgian Minister of Employment in February 2014. In 2014, we recognized \$273 million of these separation-related charges. For the nine months ended September 30, 2015, we recognized \$24 million, of employee separation costs relating to this restructuring plan, none of which were incurred in the three months ended September 30, 2015. We do not expect any further costs associated with this program. The employee separation liability balance as of September 30, 2015 includes \$49 million related to this restructuring plan, the majority of which we expect will be paid in 2015.

On September 24, 2015, we announced significant restructuring and cost reduction actions to lower our operating costs in response to current economic and business conditions. As part of that announcement, we offered a voluntary retirement enhancement program to qualifying U.S. employees and more than 2,000 participants are in the program. After employee acceptance, this program required Company approval, which occurred in the fourth quarter of 2015. We expect to incur approximately \$400 million in restructuring costs in the fourth quarter of 2015 related to this program. We have also offered several voluntary separation programs outside the United States and expect further reductions in 2015 from involuntary employee separation programs throughout the company. For the full year, we expect restructuring costs will be approximately \$800 million, which includes costs for ongoing programs as well as the recently announced employee separation programs. Additional restructuring actions are being contemplated and are expected to occur through 2018.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Third-quarter 2015 sales and revenues were \$10.962 billion, a 19 percent decrease from third-quarter 2014 sales and revenues of \$13.549 billion. Profit per share for the third quarter of 2015 was \$0.62, a 62 percent decrease from third-quarter 2014 profit per share of \$1.63. Profit was \$368 million in the third quarter of 2015, a decrease of 64 percent from \$1.017 billion in the third quarter of 2014.

Sales and revenues for the nine months ended September 30, 2015, were \$35.981 billion, down \$4.959 billion, or 12 percent, from \$40.940 billion for the nine months ended September 30, 2014. Profit per share for the nine months ended September 30, 2015, was \$3.62, a 22 percent decrease from profit per share of \$4.64 for the same period last year. Profit was \$2.189 billion for the nine months ended September 30, 2015, a decrease of 25 percent from \$2.938 billion for the nine months ended September 30, 2014.

Highlights for the third quarter of 2015 include:

Third-quarter sales and revenues were \$10.962 billion, compared with \$13.549 billion in the third quarter of 2014. Sales decreased in Energy & Transportation, Construction Industries and Resource Industries. Financial Products' revenues were down as well.

Restructuring costs were \$101 million in the third quarter of 2015 with an after-tax impact of \$0.13 per share, compared with restructuring costs of \$81 million in the third quarter of 2014 with an after-tax impact of \$0.09 per share.

Profit per share was \$0.62 in the third quarter of 2015 and excluding restructuring costs of \$0.13 per share was \$0.75 per share. Profit in the third quarter of 2014 was \$1.63 per share and excluding restructuring costs of \$0.09 per share was \$1.72 per share.

Machinery, Energy & Transportation (ME&T) operating cash flow was \$766 million in the third quarter of 2015, compared to \$1.442 billion in the third quarter of 2014.

ME&T debt-to-capital ratio was 37.4 percent at September 30, 2015, the same as the end of 2014.

Highlights for the nine months ended September 30, 2015, include:

Sales and revenues for the nine months ended September 30, 2015, were \$35.981 billion, compared with \$40.940 billion for the nine months ended September 30, 2014. Sales decreased in Energy & Transportation, Construction Industries and Resource Industries. Financial Products' revenues decreased as well.

Restructuring costs were \$226 million for the nine months ended September 30, 2015, with an after-tax impact of \$0.27 per share, compared with restructuring costs of \$344 million for the nine months ended September 30, 2014, with an after-tax impact of \$0.39 per share.

Profit per share was \$3.62 for the nine months ended September 30, 2015, and excluding restructuring costs of \$0.27 per share was \$3.89 per share. Profit per share was \$4.64 for the nine months ended September 30, 2014, and excluding restructuring costs of \$0.39 per share was \$5.03 per share.

ME&T operating cash flow was \$3.446 billion for the nine months ended September 30, 2015, compared with \$5.384 billion for the nine months ended September 30, 2014.

## Restructuring Costs

On September 24, 2015, we announced significant restructuring and cost reduction actions. We anticipate restructuring costs will be about \$800 million in 2015. During the first nine months of 2015, we incurred \$226 million in restructuring costs. In 2014, we incurred \$441 million in restructuring charges.

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Notes:

Effective January 1, 2015, responsibility for product management for certain components moved from Resource Industries to Energy & Transportation. Segment information for 2014 has been retrospectively adjusted to conform to the 2015 presentation.

Glossary of terms is included on pages 75-76; first occurrence of terms shown in bold italics.

Information on non-GAAP financial measures is included on page 81.



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Consolidated Results of Operations

THREE MONTHS ENDED SEPTEMBER 30, 2015 COMPARED WITH THREE MONTHS ENDED  
SEPTEMBER 30, 2014

CONSOLIDATED SALES AND REVENUES

The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between the third quarter of 2014 (at left) and the third quarter of 2015 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting sales and revenues appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Sales and Revenues

Total sales and revenues were \$10.962 billion in the third quarter of 2015, compared with \$13.549 billion in the third quarter of 2014, a decline of \$2.587 billion, or 19 percent. The decrease was primarily due to lower sales volume and the unfavorable impact of currency due to continued strengthening of the U.S. dollar against most currencies, with the largest impact from the euro. While sales for both new equipment and aftermarket parts declined in all segments, most of the decrease was for new equipment. Dealer machine and engine inventories decreased about \$600 million in both the third quarter of 2015 and the third quarter of 2014.

Sales declined in all regions. In North America, sales decreased 17 percent, primarily due to lower end-user demand across all the Energy & Transportation applications and for construction equipment. Asia/Pacific sales declined 25 percent, primarily due to lower end-user demand for mining equipment, products used in oil and gas applications and construction equipment. In addition, the impact of currency was unfavorable as sales, mostly in Australian dollars and Japanese yen, translated into fewer U.S. dollars. Sales decreased 31 percent in Latin America, primarily due to widespread economic weakness across the region, which had a negative impact on demand for construction equipment and spending. The most significant decrease was in Brazil. In EAME, sales declined 13 percent, mostly due to the unfavorable impact of currency, as sales in euros translated into fewer U.S. dollars, and lower end-user demand for products used in mining equipment and power generation applications.

Sales decreased in all segments. Energy & Transportation's sales declined 25 percent as sales decreased across all of the applications and the impact of currency was unfavorable. Construction Industries' sales decreased 15 percent, primarily due to lower end-user demand and the unfavorable impact of currency. Resource Industries' sales declined 17 percent, mostly due to lower end-user demand. Financial Products' segment revenues were down 12 percent, primarily due to lower average earning assets and lower average financing rates.

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**CONSOLIDATED OPERATING PROFIT**

The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between the third quarter of 2014 (at left) and the third quarter of 2015 (at right). Items favorably impacting operating profit appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting operating profit appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees. The bar entitled Other includes consolidating adjustments and Machinery, Energy & Transportation other operating (income) expenses.

Operating profit for the third quarter of 2015 was \$713 million, a decline of \$679 million from the third quarter of 2014. The decrease in profit was primarily due to lower sales volume reflecting weak market conditions in most of the industries we serve.

The unfavorable price realization resulted from competitive market conditions and an unfavorable geographic mix of sales.

Although the stronger U.S. dollar had a negative impact to our sales, our sizable manufacturing presence outside of the United States resulted in a favorable impact to operating profit. The majority of the favorability for the quarter was due to the Japanese yen, as we are a net exporter from Japan.

Manufacturing costs were favorable due to lower incentive compensation expense and improved material costs, partially offset by the unfavorable impact of cost absorption and manufacturing inefficiencies driven by declining production volume. The unfavorable cost absorption resulted from a significant decrease in inventory in the third quarter of 2015, compared to an increase in the third quarter of 2014.

SG&A and R&D expenses were favorable due to lower incentive compensation expense, partially offset by new product introduction programs.

Restructuring costs of \$101 million in the third quarter of 2015, included in corporate items, were related to the Resource Industries' segment and other restructuring programs across the company. In the third quarter of 2014, restructuring costs were \$81 million.

Short-term incentive compensation expense related to the third quarter of 2015, was about \$120 million, and we expect the full year will be about \$720 million. Short-term incentive compensation expense related to the third quarter of 2014, was about \$390 million, and full-year 2014 was about \$1.3 billion. The short-term incentive compensation expense is directly related to financial and operational performance measured against targets set annually.

**Other Profit/Loss Items**

Other income/expense in the third quarter of 2015 was expense of \$68 million, compared with income of \$117 million in the third quarter of 2014. The unfavorable change of \$185 million was primarily due to the net impact from currency translation and hedging gains and losses. The third quarter of 2015 included net losses related to currency translation and hedging, compared to net gains in the third quarter of 2014. Net losses in the third quarter of 2015 were primarily due to the Brazilian real and the Chinese yuan. Net gains in the third quarter of 2014 were primarily due to the euro.

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The provision for income taxes for the third quarter of 2015 reflects an estimated annual tax rate of 27 percent compared with 29.5 percent for the third quarter of 2014, excluding the items discussed below. The decrease is mostly due to a more favorable expected geographic mix of profits from a tax perspective in 2015, including the impact of restructuring costs primarily at higher U.S. tax rates.

The provision for income taxes for the third quarter of 2015 also includes a \$42 million net charge to increase unrecognized tax benefits by \$68 million partially offset by a benefit of \$26 million to record U.S. refund claims related to prior tax years currently under examination. Our consideration of recent decisions of the U.S. Court of Appeals for the Second Circuit involving other taxpayers caused us to increase our unrecognized tax benefits related to foreign tax credits that arose as a result of certain financings. This net charge is offset by a benefit of \$38 million related to the decrease from the second-quarter estimated annual tax rate of 28.5 percent, primarily due to a more favorable expected geographic mix of profits from a tax perspective, including the impact of restructuring costs primarily at higher U.S. tax rates.

The provision for income taxes for the third quarter of 2014 also included a benefit of \$43 million to adjust the prior year's U.S. taxes.

## Segment Information

## Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	Latin America	% Change	EAME	% Change	Asia/ Pacific	% Change
Third Quarter 2015										
Construction Industries <sup>1</sup>	\$3,792	(15 )%	\$ 1,820	(5 )%	\$ 340	(43 )%	\$ 930	(7 )%	\$ 702	(27 )%
Resource Industries <sup>2</sup>	1,796	(17 )%	672	(11 )%	311	(16 )%	418	(16 )%	395	(29 )%
Energy & Transportation <sup>3</sup>	4,213	(25 )%	1,755	(31 )%	368	(23 )%	1,300	(18 )%	790	(19 )%
All Other Segments <sup>4</sup>	506	(13 )%	365	(3 )%	26	(59 )%	76	(7 )%	39	(36 )%
Corporate Items and Eliminations	(22 )	—	(24 )		1		—		1	
Machinery, Energy & Transportation Sales	10,285	(19 )%	4,588	(17 )%	1,046	(31 )%	2,724	(13 )%	1,927	(25 )%
Financial Products Segment	752	(12 )%	453	2 %	91	(30 )%	101	(20 )%	107	(28 )%
Corporate Items and Eliminations	(75 )		(52 )		(9 )		(6 )		(8 )	
Financial Products Revenues	677	(14 )%	401	(4 )%	82	(29 )%	95	(21 )%	99	(27 )%
Consolidated Sales and Revenues	\$10,962	(19 )%	\$ 4,989	(16 )%	\$ 1,128	(31 )%	\$ 2,819	(13 )%	\$ 2,026	(25 )%

## Third Quarter 2014

Construction Industries <sup>1</sup>	\$4,471		\$ 1,913		\$ 599		\$ 997		\$ 962	
Resource Industries <sup>2</sup>	2,172		752		369		495		556	
Energy & Transportation <sup>3</sup>	5,585		2,541		481		1,582		981	
All Other Segments <sup>4</sup>	583		376		64		82		61	

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Corporate Items and Eliminations	(53 )	(27 )	—	(26 )	—
Machinery, Energy & Transportation Sales	12,758	5,555	1,513	3,130	2,560
Financial Products Segment	851	446	130	127	148
Corporate Items and Eliminations	(60 )	(28 )	(14 )	(6 )	(12 )
Financial Products Revenues	791	418	116	121	136
Consolidated Sales and Revenues	\$13,549	\$5,973	\$1,629	\$3,251	\$2,696

<sup>1</sup> Does not include inter-segment sales of \$34 million and \$67 million in third quarter 2015 and 2014, respectively.

<sup>2</sup> Does not include inter-segment sales of \$93 million and \$105 million in third quarter 2015 and 2014, respectively.

<sup>3</sup> Does not include inter-segment sales of \$417 million and \$570 million in third quarter 2015 and 2014, respectively.

<sup>4</sup> Does not include inter-segment sales of \$780 million and \$875 million in third quarter 2015 and 2014, respectively.

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## Sales and Revenues by Segment

(Millions of dollars)	Third Quarter 2014	Sales Volume	Price Realization	Currency	Other	Third Quarter 2015	\$ Change	% Change
Construction Industries	\$4,471	\$(414 )	\$(44 )	\$(221 )	\$—	\$3,792	\$(679 )	(15 )%
Resource Industries	2,172	(311 )	(18 )	(47 )	—	1,796	(376 )	(17 )%
Energy & Transportation	5,585	(1,193 )	4	(183 )	—	4,213	(1,372 )	(25 )%
All Other Segments	583	(59 )	(3 )	(15 )	—	506	(77 )	(13 )%
Corporate Items and Eliminations	(53 )	30	1	—	—	(22 )	31	
Machinery, Energy & Transportation Sales	12,758	(1,947 )	(60 )	(466 )	—	10,285	(2,473 )	(19 )%
Financial Products Segment	851	—	—	—	(99 )	752	(99 )	(12 )%
Corporate Items and Eliminations	(60 )	—	—	—	(15 )	(75 )	(15 )	
Financial Products Revenues	791	—	—	—	(114 )	677	(114 )	(14 )%
Consolidated Sales and Revenues	\$13,549	\$(1,947 )	\$(60 )	\$(466 )	\$(114 )	\$10,962	\$(2,587 )	(19 )%

## Operating Profit / (Loss) by Segment

(Millions of dollars)	Third Quarter 2015	Third Quarter 2014	\$ Change	% Change
Construction Industries	\$378	\$483	\$(105 )	(22 )%
Resource Industries	(68 )	122	(190 )	(156 )%
Energy & Transportation	635	1,151	(516 )	(45 )%
All Other Segments	196	228	(32 )	(14 )%
Corporate Items and Eliminations	(551 )	(740 )	189	
Machinery, Energy & Transportation	590	1,244	(654 )	(53 )%
Financial Products Segment	207	220	(13 )	(6 )%
Corporate Items and Eliminations	(22 )	(1 )	(21 )	
Financial Products	185	219	(34 )	(16 )%
Consolidating Adjustments	(62 )	(71 )	9	
Consolidated Operating Profit / (Loss)	\$713	\$1,392	\$(679 )	(49 )%

## Construction Industries

Construction Industries' sales were \$3.792 billion in the third quarter of 2015, a decrease of \$679 million, or 15 percent, from the third quarter of 2014. The decrease in sales was mostly due to lower volume and the unfavorable impact of currency. While sales declined for both new equipment and aftermarket parts, most of the decrease was for new equipment.

• Sales volume declined primarily due to lower deliveries to end users.

• The unfavorable impact of currency was largely due to the euro, Japanese yen and Brazilian real.

Sales decreased in all regions.

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In Asia/Pacific, the sales decline was primarily due to lower sales in China and Japan. In China, the lower sales resulted mostly from continued weak residential and non-residential construction activity. In Japan, the weaker yen contributed to the decline as sales in yen translated into fewer U.S. dollars.

In Latin America, dealer deliveries were down in most countries in the region, primarily in Brazil, due to continued weak construction activity resulting from depressed economic conditions. In addition, sales declined slightly due to the unfavorable impact of currency from the Brazilian real.

Sales declined slightly in North America as weakness in oil and gas-related construction was largely offset by stronger activity in residential and non-residential building construction.

Sales declined in EAME due to the unfavorable impact of currency, as sales in euros translated into fewer U.S. dollars. Lower end-user demand, primarily in Russia as a recession and sanctions slowed construction activity, was more than offset by the favorable changes in dealer inventories, which were about flat in third quarter of 2015, compared to a decrease in the third quarter of 2014.

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Construction Industries' profit was \$378 million in the third quarter of 2015, compared with \$483 million in the third quarter of 2014. The decrease in profit was primarily due to lower sales volume and unfavorable price realization resulting from competitive market conditions and an unfavorable geographic mix of sales. The decline was partially offset by favorable manufacturing costs and lower SG&A and R&D expenses. The reduction in manufacturing costs and SG&A and R&D expenses was primarily due to lower incentive compensation expense.

### Resource Industries

Resource Industries' sales were \$1.796 billion in the third quarter of 2015, a decrease of \$376 million, or 17 percent, from the third quarter of 2014. The decline was primarily due to lower sales volume and the unfavorable impact of currency. Sales were lower for both new equipment and aftermarket parts. We believe some mining companies are continuing to delay maintenance and rebuild activities.

The sales decrease was primarily due to lower end-user demand across all regions. In Asia/Pacific, the unfavorable impact of currency due to the Australian dollar also contributed to the decline. Commodity prices remained weak, and mining customers continued to focus on improving productivity in existing mines and reducing their total capital expenditures, as they have for the last several years. As a result, sales and new orders in Resource Industries are continuing to weaken.

Resource Industries incurred a loss of \$68 million in the third quarter of 2015, compared with profit of \$122 million in the third quarter of 2014. The unfavorable change was primarily the result of lower sales volume and higher spending for new product introductions, partially offset by favorable warranty, lower incentive compensation expense and improved material costs.

### Energy & Transportation

Energy & Transportation's sales were \$4.213 billion in the third quarter of 2015, a decrease of \$1.372 billion, or 25 percent, from the third quarter of 2014. The decrease was primarily the result of lower sales volume and the unfavorable impact of currency, mostly from the euro. Sales decreased in all applications.

Oil and Gas - Sales decreased in much of the world due to substantially lower oil prices. The decline was most pronounced in equipment used for well servicing and drilling, with the most significant impact in North America, our largest market for well servicing. Demand for reciprocating engines used in gas compression applications was also down, but not as sharply. In Asia/Pacific, lower sales were primarily due to lower end-user demand for equipment used in drilling and well servicing applications in addition to the absence of large projects. Latin America sales were lower primarily due to the absence of a large project. Sales were about flat in EAME.

Transportation - Sales decreased in North America and were about flat in all other geographic regions. In North America, sales weakened primarily due to the absence of a Tier IV locomotive offering.

Power Generation - Sales decreased in EAME and North America and were about flat in Asia/Pacific and Latin America. In EAME, sales decreased primarily due to lower end-user demand resulting from weak economic conditions and political instability in the region and the negative impact of currency. In North America, sales decreased largely because of unfavorable changes in dealer inventories as dealers increased inventories in the third quarter of 2014 and decreased inventories in the third quarter of 2015.

Industrial - Sales were lower in all regions. Lower sales in EAME were mostly the result of lower demand and the unfavorable impact of currency. In North America, Asia/Pacific and Latin America, the decline in sales was primarily due to lower end-user demand for most industrial applications.

Energy & Transportation's profit was \$635 million in the third quarter of 2015, compared with \$1.151 billion in the third quarter of 2014. The decrease was due to lower sales volume. Lower incentive compensation expense was about offset by the unfavorable impact of cost absorption and variable manufacturing inefficiencies driven by declining production volume. The unfavorable cost absorption resulted from a decrease in inventory in the third quarter of 2015, compared to an increase in the third quarter of 2014.

### Financial Products Segment

Financial Products' revenues were \$752 million in the third quarter of 2015, a decrease of \$99 million, or 12 percent, from the third quarter of 2014. The decline was primarily due to lower average earning assets and lower average financing rates. Average earning assets were down in Asia/Pacific, Latin America and EAME, partially offset by higher average earning assets in North America. Average financing rates were lower across all geographic regions. Financial Products' profit was \$207 million in the third quarter of 2015, compared with \$220 million in the third quarter of 2014. The decrease was primarily due to a \$26 million decrease in net yield on average earning assets and a \$21 million unfavorable impact from lower average earning assets, partially offset by the absence of \$32 million of unfavorable out-of-period adjustments in the third quarter of 2014 related to interest rate swap contracts and the provision for credit losses.

The provision for credit losses was \$22 million for the third quarter of 2015, compared with \$52 million for the same period in 2014. The decrease was primarily due to a favorable impact from changes in the allowance rate driven by changes in certain assumptions within the allowance for credit loss model. During the third quarter of 2015, as a result of management's review, the



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loss emergence period and loss given default assumptions were updated and resulted in a decrease to the allowance for credit losses of \$45 million. The decrease in the provision for credit losses was also due to the absence of a \$14 million out-of-period adjustment in the third quarter of 2014 (included in the discussion above). These changes were partially offset by an unfavorable impact from changes in the credit quality of Cat Financial's portfolio.

At the end of the third quarter of 2015, past dues at Cat Financial were 2.68 percent, compared with 2.81 percent at the end of the third quarter of 2014. Write-offs, net of recoveries, were \$69 million for the third quarter of 2015, compared with \$22 million for the third quarter of 2014. The increase in write-offs, net of recoveries, was primarily driven by the mining and marine portfolios.

As of September 30, 2015, Cat Financial's allowance for credit losses totaled \$348 million, or 1.26 percent of net finance receivables, compared with \$405 million, or 1.37 percent of net finance receivables at September 30, 2014. The allowance for credit losses at year-end 2014 was \$401 million, or 1.36 percent of net finance receivables.

Corporate Items and Eliminations

Expense for corporate items and eliminations was \$573 million in the third quarter of 2015, a decrease of \$168 million from the third quarter of 2014. Corporate items and eliminations include: corporate-level expenses; restructuring costs; timing differences, as some expenses are reported in segment profit on a cash basis; retirement benefit costs other than service cost; currency differences for ME&T, as segment profit is reported using annual fixed exchange rates; and inter-segment eliminations.

The decrease in expense from the third quarter of 2014 was primarily due to timing differences.

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NINE MONTHS ENDED SEPTEMBER 30, 2015 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2014

CONSOLIDATED SALES AND REVENUES

The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between the nine months ended September 30, 2014 (at left) and the nine months ended September 30, 2015 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting sales and revenues appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Total sales and revenues were \$35.981 billion in the nine months ended September 30, 2015, down \$4.959 billion, or 12 percent, from the nine months ended September 30, 2014. The decrease was largely due to lower sales volume, primarily in Energy & Transportation and Construction Industries. Sales volume was also lower in Resource Industries. Currency had an unfavorable impact of \$1.3 billion due to continued strengthening of the U.S. dollar against most currencies, with the largest impact from the euro. Price realization was slightly favorable. While sales for both new equipment and aftermarket parts declined in Energy & Transportation, Construction Industries and Resource Industries, most of the decrease was for new equipment.

The decrease in sales volume was primarily the result of lower end-user demand due to weak economic conditions globally. The decline was partially offset by the impact of changes in dealer machine and engine inventories across all regions. In total, dealer inventories were about flat during the nine months ended September 30, 2015, and decreased about \$600 million in the nine months ended September 30, 2014. Following seasonal patterns and lower end-user demand, we believe dealers will decrease inventories in the fourth quarter of 2015, resulting in lower dealer inventories compared to year-end 2014. Dealers are independent, and there could be many reasons for changes in their inventory levels. In general, dealers adjust inventory based on their expectations of future demand and product delivery times. Dealers' demand expectations take into account seasonal changes, macroeconomic conditions and other factors. Delivery times can vary based on availability of product from Caterpillar factories and product distribution centers.

Sales declined in all regions. In Asia/Pacific, sales declined 20 percent, primarily due to lower end-user demand for construction equipment and the unfavorable impact of currency, as our sales in Japanese yen and Australian dollars translated into fewer U.S. dollars. Sales in Latin America decreased 25 percent, primarily due to lower end-user demand. The decline was due to continued widespread economic weakness across the region and the absence of a large government order in Brazil. In EAME, sales declined 12 percent, primarily due to the unfavorable impact of currency, as our sales in euros translated into fewer U.S. dollars, and lower end-user demand primarily for mining equipment. Sales in North America declined 6 percent, primarily due to lower end-user demand for rail applications, slightly offset by improved price realization.

Sales decreased in Energy & Transportation, Construction Industries and Resource Industries. Both Energy & Transportation's and Construction Industries' sales declined 13 percent, primarily due to lower end-user demand and the unfavorable impact of currency. Resource Industries' sales also declined 13 percent, primarily due to weaker demand for mining products, partially offset by the favorable impact of changes in dealer inventories, as dealer inventories decreased more in the nine months ended September

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30, 2014 than in the nine months ended September 30, 2015. Financial Products' segment revenues decreased 7 percent, primarily due to lower average earning assets and lower average financing rates.

The decline in oil prices has resulted in a decrease in sales during 2015, primarily in drilling and well servicing with some impact to machinery for oil and gas-related construction. Order rates began to decline in the second half of 2014 and have continued into 2015. Sales in the first half of 2015 benefited from a strong order backlog that was in place when the year started. We expect the more significant declines that are occurring in the second half of 2015 to continue into 2016.

Sales in our turbine business are expected to decline in 2016. Based on the current backlog and recent quotation activity, decreases in sales related to oil projects are expected to more than offset increases in sales related to gas compression.

### CONSOLIDATED OPERATING PROFIT

The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between the nine months ended September 30, 2014 (at left) and the nine months ended September 30, 2015 (at right). Items favorably impacting operating profit appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting operating profit appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees. The bar entitled Other includes consolidating adjustments and Machinery, Energy & Transportation other operating (income) expenses.

Operating profit for the nine months ended September 30, 2015, was \$3.370 billion, a decrease of \$895 million from the nine months ended September 30, 2014. The decrease was primarily the result of lower sales volume partially offset by the favorable impact of currency, improved price realization, lower restructuring costs and lower manufacturing costs.

SG&A and R&D expenses were about flat. Higher spending for new product introduction and information technology programs were mostly offset by lower incentive compensation expense.

The favorable impact of currency was primarily due to the strengthening of the U.S. dollar in relation to the Japanese yen and the British pound, as we are a net exporter from Japan and the United Kingdom.

Restructuring costs of \$226 million in the nine months ended September 30, 2015, included in corporate items, were primarily related to the Resource Industries' segment and other restructuring programs across the company. In the nine months ended September 30, 2014, restructuring costs were \$344 million, primarily related to a workforce reduction at the Gosselies, Belgium, facility.

Manufacturing costs were lower primarily due to improved material costs and lower incentive compensation expense. Favorable material costs were due to declines in commodity prices and a focus on reducing the cost of components in our products. These lower costs were partially offset by the unfavorable impact of cost absorption and variable manufacturing inefficiencies driven by costs decreasing at a lower rate than production volume. The unfavorable impact of cost absorption resulted from an increase in inventory during the nine months ended September 30, 2014, compared to a decrease in the nine months ended September 30, 2015. We are expecting additional declines in inventory during the remainder of 2015 due to our continued focus on operational improvements, expected seasonality and lower sales expectations, but the anticipated decline will likely not be as significant as the decline in the fourth quarter of 2014 of more than \$1 billion.

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Short-term incentive compensation expense related to the nine months ended September 30, 2015, was about \$540 million, and we expect the full year will be about \$720 million. Short-term incentive compensation expense related to the nine months ended September 30, 2014, was about \$1.0 billion, and full-year 2014 was about \$1.3 billion. The short-term incentive compensation expense is directly related to financial and operational performance measured against targets set annually.

We believe profit in the fourth quarter of 2015 will be lower than the third quarter primarily due to significantly higher restructuring costs.

### Other Profit/Loss Items

Other income/expense was income of \$76 million in the nine months ended September 30, 2015, compared with income of \$236 million in the nine months ended September 30, 2014. The change was primarily due to the unfavorable net impact of currency translation and hedging gains and losses, partially offset by a gain of \$120 million on the sale of the remaining 35 percent interest in our former third party logistics business. The nine months ended September 30, 2015, included net losses of \$192 million related to translation and hedging, compared to \$86 million of net gains during the nine months ended September 30, 2014. Net losses in the nine months ended September 30, 2015, were primarily due to the Brazilian real. Net gains in the nine months ended September 30, 2014, were primarily due to the euro.

The provision for income taxes for the first nine months of 2015 reflects an estimated annual tax rate of 27 percent compared with 29.5 percent for the first nine months of 2014, excluding the items discussed below. The decrease is primarily due to a more favorable expected geographic mix of profits from a tax perspective in 2015, including the impact of restructuring costs primarily at higher U.S. tax rates. The impact of the U.S. research and development tax credit is not included in either the first nine months of 2015 or 2014 as it was renewed for 2014 in the fourth quarter of 2014 and has not been renewed for 2015.

The provision for income taxes for the first nine months of 2015 also includes a \$42 million net charge to increase unrecognized tax benefits by \$68 million partially offset by a benefit of \$26 million to record U.S. refund claims related to prior tax years currently under examination. Our consideration of recent decisions of the U.S. Court of Appeals for the Second Circuit involving other taxpayers caused us to increase our unrecognized tax benefits related to foreign tax credits that arose as a result of certain financings.

The provision for income taxes for the first nine months of 2014 also included a net benefit of \$21 million to adjust prior years' U.S. taxes and interest.

Income taxes are based on the statutory tax rate of the jurisdiction where earnings are subject to taxation which may differ from the jurisdiction where that entity is incorporated. Taxes are paid in the jurisdictions where earnings are subject to taxation. The effective tax rate differs from the U.S. statutory rate in part due to results of non-U.S. subsidiaries being subject to statutory tax rates which are generally lower than the U.S. rate of 35 percent. The indefinitely reinvested profits of Caterpillar SARL (CSARL), primarily taxable in Switzerland, contribute the most significant amount of this difference. On January 30, 2015, we received a Revenue Agent's Report (RAR) from the Internal Revenue Service (IRS) indicating the end of the field examination of our U.S. tax returns for 2007 to 2009 including the impact of a loss carryback to 2005. The IRS has proposed to tax in the United States profits earned from certain parts transactions by CSARL based on the IRS examination team's application of "substance-over-form" or "assignment-of-income" judicial doctrines. We are vigorously contesting this adjustment through the IRS appeals process. We believe that the relevant transactions complied with applicable tax laws and did not violate judicial doctrines. The purchase of parts by CSARL from unrelated parties and the subsequent sale of those parts to unrelated dealers outside the United States have substantial legal, commercial, and economic consequences for the parties involved. We have filed U.S. tax returns on this same basis for years after 2009. We currently believe the ultimate disposition of this matter will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

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## Segment Information

## Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	Latin America	% Change	EAME	% Change	Asia/ Pacific	% Change
Nine Months Ended September 30, 2015										
Construction Industries <sup>1</sup>	\$12,928	(13 )%	\$6,420	—	\$1,169	(38 )%	\$2,895	(13 )%	\$2,444	(26 )%
Resource Industries <sup>2</sup>	5,715	(13 )%	2,234	(5 )%	942	(15 )%	1,292	(17 )%	1,247	(18 )%
Energy & Transportation <sup>3</sup>	13,519	(13 )%	5,907	(14 )%	1,226	(14 )%	3,864	(10 )%	2,522	(13 )%
All Other Segments <sup>4</sup>	1,729	1	1,238	14	115	(39 )%	232	(13 )%	144	(20 )%
Corporate Items and Eliminations	(62 )		(68 )		2		—		4	
Machinery, Energy & Transportation Sales	33,829	(12 )%	15,731	(6 )%	3,454	(25 )%	8,283	(12 )%	6,361	(20 )%
Financial Products Segment	2,332	(7 )%	1,360	2	303	(15 )%	311	(18 )%	358	(18 )%
Corporate Items and Eliminations	(180 )		(105 )		(29 )		(17 )		(29 )	
Financial Products Revenues	2,152	(6 )%	1,255	3	274	(14 )%	294	(18 )%	329	(17 )%
Consolidated Sales and Revenues	\$35,981	(12 )%	\$16,986	(5 )%	\$3,728	(25 )%	\$8,577	(12 )%	\$6,690	(20 )%
Nine Months Ended September 30, 2014										
Construction Industries <sup>1</sup>	\$14,942		\$6,407		\$1,896		\$3,333		\$3,306	
Resource Industries <sup>2</sup>	6,536		2,343		1,113		1,550		1,530	
Energy & Transportation <sup>3</sup>	15,536		6,882		1,422		4,317		2,915	
All Other Segments <sup>4</sup>	1,720		1,082		190		268		180	
Corporate Items and Eliminations	(92 )		(59 )		(1 )		(31 )		(1 )	
Machinery, Energy & Transportation Sales	38,642		16,655		4,620		9,437		7,930	
Financial Products Segment	2,502		1,331		356		379		436	
Corporate Items and Eliminations	(204 )		(108 )		(38 )		(20 )		(38 )	
Financial Products Revenues	2,298		1,223		318		359		398	
Consolidated Sales and Revenues	\$40,940		\$17,878		\$4,938		\$9,796		\$8,328	

- <sup>1</sup> Does not include inter-segment sales of \$130 million and \$198 million for the nine months ended September 30, 2015 and 2014, respectively.
- <sup>2</sup> Does not include inter-segment sales of \$268 million and \$318 million for the nine months ended September 30, 2015 and 2014, respectively.
- <sup>3</sup> Does not include inter-segment sales of \$1,418 million and \$1,706 million for the nine months ended September 30, 2015 and 2014, respectively.
- <sup>4</sup> Does not include inter-segment sales of \$2,393 million and \$2,597 million for the nine months ended September 30, 2015 and 2014, respectively.

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## Sales and Revenues by Segment

(Millions of dollars)	Nine Months Ended September 30, 2014	Sales Volume	Price Realization	Currency	Other	Nine Months Ended September 30, 2015	\$ Change	% Change	
Construction Industries	\$ 14,942	\$(1,495 )	\$ 112	\$(631 )	\$—	\$ 12,928	\$(2,014 )	(13 )	%
Resource Industries	6,536	(636 )	(58 )	(127 )	—	5,715	(821 )	(13 )	%
Energy & Transportation	15,536	(1,575 )	62	(504 )	—	13,519	(2,017 )	(13 )	%
All Other Segments	1,720	33	12	(36 )	—	1,729	9	1	%
Corporate Items and Eliminations	(92 )	31	1	(2 )	—	(62 )	30		
Machinery, Energy & Transportation Sales	38,642	(3,642 )	129	(1,300 )	—	33,829	(4,813 )	(12 )	%
Financial Products Segment	2,502	—	—	—	(170 )	2,332	(170 )	(7 )	%
Corporate Items and Eliminations	(204 )	—	—	—	24	(180 )	24		
Financial Products Revenues	2,298	—	—	—	(146 )	2,152	(146 )	(6 )	%
Consolidated Sales and Revenues	\$ 40,940	\$(3,642 )	\$ 129	\$(1,300 )	\$(146 )	\$ 35,981	\$(4,959 )	(12 )	%

## Operating Profit by Segment

(Millions of dollars)	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014	\$ Change	% Change	
Construction Industries	\$ 1,705	\$ 1,845	\$(140 )	(8 )	%
Resource Industries	17	379	(362 )	(96 )	%
Energy & Transportation	2,527	3,012	(485 )	(16 )	%
All Other Segments	638	686	(48 )	(7 )	%
Corporate Items and Eliminations	(1,919 )	(2,122 )	203		
Machinery, Energy & Transportation	2,968	3,800	(832 )	(22 )	%
Financial Products Segment	618	704	(86 )	(12 )	%
Corporate Items and Eliminations	(20 )	(28 )	8		
Financial Products	598	676	(78 )	(12 )	%
Consolidating Adjustments	(196 )	(211 )	15		
Consolidated Operating Profit	\$ 3,370	\$ 4,265	\$(895 )	(21 )	%

Construction Industries

Construction Industries' sales were \$12.928 billion in the nine months ended September 30, 2015, a decrease of \$2.014 billion, or 13 percent, from the nine months ended September 30, 2014. The sales decrease was primarily due to lower sales volume and the unfavorable impact of currency slightly offset by favorable price realization. While sales for both new equipment and aftermarket parts declined, most of the decrease was for new equipment.

The decrease in sales volume was primarily due to lower deliveries to end users caused by widespread economic weakness.

The unfavorable currency impact was primarily from a weaker euro, Japanese yen and Brazilian real, as sales in these currencies translated into fewer U.S. dollars.

Sales decreased in all geographic regions except North America, where they were about flat.

In Asia/Pacific, the sales decline was primarily due to lower sales in China and Japan. In China, the lower sales resulted primarily from continued weak residential and non-residential construction activity. Sales in Japan declined due to a weaker Japanese yen, as sales in yen translated into fewer U.S. dollars, and lower end-user demand due to weaker economic conditions.

Decreases in Latin America were primarily related to lower demand due to continued weak construction activity and the absence of a large government order in Brazil that occurred during the nine months ended September 30, 2014. In addition, sales in Brazil declined due to a weaker Brazilian real, as sales in real translated into fewer U.S. dollars.

Sales declined in EAME primarily due to the unfavorable impact of currency, as sales in euros translated into fewer U.S. dollars.



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Sales in North America were about flat. Improved price realization and the impact of favorable changes in dealer inventories, as dealers increased inventories more during the nine months ended September 30, 2015, than in the nine months ended September 30, 2014, were about offset by lower end-user demand as weakness in oil and gas-related construction was largely offset by stronger activity in residential and non-residential building construction.

We expect that sales in the fourth quarter of 2015 and 2016 will continue to be negatively impacted by weak residential and non-residential construction activity in China and low oil prices. We support the oil and gas industry with construction equipment for drill site preparation and infrastructure development. Construction industries also has a variety of indirect exposures to oil and gas, as countries that depend on oil revenues may reduce expenditures for roads and other infrastructure projects.

Construction Industries' profit was \$1.705 billion in the nine months ended September 30, 2015, compared with \$1.845 billion in the nine months ended September 30, 2014. The decrease in profit was primarily due to lower sales volume, partially offset by the favorable impact of currency, lower incentive compensation expense and improved price realization.

### Resource Industries

Resource Industries' sales were \$5.715 billion for the nine months ended September 30, 2015, a decrease of \$821 million, or 13 percent, from the nine months ended September 30, 2014, primarily due to lower sales volume and the unfavorable impact of currency, primarily due to the euro and Australian dollar. Price realization was slightly unfavorable, resulting from a competitive pricing environment. Sales declined for both new equipment and aftermarket parts. We believe some mining companies are continuing to delay maintenance and rebuild activities. The sales volume decrease was primarily the result of continued weak end-user demand worldwide due to weakened commodity prices and a reduction in capital expenditures by miners, partially offset by the favorable impact of changes in dealer inventories. While dealers continued to reduce inventories during the nine months ended September 30, 2015, the reductions were less significant than in the nine months ended September 30, 2014.

Commodity prices remained weak, and mining customers continued to focus on improving productivity in existing mines and reducing their total capital expenditures as they have for the last several years. We believe most customers currently have a sufficient supply of equipment. As a result, sales and new orders in Resource Industries are continuing to weaken. The mining industry remains weak and we are not expecting any improvements in sales volume during the fourth quarter of 2015 or in 2016.

Sales decreased in all geographic regions.

Sales declined in Asia/Pacific primarily due to lower end-user demand and the unfavorable impact of currency, mostly due to the Australian dollar, as sales translated into fewer U.S. dollars.

In EAME, the sales decline was primarily due to lower end-user demand and the unfavorable impact of currency due to a weaker euro, as sales in euro translated into fewer U.S. dollars, partially offset by the favorable impact of changes in dealer inventories. While dealers continued to reduce inventories during the nine months ended September 30, 2015, the reductions were less significant than in the nine months ended September 30, 2014.

Decreases in Latin America were primarily related to continued weak mining activity and slightly unfavorable price realization, resulting from a competitive pricing environment. The decline was partially offset by the favorable impact of changes in dealer inventories. While dealers continued to reduce inventories during the nine months ended September 30, 2015, the reductions were less significant than in the nine months ended September 30, 2014.

In North America, the sales decline was primarily due to lower sales of mining equipment partially offset by increases in sales of equipment used to support the quarry and aggregate industry and the favorable impact of changes in dealer inventories. While dealers continued to reduce inventories during the nine months ended September 30, 2015, the reductions were less significant than in the nine months ended September 30, 2014.

Resource Industries' profit was \$17 million for the nine months ended September 30, 2015, compared with \$379 million for the nine months ended September 30, 2014. The decrease was primarily the result of lower sales volume, higher spending for new product introductions and unfavorable price realization, partially offset by improved material costs.

#### Energy & Transportation

Energy & Transportation's sales were \$13.519 billion for the nine months ended September 30, 2015, a decrease of \$2.017 billion, or 13 percent, from the nine months ended September 30, 2014. The sales decrease was primarily due to lower sales volume and the unfavorable impact of currency, primarily from a weaker euro. Price realization was slightly favorable. Sales decreased in all geographic regions and across all applications.

Oil and Gas - The sales decrease was driven by lower end-user demand as low oil prices continued. Sales in the first half of 2015 benefited from a strong order backlog that was in place when the year started. As we have worked off this backlog, we started to see more significant declines in our oil-related sales in the third quarter of 2015 that we expect will continue in the fourth quarter of 2015 and into 2016. Based on the current backlog and recent quotation activity, sales in our turbine business

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are expected to decline in 2016. While sales related to oil projects are down, sales related to gas compression are expected to remain strong with a supportive backlog and increase in 2016.

Sales decreased in all regions except for EAME where they were about flat. Sales declined in Asia/Pacific resulting primarily from lower end-user demand for equipment used in drilling applications, the absence of large projects and the unfavorable impact of changes in dealer inventories as inventories decreased during the nine months ended September 30, 2015 and increased during the nine months ended September 30, 2014. In Latin America, sales were lower primarily due to the absence of a large project that occurred in the nine months ended September 30, 2014. In North America, sales were lower primarily due to end-user demand for equipment used in drilling and well servicing applications.

Transportation - Sales decreased in North America and were about flat in all other geographic regions. In North America, sales into rail applications decreased primarily due to the absence of a Tier IV locomotive offering and lower sales of recyclable materials. The decline of recyclable materials was driven primarily by the year-over-year decrease in scrap prices and the lower volume of railcars available to scrap.

Industrial - Sales decreased in all regions except Latin America which was about flat. In EAME, sales decreased primarily due to lower end-user demand for engines used by original equipment manufacturers for agriculture and construction applications, and the unfavorable impact of currency. In both Asia/Pacific and North America, lower demand for most industrial applications contributed to the sales decrease.

Power Generation - Sales decreased in EAME and were about flat in all other regions. In EAME, the sales decline was primarily due to the negative impact of currency and lower end-user demand resulting from weak economic conditions and political instability in the region.

Energy & Transportation's profit was \$2.527 billion for the nine months ended September 30, 2015, compared with \$3.012 billion for the nine months ended September 30, 2014. The decrease was primarily due to lower sales volume, which includes a favorable mix of products, partially offset by favorable price realization.

Manufacturing costs were about flat as improved material costs and lower incentive compensation expense were about offset by the unfavorable impact of cost absorption and variable manufacturing inefficiencies driven by costs decreasing at a lower rate than production volume. The unfavorable impact of cost absorption resulted from a decrease in inventory during the nine months ended September 30, 2015, compared to a significant increase in inventory during the nine months ended September 30, 2014.

SG&A and R&D expenses were about flat as lower incentive compensation expense was about offset by increases in program spending including for new product introductions.

### Financial Products Segment

Financial Products' revenues were \$2.332 billion for the nine months ended September 30, 2015, a decrease of \$170 million, or 7 percent, from the nine months ended September 30, 2014. The decline was primarily due to lower average earning assets and lower average financing rates. Average earning assets were down in Asia/Pacific, Latin America and EAME, partially offset by higher average earning assets in North America. Average financing rates decreased primarily in North America and EAME.

Financial Products' profit was \$618 million in the nine months ended September 30, 2015, compared with \$704 million in the nine months ended September 30, 2014. The decrease was primarily due to a \$58 million decrease in net yield on average earning assets and a \$38 million unfavorable impact from lower average earning assets, partially offset by the absence of \$27 million of unfavorable out-of-period adjustments in 2014 related to interest rate swap contracts and the provision for credit losses.

The provision for credit losses was \$89 million for the first nine months of 2015, compared with \$120 million for the same period in 2014. The decrease was primarily due to a favorable impact from changes in the allowance rate driven by changes in certain assumptions within the allowance for credit loss model. During 2015, as a result of management's review, the loss emergence period and loss given default assumptions were updated and resulted in a decrease to the allowance for credit losses of \$66 million. The decrease in the provision for credit losses was also due to the absence of a \$14 million out-of-period adjustment in the third quarter of 2014 (included in the discussion above). These changes were partially offset by an unfavorable impact from changes in the credit quality of Cat

Financial's portfolio.

#### Corporate Items and Eliminations

Expense for corporate items and eliminations was \$1.939 billion in the nine months ended September 30, 2015, a decrease of \$211 million from the nine months ended September 30, 2014. Corporate items and eliminations include: corporate-level expenses; restructuring costs; timing differences, as some expenses are reported in segment profit on a cash basis; retirement benefit costs other than service cost; currency differences for ME&T, as segment profit is reported using annual fixed exchange rates and inter-segment eliminations.

The decrease in expense from the nine months ended September 30, 2014, was primarily due to timing differences and lower restructuring costs, partially offset by higher spending for information technology-related programs.

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## RESTRUCTURING COSTS

For the three and nine months ended September 30, 2015, we recognized \$89 million and \$214 million, respectively, of restructuring costs, which included \$60 million of employee separation costs and \$29 million of long-lived asset impairments and other restructuring costs for the three months ended September 30, 2015 and \$180 million of employee separation costs and \$34 million of long-lived asset impairments and other restructuring costs for the nine months ended September 30, 2015. In addition we incurred \$12 million of restructuring related costs for the three and nine months ended September 30, 2015. The restructuring costs in 2015 were primarily related to several restructuring programs across the company. For the three and nine months ended September 30, 2014, we recognized \$81 million and \$344 million, respectively, of restructuring costs, which included \$46 million of employee separation costs and \$35 million of long-lived asset impairments and other restructuring costs for the three months ended September 30, 2014 and \$295 million of employee separation costs and \$49 million of long-lived asset impairments and other restructuring costs for the nine months ended September 30, 2014. For the first nine months of 2014, the restructuring costs were primarily related to a reduction in workforce at our Gosselies, Belgium, facility.

Restructuring costs for the year ended December 31, 2014 were \$441 million which included \$382 million of employee separation costs, \$33 million of long-lived asset impairments and \$26 million of other restructuring costs. The restructuring costs in 2014 were primarily related to a reduction in workforce at our Gosselies, Belgium, facility.

Restructuring costs are a reconciling item between Segment profit and Consolidated profit before taxes.

The following table summarizes the 2014 and 2015 employee separation activity:

(Millions of dollars)	Total
Liability balance at December 31, 2013	\$89
Increase in liability (separation charges)	382
Reduction in liability (payments and other adjustments)	(289 )
Liability balance at December 31, 2014	\$182
Increase in liability (separation charges)	180
Reduction in liability (payments and other adjustments)	(197 )
Liability balance at September 30, 2015	\$165

The remaining liability balance as of September 30, 2015 represents costs for employees who have either not yet separated from the Company or whose full severance has not yet been paid. The majority of these remaining costs are expected to be paid in 2015 and 2016.

In December 2013, we announced a restructuring plan for our Gosselies, Belgium, facility. This restructuring plan was designed to improve the competitiveness of our European manufacturing footprint and achieve competitiveness in our European operations by refocusing our current Gosselies operations on final machine assembly, test and paint with limited component and fabrication operations. This action includes reshaping our supply base for more efficient sourcing, improving factory efficiencies and workforce reductions and was approved by the Belgian Minister of Employment in February 2014. In 2014, we recognized \$273 million of these separation-related charges. For the nine months ended September 30, 2015, we recognized \$24 million, of employee separation costs relating to this restructuring plan, none of which were incurred in the three months ended September 30, 2015. We do not expect any further costs associated with this program. The employee separation liability balance as of September 30, 2015 includes \$49 million related to this restructuring plan, the majority of which we expect will be paid in 2015.

On September 24, 2015, we announced significant restructuring and cost reduction actions to lower our operating costs in response to current economic and business conditions. As part of that announcement, we offered a voluntary retirement enhancement program to qualifying U.S. employees and more than 2,000 participants are in the program. After employee acceptance, this program required Company approval, which occurred in the fourth quarter of 2015. We expect to incur approximately \$400 million in restructuring costs in the fourth quarter of 2015 related to this program. We have also offered several voluntary separation programs outside the United States and expect further reductions in 2015 from involuntary employee separation programs throughout the company. For the full year, we expect restructuring costs will be approximately \$800 million, or \$0.90 per share, which includes costs for ongoing programs as well as the recently announced employee separation programs. We expect that restructuring actions will result in a benefit to operating costs of about \$750 million in 2016. Additional restructuring actions are being contemplated and are expected to occur through 2018.

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GLOSSARY OF TERMS

1. All Other Segments - Primarily includes activities such as: the remanufacturing of Cat® engines and components and remanufacturing services for other companies as well as the business strategy, product management, development, manufacturing, marketing and product support of undercarriage, specialty products, hardened bar stock components and ground engaging tools primarily for Cat products, paving products, forestry products and industrial and waste products; the product management, development, marketing, sales and product support of on-highway vocational trucks for North America; parts distribution; distribution services responsible for dealer development and administration including a wholly owned dealer in Japan, dealer portfolio management and ensuring the most efficient and effective distribution of machines, engines and parts.

2. Consolidating Adjustments - Elimination of transactions between Machinery, Energy & Transportation and Financial Products.

3. 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, telehandlers, select work tools, small, medium and large track excavators, wheel excavators, medium wheel loaders, compact track loaders, medium track-type tractors, track-type loaders, motor graders, pipelayers and mid-tier soil compactors. In addition, Construction Industries has responsibility for an integrated manufacturing cost center.

4. Currency - With respect to sales and revenues, currency represents the translation impact on sales resulting from changes in foreign currency exchange rates versus the U.S. dollar. With respect to operating profit, currency represents the net translation impact on sales and operating costs resulting from changes in foreign currency exchange rates versus the U.S. dollar. Currency includes the impact on sales and operating profit for the Machinery, Energy & Transportation lines of business only; currency impacts on Financial Products' revenues and operating profit are included in the Financial Products' portions of the respective analyses. With respect to other income/expense, currency represents the effects of forward and option contracts entered into by the company to reduce the risk of fluctuations in exchange rates (hedging) and the net effect of changes in foreign currency exchange rates on our foreign currency assets and liabilities for consolidated results (translation).

5. Debt-to-Capital Ratio - A key measure of Machinery, Energy & Transportation's financial strength used by both management and our credit rating agencies. The metric is defined as Machinery, Energy & Transportation's short-term borrowings, long-term debt due within one year and long-term debt due after one year (debt) divided by the sum of Machinery, Energy & Transportation's debt and stockholders' equity. Debt also includes Machinery, Energy & Transportation's borrowings from Financial Products.

6. EAME - A geographic region including Europe, Africa, the Middle East and the Commonwealth of Independent States (CIS).

7. Earning Assets - Assets consisting primarily of total finance receivables net of unearned income, plus equipment on operating leases, less accumulated depreciation at Cat Financial.

8. Energy & Transportation - A segment primarily responsible for supporting customers using reciprocating engines, turbines, diesel-electric locomotives and related parts across industries serving power generation, industrial, oil and gas and transportation applications, including marine and rail-related businesses. Responsibilities include business strategy, product design, product management, development, manufacturing, marketing, sales and product support

of turbines and turbine-related services, reciprocating engine powered generator sets, integrated systems used in the electric power generation industry, reciprocating engines and integrated systems and solutions for the marine and oil and gas industries; reciprocating engines supplied to the industrial industry as well as Cat machinery; the business strategy, product design, product management, development, manufacturing, remanufacturing, leasing and service of diesel-electric locomotives and components and other rail-related products and services.

9. Financial Products Segment - Provides financing to customers and dealers for the purchase and lease of Cat 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. Financial Products Segment profit is determined on a pretax basis and includes other income/expense items.



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10. Latin America - A geographic region including Central and South American countries and Mexico.

Machinery, Energy & Transportation (ME&T) - Represents the aggregate total of Construction Industries, 11. Resource Industries, Energy & Transportation and All Other Segments and related corporate items and eliminations.

Machinery, Energy & Transportation Other Operating (Income) Expenses - Comprised primarily of gains/losses on 12. disposal of long-lived assets, gains/losses on divestitures, long-lived asset impairment charges and legal settlements. Restructuring costs, which are classified as other operating expenses on the Results of Operations, are presented separately on the Operating Profit Comparison.

Manufacturing Costs - Manufacturing costs exclude the impacts of currency and represent the volume-adjusted 13. change for variable costs and the absolute dollar change for period manufacturing costs. Variable manufacturing costs are defined as having a direct relationship with the volume of production. This includes material costs, direct labor and other costs that vary directly with production volume such as freight, power to operate machines and supplies that are consumed in the manufacturing process. Period manufacturing costs support production but are defined as generally not having a direct relationship to short-term changes in volume. Examples include machinery and equipment repair, depreciation on manufacturing assets, facility support, procurement, factory scheduling, manufacturing planning and operations management.

Price Realization - The impact of net price changes excluding currency and new product introductions. Price 14. realization includes geographic mix of sales, which is the impact of changes in the relative weighting of sales prices between geographic regions.

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, hard rock vehicles, longwall miners, electric rope shovels, draglines, 15. hydraulic shovels, drills, highwall miners, large wheel loaders, off-highway trucks, articulated trucks, wheel tractor scrapers, wheel dozers, select work tools, machinery components and electronics and control systems. Resource Industries also manages areas that provide services to other parts of the company, including integrated manufacturing and research and development. In addition, segment profit includes the impact from divestiture of portions of the Bucyrus distribution business.

Restructuring Costs - Primarily costs for employee separations, long-lived asset impairments and contract terminations. Beginning in the third quarter of 2015, restructuring costs also include other exit-related costs 16. associated with the consolidation of manufacturing facilities as we expect these costs to be significant as we implement the restructuring plan that was announced on September 24. Other exit-related costs are primarily for equipment relocation and accelerated depreciation.

Sales Volume - With respect to sales and revenues, sales volume represents the impact of changes in the quantities sold for Machinery, Energy & Transportation as well as the incremental revenue impact of new product introductions, including emissions-related product updates. With respect to operating profit, sales volume 17. represents the impact of changes in the quantities sold for Machinery, Energy & Transportation combined with product mix as well as the net operating profit impact of new product introductions, including emissions-related product updates. Product mix represents the net operating profit impact of changes in the relative weighting of Machinery, Energy & Transportation sales with respect to total sales.

## LIQUIDITY AND CAPITAL RESOURCES

## Sources of funds

We generate significant capital resources from operating activities, which are the primary source of funding for our Machinery, Energy & Transportation operations. Funding for these businesses is also available from commercial paper and long-term debt issuances. Financial Products' operations are funded primarily from commercial paper, term debt issuances and collections from the existing portfolio. Throughout the first nine months of 2015, we experienced favorable liquidity conditions globally in both our Machinery, Energy & Transportation and Financial Products' operations. On a consolidated basis, we ended the first nine months of 2015 with \$6.05 billion of cash, a decrease of \$1.30 billion from year-end 2014. We intend to maintain a strong cash and liquidity position. Our cash balances are held in numerous locations throughout the world with approximately \$4.8 billion held by our non-U.S. subsidiaries. Amounts held by non-U.S. subsidiaries are available for general corporate use; however, if all of the cash held by non-U.S. subsidiaries were repatriated to the United States, additional U.S. tax would be payable.

Consolidated operating cash flow for the first nine months of 2015 was \$4.86 billion, down from \$6.19 billion for the same period last year. The decrease was primarily due to unfavorable changes to accounts payable (primarily due to decreased material

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purchases) as well as higher short-term incentive compensation payments in 2015. In addition, lower profit in 2015, which includes lower accruals for short-term incentive compensation payments, unfavorably impacted operating cash flow. Partially offsetting these items were favorable changes to inventory. During the first nine months of 2015, inventory decreased in conjunction with lower demand levels, while during the first nine months of 2014 inventory increased. We expect additional declines in inventory during the remainder of 2015 as a result of our continued focus on operational improvements and lower sales expectations for 2016. See further discussion of operating cash flow under Machinery, Energy & Transportation and Financial Products.

Total debt as of September 30, 2015 was \$37.54 billion, a decrease of \$1.74 billion from year-end 2014. Debt related to Financial Products decreased \$1.26 billion, reflecting decreasing portfolio balances. Debt related to Machinery, Energy & Transportation decreased \$487 million in the first nine months of 2015, primarily due to the maturity of a long-term debt issuance.

We have three global credit facilities with a syndicate of banks totaling \$10.50 billion (Credit Facility) available in the aggregate to both Caterpillar and Cat Financial for general liquidity purposes. Based on management's allocation decision, which can be revised from time to time, the portion of the Credit Facility available to Machinery, Energy & Transportation as of September 30, 2015 was \$2.75 billion. Our three Global Credit Facilities are:

In September 2015, we entered into a 364-day facility. The 364-day facility of \$3.15 billion (of which \$0.82 billion is available to Machinery, Energy, & Transportation) expires in September 2016.

In September 2015, we amended and restated the 2010 four-year facility (as amended and restated, the "three-year facility"). The three-year facility of \$2.73 billion (of which \$0.72 billion is available to Machinery, Energy & Transportation) now expires in September 2018.

In September 2015, we amended and restated the 2011 five-year facility (as amended and restated, the "five-year facility"). The five-year facility of \$4.62 billion (of which \$1.21 billion is available to Machinery, Energy & Transportation) now expires in September 2020.

At September 30, 2015, Caterpillar's consolidated net worth was \$21.01 billion, which was above the \$9.00 billion required under the Credit Facility. The consolidated net worth is defined as the consolidated stockholders' equity including preferred stock but excluding the pension and other postretirement benefits balance within Accumulated other comprehensive income (loss).

At September 30, 2015, Cat Financial's covenant interest coverage ratio was 2.09 to 1. This is above the 1.15 to 1 minimum ratio calculated as (1) profit excluding income taxes, interest expense and net gain/(loss) from interest rate derivatives to (2) interest expense calculated at the end of each calendar quarter for the rolling four quarter period then most recently ended, required by the Credit Facility.

In addition, at September 30, 2015, Cat Financial's covenant leverage ratio was 7.49 to 1. This is below the maximum ratio of debt to net worth of 10 to 1, calculated (1) on a monthly basis as the average of the leverage ratios determined on the last day of each of the six preceding calendar months and (2) at each December 31, required by the Credit Facility.

In the event Caterpillar or Cat Financial does not meet one or more of their respective financial covenants under the Credit Facility in the future (and are unable to obtain a consent or waiver), the syndicate of banks may terminate the commitments allocated to the party that does not meet its covenants. Additionally, in such event, certain of Cat Financial's other lenders under other loan agreements where similar financial covenants or cross default provisions are applicable, may, at their election, choose to pursue remedies under those loan agreements, including accelerating the repayment of outstanding borrowings. At September 30, 2015, there were no borrowings under the Credit Facility.

Our total credit commitments and available credit as of September 30, 2015 were:

(Millions of dollars)	September 30, 2015		
	Consolidated	Machinery, Energy & Transportation	Financial Products
Credit lines available:			
Global credit facilities	\$10,500	\$2,750	\$7,750
Other external	3,796	179	3,617

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Total credit lines available	14,296	2,929	11,367	
Less: Commercial paper outstanding	(5,162	) —	(5,162	)
Less: Utilized credit	(1,302	) (12	) (1,290	)
Available credit	\$7,832	\$2,917	\$4,915	

The other external consolidated credit lines with banks as of September 30, 2015 totaled \$3.80 billion. These committed and uncommitted credit lines, which may be eligible for renewal at various future dates or have no specified expiration date, are used

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primarily by our subsidiaries for local funding requirements. Caterpillar or Cat Financial may guarantee subsidiary borrowings under these lines.

In the event that Caterpillar or Cat Financial, or any of their debt securities, experiences a credit rating downgrade, it would likely result in an increase in our borrowing costs and make access to certain credit markets more difficult. In the event economic conditions deteriorate such that access to debt markets becomes unavailable, our Machinery, Energy & Transportation's operations would rely on cash flow from operations, use of existing cash balances, borrowings from Cat Financial and access to our Credit Facility. Our Financial Products' operations would rely on cash flow from its existing portfolio, existing cash balances, access to our Credit Facility and other credit line facilities of Cat Financial and potential borrowings from Caterpillar. In addition, we maintain a support agreement with Cat Financial, which requires Caterpillar to remain the sole owner of Cat Financial and may, under certain circumstances, require Caterpillar to make payments to Cat Financial should Cat Financial fail to maintain certain financial ratios.

### Machinery, Energy & Transportation

Net cash provided by operating activities was \$3.45 billion in the first nine months of 2015, compared with \$5.38 billion for the same period in 2014. The decrease was primarily due to unfavorable changes to accounts payable (primarily due to decreased material purchases) as well as higher short-term incentive compensation payments in 2015. In addition, lower profit in 2015, which includes lower accruals for short-term incentive compensation payments, unfavorably impacted operating cash flow. Partially offsetting these items were favorable changes to inventory. During the first nine months of 2015, inventory decreased in conjunction with lower demand levels, while during the first nine months of 2014 inventory increased. We expect additional declines in inventory during the remainder of 2015 as a result of our continued focus on operational improvements and lower sales expectations for 2016.

Net cash used for investing activities in the first nine months of 2015 was \$1.06 billion, compared with net cash used of \$1.27 billion in the first nine months of 2014. The favorable change was primarily due to lower investments in held-to-maturity securities during the first nine months of 2015.

Net cash used for financing activities during the first nine months of 2015 was \$3.79 billion, compared with net cash used of \$3.85 billion in the first nine months of 2014. The favorable change was primarily due to lower share repurchases in the first nine months of 2015 compared to the same period a year ago. Partially offsetting this item was the issuance of long-term debt in May of 2014.

Our priorities for the use of cash are to maintain a strong financial position in support of our credit rating, provide capital to support growth, appropriately fund employee benefit plans, pay dividends and repurchase common stock.

Strong financial position – A key measure of Machinery, Energy & Transportation's financial strength used by both management and our credit rating agencies is Machinery, Energy & Transportation's debt-to-capital ratio.

Debt-to-capital is defined as short-term borrowings, long-term debt due within one year and long-term debt due after one year (debt) divided by the sum of debt and stockholders' equity. Debt also includes Machinery, Energy & Transportation borrowings from Financial Products. The debt-to-capital ratio for Machinery, Energy & Transportation was 37.4 percent at September 30, 2015, within our target range of 30 to 45 percent. The Machinery, Energy & Transportation's debt-to-capital ratio was also 37.4 percent at December 31, 2014.

Capital to support growth – Capital expenditures were \$1.10 billion during the first nine months of 2015, compared to \$1.13 billion for the same period in 2014. We expect capital expenditures in 2015 to be about the same as 2014 capital expenditures of \$1.6 billion.

Appropriately funded employee benefit plans – We made \$149 million of contributions to our pension plans during the first nine months of 2015. We currently anticipate full-year 2015 contributions of approximately \$180 million, all of which are required. We made \$455 million of contributions to our pension plans during the first nine months of 2014.

Paying dividends – Dividends paid totaled \$1.31 billion in the first nine months of 2015, representing 70 cents per share paid in the first and second quarters and 77 cents per share paid in the third quarter. Each quarter, our Board of Directors reviews the company's dividend for the applicable quarter. The Board evaluates the financial condition of the company and considers the economic outlook, corporate cash flow, the company's liquidity needs, and the health and stability of global credit markets to determine whether to maintain or change the quarterly dividend.

Common stock repurchases – In January 2014, the Board of Directors approved an authorization to repurchase up to \$10 billion of Caterpillar common stock (the 2014 Authorization), which will expire on December 31, 2018. As of January 1, 2015, \$7.5 billion remained available under the 2014 Authorization. In the first nine months of 2015, we repurchased \$2.03 billion of Caterpillar common stock, leaving approximately \$5.5 billion available under the 2014 Authorization. Caterpillar's basic shares outstanding as of September 30, 2015 were approximately 582 million.

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### Financial Products

Financial Products' operating cash flow was \$1.10 billion in the first nine months of 2015, compared with \$1.14 billion for the same period a year ago. Net cash used for investing activities was \$365 million for the first nine months of 2015, compared with \$1.81 billion for the same period in 2014. The change was primarily due to lower levels of new financing at Cat Financial. Net cash used by financing activities was \$492 million for the first nine months of 2015, compared with \$524 million net cash provided by financing activities for the same period in 2014. The change was primarily due to lower funding requirements.

### CRITICAL ACCOUNTING POLICIES

For a discussion of the Company's critical accounting policies, see Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2014 Annual Report on Form 10-K.

### GLOBAL WORKFORCE

Caterpillar worldwide, full-time employment was 108,922 at the end of the third quarter of 2015 compared with 114,352 at the end of the third quarter of 2014, a decrease of 5,430 full-time employees. The flexible workforce decreased by 2,658 for a total decrease in the global workforce of 8,088. The decrease was primarily the result of restructuring programs and lower production volumes.

### OTHER MATTERS

#### Environmental and Legal Matters

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

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

On January 8, 2015, the Company received a grand jury subpoena from the U.S. District Court for the Central District of Illinois. The subpoena requests documents and information from the Company relating to, among other things, financial information concerning U.S. and non-U.S. Caterpillar subsidiaries (including undistributed profits of non-U.S. subsidiaries and the movement of cash among U.S. and non-U.S. subsidiaries). The Company has received additional subpoenas relating to this investigation requesting additional documents and information relating to, among other things, the purchase and resale of replacement parts by Caterpillar Inc. and non-U.S. Caterpillar subsidiaries,

dividend distributions of certain non-U.S. Caterpillar subsidiaries, and Caterpillar SARL and related structures. The Company is cooperating with this investigation. The Company is unable to predict the outcome or reasonably estimate any potential loss; however, we currently believe that this matter will not have a material adverse effect on the Company's consolidated results of operations, financial position or liquidity.

On September 12, 2014, the SEC notified the Company that it was conducting an informal investigation relating to Caterpillar SARL and related structures. The SEC asked the Company to preserve relevant documents and, on a voluntary basis, the Company made a presentation to the staff of the SEC on these topics and is producing documents responsive to a voluntary request made by the SEC. The Company is cooperating with the SEC regarding this investigation. The Company is unable to predict the outcome or reasonably estimate any potential loss; however, we currently believe that this matter will not have a material adverse effect on the Company's consolidated results of operations, financial position or liquidity.



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On September 10, 2014, the SEC issued to Caterpillar a subpoena seeking information concerning the Company's accounting for the goodwill relating to its acquisition of Bucyrus International Inc. in 2011 and related matters. The Company has received additional subpoenas relating to this investigation, and the Company is cooperating with the SEC regarding its ongoing investigation. The Company is unable to predict the outcome or reasonably estimate any potential loss; however, we currently believe that this matter will not have a material adverse effect on the Company's consolidated results of operations, financial position or liquidity.

On March 20, 2014, Brazil's Administrative Council for Economic Defense (CADE) published a Technical Opinion which named 18 companies and over 100 individuals as defendants, including two subsidiaries of Caterpillar Inc., MGE - Equipamentos e Serviços Ferroviários Ltda. (MGE) and Caterpillar Brasil Ltda. The publication of the Technical Opinion opened CADE's official administrative investigation into allegations that the defendants participated in anticompetitive bid activity for the construction and maintenance of metro and train networks in Brazil. While companies cannot be held criminally liable for anticompetitive conduct in Brazil, criminal charges have been brought against two current employees of MGE and one former employee of MGE involving the same conduct alleged by CADE. The Company has responded to all requests for information from the authorities. The Company is unable to predict the outcome or reasonably estimate the potential loss; however, we currently believe that this matter will not have a material adverse effect on the Company's consolidated results of operations, financial position or liquidity.

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

In addition, we are involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance liability (including claimed asbestos and welding fumes exposure), contracts, employment issues, environmental matters or intellectual property rights. The aggregate range of reasonably possible losses in excess of accrued liabilities, if any, associated with these unresolved legal actions is not material. In some cases, we cannot reasonably estimate a range of loss because there is insufficient information regarding the matter. However, we believe 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.

## Retirement Benefits

Accounting guidance requires recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Based on market conditions as of September 30, 2015, we would be required to recognize an increase in our underfunded status of approximately \$800 million at December 31, 2015. This would result in an increase in our Liability for postemployment benefits of approximately \$800 million and a decrease in Accumulated other comprehensive income (loss) of approximately \$500 million, net of tax. The increase in our underfunded status is due to year-to-date negative plan asset returns, partially offset by higher discount rates at

September 30, 2015 (approximately 4.11 percent for our U.S. plans) as compared to the discount rates used at December 31, 2014. It is difficult to predict the adjustment amount, as it is dependent on several factors including the discount rate, actual returns on plan assets and other actuarial assumptions. Final determination will only be known on the measurement date, which is December 31, 2015.

#### Order Backlog

The dollar amount of backlog believed to be firm was approximately \$13.7 billion at September 30, 2015 and \$14.8 billion at June 30, 2015. This represents about a \$1.1 billion reduction from the end of the second quarter of 2015. The decline was about equally split between Energy & Transportation and Resource Industries. The dollar amount of backlog believed to be firm was approximately \$17.3 billion at December 31, 2014. Of the total backlog, approximately \$3.8 billion at September 30, 2015 was not expected to be filled in the following twelve months.

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## NON-GAAP FINANCIAL MEASURES

The following definitions are provided for the non-GAAP financial measures used in this report. These non-GAAP financial measures have no standardized meaning prescribed by U.S. GAAP and therefore are unlikely to be comparable to the calculation of similar measures for other companies. Management does not intend for these items to be considered in isolation or as a substitute for the related GAAP measures.

We have incurred restructuring costs during the three and nine month periods ending September 30, 2015 and 2014. We believe it is important to separately quantify the profit-per-share impact of restructuring costs in order for our results to be meaningful to our readers. Reconciliation of profit per share excluding restructuring costs to the most directly comparable GAAP measure, profit per share - diluted is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Profit per share - diluted	\$0.62	\$1.63	\$3.62	\$4.64
Per share restructuring costs	0.13	0.09	0.27	0.39
Profit per share excluding restructuring costs	\$0.75	\$1.72	\$3.89	\$5.03

## Supplemental Consolidating Data

We are providing supplemental consolidating data for the purpose of additional analysis. The data has been grouped as follows:

Consolidated – Caterpillar Inc. and its subsidiaries.

Machinery, Energy & Transportation – Caterpillar defines Machinery, Energy & Transportation as it is presented in the supplemental data as Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis. Machinery, Energy & Transportation information relates to our design, manufacturing and marketing of our products. Financial Products information relates to the financing to customers and dealers for the purchase and lease of Caterpillar and other equipment. The nature of these businesses is different, especially with regard to the financial position and cash flow items. Caterpillar management utilizes this presentation internally to highlight these differences. We also believe this presentation will assist readers in understanding our business.

Financial Products – Our finance and insurance subsidiaries, primarily Cat Financial and Insurance Services.

Consolidating Adjustments – Eliminations of transactions between Machinery, Energy & Transportation and Financial Products.

Pages 82 to 89 reconcile Machinery, Energy & Transportation with Financial Products on the equity basis to Caterpillar Inc. consolidated financial information.

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Caterpillar Inc.  
Supplemental Data for Results of Operations  
For the Three Months Ended September 30, 2015  
(Unaudited)  
(Millions of dollars)

	Consolidated	Supplemental Consolidating Data Machinery, Energy & Transportation <sup>1</sup>	Financial Products	Consolidating Adjustments	
Sales and revenues:					
Sales of Machinery, Energy & Transportation	\$ 10,285	\$10,285	\$—	\$—	
Revenues of Financial Products	677	—	772	(95	) <sup>2</sup>
Total sales and revenues	10,962	10,285	772	(95	)
Operating costs:					
Cost of goods sold	7,954	7,953	—	1	) <sup>3</sup>
Selling, general and administrative expenses	1,225	1,111	139	(25	) <sup>3</sup>
Research and development expenses	534	534	—	—	
Interest expense of Financial Products	142	—	144	(2	) <sup>4</sup>
Other operating (income) expenses	394	97	304	(7	) <sup>3</sup>
Total operating costs	10,249	9,695	587	(33	)
Operating profit	713	590	185	(62	)
Interest expense excluding Financial Products	127	138	—	(11	) <sup>4</sup>
Other income (expense)	(68	) (140	) 21	51	) <sup>5</sup>
Consolidated profit before taxes	518	312	206	—	
Provision (benefit) for income taxes	144	82	62	—	
Profit of consolidated companies	374	230	144	—	
Equity in profit (loss) of unconsolidated affiliated companies	(3	) (3	) —	—	
Equity in profit of Financial Products' subsidiaries	—	144	—	(144	) <sup>6</sup>
Profit of consolidated and affiliated companies	371	371	144	(144	)
Less: Profit (loss) attributable to noncontrolling interests	3	3	—	—	
Profit <sup>7</sup>	\$ 368	\$368	\$144	\$ (144	)

<sup>1</sup> Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

<sup>2</sup> Elimination of Financial Products' revenues earned from Machinery, Energy & Transportation.

<sup>3</sup> Elimination of net expenses recorded by Machinery, Energy & Transportation paid to Financial Products.

<sup>4</sup> Elimination of interest expense recorded between Financial Products and Machinery, Energy & Transportation.

<sup>5</sup>

Elimination of discount recorded by Machinery, Energy & Transportation on receivables sold to Financial Products and of interest earned between Machinery, Energy & Transportation and Financial Products.

<sup>6</sup> Elimination of Financial Products' profit due to equity method of accounting.

<sup>7</sup> Profit attributable to common stockholders.

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Caterpillar Inc.  
Supplemental Data for Results of Operations  
For the Nine Months Ended September 30, 2015  
(Unaudited)  
(Millions of dollars)

		Supplemental Consolidating Data Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	
	Consolidated	<sup>1</sup>			
Sales and revenues:					
Sales of Machinery, Energy & Transportation	\$ 33,829	\$33,829	\$—	\$—	
Revenues of Financial Products	2,152	—	2,390	(238	) <sup>2</sup>
Total sales and revenues	35,981	33,829	2,390	(238	)
Operating costs:					
Cost of goods sold	25,559	25,559	—	—	
Selling, general and administrative expenses	3,932	3,505	444	(17	) <sup>3</sup>
Research and development expenses	1,612	1,612	—	—	
Interest expense of Financial Products	440	—	445	(5	) <sup>4</sup>
Other operating (income) expenses	1,068	185	903	(20	) <sup>3</sup>
Total operating costs	32,611	30,861	1,792	(42	)
Operating profit	3,370	2,968	598	(196	)
Interest expense excluding Financial Products	381	413	—	(32	) <sup>4</sup>
Other income (expense)	76	(110	) 22	164	<sup>5</sup>
Consolidated profit before taxes	3,065	2,445	620	—	
Provision (benefit) for income taxes	870	681	189	—	
Profit of consolidated companies	2,195	1,764	431	—	
Equity in profit (loss) of unconsolidated affiliated companies	1	1	—	—	
Equity in profit of Financial Products' subsidiaries	—	429	—	(429	) <sup>6</sup>
Profit of consolidated and affiliated companies	2,196	2,194	431	(429	)
Less: Profit (loss) attributable to noncontrolling interests	7	5	2	—	
Profit <sup>7</sup>	\$ 2,189	\$2,189	\$429	\$ (429	)

<sup>1</sup> Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

<sup>2</sup> Elimination of Financial Products' revenues earned from Machinery, Energy & Transportation.

<sup>3</sup> Elimination of net expenses recorded by Machinery, Energy & Transportation paid to Financial Products.

<sup>4</sup> Elimination of interest expense recorded between Financial Products and Machinery, Energy & Transportation.

<sup>5</sup> Elimination of discount recorded by Machinery, Energy & Transportation on receivables sold to Financial Products and of interest earned between Machinery, Energy & Transportation and Financial Products.

<sup>6</sup> Elimination of Financial Products' profit due to equity method of accounting.

<sup>7</sup> Profit attributable to common stockholders.

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Caterpillar Inc.  
Supplemental Data for Results of Operations  
For the Three Months Ended September 30, 2014  
(Unaudited)  
(Millions of dollars)

	Consolidated	Supplemental Consolidating Data Machinery, Energy & Transportation <sup>1</sup>	Financial Products	Consolidating Adjustments	
Sales and revenues:					
Sales of Machinery, Energy & Transportation	\$ 12,758	\$12,758	\$—	\$—	
Revenues of Financial Products	791	—	875	(84)	) <sup>2</sup>
Total sales and revenues	13,549	12,758	875	(84)	)
Operating costs:					
Cost of goods sold	9,634	9,634	—	—	
Selling, general and administrative expenses	1,446	1,278	172	(4)	) <sup>3</sup>
Research and development expenses	533	533	—	—	
Interest expense of Financial Products	157	—	158	(1)	) <sup>4</sup>
Other operating (income) expenses	387	69	326	(8)	) <sup>3</sup>
Total operating costs	12,157	11,514	656	(13)	)
Operating profit	1,392	1,244	219	(71)	)
Interest expense excluding Financial Products	128	139	—	(11)	) <sup>4</sup>
Other income (expense)	117	53	4	60	) <sup>5</sup>
Consolidated profit before taxes	1,381	1,158	223	—	
Provision (benefit) for income taxes	364	304	60	—	
Profit of consolidated companies	1,017	854	163	—	
Equity in profit (loss) of unconsolidated affiliated companies	4	4	—	—	
Equity in profit of Financial Products' subsidiaries	—	161	—	(161)	) <sup>6</sup>
Profit of consolidated and affiliated companies	1,021	1,019	163	(161)	)
Less: Profit (loss) attributable to noncontrolling interests	4	2	2	—	
Profit <sup>7</sup>	\$ 1,017	\$1,017	\$161	\$ (161)	)

<sup>1</sup> Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

<sup>2</sup> Elimination of Financial Products' revenues earned from Machinery, Energy & Transportation.

<sup>3</sup> Elimination of net expenses recorded by Machinery, Energy & Transportation paid to Financial Products.

<sup>4</sup> Elimination of interest expense recorded between Financial Products and Machinery, Energy & Transportation.

<sup>5</sup>



Elimination of discount recorded by Machinery, Energy & Transportation on receivables sold to Financial Products and of interest earned between Machinery, Energy & Transportation and Financial Products.

<sup>6</sup> Elimination of Financial Products' profit due to equity method of accounting.

<sup>7</sup> Profit attributable to common stockholders.

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Caterpillar Inc.  
Supplemental Data for Results of Operations  
For the Nine Months Ended September 30, 2014  
(Unaudited)  
(Millions of dollars)

		Supplemental Consolidating Data Machinery, Energy & Transportation <sup>1</sup>	Financial Products	Consolidating Adjustments	
Sales and revenues:					
Sales of Machinery, Energy & Transportation	\$ 38,642	\$38,642	\$—	\$—	
Revenues of Financial Products	2,298	—	2,557	(259	) <sup>2</sup>
Total sales and revenues	40,940	38,642	2,557	(259	)
Operating costs:					
Cost of goods sold	29,268	29,268	—	—	
Selling, general and administrative expenses	4,175	3,717	477	(19	) <sup>3</sup>
Research and development expenses	1,557	1,557	—	—	
Interest expense of Financial Products	470	—	475	(5	) <sup>4</sup>
Other operating (income) expenses	1,205	300	929	(24	) <sup>3</sup>
Total operating costs	36,675	34,842	1,881	(48	)
Operating profit	4,265	3,800	676	(211	)
Interest expense excluding Financial Products	358	390	—	(32	) <sup>4</sup>
Other income (expense)	236	30	27	179	<sup>5</sup>
Consolidated profit before taxes	4,143	3,440	703	—	
Provision (benefit) for income taxes	1,201	1,003	198	—	
Profit of consolidated companies	2,942	2,437	505	—	
Equity in profit (loss) of unconsolidated affiliated companies	6	6	—	—	
Equity in profit of Financial Products' subsidiaries	—	498	—	(498	) <sup>6</sup>
Profit of consolidated and affiliated companies	2,948	2,941	505	(498	)
Less: Profit (loss) attributable to noncontrolling interests	10	3	7	—	
Profit <sup>7</sup>	\$ 2,938	\$2,938	\$498	\$ (498	)

<sup>1</sup> Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

<sup>2</sup> Elimination of Financial Products' revenues earned from Machinery, Energy & Transportation.

<sup>3</sup> Elimination of net expenses recorded by Machinery, Energy & Transportation paid to Financial Products.

<sup>4</sup> Elimination of interest expense recorded between Financial Products and Machinery, Energy & Transportation.

- <sup>5</sup> Elimination of discount recorded by Machinery, Energy & Transportation on receivables sold to Financial Products and of interest earned between Machinery, Energy & Transportation and Financial Products.
  - <sup>6</sup> Elimination of Financial Products' profit due to equity method of accounting.
  - <sup>7</sup> Profit attributable to common stockholders.
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Caterpillar Inc.  
Supplemental Data for Financial Position  
At September 30, 2015  
(Unaudited)  
(Millions of dollars)

	Consolidated	Supplemental Consolidating Data Machinery, Energy & Transportation 1	Financial Products	Consolidating Adjustments	
Assets					
Current assets:					
Cash and short-term investments	\$6,046	\$4,808	\$1,238	\$ —	
Receivables – trade and other	6,783	3,717	327	2,739	<sup>2,3</sup>
Receivables – finance	8,862	—	12,777	(3,915)	) <sup>3</sup>
Deferred and refundable income taxes	1,446	1,400	46	—	
Prepaid expenses and other current assets	993	360	644	(11)	) <sup>4</sup>
Inventories	11,150	11,150	—	—	
Total current assets	35,280	21,435	15,032	(1,187)	)
Property, plant and equipment – net	15,955	11,816	4,139	—	
Long-term receivables – trade and other	1,266	120	242	904	<sup>2,3</sup>
Long-term receivables – finance	13,551	—	14,486	(935)	) <sup>3</sup>
Investments in unconsolidated affiliated companies	231	231	—	—	
Investments in Financial Products subsidiaries	—	4,160	—	(4,160)	) <sup>5</sup>
Noncurrent deferred and refundable income taxes	1,559	2,151	108	(700)	) <sup>6</sup>
Intangible assets	2,841	2,835	6	—	
Goodwill	6,546	6,529	17	—	
Other assets	1,740	369	1,384	(13)	) <sup>4</sup>
Total assets	\$78,969	\$49,646	\$35,414	\$ (6,091)	)
Liabilities					
Current liabilities:					
Short-term borrowings	\$6,080	\$12	\$7,161	\$ (1,093)	) <sup>7</sup>
Accounts payable	5,206	5,093	196	(83)	) <sup>8</sup>
Accrued expenses	3,306	3,038	268	—	
Accrued wages, salaries and employee benefits	1,678	1,645	33	—	
Customer advances	1,610	1,610	—	—	
Other current liabilities	1,698	1,229	489	(20)	) <sup>6,9</sup>
Long-term debt due within one year	6,255	516	5,739	—	
Total current liabilities	25,833	13,143	13,886	(1,196)	)
Long-term debt due after one year	25,208	9,028	16,211	(31)	) <sup>7</sup>
Liability for postemployment benefits	8,638	8,638	—	—	
Other liabilities	3,322	2,869	1,157	(704)	) <sup>6,9</sup>
Total liabilities	63,001	33,678	31,254	(1,931)	)
Commitments and contingencies					
Stockholders' equity					

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Common stock	5,190	5,190	911	(911	) <sup>5</sup>
Treasury stock	(17,642	) (17,642	) —	—	
Profit employed in the business	35,191	35,191	3,935	(3,935	) <sup>5</sup>
Accumulated other comprehensive income (loss)	(6,843	) (6,843	) (815	) 815	<sup>5</sup>
Noncontrolling interests	72	72	129	(129	) <sup>5</sup>
Total stockholders' equity	15,968	15,968	4,160	(4,160	)
Total liabilities and stockholders' equity	\$78,969	\$49,646	\$35,414	\$ (6,091	)

<sup>1</sup> Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

<sup>2</sup> Elimination of receivables between Machinery, Energy & Transportation and Financial Products.

<sup>3</sup> Reclassification of Machinery, Energy & Transportation's trade receivables purchased by Financial Products and Financial Products' wholesale inventory receivables.

<sup>4</sup> Elimination of Machinery, Energy & Transportation's insurance premiums that are prepaid to Financial Products.

<sup>5</sup> Elimination of Financial Products' equity which is accounted for by Machinery, Energy & Transportation on the equity basis.

<sup>6</sup> Reclassification reflecting required netting of deferred tax assets / liabilities by taxing jurisdiction.

<sup>7</sup> Elimination of debt between Machinery, Energy & Transportation and Financial Products.

<sup>8</sup> Elimination of payables between Machinery, Energy & Transportation and Financial Products.

<sup>9</sup> Elimination of prepaid insurance in Financial Products' other liabilities.

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Caterpillar Inc.  
Supplemental Data for Financial Position  
At December 31, 2014  
(Unaudited)  
(Millions of dollars)

	Consolidated	Supplemental Consolidating Data Machinery, Energy & Transportation 1	Financial Products	Consolidating Adjustments	
Assets					
Current assets:					
Cash and short-term investments	\$7,341	\$6,317	\$1,024	\$ —	
Receivables – trade and other	7,737	4,215	300	3,222	<sup>2,3</sup>
Receivables – finance	9,027	—	13,458	(4,431)	) <sup>3</sup>
Deferred and refundable income taxes	1,739	1,644	95	—	
Prepaid expenses and other current assets	818	399	432	(13)	) <sup>4</sup>
Inventories	12,205	12,205	—	—	
Total current assets	38,867	24,780	15,309	(1,222)	)
Property, plant and equipment – net	16,577	12,392	4,185	—	
Long-term receivables – trade and other	1,364	154	268	942	<sup>2,3</sup>
Long-term receivables – finance	14,644	—	15,618	(974)	) <sup>3</sup>
Investments in unconsolidated affiliated companies	257	257	—	—	
Investments in Financial Products subsidiaries	—	4,488	—	(4,488)	) <sup>5</sup>
Noncurrent deferred and refundable income taxes	1,404	1,980	98	(674)	) <sup>6</sup>
Intangible assets	3,076	3,069	7	—	
Goodwill	6,694	6,677	17	—	
Other assets	1,798	391	1,407	—	
Total assets	\$84,681	\$54,188	\$36,909	\$ (6,416)	)
Liabilities					
Current liabilities:					
Short-term borrowings	\$4,708	\$9	\$5,807	\$ (1,108)	) <sup>7</sup>
Accounts payable	6,515	6,436	180	(101)	) <sup>8</sup>
Accrued expenses	3,548	3,273	288	(13)	) <sup>9</sup>
Accrued wages, salaries and employee benefits	2,438	2,396	42	—	
Customer advances	1,697	1,697	—	—	
Dividends payable	424	424	—	—	
Other current liabilities	1,754	1,361	402	(9)	) <sup>6</sup>
Long-term debt due within one year	6,793	510	6,283	—	
Total current liabilities	27,877	16,106	13,002	(1,231)	)
Long-term debt due after one year	27,784	9,525	18,291	(32)	) <sup>7</sup>
Liability for postemployment benefits	8,963	8,963	—	—	
Other liabilities	3,231	2,768	1,128	(665)	) <sup>6</sup>
Total liabilities	67,855	37,362	32,421	(1,928)	)
Commitments and contingencies					

Stockholders' equity					
Common stock	5,016	5,016	911	(911	) <sup>5</sup>
Treasury stock	(15,726	) (15,726	) —	—	
Profit employed in the business	33,887	33,887	3,756	(3,756	) <sup>5</sup>
Accumulated other comprehensive income (loss)	(6,431	) (6,431	) (311	) 311	<sup>5</sup>
Noncontrolling interests	80	80	132	(132	) <sup>5</sup>
Total stockholders' equity	16,826	16,826	4,488	(4,488	)
Total liabilities and stockholders' equity	\$84,681	\$54,188	\$36,909	\$ (6,416	)

<sup>1</sup> Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

<sup>2</sup> Elimination of receivables between Machinery, Energy & Transportation and Financial Products.

<sup>3</sup> Reclassification of Machinery, Energy & Transportation's trade receivables purchased by Financial Products and Financial Products' wholesale inventory receivables.

<sup>4</sup> Elimination of Machinery, Energy & Transportation's insurance premiums that are prepaid to Financial Products.

<sup>5</sup> Elimination of Financial Products' equity which is accounted for by Machinery, Energy & Transportation on the equity basis.

<sup>6</sup> Reclassification reflecting required netting of deferred tax assets / liabilities by taxing jurisdiction.

<sup>7</sup> Elimination of debt between Machinery, Energy & Transportation and Financial Products.

<sup>8</sup> Elimination of payables between Machinery, Energy & Transportation and Financial Products.

<sup>9</sup> Elimination of prepaid insurance in Financial Products' accrued expenses.

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Caterpillar Inc.  
Supplemental Data for Cash Flow  
For the Nine Months Ended September 30, 2015  
(Unaudited)  
(Millions of dollars)

	Consolidated	Supplemental Consolidating Data Machinery, Energy & Transportation 1	Financial Products	Consolidating Adjustments	
Cash flow from operating activities:					
Profit of consolidated and affiliated companies	\$2,196	\$2,194	\$431	\$ (429	) <sup>2</sup>
Adjustments for non-cash items:					
Depreciation and amortization	2,272	1,608	664	—	
Undistributed profit of Financial Products	—	(179	) —	179	<sup>3</sup>
Other	354	252	(92	) 194	<sup>4</sup>
Changes in assets and liabilities, net of acquisitions and divestitures:					
Receivables - trade and other	614	342	(65	) 337	<sup>4, 5</sup>
Inventories	840	845	—	(5	) <sup>4</sup>
Accounts payable	(893	) (988	) 56	39	<sup>4</sup>
Accrued expenses	(25	) (41	) 3	13	<sup>4</sup>
Accrued wages, salaries and employee benefits	(704	) (695	) (9	) —	
Customer advances	(36	) (36	) —	—	
Other assets – net	(108	) (203	) 58	37	<sup>4</sup>
Other liabilities – net	354	347	57	(50	) <sup>4</sup>
Net cash provided by (used for) operating activities	4,864	3,446	1,103	315	
Cash flow from investing activities:					
Capital expenditures - excluding equipment leased to others	(946	) (938	) (9	) 1	<sup>4</sup>
Expenditures for equipment leased to others	(1,251	) (157	) (1,116	) 22	<sup>4</sup>
Proceeds from disposals of leased assets and property, plant and equipment	473	51	429	(7	) <sup>4</sup>
Additions to finance receivables	(7,099	) —	(9,434	) 2,335	<sup>5, 8</sup>
Collections of finance receivables	6,849	—	9,001	(2,152	) <sup>5</sup>
Net intercompany purchased receivables	—	—	758	(758	) <sup>5</sup>
Proceeds from sale of finance receivables	101	—	101	—	
Net intercompany borrowings	—	(21	) 1	20	<sup>6</sup>
Investments and acquisitions (net of cash acquired)	(140	) (140	) —	—	
Proceeds from sale of businesses and investments (net of cash sold)	174	180	—	(6	) <sup>8</sup>
Proceeds from sale of securities	238	16	222	—	
Investments in securities	(296	) (20	) (276	) —	
Other – net	(76	) (34	) (42	) —	
Net cash provided by (used for) investing activities	(1,973	) (1,063	) (365	) (545	)

Cash flow from financing activities:



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Dividends paid	(1,309	) (1,309	) (250	) 250	<sup>7</sup>
Distribution to noncontrolling interests	(7	) (7	) —	—	
Common stock issued, including treasury shares reissued	34	34	—	—	
Treasury shares purchased	(2,025	) (2,025	) —	—	
Excess tax benefit from stock-based compensation	20	20	—	—	
Net intercompany borrowings	—	(1	) 21	(20	) <sup>6</sup>
Proceeds from debt issued (original maturities greater than three months)	4,082	3	4,079	—	
Payments on debt (original maturities greater than three months)	(6,772	) (513	) (6,259	) —	
Short-term borrowings – net (original maturities three months or less)	1,922	5	1,917	—	
Net cash provided by (used for) financing activities	(4,055	) (3,793	) (492	) 230	
Effect of exchange rate changes on cash	(131	) (99	) (32	) —	
Increase (decrease) in cash and short-term investments	(1,295	) (1,509	) 214	—	
Cash and short-term investments at beginning of period	7,341	6,317	1,024	—	
Cash and short-term investments at end of period	\$6,046	\$4,808	\$1,238	\$—	

<sup>1</sup> Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

<sup>2</sup> Elimination of Financial Products' profit after tax due to equity method of accounting.

<sup>3</sup> Elimination of non-cash adjustment for the undistributed earnings from Financial Products.

<sup>4</sup> Elimination of non-cash adjustments and changes in assets and liabilities related to consolidated reporting.

<sup>5</sup> Reclassification of Financial Products' cash flow activity from investing to operating for receivables that arose from the sale of inventory.

<sup>6</sup> Elimination of net proceeds and payments to/from Machinery, Energy & Transportation and Financial Products.

<sup>7</sup> Elimination of dividend from Financial Products to Machinery, Energy & Transportation.

<sup>8</sup> Elimination of proceeds received from Financial Products related to Machinery, Energy & Transportation's sale of businesses and investments.

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Caterpillar Inc.

Supplemental Data for Cash Flow

For the Nine Months Ended September 30, 2014

(Unaudited)

(Millions of dollars)

	Consolidated	Supplemental Consolidating Data Machinery, Energy & Transportation 1	Financial Products	Consolidating Adjustments	
Cash flow from operating activities:					
Profit of consolidated and affiliated companies	\$2,948	\$2,941	\$505	\$ (498	) <sup>2</sup>
Adjustments for non-cash items:					
Depreciation and amortization	2,368	1,685	683	—	
Undistributed profit of Financial Products	—	(233	) —	233	<sup>3</sup>
Other	327	240	(94	) 181	<sup>4</sup>
Changes in assets and liabilities, net of acquisitions and divestitures:					
Receivables - trade and other	393	672	27	(306	) <sup>4, 5</sup>
Inventories	(859	) (849	) —	(10	) <sup>4</sup>
Accounts payable	518	508	(51	) 61	<sup>4</sup>
Accrued expenses	(44	) 18	(62	) —	
Accrued wages, salaries and employee benefits	648	646	2	—	
Customer advances	(132	) (132	) —	—	
Other assets – net	(104	) (94	) (21	) 11	<sup>4</sup>
Other liabilities – net	123	(18	) 152	(11	) <sup>4</sup>
Net cash provided by (used for) operating activities	6,186	5,384	1,141	(339	)
Cash flow from investing activities:					
Capital expenditures - excluding equipment leased to others	(1,072	) (1,063	) (9	) —	
Expenditures for equipment leased to others	(1,310	) (70	) (1,286	) 46	<sup>4</sup>
Proceeds from disposals of leased assets and property, plant and equipment	681	61	626	(6	) <sup>4</sup>
Additions to finance receivables	(8,464	) —	(10,777	) 2,313	<sup>5, 8</sup>
Collections of finance receivables	7,264	—	9,280	(2,016	) <sup>5</sup>
Net intercompany purchased receivables	—	—	246	(246	) <sup>5</sup>
Proceeds from sale of finance receivables	154	—	157	(3	) <sup>5</sup>
Net intercompany borrowings	—	—	1	(1	) <sup>6</sup>
Investments and acquisitions (net of cash acquired)	(18	) (18	) —	—	
Proceeds from sale of businesses and investments (net of cash sold)	196	210	—	(14	) <sup>8</sup>
Proceeds from sale of securities	347	21	326	—	
Investments in securities	(769	) (418	) (351	) —	
Other – net	(12	) 8	(20	) —	
Net cash provided by (used for) investing activities	(3,003	) (1,269	) (1,807	) 73	

Cash flow from financing activities:

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Dividends paid	(1,197	) (1,197	) (265	) 265	7
Distribution to noncontrolling interests	(7	) (7	) —	—	
Contribution from noncontrolling interests	2	2	—	—	
Common stock issued, including treasury shares reissued	218	218	—	—	
Treasury shares purchased	(4,238	) (4,238	) —	—	
Excess tax benefit from stock-based compensation	162	162	—	—	
Net intercompany borrowings	—	(1	) —	1	6
Proceeds from debt issued (original maturities greater than three months)	9,103	1,991	7,112	—	
Payments on debt (original maturities greater than three months)	(7,893	) (779	) (7,114	) —	
Short-term borrowings – net (original maturities three months or less)	791	—	791	—	
Net cash provided by (used for) financing activities	(3,059	) (3,849	) 524	266	
Effect of exchange rate changes on cash	(123	) (58	) (65	) —	
Increase (decrease) in cash and short-term investments	1	208	(207	) —	
Cash and short-term investments at beginning of period	6,081	4,597	1,484	—	
Cash and short-term investments at end of period	\$6,082	\$4,805	\$1,277	\$—	

<sup>1</sup> Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

<sup>2</sup> Elimination of Financial Products' profit after tax due to equity method of accounting.

<sup>3</sup> Elimination of non-cash adjustment for the undistributed earnings from Financial Products.

<sup>4</sup> Elimination of non-cash adjustments and changes in assets and liabilities related to consolidated reporting.

<sup>5</sup> Reclassification of Financial Products' cash flow activity from investing to operating for receivables that arose from the sale of inventory.

<sup>6</sup> Elimination of net proceeds and payments to/from Machinery, Energy & Transportation and Financial Products.

<sup>7</sup> Elimination of dividend from Financial Products to Machinery, Energy & Transportation.

<sup>8</sup> Elimination of proceeds received from Financial Products related to Machinery, Energy & Transportation's sale of portions of the Bucyrus distribution business to Cat dealers.

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### Forward-looking Statements

Certain statements in this Form 10-Q relate to future events and expectations and are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “believe,” “estimate,” “will be,” “will,” “would,” “expect,” “anticipate,” “plan,” “project,” “intend,” “could,” “should” or other similar words or expressions of forward-looking statements. All statements other than statements of historical fact are forward-looking statements, including, without limitation, statements regarding our outlook, projections, forecasts or trend descriptions. These statements do not guarantee future performance, and we do not undertake to update our forward-looking statements.

Caterpillar’s actual results may differ materially from those described or implied in our forward-looking statements based on a number of factors, including, but not limited to: (i) global and regional economic conditions and economic conditions in the industries we serve; (ii) government monetary or fiscal policies and infrastructure spending; (iii) commodity price changes, component price increases, fluctuations in demand for our products or significant shortages of component products; (iv) disruptions or volatility in global financial markets limiting our sources of liquidity or the liquidity of our customers, dealers and suppliers; (v) political and economic risks, commercial instability and events beyond our control in the countries in which we operate; (vi) failure to maintain our credit ratings and potential resulting increases to our cost of borrowing and adverse effects on our cost of funds, liquidity, competitive position and access to capital markets; (vii) our Financial Products segment’s risks associated with the financial services industry; (viii) changes in interest rates or market liquidity conditions; (ix) an increase in delinquencies, repossessions or net losses of Cat Financial’s customers; (x) new regulations or changes in financial services regulations; (xi) a failure to realize, or a delay in realizing, all of the anticipated benefits of our acquisitions, joint ventures or divestitures; (xii) international trade policies and their impact on demand for our products and our competitive position; (xiii) our ability to develop, produce and market quality products that meet our customers’ needs; (xiv) the impact of the highly competitive environment in which we operate on our sales and pricing; (xv) failure to realize all of the anticipated benefits from initiatives to increase our productivity, efficiency and cash flow and to reduce costs; (xvi) additional restructuring costs or a failure to realize anticipated savings or benefits from past or future cost reduction actions; (xvii) inventory management decisions and sourcing practices of our dealers and our OEM customers; (xviii) compliance with environmental laws and regulations; (xix) alleged or actual violations of trade or anti-corruption laws and regulations; (xx) additional tax expense or exposure; (xxi) currency fluctuations; (xxii) our or Cat Financial’s compliance with financial covenants; (xxiii) increased pension plan funding obligations; (xxiv) union disputes or other employee relations issues; (xxv) significant legal proceedings, claims, lawsuits or government investigations; (xxvi) changes in accounting standards; (xxvii) failure or breach of IT security; (xxviii) adverse effects of unexpected events including natural disasters; and (xxix) other factors described in more detail under “Item 1A. Risk Factors” in our Form 10-K filed with the SEC on February 17, 2015 for the year ended December 31, 2014.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information required by this Item is incorporated by reference from Note 4 – “Derivative financial instruments and risk management” included in Part I, Item 1 and Management’s Discussion and Analysis included in Part I, Item 2 of this Form 10-Q.

### Item 4. Controls and Procedures

#### Evaluation of disclosure controls and procedures

An evaluation was performed under the supervision and with the participation of the company’s management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the company’s disclosure controls and procedures, as that term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this quarterly report. Based on

that evaluation, the CEO and CFO concluded that the company's disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

Changes in internal control over financial reporting

During the third quarter of 2015, there has been no change in the company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

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## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

The information required by this Item is incorporated by reference from Note 13 – "Environmental and legal matters" included in Part I, Item 1 of this Form 10-Q.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

Period <sup>1</sup>	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased Under the Program	Approximate Dollar Value of Shares that may yet be Purchased under the Program (in billions) <sup>2</sup>
July 1-31, 2015	18,304,849	\$76.40	18,304,849	\$5.576
August 1-31, 2015	—	\$—	—	\$5.576
September 1-30, 2015	1,328,685	\$76.40	1,328,685	\$5.475
Total	19,633,534	\$76.40	19,633,534	

In July 2015, we entered into a definitive agreement with Citibank, N.A. to purchase shares of our common stock under an accelerated stock repurchase transaction (July 2015 ASR Agreement), which was completed in September 2015. Pursuant to the terms of the July 2015 ASR Agreement, a total of approximately 19.6 million shares of our common stock were repurchased at an aggregate cost to Caterpillar of \$1.5 billion.

In January 2014, the Board of Directors authorized the repurchase of \$10.0 billion of Caterpillar common stock, which will expire on December 31, 2018 (the 2014 Authorization). As of September 30, 2015, approximately \$5.5 billion remained available under the 2014 Authorization.

Share repurchases in the table above are reported based on trade dates.

## Other Purchases of Equity Securities

Period	Total Number of Shares Purchased <sup>1</sup>	Average Price Paid per Share	Total Number of Shares Purchased Under the Program	Approximate Dollar Value of Shares that may yet be Purchased under the Program
July 1-31, 2015	9,084	\$78.55	N/A	N/A
August 1-31, 2015	1,370	\$75.33	N/A	N/A
September 1-30, 2015	14,599	\$74.62	N/A	N/A
Total	25,053	\$76.08		

<sup>1</sup> Represents shares delivered back to issuer for the payment of taxes resulting from the vesting of restricted stock units for employees and Directors.

## Non-U.S. Employee Stock Purchase Plans

We have 29 employee stock purchase plans (the "EIP Plans") that are administered outside the United States for our non-U.S. employees. As of September 30, 2015, the EIP Plans had approximately 14,000 active participants in the aggregate. During the third quarter of 2015, approximately 98,000 shares of Caterpillar common stock were

purchased by the EIP Plans pursuant to the terms of such plans.

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Item 6. Exhibits

- |      |   |
|------|---|
| 10.1 | 2015 364-Day Credit Agreement dated as of September 10, 2015, among Caterpillar Inc., Caterpillar Financial Services Corporation, Caterpillar International Finance Limited, Caterpillar Finance Corporation, certain financial institutions named therein, Citibank, N.A., as Agent, Citibank International, as Local Currency Agent, and the Bank of Tokyo-Mitsubishi UFJ, Ltd., as Japan Local Currency Agent (incorporated by reference from exhibit 99.1 to the Company's Current Report on Form 8-K filed on September 16, 2015).                         |
| 10.2 | Local Currency Addendum to the 2015 364-Day Credit Agreement (incorporated by reference from exhibit 99.2 to the Company's Current Report on Form 8-K filed on September 16, 2015).   |
| 10.3 | Japan Local Currency Addendum to the 2015 364-Day Credit Agreement (incorporated by reference from exhibit 99.3 to the Company's Current Report on Form 8-K filed on September 16, 2015).   |
| 10.4 | Amended and Restated 2015 Three-Year Credit Agreement dated as of September 10, 2015, among Caterpillar Inc., Caterpillar Financial Services Corporation, Caterpillar International Finance Limited, Caterpillar Finance Corporation, certain financial institutions named therein, Citibank, N.A., as Agent, Citibank International, as Local Currency Agent, and the Bank of Tokyo-Mitsubishi UFJ, Ltd., as Japan Local Currency Agent (incorporated by reference from exhibit 99.4 to the Company's Current Report on Form 8-K filed on September 16, 2015). |
| 10.5 | Local Currency Addendum to the Amended and Restated 2015 Three-Year Credit Agreement (incorporated by reference from exhibit 99.5 to the Company's Current Report on Form 8-K filed on September 16, 2015).   |
| 10.6 | Japan Local Currency Addendum to the Amended and Restated 2015 Three-Year Credit Agreement (incorporated by reference from exhibit 99.6 to the Company's Current Report on Form 8-K filed on September 16, 2015).   |
| 10.7 | Amended and Restated 2015 Five-Year Credit Agreement dated as of September 10, 2015, among Caterpillar Inc., Caterpillar Financial Services Corporation, Caterpillar International Finance Limited, Caterpillar Finance Corporation, certain financial institutions named therein, Citibank, N.A., as Agent, Citibank International, as Local Currency Agent, and the Bank of Tokyo-Mitsubishi UFJ, Ltd., as Japan Local Currency Agent (incorporated by reference from exhibit 99.7 to the Company's Current Report on Form 8-K filed on September 16, 2015).  |
| 10.8 | Local Currency Addendum to the Amended and Restated 2015 Five-Year Credit Agreement (incorporated by reference from exhibit 99.8 to the Company's Current Report on Form 8-K filed on September 16, 2015).  |
| 10.9 | Japan Local Currency Addendum to the Amended and Restated 2015 Five-Year Credit Agreement (incorporated by reference from exhibit 99.9 to the Company's Current Report on Form 8-K filed on September 16, 2015).  |
| 11   | Computations of Earnings per Share (included in Note 11 of this Form 10-Q filed for the quarter ended September 30, 2015).  |
| 31.1 | Certification of Douglas R. Oberhelman, Chairman and Chief Executive Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |



- 31.2 Certification of Bradley M. Halverson, Group President and Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of Douglas R. Oberhelman, Chairman and Chief Executive Officer of Caterpillar Inc. and Bradley M. Halverson, Group President and Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CATERPILLAR INC.

October 30, 2015 /s/ Douglas R. Oberhelman  
(Douglas R. Oberhelman)

Chairman and Chief Executive Officer

October 30, 2015 /s/ Bradley M. Halverson  
(Bradley M. Halverson)

Group President and Chief Financial Officer

October 30, 2015 /s/ James B. Buda  
(James B. Buda)

Executive Vice President, Law and Public Policy

October 30, 2015 /s/ Jananne A. Copeland  
(Jananne A. Copeland)

Chief Accounting Officer

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EXHIBIT INDEX

Exhibit No. Description

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31.1	

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Certification of Douglas R. Oberhelman, Chairman and Chief Executive Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Bradley M. Halverson, Group President and Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of Douglas R. Oberhelman, Chairman and Chief Executive Officer of Caterpillar Inc. and Bradley M. Halverson, Group President and Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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