

CATERPILLAR INC  
Form 10-Q  
July 31, 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 June 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

(State or other jurisdiction of incorporation)

37-0602744

(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 June 30, 2015, 602,632,543 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	
	June 30,	
	2015	2014
Sales and revenues:		
Sales of Machinery, Energy & Transportation	\$ 11,583	\$ 13,391
Revenues of Financial Products	734	759
Total sales and revenues	12,317	14,150
Operating costs:		
Cost of goods sold	8,762	10,197
Selling, general and administrative expenses	1,389	1,437
Research and development expenses	532	516
Interest expense of Financial Products	148	153
Other operating (income) expenses	356	372
Total operating costs	11,187	12,675
Operating profit	1,130	1,475
Interest expense excluding Financial Products	125	120
Other income (expense)	(13	) 65
Consolidated profit before taxes	992	1,420
Provision (benefit) for income taxes	283	419
Profit of consolidated companies	709	1,001
Equity in profit (loss) of unconsolidated affiliated companies	2	1
Profit of consolidated and affiliated companies	711	1,002
Less: Profit (loss) attributable to noncontrolling interests	1	3
Profit <sup>1</sup>	\$ 710	\$ 999
Profit per common share	\$ 1.18	\$ 1.60
Profit per common share – diluted <sup>2</sup>	\$ 1.16	\$ 1.57
Weighted-average common shares outstanding (millions)		
– Basic	603.2	626.3
– Diluted <sup>3</sup>	610.7	638.3

Cash dividends declared per common share	\$1.47	\$1.30
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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 June 30,	
	2015	2014
Profit of consolidated and affiliated companies	\$711	\$1,002
Other comprehensive income (loss), net of tax:		
Foreign currency translation, net of tax (provision)/benefit of: 2015 - \$30; 2014 - \$(8)	216	28
Pension and other postretirement benefits:		
Current year actuarial gain (loss), net of tax (provision)/benefit of: 2015 - \$(12); 2014 - \$(5)	19	10
Amortization of actuarial (gain) loss, net of tax (provision)/benefit of: 2015 - \$(56); 2014 - \$(44)	109	86
Current year prior service credit (cost), net of tax (provision)/benefit of: 2015 - \$0; 2014 - \$0	—	1
Amortization of prior service (credit) cost, net of tax (provision)/benefit of: 2015 - \$5; 2014 - \$4	(9	) (6
Derivative financial instruments:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2015 - \$(7); 2014 - \$6	11	(11
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2015 - \$(15); 2014 - \$3	25	(5
Available-for-sale securities:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2015 - \$4; 2014 - \$(8)	(6	) 15
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2015 - \$0; 2014 - \$0	(1	) —
Total other comprehensive income (loss), net of tax	364	118
Comprehensive income	1,075	1,120
Less: comprehensive income attributable to the noncontrolling interests	7	(3
Comprehensive income attributable to stockholders	\$1,082	\$1,117

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)

	Six Months Ended	
	June 30,	
	2015	2014
Sales and revenues:		
Sales of Machinery, Energy & Transportation	\$23,544	\$25,884
Revenues of Financial Products	1,475	1,507
Total sales and revenues	25,019	27,391
Operating costs:		
Cost of goods sold	17,605	19,634
Selling, general and administrative expenses	2,707	2,729
Research and development expenses	1,078	1,024
Interest expense of Financial Products	298	313
Other operating (income) expenses	674	818
Total operating costs	22,362	24,518
Operating profit	2,657	2,873
Interest expense excluding Financial Products	254	230
Other income (expense)	144	119
Consolidated profit before taxes	2,547	2,762
Provision (benefit) for income taxes	726	837
Profit of consolidated companies	1,821	1,925
Equity in profit (loss) of unconsolidated affiliated companies	4	2
Profit of consolidated and affiliated companies	1,825	1,927
Less: Profit (loss) attributable to noncontrolling interests	4	6
Profit <sup>1</sup>	\$1,821	\$1,921
Profit per common share	\$3.01	\$3.06
Profit per common share – diluted <sup>2</sup>	\$2.98	\$3.00
Weighted-average common shares outstanding (millions)		
– Basic	604.1	626.8
– Diluted <sup>3</sup>	611.8	639.3
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)

	Six Months Ended June 30,	
	2015	2014
Profit of consolidated and affiliated companies	\$1,825	\$1,927
Other comprehensive income (loss), net of tax:		
Foreign currency translation, net of tax (provision)/benefit of: 2015 - \$(55); 2014 - \$(8)	(575	) 67
Pension and other postretirement benefits:		
Current year actuarial gain (loss), net of tax (provision)/benefit of: 2015 - \$(14); 2014 - \$(5)	24	10
Amortization of actuarial (gain) loss, net of tax (provision)/benefit of: 2015 - \$(112); 2014 - \$(88)	218	172
Current year prior service credit (cost), net of tax (provision)/benefit of: 2015 - \$0; 2014 - \$0	—	1
Amortization of prior service (credit) cost, net of tax (provision)/benefit of: 2015 - \$9; 2014 - \$7	(18	) (12
Derivative financial instruments:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2015 - \$2; 2014 - \$16	(3	) (27
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2015 - \$(29); 2014 - \$6	49	(10
Available-for-sale securities:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2015 - \$0; 2014 - \$(11)	2	23
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2015 - \$1; 2014 - \$4	(3	) (10
Total other comprehensive income (loss), net of tax	(306	) 214
Comprehensive income	1,519	2,141
Less: comprehensive income attributable to the noncontrolling interests	4	(5
Comprehensive income attributable to stockholders	\$1,523	\$2,136

See accompanying notes to Consolidated Financial Statements.



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Caterpillar Inc. Consolidated Statement of Financial Position (Unaudited) (Dollars in millions)	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and short-term investments	\$7,821	\$7,341
Receivables – trade and other	7,212	7,737
Receivables – finance	9,213	9,027
Deferred and refundable income taxes	1,441	1,739
Prepaid expenses and other current assets	859	818
Inventories	11,681	12,205
Total current assets	38,227	38,867
Property, plant and equipment – net	16,136	16,577
Long-term receivables – trade and other	1,290	1,364
Long-term receivables – finance	13,698	14,644
Investments in unconsolidated affiliated companies	229	257
Noncurrent deferred and refundable income taxes	1,473	1,404
Intangible assets	2,863	3,076
Goodwill	6,550	6,694
Other assets	1,776	1,798
Total assets	\$82,242	\$84,681
Liabilities		
Current liabilities:		
Short-term borrowings:		
Machinery, Energy & Transportation	\$14	\$9
Financial Products	6,226	4,699
Accounts payable	5,862	6,515
Accrued expenses	3,311	3,548
Accrued wages, salaries and employee benefits	1,597	2,438
Customer advances	1,754	1,697
Dividends payable	463	424
Other current liabilities	1,744	1,754
Long-term debt due within one year:		
Machinery, Energy & Transportation	12	510
Financial Products	4,623	6,283
Total current liabilities	25,606	27,877
Long-term debt due after one year:		
Machinery, Energy & Transportation	9,497	9,493
Financial Products	17,948	18,291
Liability for postemployment benefits	8,759	8,963
Other liabilities	3,271	3,231
Total liabilities	65,081	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

Issued shares: (6/30/15 and 12/31/14 – 814,894,624) at paid-in amount 5,142 5,016

Treasury stock (6/30/15 – 212,262,081 shares; 12/31/14 – 208,728,065 shares) at cost (16,144 ) (15,726 )

Profit employed in the business 34,823 33,887

Accumulated other comprehensive income (loss) (6,729 ) (6,431 )

Noncontrolling interests 69 80

Total stockholders' equity 17,161 16,826

Total liabilities and stockholders' equity \$82,242 \$84,681

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
<b>Six Months Ended June 30, 2014</b>						
Balance at December 31, 2013	\$4,709	\$(11,854)	\$31,854	\$(3,898)	\$ 67	\$20,878
Profit of consolidated and affiliated companies	—	—	1,921	—	6	1,927
Foreign currency translation, net of tax	—	—	—	68	(1)	67
Pension and other postretirement benefits, net of tax	—	—	—	171	—	171
Derivative financial instruments, net of tax	—	—	—	(37)	—	(37)
Available-for-sale securities, net of tax	—	—	—	13	—	13
Change in ownership from noncontrolling interests	—	—	—	—	2	2
Dividends declared	—	—	(814)	—	—	(814)
Distribution to noncontrolling interests	—	—	—	—	(7)	(7)
Common shares issued from treasury stock for stock-based compensation: 8,134,995	(86)	280	—	—	—	194
Stock-based compensation expense	137	—	—	—	—	137
Net excess tax benefits from stock-based compensation	130	—	—	—	—	130
Common shares repurchased: 18,110,735 <sup>1</sup>	—	(1,738)	—	—	—	(1,738)
Balance at June 30, 2014	\$4,890	\$(13,312)	\$32,961	\$(3,683)	\$ 67	\$20,923
<b>Six Months Ended June 30, 2015</b>						
Balance at December 31, 2014	\$5,016	\$(15,726)	\$33,887	\$(6,431)	\$ 80	\$16,826
Profit of consolidated and affiliated companies	—	—	1,821	—	4	1,825
Foreign currency translation, net of tax	—	—	—	(567)	(8)	(575)
Pension and other postretirement benefits, net of tax	—	—	—	224	—	224
Derivative financial instruments, net of tax	—	—	—	46	—	46
Available-for-sale securities, net of tax	—	—	—	(1)	—	(1)
Dividends declared	—	—	(885)	—	—	(885)
Distribution to noncontrolling interests	—	—	—	—	(7)	(7)
Common shares issued from treasury stock for stock-based compensation: 2,674,058	(74)	107	—	—	—	33
Stock-based compensation expense	193	—	—	—	—	193
Net excess tax benefits from stock-based compensation	7	—	—	—	—	7
Common shares repurchased: 6,208,074 <sup>1</sup>	—	(525)	—	—	—	(525)
Balance at June 30, 2015	\$5,142	\$(16,144)	\$34,823	\$(6,729)	\$ 69	\$17,161

<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)

	Six Months Ended	
	June 30,	
	2015	2014
Cash flow from operating activities:		
Profit of consolidated and affiliated companies	\$1,825	\$1,927
Adjustments for non-cash items:		
Depreciation and amortization	1,514	1,570
Other	120	240
Changes in assets and liabilities, net of acquisitions and divestitures:		
Receivables – trade and other	383	251
Inventories	332	(439)
Accounts payable	(326)	) 438
Accrued expenses	(71)	) 7
Accrued wages, salaries and employee benefits	(801)	) 283
Customer advances	98	(14)
Other assets – net	85	(105)
Other liabilities – net	199	(24)
Net cash provided by (used for) operating activities	3,358	4,134
Cash flow from investing activities:		
Capital expenditures – excluding equipment leased to others	(656)	) (710)
Expenditures for equipment leased to others	(815)	) (825)
Proceeds from disposals of leased assets and property, plant and equipment	367	442
Additions to finance receivables	(4,577)	) (5,760)
Collections of finance receivables	4,477	4,719
Proceeds from sale of finance receivables	74	104
Investments and acquisitions (net of cash acquired)	(63)	) (15)
Proceeds from sale of businesses and investments (net of cash sold)	168	139
Proceeds from sale of securities	128	222
Investments in securities	(119)	) (673)
Other – net	(75)	) (25)
Net cash provided by (used for) investing activities	(1,091)	) (2,382)
Cash flow from financing activities:		
Dividends paid	(846)	) (757)
Distribution to noncontrolling interests	(7)	) (7)
Contribution from noncontrolling interests	—	2
Common stock issued, including treasury shares reissued	33	194
Treasury shares purchased	(525)	) (1,738)
Excess tax benefit from stock-based compensation	18	131
Proceeds from debt issued (original maturities greater than three months):		
Machinery, Energy & Transportation	3	1,990
Financial Products	3,688	4,961
Payments on debt (original maturities greater than three months):		

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Machinery, Energy & Transportation	(509	) (770	)
Financial Products	(5,580	) (5,574	)
Short-term borrowings – net (original maturities three months or less)	1,972	1,749	
Net cash provided by (used for) financing activities	(1,753	) 181	
Effect of exchange rate changes on cash	(34	) (87	)
Increase (decrease) in cash and short-term investments	480	1,846	
Cash and short-term investments at beginning of period	7,341	6,081	
Cash and short-term investments at end of period	\$7,821	\$7,927	

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 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 six month periods ended June 30, 2015 and 2014, (b) the consolidated comprehensive income for the three and six month periods ended June 30, 2015 and 2014, (c) the consolidated financial position at June 30, 2015 and December 31, 2014, (d) the consolidated changes in stockholders’ equity for the six month periods ended June 30, 2015 and 2014 and (e) the consolidated cash flow for the six month periods ended June 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 six and nine months ended June 30, 2014 and 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 \$113 million for the six months ended June 30, 2014. We will revise our Consolidated Statement of Cash Flow for the nine months ended September 30, 2014 the next time it is filed to increase Receivables-trade and other and decrease Accounts payable by \$149 million. The revisions do 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)	June 30, 2015	December 31, 2014
Receivables - trade and other	\$53	\$36
Receivables - finance	504	216
Long-term receivables - finance	57	285
Investments in unconsolidated affiliated companies	32	83
Guarantees	83	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 standard, 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). 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 and 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)

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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.

### 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 \$58 million and \$193 million for the three and six months ended June 30, 2015, respectively; and \$84 million and \$137 million for the three and six months ended June 30, 2014, respectively. The change in stock-based compensation expense 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 six month periods ended June 30, 2015 and 2014, respectively:

	2015		2014			
	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 six month periods ended June 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 June 30, 2015, the total remaining unrecognized compensation expense related to nonvested stock-based compensation awards was \$310 million, which will be amortized over the weighted-average remaining requisite service periods of approximately 2.2 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.

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

As of June 30, 2015, \$28 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 June 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 June 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 Operations) over

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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 June 30, 2015	December 31, 2014
Designated derivatives			
Foreign exchange contracts			
Machinery, Energy & Transportation	Receivables – trade and other	\$15	\$25
Machinery, Energy & Transportation	Accrued expenses	(59)	(134)
Interest rate contracts			
Financial Products	Receivables – trade and other	2	6
Financial Products	Long-term receivables – trade and other	62	73
Financial Products	Accrued expenses	(5)	(8)
		\$15	\$(38)
Undesignated derivatives			
Foreign exchange contracts			
Machinery, Energy & Transportation	Receivables – trade and other	\$5	\$2
Machinery, Energy & Transportation	Accrued expenses	(23)	(43)
Financial Products	Receivables – trade and other	5	5
Financial Products	Long-term receivables – trade and other	26	17
Financial Products	Accrued expenses	(6)	(15)
Commodity contracts			
Machinery, Energy & Transportation	Accrued expenses	(11)	(14)
		\$(4)	\$(48)

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

(Millions of dollars)	June 30, 2015	December 31, 2014
Machinery, Energy & Transportation	\$2,063	\$3,128
Financial Products	\$4,098	\$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 June 30, 2015		Three Months Ended June 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)	\$(13 )	\$12	\$(6 )	\$8
		\$(13 )	\$12	\$(6 )	\$8
	Classification	Six Months Ended June 30, 2015		Six Months Ended June 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)	\$(14 )	\$13	\$(19 )	\$23
		\$(14 )	\$13	\$(19 )	\$23

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## Cash Flow Hedges

(Millions of dollars)	Three Months Ended June 30, 2015			
	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	\$ 18	Other income (expense)	\$(37	) \$—
Interest rate contracts				
Machinery, Energy & Transportation	—	Interest expense excluding Financial Products	(1	) —
Financial Products	—	Interest expense of Financial Products	(2	) —
	\$ 18		\$(40	) \$—
(Millions of dollars)	Three Months Ended June 30, 2014			
	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	\$ 12	Other income (expense)	\$ 10	\$—
Interest rate contracts				
Machinery, Energy & Transportation	(26	) Interest expense excluding Financial Products	(1	) —
Financial Products	(3	) Interest expense of Financial Products	(1	) —
	\$(17	)	\$ 8	\$—
(Millions of dollars)	Six Months Ended June 30, 2015			
	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	\$(7	) Other income (expense)	\$(72	) \$—
Interest rate contracts				
Machinery, Energy & Transportation	—	Interest expense excluding Financial Products	(3	) —
Financial Products	2		(3	) —

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	Interest expense of Financial Products		
\$(5	)	\$(78	) \$—

Six Months Ended June 30, 2014

	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)	Classification of Gains (Losses) Recognized in Earnings	Amount of Gains (Losses) Reclassified from AOCI to Earnings	Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts				
Machinery, Energy & Transportation	\$25	Other income (expense)	\$20	\$—
Interest rate contracts				
Machinery, Energy & Transportation	(63	) Interest expense excluding Financial Products	(2	) —
Financial Products	(5	) Interest expense of Financial Products	(2	) —
	\$(43	)	\$16	\$—

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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 June 30, 2015	Three Months Ended June 30, 2014
Foreign exchange contracts			
Machinery, Energy & Transportation	Other income (expense)	\$26	\$(2 )
Financial Products	Other income (expense)	4	(12 )
Commodity contracts			
Machinery, Energy & Transportation	Other income (expense)	(1 )	4
		\$29	\$(10 )
(Millions of dollars)	Classification of Gains (Losses)	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Foreign exchange contracts			
Machinery, Energy & Transportation	Other income (expense)	\$(29 )	\$9
Financial Products	Other income (expense)	(24 )	(17 )
Commodity contracts			
Machinery, Energy & Transportation	Other income (expense)	(7 )	3
		\$(60 )	\$(5 )

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 June 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:

June 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	\$20	\$—	\$20	\$(20 )	\$—	\$—
Financial Products	95	—	95	(7 )	—	88
Total	\$115	\$—	\$115	\$(27 )	\$—	\$88
June 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	\$(93 )	\$—	\$(93 )	\$20	\$—	\$(73 )
Financial Products	(11 )	—	(11 )	7	—	(4 )
Total	\$(104 )	\$—	\$(104 )	\$27	\$—	\$(77 )
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)	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

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

(Millions of dollars)	June 30, 2015	December 31, 2014
Raw materials	\$2,932	\$2,986
Work-in-process	2,099	2,455
Finished goods	6,397	6,504
Supplies	253	260
Total inventories	\$11,681	\$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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Sales	\$190	\$410	\$353	\$800
Cost of sales	146	316	271	617
Gross profit	\$44	\$94	\$82	\$183
Profit (loss)	\$4	\$4	\$8	\$(10 )

Financial Position of unconsolidated affiliated companies: (Millions of dollars)	June 30, 2015	December 31, 2014
Assets:		
Current assets	\$507	\$716
Property, plant and equipment – net	187	653
Other assets	190	557
	884	1,926
Liabilities:		
Current liabilities	287	518
Long-term debt due after one year	181	867
Other liabilities	13	215
	481	1,600
Equity	\$403	\$326

Caterpillar's investments in unconsolidated affiliated companies: (Millions of dollars)	June 30, 2015	December 31, 2014

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Investments in equity method companies	\$ 193	\$248
Plus: Investments in cost method companies	36	9
Total investments in unconsolidated affiliated companies	\$229	\$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 a third party logistics business, formerly Caterpillar Logistics Services LLC, which occurred in February, 2015 (see Note 18).

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## 7. Intangible assets and goodwill

## A. Intangible assets

Intangible assets are comprised of the following:

(Millions of dollars)	Weighted Amortizable Life (Years)	June 30, 2015		
		Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	15	\$2,432	\$(736)	) \$1,696
Intellectual property	11	1,681	(619)	) 1,062
Other	11	248	(143)	) 105
Total finite-lived intangible assets	13	\$4,361	\$(1,498)	) \$2,863

  

(Millions of dollars)	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 six months ended June 30, 2015 was \$87 million and \$174 million, respectively. Amortization expense for the three and six months ended June 30, 2014 was \$93 million and \$185 million, respectively. Amortization expense related to intangible assets is expected to be:

(Millions of dollars)					
2015	2016	2017	2018	2019	Thereafter
\$338	\$318	\$318	\$311	\$310	\$1,442

## B. Goodwill

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

was impaired during the three and six months ended June 30, 2015 or 2014.

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

(Millions of dollars)	December 31, 2014	Other Adjustments <sup>1</sup>	June 30, 2015	
Construction Industries				
Goodwill	\$275	\$(11	) \$264	
Resource Industries				
Goodwill	4,287	(94	) 4,193	
Impairments	(580	) —	(580	)
Net goodwill	3,707	(94	) 3,613	
Energy & Transportation				
Goodwill	2,542	(36	) 2,506	
All Other <sup>2</sup>				
Goodwill	192	(3	) 189	
Impairments	(22	) —	(22	)
Net goodwill	170	(3	) 167	
Consolidated total				
Goodwill	7,296	(144	) 7,152	
Impairments	(602	) —	(602	)
Net goodwill	\$6,694	\$(144	) \$6,550	

<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 based upon quoted market prices. These investments are primarily included in Other assets in the Consolidated Statement of Financial Position. Unrealized gains and losses arising from the revaluation of available-for-sale securities are included, net of applicable deferred income taxes, in equity (Accumulated other comprehensive income (loss) in the Consolidated Statement of Financial Position). Realized gains and losses on sales of investments are generally determined using the 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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(Millions of dollars)	June 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	\$10	\$—	\$10	\$10	\$—	\$10
Other U.S. and non-U.S. government bonds	89	1	90	94	—	94
Corporate bonds						
Corporate bonds	669	15	684	677	16	693
Asset-backed securities	98	1	99	103	2	105
Mortgage-backed debt securities						
U.S. governmental agency	267	2	269	292	2	294
Residential	14	—	14	15	—	15
Commercial	57	4	61	63	4	67
Equity securities						
Large capitalization value	178	84	262	150	83	233
Smaller company growth	28	24	52	17	26	43
Total	\$1,410	\$131	\$1,541	\$1,421	\$133	\$1,554

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

(Millions of dollars)	June 30, 2015				Total Fair Value	Unrealized Losses
	Less than 12 months <sup>1</sup> Fair Value	Unrealized Losses	12 months or more <sup>1</sup> Fair Value	Unrealized Losses		
Corporate bonds	\$146	\$1	\$21	\$—	\$167	\$1
Mortgage-backed debt securities						
U.S. governmental agency	29	—	96	2	125	2
Equity securities						
Large capitalization value	38	4	1	—	39	4
Small company growth	7	1	—	—	7	1
Total	\$220	\$6	\$118	\$2	\$338	\$8
(Millions of dollars)	December 31, 2014				Total Fair Value	Unrealized Losses
	Less than 12 months <sup>1</sup> Fair Value	Unrealized Losses	12 months or more <sup>1</sup> Fair Value	Unrealized Losses		
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

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Total	\$244	\$3	\$173	\$3	\$417	\$6
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<sup>1</sup> Indicates length of time that individual securities have been in a continuous unrealized loss position.

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**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 June 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 June 30, 2015.

**Equity Securities.** Insurance Services maintains a well-diversified equity portfolio consisting of two specific mandates: large capitalization value stocks and smaller company growth stocks. 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 June 30, 2015.

The cost basis and fair value of the available-for-sale debt securities at June 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)	June 30, 2015	
	Cost Basis	Fair Value
Due in one year or less	\$77	\$77
Due after one year through five years	725	740
Due after five years through ten years	34	36
Due after ten years	30	30
U.S. governmental agency mortgage-backed securities	267	269
Residential mortgage-backed securities	14	14
Commercial mortgage-backed securities	57	61
Total debt securities – available-for-sale	\$1,204	\$1,227

## Sales of Securities:

(Millions of dollars)	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Proceeds from the sale of available-for-sale securities	\$45	\$107	\$128	\$222
Gross gains from the sale of available-for-sale securities	\$1	\$—	\$6	\$14
Gross losses from the sale of available-for-sale securities	\$—	\$—	\$1	\$—



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## 9. Postretirement benefits

## A. Pension and postretirement benefit costs

(Millions of dollars)	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits		
	June 30,		June 30,		June 30,		
	2015	2014	2015	2014	2015	2014	
For the three months ended:							
Components of net periodic benefit cost:							
Service cost	\$45	\$40	\$28	\$27	\$25	\$23	
Interest cost	152	162	39	46	46	53	
Expected return on plan assets <sup>1</sup>	(219 )	(222 )	(66 )	(64 )	(13 )	(13 )	
Amortization of:							
Prior service cost (credit) <sup>2</sup>	—	4	—	—	(14 )	(14 )	
Net actuarial loss (gain) <sup>3</sup>	127	98	25	21	13	11	
Net periodic benefit cost	105	82	26	30	57	60	
Curtailments, settlements and termination benefits <sup>4</sup>	—	—	2	7	—	—	
Total cost included in operating profit	\$105	\$82	\$28	\$37	\$57	\$60	
For the six months ended:							
Components of net periodic benefit cost:							
Service cost	\$91	\$79	\$57	\$55	\$50	\$43	
Interest cost	303	324	78	92	92	106	
Expected return on plan assets <sup>1</sup>	(439 )	(443 )	(133 )	(129 )	(26 )	(26 )	
Amortization of:							
Prior service cost (credit) <sup>2</sup>	—	8	—	—	(27 )	(27 )	
Net actuarial loss (gain) <sup>3</sup>	254	196	50	43	26	21	
Net periodic benefit cost	209	164	52	61	115	117	
Curtailments, settlements and termination benefits <sup>4</sup>	—	—	3	7	—	—	
Total cost included in operating profit	\$209	\$164	\$55	\$68	\$115	\$117	
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 \$113 million of contributions to our pension plans during the three and six months ended June 30, 2015, respectively. We currently anticipate full-year 2015 contributions of approximately \$180 million, all of which are required. We made \$108 million and \$387 million of contributions to our pension plans during the three and six months ended June 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		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
U.S. Plans	\$74	\$89	\$157	\$170
Non-U.S. Plans	21	21	39	41
	\$95	\$110	\$196	\$211

## 10. Guarantees and product warranty

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

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

We have provided a guarantee to one of our customers in Brazil related to the performance of contractual obligations by a supplier consortium to which one of our Caterpillar subsidiaries is a member. The guarantees cover potential damages (some of them capped) incurred by the customer resulting from the supplier consortium's non-performance. The guarantee will expire when the supplier consortium performs all its contractual obligations, which is expected to be completed in 2025.

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 18). 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 June 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:

(Millions of dollars)	June 30,	December 31,
	2015	2014
Caterpillar dealer guarantees	\$197	\$209
Customer guarantees	63	49
Customer guarantees – supplier consortium	296	321

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Third party logistics business guarantees	118	129
Other guarantees	28	32
Total guarantees	\$702	\$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

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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 June 30, 2015 and December 31, 2014, the SPC's assets of \$1,187 million and \$1,086 million, respectively, are primarily comprised of loans to dealers and the SPC's liabilities of \$1,186 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)	(443 )
Increase in liability (new warranties)	418
Warranty liability, June 30	\$1,401

(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.

## 11. Profit per share

Computations of profit per share:	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(Dollars in millions except per share data)	2015	2014	2015	2014
Profit for the period (A) <sup>1</sup>	\$710	\$999	\$1,821	\$1,921
Determination of shares (in millions):				
Weighted-average number of common shares outstanding (B)	603.2	626.3	604.1	626.8
Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price	7.5	12.0	7.7	12.5
Average common shares outstanding for fully diluted computation (C) <sup>2</sup>	610.7	638.3	611.8	639.3
Profit per share of common stock:				
Assuming no dilution (A/B)	\$1.18	\$1.60	\$3.01	\$3.06
Assuming full dilution (A/C) <sup>2</sup>	\$1.16	\$1.57	\$2.98	\$3.00

Shares outstanding as of June 30 (in millions)	602.6	627.8
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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.

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SARs and stock options to purchase 22,329,106 common shares were outstanding for the three and six months ended June 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 six months ended June 30, 2014, there were outstanding SARs and stock options to purchase 7,513,187 and 10,343,160 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. For the three months ended June 30, 2015, a total of 1.4 million shares of our common stock were repurchased at an aggregate cost to Caterpillar of \$125 million. For the six months ended June 30, 2015, a total of 6.2 million shares of our common stock were repurchased at an aggregate cost to Caterpillar of \$525 million. Through the end of the second quarter of 2015, approximately \$3.0 billion of the \$10.0 billion authorization was spent.

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). Pursuant to the terms of the July 2015 ASR Agreement, we have agreed to repurchase a total of \$1.5 billion of our common stock from Citibank, N.A., with an immediate delivery of approximately 18 million shares. The final number of shares to be repurchased and the aggregate cost per share to Caterpillar will be based on Caterpillar's volume-weighted average stock price during the term of the transaction, which is expected to be completed in September 2015.

## 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 June 30, 2015					
Balance at March 31, 2015	\$(1,779	) \$(5,302	) \$(109	) \$ 89	\$(7,101 )
Other comprehensive income (loss) before reclassifications	224	19	11	(6	) 248
Amounts reclassified from accumulated other comprehensive (income) loss	—	100	25	(1	) 124
Other comprehensive income (loss)	224	119	36	(7	) 372
Balance at June 30, 2015	\$(1,555	) \$(5,183	) \$(73	) \$ 82	\$(6,729 )

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Three Months Ended June 30, 2014

Balance at March 31, 2014	\$216	\$(4,072	) \$(26	) \$ 81	\$(3,801	)
Other comprehensive income (loss) before reclassifications	28	11	(11	) 15	43	
Amounts reclassified from accumulated other comprehensive (income) loss	—	80	(5	) —	75	
Other comprehensive income (loss)	28	91	(16	) 15	118	
Balance at June 30, 2014	\$244	\$(3,981	) \$(42	) \$ 96	\$(3,683	)

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(Millions of dollars)	Foreign currency translation	Pension and other postretirement benefits	Derivative financial instruments	Available-for-sale securities	Total
Six Months Ended June 30, 2015					
Balance at December 31, 2014	\$ (988	) \$ (5,407	) \$ (119	) \$ 83	\$ (6,431 )
Other comprehensive income (loss) before reclassifications	(567	) 24	(3	) 2	(544 )
Amounts reclassified from accumulated other comprehensive (income) loss	—	200	49	(3	) 246
Other comprehensive income (loss)	(567	) 224	46	(1	) (298 )
Balance at June 30, 2015	\$ (1,555	) \$ (5,183	) \$ (73	) \$ 82	\$ (6,729 )
Six Months Ended June 30, 2014					
Balance at December 31, 2013	\$ 176	\$ (4,152	) \$ (5	) \$ 83	\$ (3,898 )
Other comprehensive income (loss) before reclassifications	68	11	(27	) 23	75
Amounts reclassified from accumulated other comprehensive (income) loss	—	160	(10	) (10	) 140
Other comprehensive income (loss)	68	171	(37	) 13	215
Balance at June 30, 2014	\$ 244	\$ (3,981	) \$ (42	) \$ 96	\$ (3,683 )

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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 June 30,	
		2015	2014
Pension and other postretirement benefits:			
Amortization of actuarial gain (loss)	Note 9 <sup>1</sup>	\$ (165	) \$ (130
Amortization of prior service credit (cost)	Note 9 <sup>1</sup>	14	10
Reclassifications before tax		(151	) (120
Tax (provision) benefit		51	40
Reclassifications net of tax		\$ (100	) \$ (80
Derivative financial instruments:			
Foreign exchange contracts	Other income (expense)	\$ (37	) \$ 10
Interest rate contracts	Interest expense excluding Financial Products	(1	) (1
Interest rate contracts	Interest expense of Financial Products	(2	) (1
Reclassifications before tax		(40	) 8
Tax (provision) benefit		15	(3
Reclassifications net of tax		\$ (25	) \$ 5
Available-for-sale securities:			
Realized gain (loss)	Other income (expense)	\$ 1	\$—
Tax (provision) benefit		—	—
Reclassifications net of tax		\$ 1	\$—
Total reclassifications from Accumulated other comprehensive income (loss)		\$ (124	) \$ (75

<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)	Six Months Ended June 30,		
		2015	2014	
Pension and other postretirement benefits:				
Amortization of actuarial gain (loss)	Note 9 <sup>1</sup>	\$ (330)	) \$ (260)	)
Amortization of prior service credit (cost)	Note 9 <sup>1</sup>	27	19	)
Reclassifications before tax		(303)	) (241)	)
Tax (provision) benefit		103	81	)
Reclassifications net of tax		\$ (200)	) \$ (160)	)
Derivative financial instruments:				
Foreign exchange contracts	Other income (expense)	\$ (72)	) \$ 20	)
Interest rate contracts	Interest expense excluding Financial Products	(3)	) (2)	)
Interest rate contracts	Interest expense of Financial Products	(3)	) (2)	)
Reclassifications before tax		(78)	) 16	)
Tax (provision) benefit		29	(6)	)
Reclassifications net of tax		\$ (49)	) \$ 10	)
Available-for-sale securities:				
Realized gain (loss)	Other income (expense)	\$ 4	\$ 14	)
Tax (provision) benefit		(1)	) (4)	)
Reclassifications net of tax		\$ 3	\$ 10	)
Total reclassifications from Accumulated other comprehensive income (loss)		\$ (246)	) \$ (140)	)

<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 received an additional subpoena 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. 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 is cooperating with the SEC regarding this subpoena and 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 six months of 2015 reflects an estimated annual effective tax rate of 28.5 percent compared with 29.5 percent for the first six 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. The impact of the U.S. research and development tax credit is not included in either the first six 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 in the first six months of 2014 also included a net charge of \$22 million consisting of a \$55 million charge to correct for an error which resulted in an understatement of tax liabilities for prior years offset by a \$33 million benefit to reflect a settlement with the U.S. Internal Revenue Service (IRS) related to 1992 through 1994.

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. 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. Based on the information currently available, we do not anticipate a significant increase or decrease to our unrecognized tax benefits for these matters within the next 12 months as a result of progress of the audit. However, we are monitoring several court cases that could increase unrecognized tax benefits relating to foreign tax credits that arose as a result of certain financings unrelated to CSARL. We currently believe the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

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.

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



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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.

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.

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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 38 to 44 for financial information regarding significant reconciling items. Most of our reconciling items are self-explanatory given the above explanations. For the reconciliation of profit, we have grouped the reconciling items as follows:

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

**Restructuring costs:** Primarily costs for employee separation costs and long-lived asset impairments. A table, Reconciliation of Restructuring Costs on page 41, has been included to illustrate how segment profit would have been impacted by the restructuring costs. See Note 19 for more information.

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

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

Table of ContentsReportable Segments  
Three Months Ended June 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 June 30	Capital expenditures
Construction Industries	\$4,441	\$45	\$4,486	\$122	\$587	\$5,924	\$49
Resource Industries	1,991	82	2,073	163	—	9,013	38
Energy & Transportation	4,544	487	5,031	160	906	8,557	218
Machinery, Energy & Transportation	\$10,976	\$614	\$11,590	\$445	\$1,493	\$23,494	\$305
Financial Products Segment	785	—	785	213	184	36,353	342
Total	\$11,761	\$614	\$12,375	\$658	\$1,677	\$59,847	\$647
	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	\$5,407	\$56	\$5,463	\$131	\$674	\$6,596	\$79
Resource Industries	2,241	111	2,352	171	114	9,497	76
Energy & Transportation	5,175	586	5,761	160	1,028	8,470	95
Machinery, Energy & Transportation	\$12,823	\$753	\$13,576	\$462	\$1,816	\$24,563	\$250
Financial Products Segment	834	—	834	217	244	37,011	510
Total	\$13,657	\$753	\$14,410	\$679	\$2,060	\$61,574	\$760

Table of ContentsReportable Segments  
Six Months Ended June 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 June 30	Capital expenditures
Construction Industries	\$9,136	\$96	\$9,232	\$241	\$1,327	\$5,924	\$85
Resource Industries	3,919	175	4,094	324	85	9,013	68
Energy & Transportation	9,306	1,001	10,307	316	1,892	8,557	367
Machinery, Energy & Transportation	\$22,361	\$1,272	\$23,633	\$881	\$3,304	\$23,494	\$520
Financial Products Segment	1,580	—	1,580	428	411	36,353	636
Total	\$23,941	\$1,272	\$25,213	\$1,309	\$3,715	\$59,847	\$1,156
	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	\$10,471	\$131	\$10,602	\$265	\$1,362	\$6,596	\$143
Resource Industries	4,364	213	4,577	342	257	9,497	100
Energy & Transportation	9,951	1,136	11,087	318	1,861	8,470	171
Machinery, Energy & Transportation	\$24,786	\$1,480	\$26,266	\$925	\$3,480	\$24,563	\$414
Financial Products Segment	1,651	—	1,651	436	484	37,011	779
Total	\$26,437	\$1,480	\$27,917	\$1,361	\$3,964	\$61,574	\$1,193

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## Reconciliation of Sales and revenues:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total
Three Months Ended June 30, 2015				
Total external sales and revenues from reportable segments	\$10,976	\$785	\$—	\$11,761
All Other operating segments	637	—	—	637
Other	(30	) 20	(71	) <sup>1</sup> (81
Total sales and revenues	\$11,583	\$805	\$(71	) \$12,317

## Three Months Ended June 30, 2014

Total external sales and revenues from reportable segments	\$12,823	\$834	\$—	\$13,657
All Other operating segments	583	—	—	583
Other	(15	) 17	(92	) <sup>1</sup> (90
Total sales and revenues	\$13,391	\$851	\$(92	) \$14,150

<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
Six Months Ended June 30, 2015				
Total external sales and revenues from reportable segments	\$22,361	\$1,580	\$—	\$23,941
All Other operating segments	1,223	—	—	1,223
Other	(40	) 38	(143	) <sup>1</sup> (145
Total sales and revenues	\$23,544	\$1,618	\$(143	) \$25,019

## Six Months Ended June 30, 2014

Total external sales and revenues from reportable segments	\$24,786	\$1,651	\$—	\$26,437
All Other operating segments	1,137	—	—	1,137
Other	(39	) 31	(175	) <sup>1</sup> (183
Total sales and revenues	\$25,884	\$1,682	\$(175	) \$27,391

<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 June 30, 2015			
Total profit from reportable segments	\$1,493	\$184	\$1,677
All Other operating segments	217	—	217
Cost centers	20	—	20
Corporate costs	(432)	) —	(432)
Timing	(41)	) —	(41)
Restructuring costs	(89)	) —	(89)
Methodology differences:			
Inventory/cost of sales	27	—	27
Postretirement benefit expense	(119)	) —	(119)
Financing costs	(130)	) —	(130)
Equity in (profit) loss of unconsolidated affiliated companies	(2)	) —	(2)
Currency	(73)	) —	(73)
Other income/expense methodology differences	(56)	) —	(56)
Other methodology differences	(8)	) 1	(7)
Total consolidated profit before taxes	\$807	\$185	\$992
Three Months Ended June 30, 2014			
Total profit from reportable segments	\$1,816	\$244	\$2,060
All Other operating segments	223	—	223
Cost centers	22	—	22
Corporate costs	(427)	) —	(427)
Timing	(39)	) —	(39)
Restructuring costs	(114)	) —	(114)
Methodology differences:			
Inventory/cost of sales	9	—	9
Postretirement benefit expense	(118)	) —	(118)
Financing costs	(123)	) —	(123)
Equity in (profit) loss of unconsolidated affiliated companies	(1)	) —	(1)
Currency	3	—	3
Other income/expense methodology differences	(71)	) —	(71)
Other methodology differences	—	(4	) (4)
Total consolidated profit before taxes	\$1,180	\$240	\$1,420

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## Reconciliation of Consolidated profit before taxes:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidated Total
Six Months Ended June 30, 2015			
Total profit from reportable segments	\$3,304	\$411	\$3,715
All Other operating segments	442	—	442
Cost centers	81	—	81
Corporate costs	(931	) —	(931
Timing	(23	) —	(23
Restructuring costs	(125	) —	(125
Methodology differences:			
Inventory/cost of sales	(8	) —	(8
Postretirement benefit expense	(223	) —	(223
Financing costs	(266	) —	(266
Equity in (profit) loss of unconsolidated affiliated companies	(4	) —	(4
Currency	(100	) —	(100
Other income/expense methodology differences	3	—	3
Other methodology differences	(17	) 3	(14
Total consolidated profit before taxes	\$2,133	\$414	\$2,547
Six Months Ended June 30, 2014			
Total profit from reportable segments	\$3,480	\$484	\$3,964
All Other operating segments	458	—	458
Cost centers	74	—	74
Corporate costs	(793	) —	(793
Timing	(80	) —	(80
Restructuring costs	(263	) —	(263
Methodology differences:			
Inventory/cost of sales	23	—	23
Postretirement benefit expense	(220	) —	(220
Financing costs	(237	) —	(237
Equity in (profit) loss of unconsolidated affiliated companies	(2	) —	(2
Currency	(23	) —	(23
Other income/expense methodology differences	(131	) —	(131
Other methodology differences	(4	) (4	) (8
Total consolidated profit before taxes	\$2,282	\$480	\$2,762



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## Reconciliation of Restructuring costs:

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

## Reconciliation of Restructuring costs:

(Millions of dollars)	Segment profit	Restructuring costs	Segment profit with restructuring costs
Three Months Ended June 30, 2015			
Construction Industries	\$587	\$(28	) \$559
Resource Industries	—	(35	) (35 )
Energy & Transportation	906	(11	) 895
Financial Products Segment	184	—	184
All Other operating segments	217	(6	) 211
Total	\$1,894	\$(80	) \$1,814
Three Months Ended June 30, 2014			
Construction Industries	\$674	\$(96	) \$578
Resource Industries	114	(10	) 104
Energy & Transportation	1,028	(3	) 1,025
Financial Products Segment	244	—	244
All Other operating segments	223	(2	) 221
Total	\$2,283	\$(111	) \$2,172

## Reconciliation of Restructuring costs:

(Millions of dollars)	Segment profit	Restructuring costs	Segment profit with restructuring costs
Six Months Ended June 30, 2015			
Construction Industries	\$1,327	\$(39	) \$1,288
Resource Industries	85	(43	) 42
Energy & Transportation	1,892	(14	) 1,878
Financial Products Segment	411	—	411
All Other operating segments	442	(19	) 423
Total	\$4,157	\$(115	) \$4,042
Six Months Ended June 30, 2014			
Construction Industries	\$1,362	\$(227	) \$1,135
Resource Industries	257	(21	) 236
Energy & Transportation	1,861	(6	) 1,855
Financial Products Segment	484	—	484
All Other operating segments	458	(6	) 452
Total	\$4,422	\$(260	) \$4,162

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## Reconciliation of Assets:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total	
June 30, 2015					
Total assets from reportable segments	\$23,494	\$36,353	\$—	\$59,847	
All Other operating segments	2,549	—	—	2,549	
Items not included in segment assets:					
Cash and short-term investments	6,466	—	—	6,466	
Intercompany receivables	1,197	—	(1,197	) —	
Investment in Financial Products	4,256	—	(4,256	) —	
Deferred income taxes	3,474	—	(705	) 2,769	
Goodwill and intangible assets	3,615	—	—	3,615	
Property, plant and equipment – net and other assets	1,222	—	—	1,222	
Operating lease methodology difference	(210	) —	—	(210	)
Liabilities included in segment assets	9,273	—	—	9,273	
Inventory methodology differences	(2,600	) —	—	(2,600	)
Other	(628	) 11	(72	) (689	)
Total assets	\$52,108	\$36,364	\$(6,230	) \$82,242	
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 June 30, 2015			
Total depreciation and amortization from reportable segments	\$445	\$213	\$658
Items not included in segment depreciation and amortization:			
All Other operating segments	68	—	68
Cost centers	38	—	38
Other	(11	) 8	(3
Total depreciation and amortization	\$540	\$221	\$761
Three Months Ended June 30, 2014			
Total depreciation and amortization from reportable segments	\$462	\$217	\$679
Items not included in segment depreciation and amortization:			
All Other operating segments	73	—	73
Cost centers	37	—	37
Other	(6	) 6	—
Total depreciation and amortization	\$566	\$223	\$789

## Reconciliations of Depreciation and amortization:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidated Total
Six Months Ended June 30, 2015			
Total depreciation and amortization from reportable segments	\$881	\$428	\$1,309
Items not included in segment depreciation and amortization:			
All Other operating segments	134	—	134
Cost centers	76	—	76
Other	(21	) 16	(5
Total depreciation and amortization	\$1,070	\$444	\$1,514
Six Months Ended June 30, 2014			
Total depreciation and amortization from reportable segments	\$925	\$436	\$1,361
Items not included in segment depreciation and amortization:			
All Other operating segments	139	—	139
Cost centers	74	—	74
Other	(16	) 12	(4
Total depreciation and amortization	\$1,122	\$448	\$1,570

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## Reconciliations of Capital expenditures:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total
Three Months Ended June 30, 2015				
Total capital expenditures from reportable segments	\$305	\$342	\$—	\$647
Items not included in segment capital expenditures:				
All Other operating segments	45	—	—	45
Cost centers	27	—	—	27
Timing	(19	) —	—	(19
Other	(76	) 32	(11	) (55
Total capital expenditures	\$282	\$374	\$(11	) \$645
Three Months Ended June 30, 2014				
Total capital expenditures from reportable segments	\$250	\$510	\$—	\$760
Items not included in segment capital expenditures:				
All Other operating segments	56	—	—	56
Cost centers	28	—	—	28
Timing	(38	) —	—	(38
Other	(27	) 28	(11	) (10
Total capital expenditures	\$269	\$538	\$(11	) \$796

## Reconciliations of Capital expenditures:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total
Six Months Ended June 30, 2015				
Total capital expenditures from reportable segments	\$520	\$636	\$—	\$1,156
Items not included in segment capital expenditures:				
All Other operating segments	91	—	—	91
Cost centers	46	—	—	46
Timing	234	—	—	234
Other	(132	) 95	(19	) (56
Total capital expenditures	\$759	\$731	\$(19	) \$1,471
Six Months Ended June 30, 2014				
Total capital expenditures from reportable segments	\$414	\$779	\$—	\$1,193
Items not included in segment capital expenditures:				
All Other operating segments	94	—	—	94
Cost centers	49	—	—	49
Timing	229	—	—	229
Other	(48	) 52	(34	) (30
Total capital expenditures	\$738	\$831	\$(34	) \$1,535



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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 June 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 six months ended June 30, 2015 and 2014.

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

(Millions of dollars)	June 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>						
<b>Customer</b>						
North America	\$11	\$11	\$—	\$14	\$14	\$—
Europe	43	42	—	44	43	—
Asia Pacific	—	—	—	1	1	—
Mining	66	66	—	29	29	—
Latin America	32	32	—	34	34	—
Caterpillar Power Finance	149	149	—	129	128	—
<b>Total</b>	<b>\$301</b>	<b>\$300</b>	<b>\$—</b>	<b>\$251</b>	<b>\$249</b>	<b>\$—</b>
<b>Impaired Finance Receivables With An Allowance Recorded</b>						
<b>Customer</b>						
North America	\$6	\$6	\$2	\$6	\$6	\$1
Europe	15	13	5	12	12	4
Asia Pacific	70	70	19	29	29	8
Mining	23	23	6	138	137	9
Latin America	54	54	20	42	42	12
Caterpillar Power Finance	138	137	46	135	134	41
<b>Total</b>	<b>\$306</b>	<b>\$303</b>	<b>\$98</b>	<b>\$362</b>	<b>\$360</b>	<b>\$75</b>
<b>Total Impaired Finance Receivables</b>						
<b>Customer</b>						
North America	\$17	\$17	\$2	\$20	\$20	\$1
Europe	58	55	5	56	55	4
Asia Pacific	70	70	19	30	30	8
Mining	89	89	6	167	166	9
Latin America	86	86	20	76	76	12
Caterpillar Power Finance	287	286	46	264	262	41
<b>Total</b>	<b>\$607</b>	<b>\$603</b>	<b>\$98</b>	<b>\$613</b>	<b>\$609</b>	<b>\$75</b>

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(Millions of dollars)	Three Months Ended June 30, 2015		Three Months Ended June 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Finance Receivables With No Allowance Recorded				
Customer				
North America	\$12	\$—	\$22	\$—
Europe	42	—	47	—
Asia Pacific	2	—	4	—
Mining	80	1	87	1
Latin America	32	—	37	—
Caterpillar Power Finance	176	1	162	1
Total	\$344	\$2	\$359	\$2
Impaired Finance Receivables With An Allowance Recorded				
Customer				
North America	\$6	\$—	\$13	\$—
Europe	15	1	16	—
Asia Pacific	41	1	13	1
Mining	62	—	73	2
Latin America	51	—	17	—
Caterpillar Power Finance	132	1	63	—
Total	\$307	\$3	\$195	\$3
Total Impaired Finance Receivables				
Customer				
North America	\$18	\$—	\$35	\$—
Europe	57	1	63	—
Asia Pacific	43	1	17	1
Mining	142	1	160	3
Latin America	83	—	54	—
Caterpillar Power Finance	308	2	225	1
Total	\$651	\$5	\$554	\$5



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(Millions of dollars)	Six Months Ended June 30, 2015		Six Months Ended June 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Loans and Finance Leases With No Allowance Recorded Customer				
North America	\$13	\$—	\$23	\$1
Europe	43	—	47	—
Asia Pacific	2	—	5	—
Mining	87	3	107	3
Latin America	32	—	26	—
Caterpillar Power Finance	151	2	188	3
Total	\$328	\$5	\$396	\$7
Impaired Loans and Finance Leases With An Allowance Recorded Customer				
North America	\$6	\$—	\$11	\$—
Europe	14	1	18	—
Asia Pacific	34	1	14	1
Mining	66	1	51	2
Latin America	49	1	20	—
Caterpillar Power Finance	131	1	75	1
Total	\$300	\$5	\$189	\$4
Total Impaired Loans and Finance Leases Customer				
North America	\$19	\$—	\$34	\$1
Europe	57	1	65	—
Asia Pacific	36	1	19	1
Mining	153	4	158	5
Latin America	81	1	46	—
Caterpillar Power Finance	282	3	263	4
Total	\$628	\$10	\$585	\$11

## 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 June 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)	June 30, 2015	December 31, 2014
Customer		
North America	\$28	\$27
Europe	40	28
Asia Pacific	40	54
Mining	155	62
Latin America	236	201
Caterpillar Power Finance	119	96
Total	\$618	\$468

Aging related to finance receivables was as follows:

(Millions of dollars)	June 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	\$56	\$17	\$29	\$102	\$7,466	\$7,568	\$6
Europe	22	15	38	75	2,434	2,509	6
Asia Pacific	57	25	50	132	1,949	2,081	14
Mining	2	—	72	74	1,878	1,952	10
Latin America	90	45	223	358	2,134	2,492	—
Caterpillar Power Finance	2	1	89	92	3,020	3,112	1
Dealer							
North America	—	—	—	—	2,291	2,291	—
Europe	—	—	—	—	139	139	—
Asia Pacific	—	—	—	—	565	565	—
Mining	—	—	—	—	—	—	—
Latin America	—	—	—	—	583	583	—
Caterpillar Power Finance	—	—	—	—	3	3	—
Total	\$229	\$103	\$501	\$833	\$22,462	\$23,295	\$37

(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)	June 30, 2015		
Allowance for Credit Losses:	Customer	Dealer	Total
Balance at beginning of year	\$388	\$10	\$398
Receivables written off	(72	) —	(72
Recoveries on receivables previously written off	22	—	22
Provision for credit losses	67	(1	) 66
Other	(12	) —	(12
Balance at end of period	\$393	\$9	\$402
Individually evaluated for impairment	\$98	\$—	\$98
Collectively evaluated for impairment	295	9	304
Ending Balance	\$393	\$9	\$402

## Recorded Investment in Finance Receivables:

Individually evaluated for impairment	\$607	\$—	\$607
Collectively evaluated for impairment	19,107	3,581	22,688
Ending Balance	\$19,714	\$3,581	\$23,295

(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)	June 30, 2015			December 31, 2014		
	Customer	Dealer	Total	Customer	Dealer	Total
<b>Performing</b>						
North America	\$7,540	\$2,291	\$9,831	\$7,246	\$2,189	\$9,435
Europe	2,469	139	2,608	2,647	153	2,800
Asia Pacific	2,041	565	2,606	2,382	566	2,948
Mining	1,797	—	1,797	2,061	—	2,061
Latin America	2,256	583	2,839	2,656	646	3,302
Caterpillar Power Finance	2,993	3	2,996	3,052	—	3,052
<b>Total Performing</b>	<b>\$19,096</b>	<b>\$3,581</b>	<b>\$22,677</b>	<b>\$20,044</b>	<b>\$3,554</b>	<b>\$23,598</b>
<b>Non-Performing</b>						
North America	\$28	\$—	\$28	\$27	\$—	\$27
Europe	40	—	40	28	—	28
Asia Pacific	40	—	40	54	—	54
Mining	155	—	155	62	—	62
Latin America	236	—	236	201	—	201
Caterpillar Power Finance	119	—	119	96	—	96
<b>Total Non-Performing</b>	<b>\$618</b>	<b>\$—</b>	<b>\$618</b>	<b>\$468</b>	<b>\$—</b>	<b>\$468</b>
<b>Performing &amp; Non-Performing</b>						
North America	\$7,568	\$2,291	\$9,859	\$7,273	\$2,189	\$9,462
Europe	2,509	139	2,648	2,675	153	2,828
Asia Pacific	2,081	565	2,646	2,436	566	3,002
Mining	1,952	—	1,952	2,123	—	2,123
Latin America	2,492	583	3,075	2,857	646	3,503
Caterpillar Power Finance	3,112	3	3,115	3,148	—	3,148
<b>Total</b>	<b>\$19,714</b>	<b>\$3,581</b>	<b>\$23,295</b>	<b>\$20,512</b>	<b>\$3,554</b>	<b>\$24,066</b>

**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 June 30, 2015 and December 31, 2014.

There were no finance receivables modified as TDRs during the three and six months ended June 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 six months ended June 30, 2015 and 2014, were as follows:

(Millions of dollars)	Three Months Ended June 30, 2015			Three Months Ended June 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	1	\$—	\$—	1	\$—	\$—
Europe	19	2	2	5	2	2
Asia Pacific	20	25	25	—	—	—
Mining	—	—	—	1	32	23
Latin America	—	—	—	1	—	—
Caterpillar Power Finance	2	21	21	5	35	34
Total <sup>1</sup>	42	\$48	\$48	13	\$69	\$59

  

(Millions of dollars)	Six Months Ended June 30, 2015			Six Months Ended June 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	4	\$1	\$1	4	\$2	\$2
Europe	19	2	2	8	7	7
Asia Pacific	20	25	25	—	—	—
Mining	—	—	—	2	43	33
Latin America	—	—	—	2	29	28
Caterpillar Power Finance	4	104	101	6	36	35
Total <sup>1</sup>	47	\$132	\$129	22	\$117	\$105

<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 six months ended June 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 June 30, 2015		Three Months Ended June 30, 2014	
	Number of Contracts	Post-TDR Recorded Investment	Number of Contracts	Post-TDR Recorded Investment
Customer				
North America	1	\$—	—	\$—
Total	1	\$—	—	\$—

  

(Millions of dollars)	Six Months Ended June 30, 2015		Six Months Ended June 30, 2014	
	Number of Contracts	Post-TDR Recorded Investment	Number of Contracts	Post-TDR Recorded Investment
Customer				

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North America	5	\$1	7	\$1
Europe	—	—	7	1
Latin America	1	—	—	—
Total	6	\$1	14	\$2

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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 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 equity securities are based upon valuations for identical instruments in active markets. 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.

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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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 June 30, 2015 and December 31, 2014 are summarized below:

(Millions of dollars)	June 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	\$ 10	\$—	\$—	\$ 10
Other U.S. and non-U.S. government bonds	—	90	—	90
Corporate bonds				
Corporate bonds	—	684	—	684
Asset-backed securities	—	99	—	99
Mortgage-backed debt securities				
U.S. governmental agency	—	269	—	269
Residential	—	14	—	14
Commercial	—	61	—	61
Equity securities				
Large capitalization value	262	—	—	262
Smaller company growth	52	—	—	52
Total available-for-sale securities	324	1,217	—	1,541
Derivative financial instruments, net	—	11	—	11
Total Assets	\$324	\$1,228	\$—	\$1,552
Liabilities				
Guarantees	\$—	\$—	\$ 13	\$ 13
Total Liabilities	\$—	\$—	\$ 13	\$ 13

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(Millions of dollars)	December 31, 2014			Total Assets / Liabilities, at Fair Value
	Level 1	Level 2	Level 3	
<b>Assets</b>				
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
Total Assets	\$286	\$1,268	\$—	\$1,554
<b>Liabilities</b>				
Derivative financial instruments, net	\$—	\$86	\$—	\$86
Guarantees	—	—	12	12
Total Liabilities	\$—	\$86	\$12	\$98

Below are roll-forwards of liabilities measured at fair value using Level 3 inputs for the six months ended June 30, 2015 and 2014. These instruments were valued using pricing models that, in management's judgment, reflect the assumptions of a marketplace participant.

(Millions of dollars)	Guarantees
Balance at December 31, 2014	\$12
Issuance of guarantees	1
Expiration of guarantees	—
Balance at June 30, 2015	\$13
Balance at December 31, 2013	\$13
Issuance of guarantees	—
Expiration of guarantees	(1
Balance at June 30, 2014	\$12

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 \$136 million and \$248 million as of June 30, 2015 and December 31, 2014, respectively.

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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.



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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
	June 30, 2015		December 31, 2014			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value		
<b>Assets</b>						
Cash and short-term investments	\$7,821	\$7,821	\$7,341	\$7,341	1	
Restricted cash and short-term investments	49	49	62	62	1	
Available-for-sale securities	1,541	1,541	1,554	1,554	1 & 2	Note 8
Finance receivables – net (excluding finance leases <sup>1</sup> )	16,272	16,107	16,426	16,159	3	Note 16
Wholesale inventory receivables – net (excluding finance leases <sup>1</sup> )	1,796	1,728	1,774	1,700	3	Note 16
Interest rate swaps – net	59	59	71	71	2	Note 4
<b>Liabilities</b>						
Short-term borrowings	6,240	6,240	4,708	4,708	1	
Long-term debt (including amounts due within one year)						
Machinery, Energy & Transportation	9,509	10,855	10,003	11,973	2	
Financial Products	22,571	23,010	24,574	25,103	2	
Foreign currency contracts – net	37	37	143	143	2	Note 4
Commodity contracts – net	11	11	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 June 30, 2015 and December 31, 2014 of \$7,079 million and \$7,638 million, respectively.

## 18. Divestitures

### Third Party Logistics Business Divestiture

In February 2015, we sold our 35 percent equity interest in the third party logistics business, formerly Caterpillar Logistics Services LLC, to an affiliate of The Goldman Sachs Group, 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.

## 19. Restructuring costs

For the three and six months ended June 30, 2015, we recognized \$89 million and \$125 million, respectively, of restructuring costs in Other operating (income) expenses in the Consolidated Statement of Results of Operations,

which included \$86 million of employee separation costs and \$3 million of long-lived asset impairments and other restructuring costs for the three months ended June 30, 2015 and \$120 million of employee separation costs and \$5 million of long-lived asset impairments and other restructuring costs for the six months ended June 30, 2015. The restructuring costs in 2015 were primarily related to several restructuring programs across the company. For the three and six months ended June 30, 2014, we recognized \$114 million and \$263 million, respectively, of restructuring costs, which included \$107 million of employee separation costs and \$7 million of long-lived asset impairments and other restructuring costs for the three months ended June 30, 2014 and \$249 million of employee separation costs and \$14 million of long-lived asset

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impairments and other restructuring costs for the six months ended June 30, 2014. For the first six 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. See Note 15 for more information.

Our accounting for separations was dependent upon how the particular program was designed. For voluntary programs, eligible separation costs were recognized at the time of employee acceptance. For involuntary programs, eligible costs were recognized when management had approved the program, the affected employees had been properly notified and the costs were estimable.

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)	120
Reduction in liability (payments and other adjustments)	(137 )
Liability balance at June 30, 2015	\$165

The remaining liability balance as of June 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 three and six months ended June 30, 2015, we recognized \$17 million and \$24 million, respectively, of employee separation costs relating to this restructuring plan. We do not expect any further costs associated with this program. The employee separation liability balance as of June 30, 2015 includes \$64 million related to this restructuring plan, the majority of which we expect will be paid in 2015.

## 20. Subsequent event

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). Pursuant to the terms of the July 2015 ASR Agreement, we have agreed to repurchase a total of \$1.5 billion of our common stock from Citibank, N.A., with an immediate delivery of approximately 18 million shares. The final number of shares to be repurchased and the aggregate cost per share to Caterpillar will be based on Caterpillar's volume-weighted average stock price during the

term of the transaction, which is expected to be completed in September 2015.

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

Overview

Second-quarter 2015 sales and revenues were \$12.317 billion, a 13 percent decrease from second-quarter 2014 sales and revenues of \$14.150 billion. Profit per share for the second quarter of 2015 was \$1.16, a 26 percent decrease from second-quarter 2014 profit per share of \$1.57. Profit was \$710 million in the second quarter of 2015, a decrease of 29 percent from \$999 million in the second quarter of 2014.

Sales and revenues for the six months ended June 30, 2015, were \$25.019 billion, down \$2.372 billion, or 9 percent, from \$27.391 billion for the six months ended June 30, 2014. Profit per share for the six months ended June 30, 2015, was \$2.98, a 1 percent decrease from profit per share of \$3.00 for the same period last year. Profit was \$1.821 billion for the six months ended June 30, 2015, a decrease of 5 percent from \$1.921 billion for the six months ended June 30, 2014.

Highlights for the second quarter of 2015 include:

Second-quarter sales and revenues were \$12.317 billion, compared with \$14.150 billion in the second quarter of 2014. Sales decreased in Construction Industries, Energy & Transportation and Resource Industries. Financial Products' revenues were down slightly.

Restructuring costs were \$89 million in the second quarter of 2015 with an after-tax impact of \$0.11 per share, compared with restructuring costs of \$114 million in the second quarter of 2014 with an after-tax impact of \$0.12 per share.

Profit per share was \$1.16 in the second quarter of 2015 and excluding restructuring costs of \$0.11 per share was \$1.27 per share. Profit in the second quarter of 2014 was \$1.57 per share and excluding restructuring costs of \$0.12 per share was \$1.69 per share.

Machinery, Energy & Transportation (ME&T) operating cash flow was \$1.638 billion in the second quarter of 2015, compared with \$2.064 billion in the second quarter of 2014.

ME&T debt-to-capital ratio was 35.8 percent at June 30, 2015, compared with 37.4 percent at the end of 2014.

Highlights for the six months ended June 30, 2015, include:

Sales and revenues for the six months ended June 30, 2015, were \$25.019 billion, compared with \$27.391 billion for the six months ended June 30, 2014. Sales decreased in Construction Industries, Energy & Transportation and Resource Industries. Financial Products' revenues were about flat.

Restructuring costs were \$125 million for the six months ended June 30, 2015, with an after-tax impact of \$0.14 per share, compared with restructuring costs of \$263 million for the six months ended June 30, 2014, with an after-tax impact of \$0.30 per share.

Profit per share was \$2.98 for the six months ended June 30, 2015, and excluding restructuring costs of \$0.14 per share was \$3.12 per share. Profit per share was \$3.00 for the six months ended June 30, 2014, and excluding restructuring costs of \$0.30 per share was \$3.30 per share.

ME&T operating cash flow was \$2.680 billion for the six months ended June 30, 2015, compared with \$3.942 billion for the six months ended June 30, 2014.

## Restructuring Costs

In 2014, we continued our focus on structural cost reduction and worked on a large number of restructuring activities to help improve our long-term results, incurring \$441 million in restructuring charges. We are taking additional restructuring actions in 2015 and anticipate that these actions will result in charges of about \$250 million. During the first six months of 2015, we incurred \$125 million in restructuring costs.

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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 75-77; first occurrence of terms shown in bold italics.

Information on non-GAAP financial measures is included on page 86.

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Consolidated Results of Operations

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

CONSOLIDATED SALES AND REVENUES

The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between the second quarter of 2014 (at left) and the second 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 \$12.317 billion in the second quarter of 2015, compared with \$14.150 billion in the second quarter of 2014, a decline of \$1.833 billion or 13 percent. The decrease was primarily due to lower sales volume and the unfavorable impact of currency, resulting mostly from the weakening of the euro, the Japanese yen and the Brazilian real. Price realization was slightly favorable. While sales for both new equipment and aftermarket parts declined, most of the decrease was for new equipment.

The sales decline was partially offset by the impact of favorable changes in dealer machine and engine inventories, as dealers decreased inventories about \$300 million in the second quarter of 2015 and about \$500 million in the second quarter of 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 due to weak economic conditions globally. Asia/Pacific sales declined 22 percent, primarily due to lower end-user demand for construction and mining equipment and products used in oil and gas applications. In addition, the impact of currency was unfavorable as sales, mostly in Japanese yen and Australian dollars, translated into fewer U.S. dollars. In North America, sales decreased 7 percent, primarily due to lower end-user demand for rail applications and construction equipment. Sales decreased 26 percent in Latin America primarily due to lower end-user demand, partially offset by the favorable impact of changes in dealer inventories. The lower end-user demand resulted primarily from continued weak construction activity in Brazil. In EAME, sales declined 12 percent mostly due to the unfavorable impact of currency, as our sales in euros translated into fewer U.S. dollars.

Sales decreased in Construction Industries, Energy & Transportation and Resource Industries. Construction Industries' sales decreased 18 percent, primarily due to lower end-user demand and the unfavorable impact of currency. Energy & Transportation's sales declined 12 percent as sales decreased across end-user applications and the impact of currency was unfavorable. Resource Industries' sales declined 11 percent, primarily due to lower end-user demand partially offset by the impact of favorable changes



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in dealer inventories as dealers reduced inventories more significantly in the second quarter of 2014 than in the second quarter of 2015. Financial Products' segment revenues were down slightly.

The decline in oil prices resulted in a decrease in sales during the second quarter of 2015, primarily in well servicing and drilling 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. We expect a more significant decline in oil-related sales during the second half of 2015 as the order backlog declines.

CONSOLIDATED OPERATING PROFIT

The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between the second quarter of 2014 (at left) and the second 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 second quarter of 2015 was \$1.130 billion, a decline of \$345 million from the second quarter of 2014. The decrease was primarily the result of lower sales volume and a decline in Financial Products' operating profit, partially offset by improved price realization and the favorable impact of currency.

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. Over half of the favorability for the quarter was due to the Japanese yen, as we are a net exporter from Japan.

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. Favorable material costs were due to declines in commodity prices and a focus on reducing the cost of components in our products. The unfavorable cost absorption resulted from a decrease in inventory in the second quarter of 2015 compared to a modest increase in the second quarter of 2014. Selling, general and administrative and research and development (SG&A and R&D) expenses were about flat as higher spending for new product introduction and information technology-related programs was offset by lower incentive compensation expense.

Restructuring costs of \$89 million in the second quarter of 2015 were related to several restructuring programs across the company. In the second quarter of 2014, restructuring costs were \$114 million, primarily related to a workforce reduction at the Gosselies, Belgium, facility.

Short-term incentive compensation expense related to the second quarter of 2015, was about \$200 million, and we expect the full year will be about \$830 million. Short-term incentive compensation expense related to the second quarter of 2014, was about

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\$360 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 second quarter of 2015 was expense of \$13 million, compared with income of \$65 million in the second quarter of 2014. The change was primarily due to the unfavorable net impact from currency translation and hedging gains and losses. The second quarter of 2015 included net losses related to currency translation and hedging compared to net gains in the second quarter of 2014.

The provision for income taxes for the second quarter of 2015 reflects an estimated annual tax rate of 28.5 percent compared with 29.5 percent for the second quarter of 2014. The decrease is primarily due to a more favorable expected geographic mix of profits from a tax perspective in 2015. The impact of the U.S. research and development tax credit is not included in either the second quarter of 2015 or 2014 as it was renewed for 2014 in the fourth quarter of 2014 and has not been renewed for 2015.

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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
Second Quarter 2015										
Construction Industries <sup>1</sup>	\$4,441	(18 )%	\$2,319	(3 )%	\$378	(47 )%	\$978	(18 )%	\$766	(30 )%
Resource Industries <sup>2</sup>	1,991	(11 )%	802	(7 )%	323	(6 )%	418	(20 )%	448	(12 )%
Energy & Transportation <sup>3</sup>	4,544	(12 )%	1,905	(16 )%	439	(7 )%	1,340	(5 )%	860	(17 )%
All Other Segments <sup>4</sup>	637	9 %	459	24 %	48	(32 )%	75	(10 )%	55	(8 )%
Corporate Items and Eliminations	(30 )	—	(29 )		(1 )		—		—	
Machinery, Energy & Transportation Sales	11,583	(14 )%	5,456	(7 )%	1,187	(26 )%	2,811	(12 )%	2,129	(22 )%
Financial Products Segment	785	(6 )%	456	2 %	105	(10 )%	101	(17 )%	123	(17 )%
Corporate Items and Eliminations	(51 )		(25 )		(10 )		(6 )		(10 )	
Financial Products Revenues	734	(3 )%	431	6 %	95	(9 )%	95	(16 )%	113	(16 )%
Consolidated Sales and Revenues	\$12,317	(13 )%	\$5,887	(6 )%	\$1,282	(25 )%	\$2,906	(12 )%	\$2,242	(21 )%
Second Quarter 2014										
Construction Industries <sup>1</sup>	\$5,407		\$2,402		\$711		\$1,192		\$1,102	
Resource Industries <sup>2</sup>	2,241		866		342		523		510	
Energy & Transportation <sup>3</sup>	5,175		2,259		470		1,406		1,040	
All Other Segments <sup>4</sup>	583		369		71		83		60	
Corporate Items and Eliminations	(15 )		(15 )		1		(2 )		1	
Machinery, Energy & Transportation Sales	13,391		5,881		1,595		3,202		2,713	
Financial Products Segment	834		448		117		121		148	
Corporate Items and Eliminations	(75 )		(41 )		(13 )		(8 )		(13 )	
Financial Products Revenues	759		407		104		113		135	
Consolidated Sales and Revenues	\$14,150		\$6,288		\$1,699		\$3,315		\$2,848	

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- <sup>1</sup> Does not include inter-segment sales of \$45 million and \$56 million in second quarter 2015 and 2014, respectively.
- <sup>2</sup> Does not include inter-segment sales of \$82 million and \$111 million in second quarter 2015 and 2014, respectively.
- <sup>3</sup> Does not include inter-segment sales of \$487 million and \$586 million in second quarter 2015 and 2014, respectively.
- <sup>4</sup> Does not include inter-segment sales of \$804 million and \$890 million in second quarter 2015 and 2014, respectively.

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## Sales and Revenues by Segment

(Millions of dollars)	Second Quarter 2014	Sales Volume	Price Realization	Currency	Other	Second Quarter 2015	\$ Change	% Change
Construction Industries	\$5,407	\$(778 )	\$ 46	\$(234 )	\$—	\$4,441	\$(966 )	(18 )%
Resource Industries	2,241	(214 )	11	(47 )	—	1,991	(250 )	(11 )%
Energy & Transportation	5,175	(455 )	22	(198 )	—	4,544	(631 )	(12 )%
All Other Segments	583	61	5	(12 )	—	637	54	9 %
Corporate Items and Eliminations	(15 )	(14 )	—	(1 )	—	(30 )	(15 )	
Machinery, Energy & Transportation Sales	13,391	(1,400 )	84	(492 )	—	11,583	(1,808 )	(14 )%
Financial Products Segment	834	—	—	—	(49 )	785	(49 )	(6 )%
Corporate Items and Eliminations	(75 )	—	—	—	24	(51 )	24	
Financial Products Revenues	759	—	—	—	(25 )	734	(25 )	(3 )%
Consolidated Sales and Revenues	\$14,150	\$(1,400 )	\$ 84	\$(492 )	\$(25 )	\$12,317	\$(1,833 )	(13 )%

## Operating Profit by Segment

(Millions of dollars)	Second Quarter 2015	Second Quarter 2014	\$ Change	% Change
Construction Industries	\$587	\$674	\$(87 )	(13 )%
Resource Industries	—	114	(114 )	(100 )%
Energy & Transportation	906	1,028	(122 )	(12 )%
All Other Segments	217	223	(6 )	(3 )%
Corporate Items and Eliminations	(696 )	(722 )	26	
Machinery, Energy & Transportation	1,014	1,317	(303 )	(23 )%
Financial Products Segment	184	244	(60 )	(25 )%
Corporate Items and Eliminations	(1 )	(12 )	11	
Financial Products	183	232	(49 )	(21 )%
Consolidating Adjustments	(67 )	(74 )	7	
Consolidated Operating Profit	\$1,130	\$1,475	\$(345 )	(23 )%

## Construction Industries

Construction Industries' sales were \$4.441 billion in the second quarter of 2015, a decrease of \$966 million, or 18 percent, from the second quarter of 2014. The decrease in sales was primarily due to lower end-user demand and the unfavorable impact of currency, primarily from the euro and the Japanese yen, slightly offset by improved price realization. While sales declined for both new equipment and aftermarket parts, the decline for new equipment was more significant.

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

Price realization improved with about half of the impact due to the absence of a large government order in Brazil.

Sales decreased in all regions.

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 construction activity. In Japan, the weaker yen contributed to the decline as sales in yen translated into fewer U.S. dollars.

Decreases in Latin America were primarily due to continued weak construction activity and the absence of a large government order in Brazil that occurred during the second quarter of 2014.

Sales declined in EAME primarily due to the unfavorable impact of currency, as sales in euros translated into fewer U.S. dollars. In addition, the impact of changes in dealer inventories was unfavorable as dealers increased inventories more significantly in second quarter of 2014 than in the second quarter of 2015.

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

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Construction Industries' profit was \$587 million in the second quarter of 2015, compared with \$674 million in the second quarter of 2014. The decrease in profit was primarily due to lower sales volume. The decline was partially offset by the favorable impact of currency, primarily from the Japanese yen, as Construction Industries is a net exporter from Japan, in addition to improved price realization and lower incentive compensation expense.

### Resource Industries

Resource Industries' sales were \$1.991 billion in the second quarter of 2015, a decrease of \$250 million, or 11 percent, from the second quarter of 2014. The decline was primarily due to lower sales volume and the unfavorable impact of currency, about half due to the euro. Sales were lower for both new equipment and aftermarket parts. We believe some companies are continuing to delay maintenance and rebuild activities.

The sales decrease was primarily the result of lower end-user demand in Latin America, Asia/Pacific and North America. The decline in these regions was partially offset by the favorable impact of changes in dealer inventories, as dealers reduced inventory more significantly in the second quarter of 2014 than in the second quarter of 2015. In North America, lower sales of mining equipment were partially offset by increases in sales of equipment used to support the quarry and aggregate industry. In EAME, the sales decrease was primarily the result of unfavorable changes in dealer inventories. End-user demand in EAME was about flat.

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 quarters. As a result, sales and new orders in Resource Industries continued to be weak. The mining industry remains weak and we are not expecting any improvements in sales volume during the second half of 2015.

Resource Industries' profit was break even in the second quarter of 2015, compared with profit of \$114 million in the second quarter of 2014. The decrease was primarily the result of lower sales volume. Manufacturing costs were unfavorable due to the impact of cost absorption partially offset by lower material costs. The unfavorable impact of cost absorption resulted from a decrease in inventory during the second quarter of 2015, compared to an increase in inventory during the second quarter of 2014. SG&A and R&D expenses were about flat as higher spending for new product introductions was about offset by lower incentive compensation expense.

### Energy & Transportation

Energy & Transportation's sales were \$4.544 billion in the second quarter of 2015, a decrease of \$631 million, or 12 percent, from the second 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 across end-user applications.

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.

Oil and Gas - Sales decreased in Asia/Pacific and North America and were about flat in other regions. Lower sales in Asia/Pacific and North America were primarily due to lower end-user demand for equipment used in drilling and well servicing applications, as well as the timing of large projects. In addition, changes in dealer inventories were unfavorable to sales as dealers increased inventories in the second quarter of 2014 and decreased inventories in the second quarter of 2015.

Caterpillar sells products that are used in a variety of oil and gas applications, including offshore and land drilling, well servicing, oil and gas production and gas compression. The products we sell to the oil and gas industry include gas turbines and centrifugal natural gas compressors, reciprocating engines, transmissions and well stimulation pumps. Although we are confident in the long-term fundamentals of the oil and gas industry, in the near term and especially in the latter part of 2015, we expect the decline in oil prices will have a negative impact on our sales in the second half of 2015 primarily for reciprocating engines and our products used for well servicing and drilling. At the beginning of 2015, we had a relatively strong backlog of orders, however, we expect our backlog for these products and subsequent sales to decline in the second half of 2015.

Industrial - Sales were lower in all regions except Latin America, where they were about flat. In Asia/Pacific and North America the decline in sales was primarily due to lower demand for engines used by original equipment manufacturers for most industrial applications. Lower sales in EAME were primarily a result of the unfavorable impact of currency.

Power Generation - Sales decreased primarily due to the negative impact of currency on sales in EAME and weak economic conditions in Latin America. Sales in North America and Asia/Pacific were about flat.

Energy & Transportation's profit was \$906 million in the second quarter of 2015, compared with \$1.028 billion in the second quarter of 2014. The decrease was primarily due to lower sales volume, which includes a favorable mix of products, partially offset by lower incentive compensation expense. Manufacturing costs, excluding incentive compensation expense, were about flat as lower material costs were about offset by the unfavorable impact of cost absorption. The unfavorable impact of cost absorption resulted from an increase in inventory during the second quarter of 2014. During the second quarter of 2015, inventory was about flat.



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Financial Products Segment

Financial Products' revenues were \$785 million in the second quarter of 2015, a decrease of \$49 million, or 6 percent, from the second quarter of 2014. The decline was mostly due to lower average earning assets in Asia/Pacific, EAME and Latin America, partially offset by higher average earning assets in North America and lower average financing rates primarily in North America and EAME.

Financial Products' profit was \$184 million in the second quarter of 2015, compared with \$244 million in the second quarter of 2014. The unfavorable change was primarily due to a \$25 million decrease in net yield on average earning assets, a \$14 million unfavorable impact from lower average earning assets and a \$14 million increase in the provision for credit losses at Cat Financial.

At the end of the second quarter of 2015, past dues at Cat Financial were 2.97 percent, compared with 2.63 percent at the end of the second quarter of 2014. The increase was primarily due to higher delinquencies in the Latin America and mining portfolios. At the end of 2014, past dues were 2.17 percent. Write-offs, net of recoveries, were \$38 million for the second quarter of 2015, compared with \$19 million for the second quarter of 2014.

As of June 30, 2015, Cat Financial's allowance for credit losses totaled \$405 million, or 1.42 percent of net finance receivables, compared with \$387 million or 1.27 percent of net finance receivables at June 30, 2014. The allowance for credit losses as of 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 \$697 million in the second quarter of 2015, a decrease of \$37 million from the second 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 second quarter of 2014 was primarily due to the timing of stock-based compensation expense and declines in both restructuring costs and incentive compensation expense, partially offset by higher spending for information technology-related programs.

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SIX MONTHS ENDED JUNE 30, 2015 COMPARED WITH SIX MONTHS ENDED JUNE 30, 2014

CONSOLIDATED SALES AND REVENUES

The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between the six months ended June 30, 2014 (at left) and the six months ended June 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 \$25.019 billion in the six months ended June 30, 2015, down \$2.372 billion, or 9 percent, from the six months ended June 30, 2014. The decrease was largely due to lower volume, primarily in Construction Industries. Volume was also lower in Energy & Transportation and Resource Industries. Currency had an unfavorable impact of \$834 million, with over half of the impact due to the euro. In addition, the Japanese yen and Brazilian real contributed to the unfavorable currency impact. These unfavorable impacts were partially offset by favorable price realization. While sales for both new equipment and aftermarket parts declined, most of the decrease was for new equipment.

The volume decrease was primarily the result of lower end-user demand due to weak economic conditions globally. The decline was partially offset by the impact of favorable changes in dealer machine and engine inventories, as dealers increased inventories about \$600 million during the six months ended June 30, 2015, compared to about flat during the six months ended June 30, 2014. We believe dealers will decrease inventories during the second half 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 except North America where they were about flat. In Asia/Pacific, sales declined 17 percent, primarily due to lower end-user demand for construction equipment and the unfavorable impact of currency, as our sales in Japanese yen translated into fewer U.S. dollars. 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. In addition, EAME sales declined due to lower end-user demand for mining equipment. In Latin America, sales decreased 22 percent, primarily due to continued weak construction activity and the absence of a large government order in Brazil, partially offset by the favorable impact of changes in dealer inventory for Resource Industries.

Sales were about flat in North America. The impact of favorable changes in dealer inventories, as dealers increased inventories more significantly in the first half of 2015 than in the first half of 2014, and improved price realization in Construction Industries and Energy & Transportation were about offset by lower end-user demand in Energy & Transportation, Resource Industries and Construction Industries.

Sales decreased in Construction Industries, Energy & Transportation and Resource Industries. Construction Industries' sales decreased 13 percent primarily due to end-user demand and the unfavorable impact of currency. Energy & Transportation's sales

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declined 6 percent primarily due to lower end-user demand and the unfavorable impact of currency. Resource Industries' sales declined 10 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 first half of 2014 than in the first half of 2015. Financial Products' segment revenues were about flat.

**CONSOLIDATED OPERATING PROFIT**

The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between the six months ended June 30, 2014 (at left) and the six months ended June 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 six months ended June 30, 2015, was \$2.657 billion, a decrease of \$216 million from the six months ended June 30, 2014. The decrease was primarily the result of lower sales volume, which includes a favorable mix of products. In addition, selling, general and administrative and research and development (SG&A and R&D) expenses increased. These unfavorable impacts were partially offset by improved price realization, the favorable impact of currency and lower restructuring costs.

SG&A and R&D expenses increased as higher spending for new product introduction and information technology programs and the timing of stock-based compensation expense were partially offset by lower incentive compensation expense. Beginning in March of 2015, we revised the vesting terms of our annual equity award to permit immediate vesting of the award in the event of a participant's "Long-Service Separation" (generally defined as attaining 55 years of age or older and at least five years of service with the company). Stock-based compensation expense for these individuals is now recognized in the first quarter, rather than over a six month period. This change will not impact stock-based compensation expense for the year, but does impact the quarterly expense pattern.

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

Restructuring costs of \$125 million in the six months ended June 30, 2015, were related to several restructuring programs across the company. In the six months ended June 30, 2014, restructuring costs were \$263 million, primarily related to a workforce reduction at the Gosselies, Belgium, facility.

Manufacturing costs were about flat as favorable 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. Favorable material costs were due to declines in commodity prices and a focus on reducing the cost of components in our products. During the six months ended June 30, 2014, inventory increased, compared to a decrease in the six months ended June 30, 2015. We are expecting additional declines in inventory during the remainder of 2015 due to our continued focus on operational improvements and expected seasonality. As a result, we expect an unfavorable impact from cost absorption during the second half of 2015.

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Short-term incentive compensation expense related to the six months ended June 30, 2015, was about \$415 million, and we expect the full year will be about \$830 million. Short-term incentive compensation expense related to the six months ended June 30, 2014, was about \$620 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.

We believe profit will be lower in the second half of 2015 as we expect lower sales volume, including an unfavorable mix of products primarily in Energy & Transportation, higher costs resulting from seasonal spending patterns and an unfavorable impact of inventory cost absorption.

Other Profit/Loss Items

Other income/expense was income of \$144 million in the six months ended June 30, 2015, compared with income of \$119 million in the six months ended June 30, 2014. The favorable change was primarily due to a gain of \$120 million on the sale of the remaining 35 percent interest in our former third party logistics business, partially offset by the unfavorable impact of currency translation and hedging gains and losses. The six months ended June 30, 2015, included net losses of \$58 million related to translation and hedging. The six months ended June 30, 2014, included net gains of \$14 million related to translation and hedging.

The provision for income taxes for the first six months of 2015 reflects an estimated annual tax rate of 28.5 percent compared with 29.5 percent for the first six months of 2014, excluding the item discussed below. The decrease is primarily due to a more favorable expected geographic mix of profits from a tax perspective in 2015. The impact of the U.S. research and development tax credit is not included in either the first six 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 in the first six months of 2014 also included a net charge of \$22 million consisting of a \$55 million charge to correct for an error which resulted in an understatement of tax liabilities for prior years offset by a \$33 million benefit to reflect a settlement with the U.S. Internal Revenue Service (IRS) related to 1992 through 1994.

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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
Six Months Ended June 30, 2015										
Construction Industries <sup>1</sup>	\$9,136	(13 )%	\$4,600	2	% \$ 829	(36 )%	\$1,965	(16 )%	\$1,742	(26 )%
Resource Industries <sup>2</sup>	3,919	(10 )%	1,562	(2 )%	631	(15 )%	874	(17 )%	852	(13 )%
Energy & Transportation <sup>3</sup>	9,306	(6 )%	4,152	(4 )%	858	(9 )%	2,564	(6 )%	1,732	(10 )%
All Other Segments <sup>4</sup>	1,223	8	% 873	24	% 89	(29 )%	156	(16 )%	105	(12 )%
Corporate Items and Eliminations	(40 )		(44 )		1		—		3	
Machinery, Energy & Transportation Sales	23,544	(9 )%	11,143	—	% 2,408	(22 )%	5,559	(12 )%	4,434	(17 )%
Financial Products Segment	1,580	(4 )%	907	2	% 212	(6 )%	210	(17 )%	251	(13 )%
Corporate Items and Eliminations	(105 )		(53 )		(20 )		(11 )		(21 )	
Financial Products Revenues	1,475	(2 )%	854	6	% 192	(5 )%	199	(16 )%	230	(12 )%
Consolidated Sales and Revenues	\$25,019	(9 )%	\$11,997	1	% \$2,600	(21 )%	\$5,758	(12 )%	\$4,664	(17 )%
Six Months Ended June 30, 2014										
Construction Industries <sup>1</sup>	\$10,471		\$4,494		\$ 1,297		\$2,336		\$2,344	
Resource Industries <sup>2</sup>	4,364		1,591		744		1,055		974	
Energy & Transportation <sup>3</sup>	9,951		4,341		941		2,735		1,934	
All Other Segments <sup>4</sup>	1,137		706		126		186		119	
Corporate Items and Eliminations	(39 )		(32 )		(1 )		(5 )		(1 )	
Machinery, Energy & Transportation Sales	25,884		11,100		3,107		6,307		5,370	
Financial Products Segment	1,651		885		226		252		288	
Corporate Items and Eliminations	(144 )		(80 )		(24 )		(14 )		(26 )	
Financial Products Revenues	1,507		805		202		238		262	
Consolidated Sales and Revenues	\$27,391		\$11,905		\$ 3,309		\$6,545		\$5,632	

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- Does not include inter-segment sales of \$96 million and \$131 million for the six months ended June 30, 2015 and 2014, respectively.
- <sup>2</sup> Does not include inter-segment sales of \$175 million and \$213 million for the six months ended June 30, 2015 and 2014, respectively.
- <sup>3</sup> Does not include inter-segment sales of \$1,001 million and \$1,136 million for the six months ended June 30, 2015 and 2014, respectively.
- <sup>4</sup> Does not include inter-segment sales of \$1,613 million and \$1,722 million for the six months ended June 30, 2015 and 2014, respectively.

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## Sales and Revenues by Segment

(Millions of dollars)	Six Months Ended June 30, 2014	Sales Volume	Price Realization	Currency	Other	Six Months Ended June 30, 2015	\$ Change	% Change
Construction Industries	\$10,471	\$(1,081 )	\$156	\$(410 )	\$—	\$9,136	\$(1,335 )	(13 )%
Resource Industries	4,364	(325 )	(40 )	(80 )	—	3,919	(445 )	(10 )%
Energy & Transportation	9,951	(382 )	58	(321 )	—	9,306	(645 )	(6 )%
All Other Segments	1,137	92	15	(21 )	—	1,223	86	8 %
Corporate Items and Eliminations	(39 )	1	—	(2 )	—	(40 )	(1 )	
Machinery, Energy & Transportation Sales	25,884	(1,695 )	189	(834 )	—	23,544	(2,340 )	(9 )%
Financial Products Segment	1,651	—	—	—	(71 )	1,580	(71 )	(4 )%
Corporate Items and Eliminations	(144 )	—	—	—	39	(105 )	39	
Financial Products Revenues	1,507	—	—	—	(32 )	1,475	(32 )	(2 )%
Consolidated Sales and Revenues	\$27,391	\$(1,695 )	\$189	\$(834 )	\$(32 )	\$25,019	\$(2,372 )	(9 )%

## Operating Profit by Segment

(Millions of dollars)	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014	\$ Change	% Change
Construction Industries	\$1,327	\$1,362	\$(35 )	(3 )%
Resource Industries	85	257	(172 )	(67 )%
Energy & Transportation	1,892	1,861	31	2 %
All Other Segments	442	458	(16 )	(3 )%
Corporate Items and Eliminations	(1,368 )	(1,382 )	14	
Machinery, Energy & Transportation	2,378	2,556	(178 )	(7 )%
Financial Products Segment	411	484	(73 )	(15 )%
Corporate Items and Eliminations	2	(27 )	29	
Financial Products	413	457	(44 )	(10 )%
Consolidating Adjustments	(134 )	(140 )	6	
Consolidated Operating Profit	\$2,657	\$2,873	\$(216 )	(8 )%

## Construction Industries

Construction Industries' sales were \$9.136 billion in the six months ended June 30, 2015, a decrease of \$1.335 billion, or 13 percent, from the six months ended June 30, 2014. The sales decrease was primarily due to lower sales volume and the unfavorable impact of currency, partially offset by favorable price realization. Sales of new equipment

decreased, and aftermarket parts sales declined slightly.

The decrease in sales volume was primarily due to lower deliveries to end users.

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 primarily resulted from continued weak 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 continued weak construction activity and the absence of a large government order in Brazil that occurred during the six months ended June 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 and unfavorable changes in dealer inventories, as dealers increased inventory more during the six months ended June 30, 2014, than in the six months ended June 30, 2015.



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Sales in North America were about flat. Price realization improved and the impact of changes in dealer inventories were favorable as dealers increased inventories more during the first half of 2015 than in the first half of 2014. These favorable items were about offset by lower end-user demand as weakness in oil and gas-related construction was partially offset by stronger activity in residential and nonresidential building construction.

We expect that sales in the second half of 2015 will continue to be unfavorably impacted by weak residential construction activity in China and lower 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, as countries that depend on oil revenues may reduce expenditures for roads and other infrastructure projects.

Construction Industries' profit was \$1.327 billion in the six months ended June 30, 2015, compared with \$1.362 billion in the six months ended June 30, 2014. The decrease in profit was primarily due to lower sales volume, partially offset by improved price realization, the favorable impact of currency and lower incentive compensation expense.

### Resource Industries

Resource Industries' sales were \$3.919 billion for the six months ended June 30, 2015, a decrease of \$445 million, or 10 percent, from the six months ended June 30, 2014, primarily due to lower sales volume and the unfavorable impact of currency primarily due to the euro. Price realization was slightly unfavorable resulting from a competitive pricing environment. While sales declined for both new equipment and aftermarket parts, the decline for new equipment was more significant. We believe some companies are continuing to delay maintenance and rebuild activities.

The sales volume decrease was primarily the result of continued weak end-user demand worldwide, partially offset by the favorable impact of changes in dealer inventories. While dealers continued to reduce inventories during the six months ended June 30, 2015, the reductions were less significant than in the six months ended June 30, 2014. Sales declined in all regions except North America, where they were about flat, as lower end-user demand was about offset by the favorable impact of changes in dealer inventories as dealers reduced inventories less during the first half of 2015 than in the first half of 2014. In North America, lower sales of mining equipment were partially offset by increases in sales of equipment used to support the quarry and aggregate industry.

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 quarters. As a result, both sales and new orders in Resource Industries continued to be weak. The mining industry remains weak and we are not expecting any improvements in sales volume during the second half of 2015.

Resource Industries' profit was \$85 million for the six months ended June 30, 2015, compared with \$257 million for the six months ended June 30, 2014. The decrease was primarily the result of lower sales volume, which includes a favorable mix of products, and unfavorable price realization. Manufacturing costs were about flat as the unfavorable impact from cost absorption was about offset by lower material costs. The unfavorable impact of cost absorption resulted from a modest decrease in inventory during the six months ended June 30, 2015, compared to an increase in inventory during the six months ended June 30, 2014. SG&A and R&D were about flat as cost cutting measures were about offset by increases in new product introduction spending.

### Energy & Transportation

Energy & Transportation's sales were \$9.306 billion for the six months ended June 30, 2015, a decrease of \$645 million, or 6 percent, from the six months ended June 30, 2014. The sales decrease was primarily due to lower sales to end users and the unfavorable impact of currency, primarily from a weaker euro. Price realization was slightly favorable. Sales decreased for industrial, transportation and power generation applications and were about flat for oil and gas applications.

Industrial - Sales decreased in EAME and Asia/Pacific and were about flat in Latin America and North America. In EAME, sales decreased primarily due to the unfavorable impact of currency. In both EAME and Asia/Pacific, lower demand for engines used by original equipment manufacturers 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.

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 lower sales of recyclable materials. This is driven primarily by the year over year decrease in scrap prices and the lower volume of railcars available to scrap. In addition, sales weakened due to the absence of a Tier IV locomotive offering.

Oil and Gas - Sales were about flat as decreases in Latin America and Asia/Pacific were about offset by increases in North America. Sales in EAME were about flat. In Latin America, sales were lower primarily due to the absence of a large project that occurred in the six months ending June 30, 2014. In addition, the impact of changes in dealer inventories was unfavorable as dealers decreased inventories during the first half of 2015 and increased inventories in the first half of 2014. Sales declined in Asia/Pacific resulting primarily from the unfavorable impact of changes in dealer inventories as dealers decreased inventories

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during the first half of 2015 and increased inventories in the first half of 2014. In addition, end-user demand was lower for equipment used in drilling. In North America, sales increased primarily due to higher end-user demand for equipment used in gas compression and well servicing applications.

Caterpillar sells products that are used in a variety of oil and gas applications, including offshore and land drilling, well servicing, oil and gas production and gas compression. The products we sell to the oil and gas industry include gas turbines and centrifugal natural gas compressors, reciprocating engines, transmissions and well stimulation pumps. Although we are confident in the long-term fundamentals of the oil and gas industry, in the near term and especially in the latter part of 2015, we expect the decline in oil prices will have a negative impact on our sales in the second half of 2015 primarily for reciprocating engines and our products used for well servicing and drilling. At the beginning of 2015, we had a relatively strong backlog of orders, however, we expect our backlog for these products and subsequent sales to decline in the second half of 2015.

Energy & Transportation's profit was \$1.892 billion for the six months ended June 30, 2015, compared with \$1.861 billion for the six months ended June 30, 2014. The increase was primarily due to lower incentive compensation expense and favorable price realization. These items were partially offset by higher SG&A and R&D expenses (excluding incentive compensation expense) and lower sales volume, which includes a favorable mix of products. Excluding incentive compensation expense, manufacturing costs were about flat as favorable material costs were about offset by the unfavorable impact of cost absorption. The unfavorable impact of cost absorption resulted from a modest decrease in inventory during the six months ended June 30, 2015, compared to an increase in inventory during the six months ended June 30, 2014.

Excluding incentive compensation expense, SG&A and R&D expenses were unfavorable primarily due to increases in program spending including for new product introductions.

#### Financial Products Segment

Financial Products' revenues were \$1.580 billion for the six months ended June 30, 2015, a decrease of \$71 million, or 4 percent, from the six months ended June 30, 2014. The decline was mostly due to lower average earning assets in Asia/Pacific, EAME and Latin America, partially offset by higher average earning assets in North America and lower average financing rates primarily in North America and EAME.

Financial Products' profit was \$411 million in the six months ended June 30, 2015, compared with \$484 million in the six months ended June 30, 2014. The unfavorable change was primarily due to a \$32 million decrease in net yield on average earning assets, a \$17 million unfavorable impact from lower average earning assets, an \$8 million decrease in gains on sales of securities at Insurance Services and an \$8 million unfavorable impact from currency.

#### Corporate Items and Eliminations

Expense for corporate items and eliminations was \$1.366 billion in the six months ended June 30, 2015, a decrease of \$43 million from the six months ended June 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 six months ended June 30, 2014, was primarily due to lower restructuring costs and timing differences, partially offset by higher spending for information technology-related programs and the timing of stock-based compensation expense.

#### RESTRUCTURING COSTS

For the three and six months ended June 30, 2015, we recognized \$89 million and \$125 million, respectively, of restructuring costs, which included \$86 million of employee separation costs and \$3 million of long-lived asset impairments and other restructuring costs for the three months ended June 30, 2015 and \$120 million of employee separation costs and \$5 million of long-lived asset impairments and other restructuring costs for the six months ended June 30, 2015. The restructuring costs in 2015 were primarily related to several restructuring programs across the

company. For the three and six months ended June 30, 2014, we recognized \$114 million and \$263 million, respectively, of restructuring costs, which included \$107 million of employee separation costs and \$7 million of long-lived asset impairments and other restructuring costs for the three months ended June 30, 2014 and \$249 million of employee separation costs and \$14 million of long-lived asset impairments and other restructuring costs for the six months ended June 30, 2014. For the first six 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.

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)	120
Reduction in liability (payments and other adjustments)	(137 )
Liability balance at June 30, 2015	\$165

The remaining liability balance as of June 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 three and six months ended June 30, 2015, we recognized \$17 million and \$24 million, respectively, of employee separation costs relating to this restructuring plan. We do not expect any further costs associated with this program. The employee separation liability balance as of June 30, 2015 includes \$64 million related to this restructuring plan, the majority of which we expect will be paid in 2015.

For the full year, we will continue to incur costs related to programs started in 2014 and we expect to take additional actions to further improve our long-term cost structure. In total, we expect the cost of these restructuring actions to be about \$250 million, or \$0.30 per share during 2015. We expect the majority of the charges will be related to employee cash separation costs. We expect that restructuring actions will result in a benefit to costs of about \$100 million in 2015 compared with 2014.

## GLOSSARY OF TERMS

<sup>1</sup> 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.

<sup>2</sup> Consolidating Adjustments - Eliminations of transactions between Machinery, Energy & Transportation and Financial Products.

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.

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

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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).

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 5. 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.

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

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

12. Machinery, Energy & Transportation Other Operating (Income) Expenses - Comprised primarily of gains/losses on 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.

13.

Manufacturing Costs - Manufacturing costs exclude the impacts of currency and represent the volume-adjusted 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.

14. Consolidated price realization includes the impact of changes in the relative weighting of sales between geographic regions.

15. 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



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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.

16. Restructuring Costs - Primarily costs for employee separation costs and long-lived asset impairments.

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 half 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 half of 2015 with \$7.82 billion of cash, an increase of \$480 million 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 \$6.2 billion held by our non-U.S. subsidiaries. Amounts held by non-U.S. subsidiaries are available for general corporate use and could be used in the United States without incurring significant additional U.S. taxes.

Consolidated operating cash flow for the first half of 2015 was \$3.36 billion, down from \$4.13 billion for the same period last year. The decrease was primarily due to higher short-term incentive compensation payments of about \$1.3 billion in 2015, compared to about \$500 million in 2014, as well as unfavorable changes to accounts payable (primarily due to decreased material purchases). Partially offsetting these items were favorable changes to inventory. During the first half of 2015, inventory decreased to align with demand levels, while during the first half 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 slightly lower sales. See further discussion of operating cash flow under Machinery, Energy & Transportation and Financial Products.

Total debt as of June 30, 2015 was \$38.32 billion, a decrease of \$965 million from year-end 2014. Debt related to Financial Products decreased \$476 million, reflecting decreasing portfolio balances. Debt related to Machinery, Energy & Transportation decreased \$489 million in the first half 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 June 30, 2015 was \$2.75 billion. Our three Global Credit Facilities are:

• The 364-day facility of \$3.15 billion (of which \$0.82 billion is available to Machinery, Energy & Transportation) expires in September 2015.

•

The 2010 four-year facility, as amended in September 2014, of \$2.73 billion (of which \$0.72 billion is available to Machinery, Energy & Transportation) expires in September 2017.

The 2011 five-year facility, as amended in September 2014, of \$4.62 billion (of which \$1.21 billion is available to Machinery, Energy & Transportation) expires in September 2019.

At June 30, 2015, Caterpillar's consolidated net worth was \$22.34 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 June 30, 2015, Cat Financial's covenant interest coverage ratio was 2.13 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

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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 June 30, 2015, Cat Financial's covenant leverage ratio was 7.60 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 June 30, 2015, there were no borrowings under the Credit Facility.

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

(Millions of dollars)	June 30, 2015		
	Consolidated	Machinery, Energy & Transportation	Financial Products
Credit lines available:			
Global credit facilities	\$10,500	\$2,750	\$7,750
Other external	4,116	180	3,936
Total credit lines available	14,616	2,930	11,686
Less: Commercial paper outstanding	(5,286)	) —	(5,286)
Less: Utilized credit	(1,546)	) (13)	) (1,533)
Available credit	\$7,784	\$2,917	\$4,867

The other external consolidated credit lines with banks as of June 30, 2015 totaled \$4.12 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 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 \$2.68 billion in the first half of 2015, compared with \$3.94 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 and less favorable changes in accounts receivable. Partially offsetting these items were favorable changes to inventory. During the first half of 2015, inventory decreased to align with demand levels, while during the first half 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 slightly lower sales.

Net cash used for investing activities in the first half of 2015 was \$681 million, compared with net cash used of \$940 million in the first half of 2014. The favorable change was primarily due to lower investments in held-to-maturity securities during the first half of 2015.

Net cash used for financing activities during the first half of 2015 was \$1.83 billion, compared with net cash used of \$947 million in the first half of 2014. The unfavorable change was primarily due to the issuance of long-term debt in May of 2014. Partially offsetting this item were lower share repurchases in the first half of 2015 compared to the same period a year ago.

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.

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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 35.8 percent at June 30, 2015, within our target range of 30 to 45 percent. The Machinery, Energy & Transportation's debt-to-capital ratio was 37.4 percent at December 31, 2014. The decrease in the debt-to-capital ratio was primarily due to the payment of debt securities during the first half of 2015.

Capital to support growth – Capital expenditures were \$759 million during the first half of 2015, compared to \$738 million 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 \$113 million of contributions to our pension plans during the first half of 2015. We currently anticipate full-year 2015 contributions of approximately \$180 million, all of which are required. We made \$387 million of contributions to our pension plans during the first half of 2014.

Paying dividends – Dividends paid totaled \$846 million in the first half of 2015, representing 70 cents per share paid. 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. In June 2015, the Board announced a 10 percent increase in the dividend rate to 77 cents per share.

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 half of 2015, we repurchased \$525 million of Caterpillar common stock, leaving approximately \$7.0 billion available under the 2014 Authorization. Caterpillar's basic shares outstanding as of June 30, 2015 were approximately 603 million.

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). Pursuant to the terms of the July 2015 ASR Agreement, we have agreed to repurchase a total of \$1.5 billion of our common stock from Citibank, N.A., with an immediate delivery of approximately 18 million shares. The final number of shares to be repurchased and the aggregate cost per share to Caterpillar will be based on Caterpillar's volume-weighted average stock price during the term of the transaction, which is expected to be completed in September 2015.

**Financial Products**

Financial Products' operating cash flow was \$747 million in the first half of 2015, compared with \$763 million for the same period a year ago. Net cash used for investing activities was \$263 million for the first half of 2015, compared with \$1.76 billion for the same period in 2014. The change was primarily due to lower levels of new retail financing at Cat Financial. Net cash used by financing activities was \$141 million for the first half of 2015, compared with \$877 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**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts. The more significant estimates include: residual values for leased assets, fair values for goodwill impairment tests, impairment of available-for-sale securities, warranty liability, stock-based compensation, reserves for product liability and insurance losses, postretirement benefits, post-sale discounts, credit losses and income taxes. We have incorporated many years of data into the determination of each of these estimates and we have not historically experienced significant adjustments. These assumptions are reviewed at least annually with the Audit Committee of the Board of Directors. Following are the methods and assumptions used in determining our estimates and an indication of the risks inherent in each.

Residual values for leased assets – The residual values for Cat Financial’s leased assets, which are an estimate of the market value of leased equipment at the end of the lease term, are based on an analysis of historical wholesale market sales prices, projected forward on a level trend line without consideration for inflation or possible future pricing action. At the inception of the lease, residual values are estimated with consideration of the following critical factors: market size and demand, any known significant market/product trends, total expected hours of usage, machine configuration, application, location, model changes, quantities and past re-marketing experience, third-party residual guarantees and contractual customer purchase options. Many of these factors are gathered in an application survey that is completed prior to quotation. The lease agreement also clearly defines applicable return conditions and remedies for non-compliance, to ensure that the leased equipment will be in good operating condition upon

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return. Model changes and updates, as well as market strength and product acceptance, are monitored and adjustments are made to residual values in accordance with the significance of any such changes. Remarketing sales staff works closely with customers and dealers to manage the sale of lease returns and the recovery of residual exposure.

During the term of the leases, residual values are monitored. If estimated end-of-term market values of leased equipment reflect a non-temporary impairment due to economic factors, obsolescence or other adverse circumstances, the residual value of the leased equipment is adjusted so that the carrying value at end of lease term will approximate the estimated end-of-term market value. For equipment on operating leases, adjustments are made on a straight-line basis over the remaining term of the lease through depreciation expense. For finance leases, adjustments are recognized at the time of assessment through a reduction of finance revenue.

Fair values for goodwill impairment tests – We test goodwill for impairment annually, at the reporting unit level, and whenever events or circumstances make it likely that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell all or a portion of a reporting unit. We perform our annual goodwill impairment test as of October 1 and monitor for interim triggering events on an ongoing basis.

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

The impairment test process requires valuation of the respective reporting unit, which we primarily determine using an income approach based on a discounted five year forecasted cash flow with a year-five residual value. The residual value is computed using the constant growth method, which values the forecasted cash flows in perpetuity. The income approach is supported by a reconciliation of our calculated fair value for Caterpillar to the company's market capitalization. The assumptions about future cash flows and growth rates are based on each reporting unit's long-term forecast and are subject to review and approval by senior management. The discount rate is a risk-adjusted weighted average cost of capital, which we believe approximates the rate from a market participant's perspective. The estimated fair value could be impacted by changes in market conditions, interest rates, growth rates, tax rates, costs, pricing and capital expenditures.

A prolonged economic downturn resulting in lower long-term growth rates and reduced long-term profitability may reduce the fair value of our reporting units. Industry specific events or circumstances that have a negative impact to the valuation assumptions may also reduce the fair value of our reporting units. Should such events occur and it becomes more likely than not that a reporting unit's fair value has fallen below its carrying value, we will perform an interim goodwill impairment test(s), in addition to the annual impairment test. Future impairment tests may result in a goodwill impairment, depending on the outcome of both step one and step two of the impairment review process. A goodwill impairment would be reported as a non-cash charge to earnings.

Impairment of available-for-sale securities – Available-for-sale securities, primarily at Insurance Services, are reviewed at least quarterly to identify fair values below cost which may indicate that a security is impaired and should be written down to fair value.

For debt securities, once a security's fair value is below cost we utilize data gathered by investment managers, external sources and internal research to monitor the performance of the security to determine whether an other-than-temporary impairment has occurred. These reviews, which include an analysis of whether it is more likely than not that we will be required to sell the security before its anticipated recovery, consist of both quantitative and qualitative analysis and require a degree of management judgment. Securities in a loss position are monitored and assessed at least quarterly based on severity and timing of loss and may be deemed other-than-temporarily impaired at any time. Once a security's fair value has been 20 percent or more below its original cost for six consecutive months, the security will be other-than-temporarily impaired unless there are sufficient facts and circumstances supporting otherwise.

For equity securities in a loss position, determining whether a security is other-than-temporarily impaired requires an analysis of that security's historical sector return as well as the volatility of that return. This information is utilized to estimate a security's future fair value and to assess whether the security has the ability to recover to its original cost over a reasonable period of time.



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Both historical annualized sector returns and the volatility of those returns are applied over a two year period to arrive at these estimates.

For both debt and equity securities, qualitative factors are also considered in determining whether a security is other-than-temporarily impaired. These include reviews of the following: significant changes in the regulatory, economic or technological environment of the investee, significant changes in the general market condition of either the geographic area or the industry in which the investee operates, and length of time and the extent to which the fair value has been less than cost. These qualitative factors are subjective and require a degree of management judgment.

Warranty liability – At the time a sale is recognized, we record estimated future warranty costs. The 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. Warranty costs may differ from those estimated if actual claim rates are higher or lower than our historical rates.

Stock-based compensation – We use a lattice-based option-pricing model to calculate the fair value of our stock options and SARs. The calculation of the fair value of the awards using the lattice-based option-pricing model is affected by our stock price on the date of grant as well as assumptions regarding the following:

Volatility is a measure of the amount by which the stock price is expected to fluctuate each year during the expected term of the award and is based on historical Caterpillar stock price movement and current implied volatilities from traded options on Caterpillar stock. The implied volatilities from traded options are impacted by changes in market conditions. An increase in the volatility would result in an increase in our expense.

The expected term represents the period of time that awards granted are expected to be outstanding and is an output of the lattice-based option-pricing model. In determining the expected term of the award, future exercise and forfeiture patterns are estimated from Caterpillar employee historical exercise behavior. These patterns are also affected by the vesting conditions of the award. Changes in the future exercise behavior of employees or in the vesting period of the award could result in a change in the expected term. An increase in the expected term would result in an increase to our expense.

The weighted-average dividend yield is based on Caterpillar's historical dividend yields. As holders of stock options and SARs do not receive dividend payments, this could result in employees retaining the award for a longer period of time if dividend yields decrease or exercising the award sooner if dividend yields increase. A decrease in the dividend yield would result in an increase in our expense.

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at time of grant. As the risk-free interest rate increases, the expected term increases, resulting in an increase in our expense.

The fair value of our RSUs is determined by reducing the stock price on the date of grant by the present value of the estimated dividends to be paid during the vesting period. The estimated dividends are based on Caterpillar's dividend yield at the time of grant. A decrease in the dividend yield would result in an increase in our expense.

Stock-based compensation expense recognized during the period is based on the value of the number of awards that are expected to vest. In determining the stock-based compensation expense to be recognized, a forfeiture rate is applied to the fair value of the award. This rate represents the number of awards that are expected to be forfeited prior to vesting and is based on Caterpillar employee historical behavior. Changes in the future behavior of employees could impact this rate. A decrease in this rate would result in an increase in our expense.

Product liability and insurance loss reserve – We determine these reserves based upon reported claims in process of settlement and actuarial estimates for losses incurred but not reported. Loss reserves, including incurred but not

reported reserves, are based on estimates and ultimate settlements may vary significantly from such estimates due to increased claims frequency or severity over historical levels.

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Postretirement benefits – Primary actuarial assumptions were determined as follows:

The U.S. expected long-term rate of return on plan assets is based on our estimate of long-term passive returns for equities and fixed income securities weighted by the allocation of our plan assets. Based on historical performance, we increase the passive returns due to our active management of the plan assets. A similar process is used to determine the rate for our non-U.S. pension plans. This rate is impacted by changes in general market conditions, but because it represents a long-term rate, it is not significantly impacted by short-term market swings. Changes in our allocation of plan assets would also impact this rate. For example, a shift to more fixed income securities would lower the rate. A decrease in the rate would increase our expense.

The assumed discount rate is used to discount future benefit obligations back to today's dollars. The U.S. discount rate is based on a benefit cash flow-matching approach and represents the rate at which our benefit obligations could effectively be settled as of our measurement date, December 31. The benefit cash flow-matching approach involves analyzing Caterpillar's projected cash flows against a high quality bond yield curve, calculated using a wide population of corporate Aa bonds available on the measurement date. The very highest and lowest yielding bonds (top and bottom 10 percent) are excluded from the analysis. A similar approach is used to determine the assumed discount rate for our most significant non-U.S. plans. This rate is sensitive to changes in interest rates. A decrease in the discount rate would increase our obligation and future expense.

The expected rate of compensation increase is used to develop benefit obligations using projected pay at retirement. It represents average long-term salary increases. This rate is influenced by our long-term compensation policies. An increase in the rate would increase our obligation and expense.

The assumed health care trend rate represents the rate at which health care costs are assumed to increase and is based on historical and expected experience. Changes in our projections of future health care costs due to general economic conditions and those specific to health care (e.g., technology driven cost changes) will impact this trend rate. An increase in the trend rate would increase our obligation and expense.

The effects of actual results differing from our assumptions and the effects of changing assumptions are considered actuarial gains or losses. Actuarial gains or losses are recorded in Accumulated other comprehensive income (loss). When the unamortized actuarial gains or losses for an individual plan exceed 10 percent of the higher of the projected benefit obligation or 10 percent of market-related value of plans assets at the beginning of the year, the excess is amortized as a component of net periodic benefit cost using the straight-line method. The amortization period is generally 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, actuarial gains or losses are amortized over the remaining life expectancy of the inactive participants.

Post-sale discount reserve – We provide discounts to dealers through merchandising programs. We have numerous programs that are designed to promote the sale of our products. The most common dealer programs provide a discount when the dealer sells a product to a targeted end user. The amount of accrued post-sale discounts was \$1.29 billion and \$1.27 billion as of June 30, 2015 and December 31, 2014, respectively. The reserve represents discounts that we expect to pay on previously sold units and is reviewed at least quarterly. The reserve is adjusted if discounts paid differ from those estimated. Historically, those adjustments have not been material.

Credit loss reserve – The allowance for credit losses is an estimate of the losses inherent in our finance receivable portfolio and includes consideration of accounts that have been individually identified as impaired, as well as pools of finance receivables where it is probable that certain receivables in the pool are impaired but the individual accounts cannot yet be identified. In identifying and measuring impairment, management takes into consideration past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of underlying collateral and current economic conditions. In estimating probable credit losses, we review accounts that are past due, non-performing, in bankruptcy or otherwise identified as at-risk for potential credit loss including accounts which have been modified. Accounts are identified as at-risk for potential credit loss using

information available about the customer, such as financial statements, news reports and published credit ratings, as well as general information regarding industry trends and the economic environment in which our customers operate.

The allowance for credit losses attributable to specific accounts is based on the most probable source of repayment, which is normally the liquidation of collateral. In determining collateral value, we estimate the current fair market value of the collateral less selling costs. We also consider credit enhancements such as additional collateral and contractual third-party guarantees. The allowance for credit losses attributable to the remaining accounts not yet individually identified as impaired is estimated utilizing probabilities of default and the estimated loss given default. In addition, qualitative factors not able to be fully captured in previous analysis including industry trends, macroeconomic factors and model imprecision are considered in the evaluation of the adequacy of the allowance for credit losses. These qualitative factors are subjective and require a degree of management judgment.

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While management believes it has exercised prudent judgment and applied reasonable assumptions, there can be no assurance that in the future, changes in economic conditions or other factors would not cause changes in the financial health of our customers. If the financial health of our customers deteriorates, the timing and level of payments received could be impacted and therefore, could result in a change to our estimated losses.

Income taxes – We are subject to the income tax laws of the many jurisdictions in which we operate. These tax laws are complex, and the manner in which they apply to our facts is sometimes open to interpretation. In establishing the provision for income taxes, we must make judgments about the application of these inherently complex tax laws.

Despite our belief that our tax return positions are consistent with applicable tax laws, we believe that taxing authorities could challenge certain positions. Settlement of any challenge can result in no change, a complete disallowance, or some partial adjustment reached through negotiations or litigation. We record tax benefits for uncertain tax positions based upon management’s evaluation of the information available at the reporting date. To be recognized in the financial statements, a tax benefit must be at least more likely than not of being sustained based on the technical merits of the position. The benefit for positions meeting the recognition threshold is measured as the largest benefit more likely than not of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Significant judgment is required in making these determinations and adjustments to unrecognized tax benefits may be necessary to reflect actual taxes payable upon settlement. Adjustments related to positions impacting the effective tax rate affect the provision for income taxes. Adjustments related to positions impacting the timing of income or deductions impact deferred tax assets and liabilities.

Our income tax positions and analysis are based on currently enacted tax law. Future changes in tax law could significantly impact the provision for income taxes, the amount of taxes payable, and the deferred tax asset and liability balances. Deferred tax assets generally represent tax benefits for tax deductions or credits available in future tax returns. Certain estimates and assumptions are required to determine whether it is more likely than not that all or some portion of the benefit of a deferred tax asset will not be realized. In making this assessment, management analyzes and estimates the impact of future taxable income, reversing temporary differences and available prudent and feasible tax planning strategies. Should a change in facts or circumstances lead to a change in judgment about the realizability of a deferred tax asset, we record or adjust the related valuation allowance in the period that the change in facts and circumstances occurs, along with a corresponding increase or decrease in the provision for income taxes.

A provision for U.S. income taxes has not been recorded on undistributed profits of our non-U.S. subsidiaries that we have determined to be indefinitely reinvested outside the U.S. If management intentions or U.S. tax law changes in the future, there may be a significant negative impact on the provision for income taxes to record an incremental tax liability in the period the change occurs. A deferred tax asset is recognized only if we have definite plans to generate a U.S. tax benefit by repatriating earnings in the foreseeable future.

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 these matters will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

#### GLOBAL WORKFORCE

Caterpillar worldwide, full-time employment was 111,247 at the end of the second quarter of 2015, compared with 115,292 at the end of the second quarter of 2014, a decrease of 4,045 full-time employees. The flexible workforce decreased by 786 for a total decrease in the global workforce of 4,831. The decrease was primarily the result of restructuring programs.

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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 received an additional subpoena 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. 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 is cooperating with the SEC regarding this subpoena and 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



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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

We recognized pension expense of \$133 million and \$264 million for the three and six months ended June 30, 2015, as compared to \$119 million and \$232 million for the three and six months ended June 30, 2014. The increase in expense for the three and six months ended June 30, 2015 is primarily due to higher amortization of net actuarial losses primarily due to lower discount rates at the end of 2014 compared to 2013 and changes made to our U.S. mortality assumption. Accounting guidance on retirement benefits requires companies to discount future benefit obligations back to today's dollars using a discount rate that is based on high-quality fixed income investments. A decrease in the discount rate increases the pension benefit obligation, while an increase in the discount rate decreases the pension benefit obligation. This increase or decrease in the pension benefit obligation is recognized in Accumulated other comprehensive income (loss) and subsequently amortized into earnings as an actuarial gain or loss. The guidance also requires companies to use an expected long-term rate of return on plan assets for computing current year pension expense. Differences between the actual and expected returns are also recognized in Accumulated other comprehensive income (loss) and subsequently amortized into earnings as actuarial gains and losses. As of June 30, 2015, total actuarial losses, recognized in Accumulated other comprehensive income (loss), related to pensions were \$7.19 billion. The majority of the actuarial losses are due to changes in discount rates, losses from demographic assumptions over the past several years and plan asset losses. In the fourth quarter of 2014, the mortality assumption for our U.S. pension and other postretirement plans was reviewed to consider the use of tables that were released by the Society of Actuaries. As of December 31, 2014, the company adopted the tables with modifications to reflect historical company specific mortality experience and its best estimate of future mortality improvements. The adoption of the tables resulted in an increase in the life expectancy of plan participants and therefore an increase in our Liability for postemployment benefits of approximately \$400 million.

Other postretirement benefit expense was \$57 million and \$115 million for the three and six months ended June 30, 2015, as compared to \$60 million and \$117 million for the three and six months ended June 30, 2014. Actuarial losses that were recognized in Accumulated other comprehensive income (loss) for other postretirement benefit plans were \$0.77 billion at June 30, 2015. These losses mainly reflect the impact of discount rates, changes in our health care trend assumption and plan asset losses, partially offset by gains from lower than expected health care costs.

Actuarial losses will be impacted in future periods by actual asset returns, actual health care inflation, discount rate changes, actual demographic experience and other factors that impact these expenses. These losses, reported in Accumulated other comprehensive income (loss), will generally be amortized as a component of net periodic benefit cost on a straight-line basis 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, actuarial losses are

amortized using the straight-line method over the remaining life expectancy of the inactive participants. At the end of 2014, the average remaining service period of active employees or life expectancy for inactive participants was 9 years for our U.S. pension plans, 12 years for non-U.S. pension plans and 9 years for other postretirement benefit plans. We expect our amortization of net actuarial losses to increase approximately \$140 million in 2015 as compared to 2014, primarily due to the decrease in discount rates and changes to our mortality assumption, partially offset by gains from lower than expected health care costs and plan assets gains in 2014. We expect our total pension and other postretirement benefits expense to increase approximately \$80 million in 2015 which is primarily due to an increase in amortization of net actuarial losses.

We made \$36 million and \$113 million of contributions to our pension plans during the three and six months ended June 30, 2015, respectively. We currently anticipate full-year 2015 contributions of approximately \$180 million, all of which are required. We made \$108 million and \$387 million of contributions to our pension plans during the three and six months ended June 30, 2014, respectively.

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## Order Backlog

The dollar amount of backlog believed to be firm was approximately \$14.8 billion at June 30, 2015 and \$16.5 billion at March 31, 2015. This represents about a \$1.7 billion reduction from the end of the first quarter of 2015. About half of the decrease was in Construction Industries. In addition, the order backlog for both Energy & Transportation and Resource Industries declined. The dollar amount of backlog believed to be firm was approximately \$17.3 billion at December 31, 2014. Of the total backlog, approximately \$3.3 billion at June 30, 2015 was not expected to be filled in the following twelve months.

## 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 six month periods ending June 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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Profit per share - diluted	\$1.16	\$1.57	\$2.98	\$3.00
Per share restructuring costs	0.11	0.12	0.14	0.30
Profit per share excluding restructuring costs	\$1.27	\$1.69	\$3.12	\$3.30

## 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 87 to 94 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 June 30, 2015  
 (Unaudited)  
 (Millions of dollars)

	Consolidated	Supplemental Consolidating Data Machinery, Energy & Transportation 1	Financial Products	Consolidating Adjustments	
Sales and revenues:					
Sales of Machinery, Energy & Transportation	\$ 11,583	\$11,583	\$—	\$—	
Revenues of Financial Products	734	—	805	(71	) <sup>2</sup>
Total sales and revenues	12,317	11,583	805	(71	)
Operating costs:					
Cost of goods sold	8,762	8,763	—	(1	) <sup>3</sup>
Selling, general and administrative expenses	1,389	1,211	172	6	) <sup>3</sup>
Research and development expenses	532	532	—	—	
Interest expense of Financial Products	148	—	150	(2	) <sup>4</sup>
Other operating (income) expenses	356	63	300	(7	) <sup>3</sup>
Total operating costs	11,187	10,569	622	(4	)
Operating profit	1,130	1,014	183	(67	)
Interest expense excluding Financial Products	125	136	—	(11	) <sup>4</sup>
Other income (expense)	(13	) (71	) 2	56	) <sup>5</sup>
Consolidated profit before taxes	992	807	185	—	
Provision (benefit) for income taxes	283	224	59	—	
Profit of consolidated companies	709	583	126	—	
Equity in profit (loss) of unconsolidated affiliated companies	2	2	—	—	
Equity in profit of Financial Products' subsidiaries	—	126	—	(126	) <sup>6</sup>
Profit of consolidated and affiliated companies	711	711	126	(126	)
Less: Profit (loss) attributable to noncontrolling interests	1	1	—	—	
Profit <sup>7</sup>	\$ 710	\$710	\$126	\$(126	)

<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 Six Months Ended June 30, 2015  
 (Unaudited)  
 (Millions of dollars)

	Consolidated	Supplemental Consolidating Data Machinery, Energy & Transportation 1	Financial Products	Consolidating Adjustments	
Sales and revenues:					
Sales of Machinery, Energy & Transportation	\$ 23,544	\$23,544	\$—	\$—	
Revenues of Financial Products	1,475	—	1,618	(143	) <sup>2</sup>
Total sales and revenues	25,019	23,544	1,618	(143	)
Operating costs:					
Cost of goods sold	17,605	17,606	—	(1	) <sup>3</sup>
Selling, general and administrative expenses	2,707	2,394	305	8	) <sup>3</sup>
Research and development expenses	1,078	1,078	—	—	
Interest expense of Financial Products	298	—	301	(3	) <sup>4</sup>
Other operating (income) expenses	674	88	599	(13	) <sup>3</sup>
Total operating costs	22,362	21,166	1,205	(9	)
Operating profit	2,657	2,378	413	(134	)
Interest expense excluding Financial Products	254	275	—	(21	) <sup>4</sup>
Other income (expense)	144	30	1	113	) <sup>5</sup>
Consolidated profit before taxes	2,547	2,133	414	—	
Provision (benefit) for income taxes	726	599	127	—	
Profit of consolidated companies	1,821	1,534	287	—	
Equity in profit (loss) of unconsolidated affiliated companies	4	4	—	—	
Equity in profit of Financial Products' subsidiaries	—	285	—	(285	) <sup>6</sup>
Profit of consolidated and affiliated companies	1,825	1,823	287	(285	)
Less: Profit (loss) attributable to noncontrolling interests	4	2	2	—	
Profit <sup>7</sup>	\$ 1,821	\$ 1,821	\$ 285	\$ (285	)

<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 June 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	\$ 13,391	\$13,391	\$—	\$—	
Revenues of Financial Products	759	—	851	(92)	) <sup>2</sup>
Total sales and revenues	14,150	13,391	851	(92)	)
Operating costs:					
Cost of goods sold	10,197	10,197	—	—	
Selling, general and administrative expenses	1,437	1,284	159	(6)	) <sup>3</sup>
Research and development expenses	516	516	—	—	
Interest expense of Financial Products	153	—	155	(2)	) <sup>4</sup>
Other operating (income) expenses	372	77	305	(10)	) <sup>3</sup>
Total operating costs	12,675	12,074	619	(18)	)
Operating profit	1,475	1,317	232	(74)	)
Interest expense excluding Financial Products	120	131	—	(11)	) <sup>4</sup>
Other income (expense)	65	(6)	) 8	63	) <sup>5</sup>
Consolidated profit before taxes	1,420	1,180	240	—	
Provision (benefit) for income taxes	419	349	70	—	
Profit of consolidated companies	1,001	831	170	—	
Equity in profit (loss) of unconsolidated affiliated companies	1	1	—	—	
Equity in profit of Financial Products' subsidiaries	—	168	—	(168)	) <sup>6</sup>
Profit of consolidated and affiliated companies	1,002	1,000	170	(168)	)
Less: Profit (loss) attributable to noncontrolling interests	3	1	2	—	
Profit <sup>7</sup>	\$ 999	\$999	\$168	\$(168)	)

<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 Six Months Ended June 30, 2014  
 (Unaudited)  
 (Millions of dollars)

	Consolidated	Supplemental Consolidating Data Machinery, Energy & Transportation 1	Financial Products	Consolidating Adjustments	
Sales and revenues:					
Sales of Machinery, Energy & Transportation	\$ 25,884	\$25,884	\$—	\$—	
Revenues of Financial Products	1,507	—	1,682	(175	) <sup>2</sup>
Total sales and revenues	27,391	25,884	1,682	(175	)
Operating costs:					
Cost of goods sold	19,634	19,634	—	—	
Selling, general and administrative expenses	2,729	2,439	305	(15	) <sup>3</sup>
Research and development expenses	1,024	1,024	—	—	
Interest expense of Financial Products	313	—	317	(4	) <sup>4</sup>
Other operating (income) expenses	818	231	603	(16	) <sup>3</sup>
Total operating costs	24,518	23,328	1,225	(35	)
Operating profit	2,873	2,556	457	(140	)
Interest expense excluding Financial Products	230	251	—	(21	) <sup>4</sup>
Other income (expense)	119	(23	) 23	119	<sup>5</sup>
Consolidated profit before taxes	2,762	2,282	480	—	
Provision (benefit) for income taxes	837	699	138	—	
Profit of consolidated companies	1,925	1,583	342	—	
Equity in profit (loss) of unconsolidated affiliated companies	2	2	—	—	
Equity in profit of Financial Products' subsidiaries	—	337	—	(337	) <sup>6</sup>
Profit of consolidated and affiliated companies	1,927	1,922	342	(337	)
Less: Profit (loss) attributable to noncontrolling interests	6	1	5	—	
Profit <sup>7</sup>	\$ 1,921	\$ 1,921	\$ 337	\$ (337	)

<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 June 30, 2015  
 (Unaudited)  
 (Millions of dollars)

	Consolidated	Supplemental Consolidating Data		
		Machinery, Energy & Transportation 1	Financial Products	Consolidating Adjustments
<b>Assets</b>				
<b>Current assets:</b>				
Cash and short-term investments	\$7,821	\$6,466	\$1,355	\$ —
Receivables – trade and other	7,212	3,772	336	3,104 <sup>2,3</sup>
Receivables – finance	9,213	—	13,542	(4,329) <sup>3</sup>
Deferred and refundable income taxes	1,441	1,386	55	—
Prepaid expenses and other current assets	859	346	526	(13) <sup>4</sup>
Inventories	11,681	11,681	—	—
Total current assets	38,227	23,651	15,814	(1,238) <sup>4</sup>
Property, plant and equipment – net	16,136	11,970	4,166	—
Long-term receivables – trade and other	1,290	141	254	895 <sup>2,3</sup>
Long-term receivables – finance	13,698	—	14,624	(926) <sup>3</sup>
Investments in unconsolidated affiliated companies	229	229	—	—
Investments in Financial Products subsidiaries	—	4,256	—	(4,256) <sup>5</sup>
Noncurrent deferred and refundable income taxes	1,473	2,085	93	(705) <sup>6</sup>
Intangible assets	2,863	2,857	6	—
Goodwill	6,550	6,533	17	—
Other assets	1,776	386	1,390	—
Total assets	\$82,242	\$52,108	\$36,364	\$ (6,230) <sup>6</sup>
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Short-term borrowings	\$6,240	\$14	\$7,327	\$ (1,101) <sup>7</sup>
Accounts payable	5,862	5,745	241	(124) <sup>8</sup>
Accrued expenses	3,311	3,048	276	(13) <sup>9</sup>
Accrued wages, salaries and employee benefits	1,597	1,568	29	—
Customer advances	1,754	1,754	—	—
Dividends payable	463	463	—	—
Other current liabilities	1,744	1,232	522	(10) <sup>6</sup>
Long-term debt due within one year	4,635	12	4,623	—
Total current liabilities	25,606	13,836	13,018	(1,248) <sup>7</sup>
Long-term debt due after one year	27,445	9,528	17,948	(31) <sup>7</sup>
Liability for postemployment benefits	8,759	8,759	—	—
Other liabilities	3,271	2,824	1,142	(695) <sup>6</sup>
Total liabilities	65,081	34,947	32,108	(1,974) <sup>7</sup>
Commitments and contingencies				

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Stockholders' equity					
Common stock	5,142	5,142	911	(911	) <sup>5</sup>
Treasury stock	(16,144	) (16,144	) —	—	
Profit employed in the business	34,823	34,823	3,791	(3,791	) <sup>5</sup>
Accumulated other comprehensive income (loss)	(6,729	) (6,729	) (581	) 581	<sup>5</sup>
Noncontrolling interests	69	69	135	(135	) <sup>5</sup>
Total stockholders' equity	17,161	17,161	4,256	(4,256	)
Total liabilities and stockholders' equity	\$82,242	\$52,108	\$36,364	\$ (6,230	)

<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 Financial Position  
 At December 31, 2014  
 (Unaudited)  
 (Millions of dollars)

	Consolidated	Supplemental Consolidating Data			
		Machinery, Energy & Transportation 1	Financial Products	Consolidating Adjustments	
<b>Assets</b>					
<b>Current assets:</b>					
Cash and short-term investments	\$7,341	\$6,317	\$1,024	\$ —	
Receivables – trade and other	7,737	4,215	300	3,222	2,3
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	2,3
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)	)
<b>Liabilities</b>					
<b>Current liabilities:</b>					
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					

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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 Six Months Ended June 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	\$1,825	\$1,823	\$287	\$ (285	) <sup>2</sup>
Adjustments for non-cash items:					
Depreciation and amortization	1,514	1,070	444	—	
Undistributed profit of Financial Products	—	(35	) —	35	<sup>3</sup>
Other	120	70	(65	) 115	<sup>4</sup>
Changes in assets and liabilities, net of acquisitions and divestitures:					
Receivables - trade and other	383	377	(53	) 59	<sup>4, 5</sup>
Inventories	332	337	—	(5	) <sup>4</sup>
Accounts payable	(326	) (362	) 24	12	<sup>4</sup>
Accrued expenses	(71	) (75	) 4	—	
Accrued wages, salaries and employee benefits	(801	) (788	) (13	) —	
Customer advances	98	98	—	—	
Other assets – net	85	6	48	31	<sup>4</sup>
Other liabilities – net	199	159	71	(31	) <sup>4</sup>
Net cash provided by (used for) operating activities	3,358	2,680	747	(69	)
Cash flow from investing activities:					
Capital expenditures - excluding equipment leased to others	(656	) (651	) (5	) —	
Expenditures for equipment leased to others	(815	) (108	) (726	) 19	<sup>4</sup>
Proceeds from disposals of leased assets and property, plant and equipment	367	33	338	(4	) <sup>4</sup>
Additions to finance receivables	(4,577	) —	(6,171	) 1,594	<sup>5, 8</sup>
Collections of finance receivables	4,477	—	5,965	(1,488	) <sup>5</sup>
Net intercompany purchased receivables	—	—	295	(295	) <sup>5</sup>
Proceeds from sale of finance receivables	74	—	74	—	
Net intercompany borrowings	—	(35	) 1	34	<sup>6</sup>
Investments and acquisitions (net of cash acquired)	(63	) (63	) —	—	
Proceeds from sale of businesses and investments (net of cash sold)	168	175	—	(7	) <sup>8</sup>
Proceeds from sale of securities	128	6	122	—	
Investments in securities	(119	) (9	) (110	) —	
Other – net	(75	) (29	) (46	) —	
Net cash provided by (used for) investing activities	(1,091	) (681	) (263	) (147	)
Cash flow from financing activities:					

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Dividends paid	(846	) (846	) (250	) 250	7
Distribution to noncontrolling interests	(7	) (7	) —	—	
Common stock issued, including treasury shares reissued	33	33	—	—	
Treasury shares purchased	(525	) (525	) —	—	
Excess tax benefit from stock-based compensation	18	18	—	—	
Net intercompany borrowings	—	(1	) 35	(34	) <sup>6</sup>
Proceeds from debt issued (original maturities greater than three months)	3,691	3	3,688	—	
Payments on debt (original maturities greater than three months)	(6,089	) (509	) (5,580	) —	
Short-term borrowings – net (original maturities three months or less)	1,972	6	1,966	—	
Net cash provided by (used for) financing activities	(1,753	) (1,828	) (141	) 216	
Effect of exchange rate changes on cash	(34	) (22	) (12	) —	
Increase (decrease) in cash and short-term investments	480	149	331	—	
Cash and short-term investments at beginning of period	7,341	6,317	1,024	—	
Cash and short-term investments at end of period	\$7,821	\$6,466	\$1,355	\$—	

<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 Six Months Ended June 30, 2014

(Unaudited)

(Millions of dollars)

	Consolidated	Supplemental Consolidating Data Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	
Cash flow from operating activities:					
Profit of consolidated and affiliated companies	\$ 1,927	\$ 1,922	\$ 342	\$ (337	) <sup>2</sup>
Adjustments for non-cash items:					
Depreciation and amortization	1,570	1,122	448	—	
Undistributed profit of Financial Products	—	(87	) —	87	<sup>3</sup>
Other	240	199	(60	) 101	<sup>4</sup>
Changes in assets and liabilities, net of acquisitions and divestitures:					
Receivables - trade and other	251	707	35	(491	) <sup>4, 5</sup>
Inventories	(439	) (431	) —	(8	) <sup>4</sup>
Accounts payable	438	431	(69	) 76	<sup>4</sup>
Accrued expenses	7	81	(74	) —	
Accrued wages, salaries and employee benefits	283	286	(3	) —	
Customer advances	(14	) (14	) —	—	
Other assets – net	(105	) (40	) (15	) (50	) <sup>4</sup>
Other liabilities – net	(24	) (234	) 159	51	<sup>4</sup>
Net cash provided by (used for) operating activities	4,134	3,942	763	(571	)
Cash flow from investing activities:					
Capital expenditures - excluding equipment leased to others	(710	) (707	) (3	) —	
Expenditures for equipment leased to others	(825	) (31	) (828	) 34	<sup>4</sup>
Proceeds from disposals of leased assets and property, plant and equipment	442	48	398	(4	) <sup>4</sup>
Additions to finance receivables	(5,760	) —	(7,223	) 1,463	<sup>5, 8</sup>
Collections of finance receivables	4,719	—	5,994	(1,275	) <sup>5</sup>
Net intercompany purchased receivables	—	—	(109	) 109	<sup>5</sup>
Proceeds from sale of finance receivables	104	—	107	(3	) <sup>5</sup>
Net intercompany borrowings	—	—	1	(1	) <sup>6</sup>
Investments and acquisitions (net of cash acquired)	(15	) (15	) —	—	
Proceeds from sale of businesses and investments (net of cash sold)	139	142	—	(3	) <sup>8</sup>
Proceeds from sale of securities	222	12	210	—	
Investments in securities	(673	) (417	) (256	) —	
Other – net	(25	) 28	(53	) —	
Net cash provided by (used for) investing activities	(2,382	) (940	) (1,762	) 320	
Cash flow from financing activities:					

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Dividends paid	(757	) (757	) (250	) 250	7
Distribution to noncontrolling interests	(7	) (7	) —	—	
Contribution from noncontrolling interests	2	2	—	—	
Common stock issued, including treasury shares reissued	194	194	—	—	
Treasury shares purchased	(1,738	) (1,738	) —	—	
Excess tax benefit from stock-based compensation	131	131	—	—	
Net intercompany borrowings	—	(1	) —	1	6
Proceeds from debt issued (original maturities greater than three months)	6,951	1,990	4,961	—	
Payments on debt (original maturities greater than three months)	(6,344	) (770	) (5,574	) —	
Short-term borrowings – net (original maturities three months or less)	1,749	9	1,740	—	
Net cash provided by (used for) financing activities	181	(947	) 877	251	
Effect of exchange rate changes on cash	(87	) (37	) (50	) —	
Increase (decrease) in cash and short-term investments	1,846	2,018	(172	) —	
Cash and short-term investments at beginning of period	6,081	4,597	1,484	—	
Cash and short-term investments at end of period	\$7,927	\$6,615	\$1,312	\$—	

<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 second 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	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>1</sup>
April 1-30, 2015	230,265	\$86.86	230,265	\$7.080
May 1-31, 2015	1,197,846	\$87.65	1,197,846	\$6.975
June 1-30, 2015	—	\$—	—	\$6.975
Total	1,428,111	\$87.52	1,428,111	

In January 2014, the Board of Directors authorized the repurchase of \$10.0 billion of Caterpillar common stock, <sup>1</sup> which will expire on December 31, 2018 (the 2014 Authorization). As of June 30, 2015, approximately \$7.0 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
April 1-30, 2015	2,073	\$86.18	N/A	N/A
May 1-31, 2015	18,345	\$87.46	N/A	N/A
June 1-30, 2015	—	\$—	N/A	N/A
Total	20,418	\$87.33		

<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 28 employee stock purchase plans (the "EIP Plans") that are administered outside the United States for our non-U.S. employees. As of June 30, 2015, the EIP Plans had approximately 13,500 active participants in the aggregate. During the second quarter of 2015, approximately 377,000 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

- 11 Computations of Earnings per Share (included in Note 11 of this Form 10-Q filed for the quarter ended June 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.

July 31, 2015	/s/Douglas R. Oberhelman (Douglas R. Oberhelman)	Chairman and Chief Executive Officer
July 31, 2015	/s/Bradley M. Halverson (Bradley M. Halverson)	Group President and Chief Financial Officer
July 31, 2015	/s/James B. Buda (James B. Buda)	Executive Vice President, Law and Public Policy
July 31, 2015	/s/Jananne A. Copeland (Jananne A. Copeland)	Chief Accounting Officer

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