CATERPILLAR INC
Form DEF 14A
April 25, 2016

Table of Contents

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

SCHEDULE 14A

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

Filed by the Registrant Filed by a Party other than the Registrant

CHECK THE APPROPRIATE BOX:

Preliminary Proxy Statement
Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Under Rule 14a-12

Caterpillar Inc.

(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

PAYMENT OF FILING FEE (CHECK THE APPROPRIATE BOX):

No fee required.
Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
1) Title of each class of securities to which transaction applies:
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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
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Table of Contents

2016 Proxy Statement and Notice of Annual Meeting of Stockholders of Caterpillar Inc.

June 8, 2016, 8 a.m. local time
at the offices of our wholly owned subsidiary

Electro-Motive Diesel
Muncie, Indiana

Table of Contents

Caterpillar s reputation is one of our greatest assets. We all share the responsibility to protect it every day. We have earned our solid reputation by developing, building and delivering great products and services, and by acting according to the highest ethical standards.

Integrity
The Power of Honesty

Integrity is the foundation of all we do. It is a constant. Those with whom we work, live and serve can rely on us.

Excellence
The Power of Quality

The power of quality. We set and achieve ambitious goals. The quality of our products and services reflects the power and heritage of Caterpillar.

Teamwork
The Power of Working Together

We help each other succeed. We are a team, sharing our unique talents to help those with whom we work, live and serve.

Commitment
The Power of Responsibility

We embrace our responsibilities. Individually and collectively we make meaningful commitments first to each other, and then to those with whom we work, live and serve.

Sustainability
The Power of Endurance

We are committed to building a better world. Sustainability is part of who we are and what we do every single day.

Table of Contents

TABLE OF CONTENTS

We are sending you these proxy materials in connection with Caterpillar s solicitation of proxies, on behalf of its Board of Directors, for the 2016 Annual Meeting of Stockholders (Annual Meeting). Distribution of these materials is scheduled to begin on May 2, 2016. Please submit your vote and proxy by telephone, mobile device, Internet, or, if you received your materials by mail, you can also complete and return your proxy or voting instruction form by mail.

Table of Contents

DEAR FELLOW STOCKHOLDERS,

On behalf of the Board of Directors, thank you for your investment in Caterpillar. As Caterpillar s Presiding Director, I help guide the Board in its independent oversight of the Company and work to ensure the Board and management are aligned with the Company s strategy. I want to share the Board s current areas of focus with you.

Business Strategy and Operational Oversight

Many of Caterpillar s customers continue to face challenging business environments, which has resulted in lower sales of our machines and engines. While the management team has little control over external factors affecting industry sales volumes, the Board is helping to ensure the Company continues to make improvements to those items it can control, such as manufacturing efficiencies, inventory levels, market position, product quality and safety. The Board has reviewed and endorses the business strategies described in the accompanying CEO letter.

The Board also supports the major restructuring actions management promptly initiated in response to the prolonged business downturn. These actions have helped Caterpillar maintain a strong balance sheet, allowing for continued investment in innovation and digital technologies, and are expected to substantially lower annual operating costs, with much of the savings expected to be realized in 2016. The necessary cost reductions are being thoughtfully implemented such that impacted employees are treated fairly and our manufacturing capacity will not be constrained when industry conditions improve.

Leadership and Executive Compensation

The Board has actively reshaped itself and the executive team to meet the Company s evolving needs. Since 2011, a majority of the Board s composition has changed and new leaders have taken charge of each of the Company s business segments. Executive compensation programs were recently restructured to better align employee incentives with business goals and to ensure executive pay reflects both Company and individual performance. We have the right team in place to manage operations successfully today and prepare Caterpillar for the next business upturn.

Corporate Governance and Compliance

The Board stays mindful of and responsive to corporate governance developments. We are also responsible for the oversight and review of the Company s safety initiatives and compliance programs and consider these to be best-in-class. Caterpillar has recently increased emphasis on sustainability, social responsibility and human rights. We are proud Caterpillar was named to the Dow Jones Sustainability Index again in 2015 recognizing the Company s leadership across a broad range of social, environmental, human rights and corporate governance measures.

The Board of Directors is honored to represent your interests. We encourage you to vote your shares at the Annual Meeting.

Very truly yours,

Edward B. Rust, Jr.
Presiding Director

Table of Contents

DEAR FELLOW STOCKHOLDERS,

Our Company is financially strong and successfully managing through a period of weak global economic growth and depressed commodity prices. These external factors are affecting sales and revenues, but our core businesses the machines and engines critical to providing the energy, transportation and infrastructure needs of a growing world population are well positioned for the long-term. We are, for the most part, a market leader in each of our major product categories. This is an enviable position in good times and absolutely essential in times like this when the industries the Company serves are down. With the stability of market leadership, the competitive advantage of an unparalleled worldwide distribution network, excellent operational execution and sound Board-endorsed strategies, we are delivering the products and services that will keep us the leader in the industries we serve tomorrow, just as we are today. In fact, in 2015 our market position for machines increased for the fifth year in a row.

Investing in the Future

We re continuing rapid deployment of Lean manufacturing from top to bottom in our operations, addressing the root causes of delays, defects and inefficiencies. This is already showing good results in quality, gross margins and productivity. Research and development spending levels are being maintained as we lead the technology transformation that will increase efficiency, productivity and sustainability across the industries Caterpillar serves. Our factories are modern and prepared to take full advantage of the recovery when it comes.

Serving our Customers

Every part of our strategy is dedicated to serving our customers, to help them make more money with our products than with our competitors . There are many aspects to this, but I ll focus on two primary ones here. First, we are in the midst of a multi-year initiative to further strengthen the capabilities of Cat dealers that are the front-line of customer service and support around the world. Multiple projects are underway, from pricing consistency to expanded e-business. Second, our continuing commitment to digital technology advancements will create even more value for our customers, reducing downtime and lowering owning and operating costs by preventing failures and increasing fuel economy and operator efficiency.

Prepared for the Challenges and Opportunities Ahead

Caterpillar has been through many down cycles in our 90-year history and I believe we will, as we have in the past, emerge stronger and able to compete very effectively around the world. In 2016 we will stay focused on serving our customers, on reducing costs to align with demand and developing the products of the future. As you read the accompanying proxy statement, you ll see our Board of Directors has deep expertise in manufacturing, services, leadership, government and relevant industries. Not only are our products made of iron, so is our will to adapt and succeed in whatever environment we face.

For additional information about our Company s performance and strategy, please see the Chairman s Message in the 2015 Year in Review at reports.caterpillar.com.

I look forward to discussing this more with you at the Annual Meeting.

Sincerely,

Doug Oberhelman
Chairman and CEO

Table of Contents

PROXY SUMMARY

This summary does not contain all of the information you should consider. You should read the complete proxy statement before voting.

ANNUAL MEETING OF STOCKHOLDERS

Time & Date:	8:00 a.m. - June 8, 2016
Place:	Electro-Motive Diesel, Muncie, IN 47302
Record Date:	Stockholders as of the close of business on April 11, 2016
Admission:	Please follow the instructions contained in the Admission Procedure on page 61

STOCKHOLDER VOTING MATTERS

PROPOSAL		BOARD S VOTING RECOMMENDATION	PAGE REFERENCE
1	Election of twelve Directors named in this Proxy Statement	FOR each Nominee	5
2	Ratification of our Independent Registered Public Accounting Firm	FOR	19
3	Advisory Vote to approve Executive Compensation	FOR	21
4	Stockholder Proposal Lobbying Report	AGAINST	50
5	Stockholder Proposal Written Consent	AGAINST	51
6	Stockholder Proposal Independent Board Chairman	AGAINST	53

OUR DIRECTOR NOMINEES

NOMINEE AND PRINCIPAL OCCUPATION	INDEPENDENT	AGE	DIRECTOR SINCE	OTHER PUBLIC COMPANY BOARDS	CAT COMMITTEES AC	CC	PPGC
David L. Calhoun *Senior Managing Director of The Blackstone Group, L.P.*	Yes	58	2011	Nielsen Holdings PLC The Boeing Company			
Daniel M. Dickinson *Managing Partner of HCI Equity Partners*	Yes	54	2006	None			
Juan Gallardo *Chairman and former CEO of Organización CULTIBA, S.A.B. de C.V.*	Yes	68	1998	Grupo Aeroportuario del Pacifico, S.A.B. de C.V. Grupo Financiero Santander Mexico, S.A.B. de C.V. Organización CULTIBA, S.A.B. de C.V.			
Jesse J. Greene, Jr. *Instructor at Columbia Business School and former Vice President of Financial Management and Chief Financial Risk Officer of International Business Machines Corporation*	Yes	71	2011	None			
Jon M. Huntsman, Jr. *Former United States Ambassador to China and former Governor of Utah*	Yes	56	2012	Chevron Corporation Ford Motor Company Hilton Worldwide Holdings Inc.			
Dennis A. Muilenburg *Chairman, President and CEO of The Boeing Company*	Yes	52	2011	The Boeing Company			
Douglas R. Oberhelman *Chairman and CEO of Caterpillar Inc.*	No	63	2010	Exxon Mobil Corporation			
William A. Osborn *Former Chairman and CEO of Northern Trust Corporation*	Yes	68	2000	Abbott Laboratories General Dynamics Corporation			
Debra L. Reed *Chairman and CEO of Sempra Energy*	Yes	59	2015	Halliburton Company Sempra Energy			
Edward B. Rust, Jr., Presiding Director *Chairman of State Farm Mutual Automobile Insurance Company*	Yes	65	2003	Helmerich & Payne, Inc. McGraw-Hill Financial, Inc.			
Susan C. Schwab *Professor at the University of Maryland School of Public Policy and a Strategic Advisor for Mayer Brown LLP; former United States Trade Representative*	Yes	61	2009	FedEx Corporation Marriott International, Inc. The Boeing Company			
	Yes	61	2011				

Miles D. White *Chairman and CEO of Abbott Laboratories*	Abbott Laboratories McDonald s Corporation	

AC: Audit Committee **CC:** Compensation Committee **PPGC:** Public Policy and Governance Committee

Table of Contents

GOVERNANCE HIGHLIGHTS

Our commitment to good corporate governance stems from our belief that a strong governance framework creates long-term value for our stockholders, strengthens Board and management accountability and builds trust in the Company and its brand. Our governance framework includes the following highlights:

BOARD AND GOVERNANCE INFORMATION		BOARD AND GOVERNANCE INFORMATION	
Size of Board	12	Average Director Tenure	8 years
Number of Independent Directors	11	Supermajority Voting Threshold for Mergers	No
Average Age of Directors	62	Proxy Access	Yes
Board Meetings Held in 2015	7	Stockholder Action by Written Consent	No
Annual Election of Directors	Yes	Stockholder Called Special Meetings	Yes
Mandatory Retirement Age	72	Poison Pill	No
Women and Minority Board Members	33%	Code of Conduct for Directors, Officers and Employees	Yes
Majority Voting in Director Elections	Yes	Stock Ownership Guidelines for Directors and Executive Officers	Yes
Separate Chair and CEO	No	Anti-Hedging and Pledging Policies	Yes
Presiding Director	Yes	Compensation Recoupment Policy	Yes

Additionally, we took the following actions in 2015:

- Added a director who is a current CEO with experience in the power, oil and gas industries
- Increased diversity on the Board
- Adopted a proxy access bylaw
- Adopted a human rights policy

2015 PERFORMANCE HIGHLIGHTS

GAINED MARKET POSITION

Increased machine market position for the fifth year in a row.

ROBUST COST MANAGEMENT

~$1.5 Billion

Restructuring plan announced in September 2015 expected to lower operating costs by **~$1.5 Billion** annually when fully implemented by the end of 2018.

STRONG BALANCE SHEET

$6.5 billion

Despite significant restructuring costs, we ended 2015 with Machinery, Energy & Transportation (ME&T) debt-to-capital ratio within the target range at **39.1%**, and **$6.5 billion** of enterprise cash on the balance sheet.

CAPITAL RETURNED TO STOCKHOLDERS ($ in billions)

$15.5 Billion

2011-2015
Cumulative Total

Dividends Paid Stock Repurchases

**1Q 2013 Dividend Paid in 2012 ($0.340B)*

Table of Contents

100 NE Adams Street
Peoria, Illinois 61629
Phone (309) 675-1000
www.caterpillar.com

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Date:	June 8, 2016
Time:	8:00 a.m.
Place:	Electro-Motive Diesel 3500 South Cowan Rd. Muncie, IN 47302
Record Date:	April 11, 2016

MEETING AGENDA:

Elect twelve director nominees named in this Proxy Statement
Ratify our independent registered public accounting firm for 2016
Approve, by non-binding vote, executive compensation
Vote on stockholder proposals
Any other business that properly comes before the meeting

PLEASE VOTE YOUR SHARES

We encourage stockholders to vote promptly, as this will save the expense of additional proxy solicitation. You may vote in the following ways:	**By Internet**	**By Mobile Device**	**By Telephone**	**By Mail**
	vote online at www.caterpillar.com/ proxymaterials	scan this QR code to vote with your mobile device	call the number included on your proxy card or notice	mail your signed proxy or voting instruction form

By Order of the Board of Directors

Christopher M. Reitz
Corporate Secretary
May 2, 2016

Important Notice Regarding the Availability of Proxy Materials

This Notice of Annual Meeting and Proxy Statement and the 2015 Annual Report on Form 10-K are available at www.eproxyaccess.com/cat2016.

Table of Contents

PROPOSAL 1 ELECTION OF DIRECTORS

PROPOSAL SNAPSHOT

What am I voting on?

Stockholders are being asked to elect twelve director nominees named in this Proxy Statement for a one-year term.

Voting Recommendation:

FOR the election of each of the Board s director nominees.

OVERVIEW OF OUR BOARD

BOARD SIZE # of Caterpillar directors	GENDER AND CULTURAL DIVERSITY	DIRECTOR AGE	DIRECTOR TENURE
		75% OF DIRECTORS ARE SEVEN OR MORE YEARS FROM MANDATORY RETIREMENT AGE 72	

BOARD ATTENDANCE

100%

Attendance for 2015

** Ms. Reed became a director of the Company in June 2015 and has attended all Board and Compensation Committee meetings held during her tenure.*

The Board s policy is that directors should attend the annual stockholder meeting. All directors attended the 2015 stockholder meeting. The independent directors generally meet in executive session as part of each regularly scheduled Board meeting, with the Presiding Director serving as Chairman.

Table of Contents

BOARD EVOLUTION SINCE 2011

Reduced Board size by four directors
Six new directors elected
Full rotation of Board committee chairs

New Presiding Director elected
Reallocation of committee responsibilities

Expanded qualifications and diversity represented on Board

DIVERSITY OF SKILLS AND EXPERTISE

Our independent Board nominees offer a diverse range of skills and experience in relevant areas.

GLOBAL EXPERIENCE

As shown by the yellow highlighted areas in the map below, our independent directors have international experience that aligns with Caterpillar s global presence.

Table of Contents

The Board has nominated the following individuals to stand for election for a one-year term expiring at the annual meeting of stockholders in 2017.

DIRECTOR CANDIDATE BIOGRAPHIES AND QUALIFICATIONS

Directors have been in their current positions for the past five years unless otherwise noted. Information is as of April 1, 2016.

DAVID L. CALHOUN

Senior Managing Director and Head of Private Equity Portfolio Operations of The Blackstone Group L.P. (private equity firm)

Other current directorships (2)

Nielsen Holdings PLC

The Boeing Company

Age 58

Other directorships within the last five years

Medtronic, Inc

Director Since 2011

Caterpillar Committee

Compensation

Independent

Key Qualifications and Skills:

Mr. Calhoun was previously Executive Chair of Nielsen Holdings N.V. (2014-2015). Prior to his position at Blackstone, Mr. Calhoun served as Chairman of the Executive Board and Chief Executive Officer of The Nielsen Company B.V. (2006-2013) and Vice Chairman of General Electric Company and President and Chief Executive Officer of GE Infrastructure (2005-2006).

The Board believes that Mr. Calhoun provides valuable insight and perspective into general strategic and business matters, stemming from his extensive executive and management experience with Blackstone, Nielsen and GE. Mr. Calhoun also has significant manufacturing and high-technology industry expertise as evidenced by his leadership of GE s aircraft engines and transportation businesses.

DANIEL M. DICKINSON

Managing Partner of HCI Equity Partners (private equity investment)

Other current directorships (0)

None

Age 54

Other directorships within the last five years

Mistras Group, Inc.

Progressive Waste Solutions Ltd.

Director Since 2006

Caterpillar Committee

Audit

Independent

Key Qualifications and Skills:

The Board believes that Mr. Dickinson s experience in mergers and acquisitions, private equity business and role as an investment banker provides important insights for evaluating investment opportunities. His significant financial expertise and experience, both in the U.S. and internationally, contributes to the Board s understanding and ability to analyze complex issues. His experience as a former director of large, publicly-traded multinational corporations enables him to provide meaningful input and guidance to the Board and the Company.

JUAN GALLARDO

Chairman and former CEO of Organización CULTIBA, S.A.B. de C.V.

Other current directorships (3)

Grupo Aeroportuario del Pacifico, S.A.B. de C.V.

Grupo Financiero Santander Mexico, S.A.B. de C.V.

Organización CULTIBA, S.A.B. de C.V.

Age 68

Other directorships within the last five years

Lafarge SA

Director Since 1998

Caterpillar Committee

Public Policy and Governance

Independent

Key Qualifications and Skills:

Mr. Gallardo is the Chairman of Organización CULTIBA and was its Chief Executive Officer until his retirement from that role in 2016. Mr. Gallardo resides in Mexico where Caterpillar has a significant manufacturing presence. The Board believes that Mr. Gallardo s international business experience, particularly in Latin America and South America, are important for the Company s understanding of these key markets. His extensive background in trade-related issues also contributes to the Board s expertise. In addition, his experience as a chief executive officer and director of large, publicly-traded multinational corporations enables him to provide meaningful input and guidance to the Board and the Company.

Table of Contents

JESSE J. GREENE, JR.

Instructor at Columbia Business School

Other current directorships (0)

None

Other directorships within the last five years

None

Caterpillar Committee

Compensation

Age 71

Director Since 2011

Independent

Key Qualifications and Skills:

Mr. Greene is currently an instructor at Columbia Business School in New York City where he teaches corporate governance, risk management and other business topics at the graduate and executive education levels. He was formerly Vice President of Financial Management and Chief Financial Risk Officer of International Business Machines Corporation (computer and office equipment).

The Board believes that Mr. Greene s risk management and information technology experience provides a unique skill set to the Board. His experience as a chief financial risk officer and executive of a large, publicly-traded multinational corporation enables him to provide meaningful input and guidance to the Board and the Company.

JON M. HUNTSMAN, JR.

Former United States Ambassador to China (2009-2011) and former Governor of Utah (2005-2009)

Other current directorships (3)

Chevron Corporation

Ford Motor Company

Hilton Worldwide Holdings Inc.

Other directorships within the last five years

Huntsman Corporation

Caterpillar Committee

Public Policy and Governance

Age 56

Director Since 2012

Independent

Key Qualifications and Skills:

Caterpillar has a significant manufacturing presence and dealer network in China. The Board believes that Mr. Huntsman s extensive knowledge of Asia and international affairs, operational experience gained as governor of Utah and experience as a director of other large, publicly-traded multinational corporations enables him to provide meaningful input and guidance to the Board and the Company.

DENNIS A. MUILENBURG

Chairman, President and Chief Executive Officer of The Boeing Company

Other current directorships (1)

The Boeing Company

Age 52

Other directorships within the last five years
None

Director Since 2011

Caterpillar Committee
Audit

Independent

Key Qualifications and Skills:

Prior to his current position, Mr. Muilenburg was Vice Chairman, President and Chief Operating Officer of The Boeing Company (2013-2015). Prior to that, he was Executive Vice President of The Boeing Company and President and Chief Executive Officer of Boeing Defense, Space & Security (2009-2013).

The Board believes that Mr. Muilenburg provides valuable insight to the Board on strategic and business matters, stemming from his experience with large-scale product development programs and his worldwide supply chain and manufacturing expertise.

Table of Contents

DOUGLAS R. OBERHELMAN

Chairman and Chief Executive Officer of Caterpillar Inc.

Other current directorships (1) **Age** 63

Exxon Mobil Corporation

Other directorships within the last five years **Director Since** 2010

Eli Lilly and Company

Caterpillar Committee **Management**

None

Key Qualifications and Skills:

Prior to his current position, Mr. Oberhelman served as Vice Chairman and Chief Executive Officer-Elect and as a Group President of Caterpillar Inc.

The Board believes that Mr. Oberhelman s extensive experience and knowledge of the Company, gained from 40 years of service in a wide range of Caterpillar leadership positions enables him to provide meaningful input and guidance to the Board and the Company.

WILLIAM A. OSBORN

Former Chairman and CEO of Northern Trust Corporation and The Northern Trust Company

Other current directorships (2) **Age** 68

Abbott Laboratories

General Dynamics Corporation

Other directorships within the last five years **Director Since** 2000

Tribune Company

Caterpillar Committee **Independent**

Audit, Chair

Key Qualifications and Skills:

The Board believes that Mr. Osborn s financial expertise and experience is valuable to the Board. In addition, his experience as a chief executive officer and director of other large, publicly-traded corporations enables him to provide meaningful input and guidance to the Board and the Company.

DEBRA L. REED

Chairman of the Board and Chief Executive Officer of Sempra Energy

Other current directorships (2) **Age** 59

Halliburton Company

Sempra Energy

Other directorships within the last five years

Avery Dennison Corporation

Director Since 2015

Caterpillar Committee

Compensation

Independent

Key Qualifications and Skills:

Prior to her current position, Ms. Reed was Executive Vice President of Sempra.

The power, oil and gas industries are key end-user markets for Caterpillar products. The Board believes that Ms. Reed s background provides valuable insights into trends in these industries. In addition, her experience as a chief executive officer and director of other large, publicly-traded corporations enables her to provide meaningful input and guidance to the Board and the Company.

Table of Contents

EDWARD B. RUST, JR.

Chairman of State Farm Mutual Automobile Insurance Company

Other current directorships (2)

Helmerich & Payne, Inc.

McGraw-Hill Financial, Inc.

Age 65

Other directorships within the last five years

None

Director Since 2003

Caterpillar Committee

Public Policy and Governance, Chair

Independent Presiding Director

Key Qualifications and Skills:

Previously Mr. Rust served as Chief Executive Officer of State Farm Mutual Automobile Insurance Company and as Chairman, President and Chief Executive Officer of State Farm Fire and Casualty Company, State Farm Life Insurance Company and other principal State Farm affiliates. He also previously served as President of State Farm Mutual Automobile Insurance Company and Trustee and President of State Farm Mutual Fund Trust and State Farm Variable Product Trust.

The Board believes that Mr. Rust s financial and business experience is valuable to the Board. His role as a past Chairman of the U.S. Chamber of Commerce, chief executive officer of a major national corporation and experience as a director of large, publicly-traded multinational corporations enables him to provide meaningful input and guidance to the Board and the Company. In addition, his extensive involvement in education improvement compliments the Company s culture of social responsibility.

SUSAN C. SCHWAB

Professor at the University of Maryland School of Public Policy and a Strategic Advisor for Mayer Brown LLP

Other current directorships (3)

FedEx Corporation

Marriott International, Inc.

The Boeing Company

Age 61

Other directorships within the last five years

None

Director Since 2009

Caterpillar Committee

Public Policy and Governance

Independent

Key Qualifications and Skills:

Prior to her current positions, Ambassador Schwab held various positions including United States Trade Representative (member of the President s cabinet) and Deputy United States Trade Representative.

The Board believes that Ambassador Schwab brings extensive knowledge, insight and experience on international trade issues to the Board. Her educational experience and role as the U.S. Trade Representative provide important insights for the Company s global business model and long-standing support of open trade. In addition, her experience as a director of large, publicly-traded multinational corporations enables her to provide meaningful input and guidance to the Board and the Company.

MILES D. WHITE

Chairman and Chief Executive Officer of Abbott Laboratories

Other current directorships (2)

Abbott Laboratories

McDonald s Corporation

Age 61

Other directorships within the last five years

None

Director Since 2011

Caterpillar Committee

Compensation, Chair

Independent

Key Qualifications and Skills:

The Board believes that Mr. White s experience as the chief executive officer of a large, complex multinational company provides important insight to the Board. His skills include knowledge of cross-border operations, strategy and business development, risk assessment, finance, leadership development and succession planning, and corporate governance matters. In addition to his role as an executive officer, his experience as a director of other large, publicly-traded multinational corporations enables him to provide meaningful input and guidance to the Board and the Company.

Table of Contents

DIRECTOR COMPENSATION

Compensation for non-employee directors for 2015 was comprised of the following components:

Cash Retainer:	$150,000	
Restricted Stock Units (1 year vesting)	$125,000	
Committee Chairman Stipend:	Presiding Director	$25,000
	Audit	$20,000
	Compensation	$20,000

Directors are required to own Caterpillar common stock equal to five times their annual cash retainer. Directors have a five-year period from the date of their election or appointment to meet the target ownership guidelines.

Directors may defer 50 percent or more of their annual cash retainer and stipend into an interest-bearing account or an account representing phantom shares of Caterpillar stock.

Directors that joined the Board prior to 2008 also participate in a Charitable Award Program, under which a donation of up to $500,000 will be made by the Company, in the director s name, to charitable organizations selected by the director and $500,000 to the Caterpillar Foundation. Directors derive no financial benefit from the program.

DIRECTOR COMPENSATION FOR 2015

DIRECTOR	FEES EARNED OR PAID IN CASH	RESTRICTED STOCK UNITS[1]	ALL OTHER COMPENSATION[2]	TOTAL
David L. Calhoun	$150,000	$124,998	$ 5,000	$279,998
Daniel M. Dickinson	$150,000	$124,998	$ 35,441	$310,439
Juan Gallardo	$150,000	$124,998	$ 12,170	$287,168
Jesse J. Greene, Jr.	$150,000	$124,998	$ 9,000	$283,998
Jon M. Huntsman, Jr.	$150,000	$124,998	$	$274,998
Dennis A. Muilenburg	$150,000	$124,998	$	$274,998
William A. Osborn	$170,000	$124,998	$ 17,170	$312,168
Debra L. Reed	$ 87,500	$ 72,996	$ 2,000	$162,496
Edward B. Rust, Jr.	$175,000	$124,998	$ 21,465	$321,463
Susan C. Schwab	$150,000	$124,998	$ 12,000	$286,998
Miles D. White	$170,000	$124,998	$ 10,000	$304,998

[1] As of December 31, 2015, the number of vested and non-vested options (NQs), RSUs and Phantom Shares held by each individual serving as a non-employee director during 2015 was: Mr. Calhoun: 9,842 (which consists of 1,506 RSUs and 8,336 Phantom Shares); Mr. Dickinson: 26,113 (which consists of 2,916 SARs, 1,506 RSUs and 21,691 Phantom Shares); Mr. Gallardo: 38,314 (which consists of 12,833 SARs, 1,506 RSUs and 23,975 Phantom Shares); Mr. Greene: 1,506 RSUs; Mr. Huntsman: 1,506 RSUs; Mr. Muilenburg: 1,506 RSUs; Mr. Osborn: 1,828 (which consists of 1,506 RSUs and 322 Phantom Shares); Ms. Reed: 2,151 (which consists of 825 RSUs and 1,326 Phantom Shares); Mr. Rust: 43,400 (which consists of 12,833 SARs, 1,506 RSUs and 29,061 Phantom Shares); Ms. Schwab: 8,780 (which consists of 1,506 RSUs and 7,274 Phantom Shares); and Mr. White: 5,385 (which consists of 1,506 RSUs and 3,879 Phantom Shares). Mr. Calhoun, Mr. Dickinson, Mr. Gallardo, Ms. Reed, Ms. Schwab and Mr. Rust deferred 100 percent of their 2015 retainer fee into phantom stock in the Directors Deferred Compensation Plan. Mr. White deferred 50 percent of his 2015 retainer fee into phantom stock in the Directors Deferred Compensation Plan.

[2] All Other Compensation represents amounts paid in connection with the Caterpillar Foundation s Directors Charitable Award Program and the Caterpillar Political Action Committee Charitable Matching Program (CATPAC s PACMATCH program) and administrative fees associated with the Directors Charitable Award Program. All outside directors are eligible to participate in the Caterpillar Foundation Matching Gift Program and eligible directors may participate in the CATPAC s PACMATCH program annually. The Caterpillar Foundation will match contributions to eligible two year or four year colleges or universities, arts and cultural institutions and public policy or environmental organizations, up to a maximum of $2,000 per eligible organization per calendar year. As part of CATPAC s PACMATCH program, Caterpillar Inc. will contribute to two charities on behalf of eligible members of the Board of Directors. The annual CATPAC s PACMATCH contribution limit is $5,000 so the match, per person, would not exceed $5,000. The amounts listed represent the matching contributions as follows: Mr. Calhoun $5,000, Mr. Dickinson $5,000, Mr. Greene $9,000, Mr. Osborn $5,000, Ms. Reed $2,000, Mr. Rust $13,500, Ms. Schwab $12,000 and Mr. White $10,000. For directors eligible to participate in the Directors Charitable Award Program, the amounts represented include the insurance premium and administrative fees. The

premium and administrative fees are as follows: Mr. Dickinson $30,441, Mr. Gallardo $12,170, Mr. Osborn $12,170 and Mr. Rust $7,965.

Table of Contents

BOARD ELECTION AND LEADERSHIP STRUCTURE

Directors are elected at each annual meeting to serve for a one-year term. In uncontested elections, directors are elected by a majority of the votes cast for such director. If an incumbent director does not receive a greater number of for votes than against votes, then such director must tender his or her resignation to the Board. In contested elections, directors are elected by a plurality vote. Directors must retire at the end of the calendar year in which they reach the age of 72.

The Board has elected the Chief Executive Officer as the Chairman of the Board. The Board believes that having a single person as both Chairman of the Board and CEO ensures that the Company is represented by a single voice to dealers, stockholders, employees and other stakeholders. The independent members of the Board have further elected the Chairman of the Public Policy and Governance Committee (PPGC) as the Presiding Director.

DUTIES AND RESPONSIBILITIES OF PRESIDING DIRECTOR

- Presides at all meetings of the Board at which the Chairman of the Board is not present.
- Encourages and facilitates active participation of all directors.
- Serves as a liaison between the independent directors and the Chairman of the Board.
- Approves Board meeting materials for distribution.
- Approves Board meeting schedules and agendas.
- Has the authority to call meetings of the directors.
- Leads the Board s annual evaluation of the Chairman of the Board and Chief Executive Officer.
- Monitors and coordinates with management on corporate governance issues and developments.

CORPORATE GOVERNANCE GUIDELINES AND CODE OF CONDUCT

Our Board has adopted Guidelines on Corporate Governance Issues (Corporate Governance Guidelines), which are available on our website at www.caterpillar.com/governance. The guidelines reflect the Board s commitment to oversee the effectiveness of policy and decision-making both at the Board and management level, with a view to enhancing stockholder value over the long-term. Caterpillar s code of conduct is called Our Values in Action. Integrity, Excellence, Teamwork, Commitment and Sustainability are the core values identified in the code and are the foundation for Caterpillar s corporate existence. Our Values in Action apply to all members of the Board and to management and employees worldwide. These values embody the high ethical standards that Caterpillar has upheld since its formation in 1925. Our Values in Action is available on our website at www.caterpillar.com/code.

Table of Contents

BOARD COMMITTEES

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

AUDIT COMMITTEE

Committee Members:
Daniel M. Dickinson
Dennis A. Muilenburg
William A. Osborn (Chair)

Number of Meetings in 2015: 11

COMMITTEE ROLES AND RESPONSIBILITIES

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

COMPENSATION COMMITTEE

Committee Members:
David L. Calhoun
Jesse J. Greene, Jr.
Debra L. Reed
Miles D. White (Chair)

Number of Meetings in 2015: 8

COMMITTEE ROLES AND RESPONSIBILITIES

- Recommends the CEO s compensation to the Board and establishes the compensation of other executive officers
- Establishes, oversees and administers the Company s equity compensation and employee benefit plans
- Reviews incentive compensation arrangements to ensure that incentive pay does not encourage unnecessary risk-taking and reviews and discusses the relationship between risk management policies and practices, corporate strategy and executive compensation
- Recommends to the Board the compensation of directors

Provides oversight of the Company s diversity and immigration practices and employee relations

Furnishes an annual Compensation Committee Report on executive compensation and approves the Compensation Discussion and Analysis section in the Company s proxy statement

Table of Contents

PUBLIC POLICY AND GOVERNANCE COMMITTEE

Committee Members:
Juan Gallardo
Jon M. Huntsman, Jr.
Edward B. Rust, Jr. (Chair)
Susan C. Schwab

Number of meetings in 2015: 6

COMMITTEE ROLES AND RESPONSIBILITIES

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

BOARD S ROLE IN RISK OVERSIGHT

The Board has oversight for risk management with a focus on the most significant risks facing the Company, including strategic, operational, financial and legal compliance risks. The Board s risk oversight process builds upon management s risk assessment and mitigation processes, which include an enterprise risk management program, regular internal management disclosure and compliance committee meetings, code of business conduct, quality standards and processes, an ethics and compliance office and comprehensive internal audit processes. The Board s risk oversight role also includes the selection and oversight of the independent auditors. The Board implements its risk oversight function both as a full Board and through delegation to Board committees, which meet regularly and report back to the full Board. The Board has delegated the oversight of specific risks to Board committees that align with their functional responsibilities.

Table of Contents

DIRECTOR NOMINATIONS AND EVALUATIONS

PROCESS FOR NOMINATING AND EVALUATING DIRECTORS

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

DIRECTOR RECRUITMENT PROCESS

	PPGC	Board of Directors	Stockholders
Candidate Recommendations *from Stockholders, Management, Directors & Search Firms*	**Discusses** **Reviews** Qualifications & expertise Board needs Regulatory requirements Cognitive diversity **Interviews** **Recommends Nominees**	Discusses PPGC Recommendations Analyzes Independence Selects Nominees	Vote on Nominees at Annual Meeting

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

BUSINESS CHARACTERISTICS	QUALIFICATIONS, SKILLS AND EXPERIENCE
The Company is a global manufacturer with products sold around the world.	Manufacturing or logistics experience Broad international exposure
Technology and customer and product support services are becoming increasingly important.	Technology experience Customer and product support experience Diversity of race, ethnicity, gender, cultural background or professional experience
The Company s businesses undertake numerous transactions in many countries and in many currencies.	High level of financial literacy Mergers and acquisitions experience
Demand for many of the Company s products is tied to conditions in the global commodity, energy, construction and transportation markets.	Experience in the evaluation of global economic conditions Knowledge of commodity, energy, construction or transportation markets
The Company s businesses are impacted by regulatory requirements and policies of various governmental entities around the world.	Governmental and international trade expertise
The Board s responsibilities include understanding and overseeing the various risks facing the Company and ensuring that appropriate policies and procedures are in place to effectively manage risk.	Risk oversight/management expertise Relevant executive experience

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

Table of Contents

NOMINATIONS FROM STOCKHOLDERS

The PPGC considers unsolicited inquiries and director nominees recommended by stockholders in the same manner as nominees from all other sources. Recommendations should be sent to the Corporate Secretary at 100 NE Adams Street, Peoria, Illinois 61629. Stockholders may nominate a director candidate to serve on the Board by following the procedures described in our bylaws. Deadlines for stockholder nominations for Caterpillar s 2017 annual meeting of stockholders are included in the Stockholder Proposals and Director Nominations for the 2017 Annual Meeting section on page 57.

DIRECTOR INDEPENDENCE DETERMINATIONS

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

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

COMMUNICATION WITH THE BOARD

Stockholders, employees and other Caterpillar stakeholders may communicate with any of our directors, our Board as a group, our independent directors as a group or any Board committee as a group by email or regular mail:

BY EMAIL

send an email to
Directors@CAT.com

BY MAIL

mail to Caterpillar Inc.
c/o Corporate Secretary
100 NE Adams Street
Peoria, Illinois 61629

All communications regarding personal grievances, administrative matters, the conduct of the Company s ordinary business operations, billing issues, product or service related inquiries, order requests and similar issues will be directed to the appropriate individual within the Company. The Presiding Director has instructed the Corporate Secretary to consult with him if he is unsure who should receive the communication. If a legitimate communication is sent, you will receive a written acknowledgement from the Corporate Secretary s office confirming receipt of your communication.

Contacting Caterpillar. While the Board oversees management, it does not participate in day-to-day management functions or business operations. If you wish to submit questions or comments relating to these matters, please use the Contact Us form on our website at www.caterpillar.com/contact, which will help you to direct your message to the appropriate area of our Company.

Table of Contents

INVESTOR OUTREACH

We conduct an annual governance review and stockholder outreach throughout the year to ensure that management and the Board understand and consider the issues that matter most to our stockholders and to help ensure our corporate governance practices continue to evolve and reflect the insights and perspectives of our many stakeholders.

WHO PARTICIPATES IN THE INVESTOR OUTREACH PROGRAM?

Board of Directors

Senior Management

Investor Relations

Corporate Secretary

IN WHAT TYPES OF ENGAGEMENT DOES THE COMPANY PARTICIPATE?

Investor conferences

One-on-one meetings

Earnings calls

Investor and analyst calls

AWARDS AND RECOGNITIONS

Third parties regularly recognize our employees innovation, leadership and workplace satisfaction. We are pleased to highlight some of these 2015 awards here.

SOCIAL RESPONSIBILITY AND SUSTAINABILITY

Vision for America Award - Keep America Beautiful

Dow Jones Sustainability Index - World and North America

Most Responsible Enterprise Award at the 11th Global Corporate Social Responsibility Forum, honoring our sustainability commitments in China

Innovation Iron Award from Compact Equipment

Accenture Award for Circular Economy Multinational

Brave New Corporate Funders - Inside Philanthropy

United Way Worldwide s Global Corporate Leadership Program

CORPORATE REPUTATION AND LEADERSHIP

World s Most Admired Companies - Fortune Magazine

40 Best Companies for Leaders - Chief Executive Magazine

Top 50 Employer - Woman Engineer Magazine

New York Stock Exchange Corporate Governance Leadership Awards, finalist

America s Best Employers Forbes Magazine

Top 25 Noteworthy Companies - DiversityInc

Top 10 Companies for Global Diversity - DiversityInc

Top 10 Companies for Employee Resource Groups - DiversityInc

Corporate Award Recipient - Executive Leadership Council

Top 5 Best Companies to Work For in Brazil - Época Magazine

Top 10 Best Companies For Workers With Disabilities - São Paulo State Department for the Rights of People with Disabilities
U.S. Military Friendly® Employer

Effie Award for Marketing Effectiveness

Top 100 undergraduate employers - Caterpillar UK

Table of Contents

SUSTAINABILITY

Caterpillar has set aspirational goals for its operations and product stewardship. We believe these standards affirm our determination to lead our industry to a more sustainable future. You can track our progress towards achieving these goals by visiting our website www.caterpillar.com/sustainability.

POLITICAL CONTRIBUTIONS

We currently disclose on our website www.caterpillar.com/contributions a description of our oversight process for political contributions, an itemized list of corporate and employee PAC contributions to federal and state political candidates and a list of trade associations to which we provided more than $50,000.

RELATED PARTY TRANSACTIONS

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

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

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

Table of Contents

PROPOSAL 2 RATIFICATION OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PROPOSAL SNAPSHOT

What am I voting on?

The Board seeks an indication from stockholders of their approval or disapproval of the Audit Committee s appointment of PricewaterhouseCoopers as the Company s independent auditors for 2016.

Voting Recommendation:

FOR the ratification of our independent registered public accounting firm.

PricewaterhouseCoopers has been our independent auditor since 1925. If the appointment of PricewaterhouseCoopers is not approved by the stockholders, the Audit Committee will consider whether it is appropriate to select another independent auditor.

Representatives of PricewaterhouseCoopers will be present at the Annual Meeting and will have the opportunity to make a statement if they desire to do so. The representatives will also be available to respond to questions at the meeting.

AUDIT FEES AND APPROVAL PROCESS

The Audit Committee pre-approves all audit and non-audit services to be performed by the independent auditors in compliance with the Sarbanes-Oxley Act and the SEC rules regarding auditor independence. The policies and procedures are detailed as to the particular service and do not delegate the Audit Committee s responsibility to management. The policies and procedures address any service provided by the independent auditors and any audit or audit-related services to be provided by any other audit service provider. The pre-approval process includes an annual and interim component.

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

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

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FEE INFORMATION

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

		2015	2014
Audit Fees[1]		$32.0	$32.7
Audit-Related Fees[2]		1.3	1.2
Tax Compliance Fees[3]		0.4	0.6
Tax Planning And Consulting Fees[4]		0.2	0.2
All Other Fees[5]		19.8	23.5
	TOTAL	$**53.7**	$**58.2**

Table of Contents

[1] Audit Fees principally includes audit and review of financial statements (including internal control over financial reporting), statutory and subsidiary audits, SEC registration statements, comfort letters and consents.
[2] Audit-Related Fees principally includes attestation services requested by management, accounting consultations, pre- or post- implementation reviews of processes or systems and audits of employee benefit plan financial statements. Total fees paid directly by the benefit plans, and not by the Company, were $1.0 million in 2015 and $0.9 million in 2014 and are not included in the amounts shown above.
[3] Tax Compliance Fees includes, among other things, statutory tax return preparation and review and advice on the impact of changes in local tax laws.
[4] Tax Planning and Consulting Fees includes, among other things, tax planning and advice and assistance with respect to transfer pricing issues.
[5] On April 2, 2014, Booz & Company combined with PricewaterhouseCoopers, our independent registered public accounting firm, and was renamed Strategy&. As of the date of the combination, Strategy& was providing strategy consulting services to the Company, however the Company stopped engaging Strategy& during 2015. Included in All Other Fees are fees of $23.5 million for strategy consulting services provided by Strategy& to the Company for the period from April 2, 2014 through December 31, 2014 and $19.5 million for 2015.

ANONYMOUS REPORTING OF ACCOUNTING CONCERNS

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

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

Direct Telephone: 309-494-4393 (English only)
Call Collect Helpline: 770-582-5275 (language translation available)
Confidential Fax: 309-494-4818
Email: BusinessPractices@CAT.com
Internet: www.caterpillar.com/obp

AUDIT COMMITTEE REPORT

Management is responsible for the Company s internal controls and the financial reporting process. The independent auditors are responsible for performing an independent audit of the Company s consolidated financial statements and internal control over financial reporting in accordance with standards established by the Public Company Accounting Oversight Board (PCAOB).

The Audit Committee has discussed with the Company s independent auditors the overall scope and execution of the independent audit and has reviewed and discussed the audited financial statements with management. The Audit Committee also discussed with the independent auditors other matters required by PCAOB auditing standards.

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

Based on the reviews and discussion referred to above, the Audit Committee recommended to the Board that the audited consolidated financial statements be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2015.

By the members of the Audit Committee consisting of:

Daniel M. Dickinson	William A. Osborn (Chairman)	Dennis A. Muilenburg

Table of Contents

PROPOSAL 3 ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

PROPOSAL SNAPSHOT

What am I voting on?

Stockholders are being asked to approve, on an advisory basis, the compensation of named executive officers as disclosed in this proxy statement.

Voting Recommendation: FOR proposal

On an annual basis, and in compliance with Section 14A of the Securities Exchange Act of 1934, stockholders are being asked to vote on the following advisory resolution:

RESOLVED, that the compensation of Caterpillar s named executive officers as described under Compensation Discussion and Analysis, the compensation tables and the narrative discussion associated with the compensation tables in Caterpillar s proxy statement for its 2016 Annual Meeting of Stockholders is hereby APPROVED.

This vote is advisory and therefore not binding on Caterpillar, the Compensation Committee (Committee) or the Board. The Board and the Committee value the opinion of Caterpillar s stockholders, and to the extent there is any significant vote against Caterpillar s named executive officer compensation, the Board will consider the reasons for such a vote, and the Committee will evaluate whether any actions are necessary to address those concerns.

COMPENSATION DISCUSSION & ANALYSIS

EXECUTIVE SUMMARY

I. Principles of aligning pay and performance

II. Stockholder outreach and response to 2015 Say on Pay vote

III. Business performance in context

IV. Compensation program structure for 2015 and 2016

V. Pay outcome demonstrates alignment with Company performance

VI. Strong compensation governance practices and policies

I. PRINCIPLES OF ALIGNING PAY AND PERFORMANCE

The Compensation Committee (the Committee) believes the executive compensation program at Caterpillar should be structured to align the interests of executives and stockholders to encourage value creation over both the short and long term. 2015 was another difficult year for Caterpillar and its stockholders. As a result, the CEO and other NEOs did **not** receive an annual incentive payment. In addition, the payout for the 3-year long-term incentive plan (2013-2015) paid 30 percent of target. These reductions based on 2015 performance are reflected in the 2015 proxy compensation tables.

Following last year s Say on Pay vote, management and the Committee engaged with stockholders and undertook a careful analysis of the value drivers at Caterpillar to improve the alignment between pay and performance. The Committee believes that the changes made to the program going forward will better align executive compensation with stockholder interests and encourage value creation at Caterpillar.

II. STOCKHOLDER OUTREACH AND RESPONSE TO 2015 SAY ON PAY VOTE

At the Company s 2015 annual meeting, the advisory vote on compensation received support from 65 percent of shares voted. In the three years prior to 2015, stockholder support averaged more than 95 percent. As a result of the decline in support for Say on Pay, management and the Committee conducted a robust stockholder engagement effort, reaching out to stockholders representing nearly half of the shares outstanding. The purpose of the outreach was to better understand stockholder perspectives and evaluate concerns regarding the Company s executive compensation program.

The Company found the added stockholder engagement to be helpful and intends to continue it going forward. Stockholder feedback over the past year was focused on the following themes:

1. Pay for performance alignment and the consistency of performance goals,

2. Incentive compensation components and design and

3. Mix and structure of performance metrics.

Table of Contents

As a result of the feedback from stockholders, some changes were made in 2015. The remainder were made for 2016 going forward. Although many of these changes are discussed here, the full impact of these decisions will be reflected in 2016 pay and next year s proxy statement.

SUMMARY OF KEY MESSAGES AND ACTIONS RELATED TO STOCKHOLDER OUTREACH AND RESPONSE TO 2015 SAY ON PAY VOTE

Pay for Performance Alignment and the Consistency of Performance Goals

WHAT WE HEARD	WHAT WE DID
Compensation not consistent with Total Shareholder Return (TSR) **Performance goals not considered adequately rigorous** **Limit awards for below median relative performance**	**2015** **The CEO and other NEOs did not receive an annual incentive payment for 2015** based primarily on severe market downturns in mining, energy and oil and gas and the Committee s assessment of the Company s declining financial performance. CEO compensation level was targeted at the median of the peer group (as defined on page 35), but the **CEO s actual compensation was below the peer group median.** Majority of CEO pay was at risk and based on the Company s short and long-term performance (at target, 85 percent of CEO pay was at risk in 2015). **2016** Annual incentive plan metrics reflect measurable and challenging financial performance factors and a mix of pre-defined operational factors that the Committee deems critical for the Company s annual and long-term performance. **Eliminated the potential for above target annual incentive payouts in years when the Company s performance is expected to be lower than prior year actual results.** **Reduced NEO s annual incentive opportunity when operating profit is lower than the previous year. Each NEO s annual incentive opportunity will be reduced in proportion to the amount the performance target is lowered from the prior year.** For example, if the performance target is reduced 10 percent from the prior year, each NEO s annual incentive opportunity (expressed as a percentage of base salary) will be reduced by 10 percent. **Decreased the maximum payout range for NEOs from 200 percent of target to 150 percent of target.** In years when the corporate performance goal is higher than prior year s actual performance, the payout range will now have a maximum payout of 150 percent of the target award. **Based on 2015 s disappointing performance, the 2016 long-term incentive grant for the CEO and NEOs was reduced to the 25th percentile of the peer group**. This decision was based on the Company s 1, 3 and 5-year relative TSR performance versus the peer group, the S&P Industrials, and competitors that the Committee has determined compete directly with the Company. NEO grants were further adjusted by the Committee to reflect individual performance taking into consideration the consistency of their performance against goals and their strategic goal performance as assessed by the CEO.

Incentive Compensation Components and Design

WHAT WE HEARD	WHAT WE DID
Greater portion of long-term compensation should be performance-vested equity	**2015** Replaced long-term performance-based cash awards with Performance Restricted Stock Units (PRSUs). **2016** Increased PRSUs from one-third to 50 percent of the total long-term incentive grant and proportionately reduced the use of stock options from two-thirds of the total to 50 percent.

Table of Contents

Mix and Structure of Performance Metrics

WHAT WE HEARD	WHAT WE DID
Changing long-term incentive metrics from year to year makes goals and results difficult to evaluate **Performance metrics and results should be disclosed** **Relative performance metrics typically preferable to absolute metrics** **PRSU performance period should be more than one year** **PRSU hurdle should not have both a one-year hurdle and three-year hurdle**	**2015** Eliminated Earnings Per Share (EPS) as a performance metric in the long-term incentive plan (2015) and in the annual incentive plan (2016). Moved to a consistent long-term incentive plan design. PRSUs only vest if the Company meets or exceeds a Return on Equity (ROE) hurdle. Added disclosure of performance metrics and Company performance for award cycles. **2016** Defined a mix of short-term performance metrics that align with the Company s cyclical business and support long-term strategy which is focused on efficient operations and strong competitive positioning. **Annual incentive opportunity measured by total Company operating profit with the target-setting process considering Operating Profit After Capital Charge (OPACC).** **Added annual incentive operational metrics related to cost reduction, machine PINS (market position), aftermarket parts sales, Cat Financial ROE and inventory performance.** **Sized the long-term incentive grant (to the 25th percentile as reflected on page 23) based on peer group median and relative 1, 3 and 5-year TSR to the peer group, the S&P Industrials and competitors that the Committee has determined compete directly with the Company.** **Eliminated the retesting feature beginning with PRSUs granted in 2016. PRSUs are now subject to a 3-year cumulative ROE performance hurdle based on total average ROE performance at the end of the 3-year period.**

III. BUSINESS PERFORMANCE IN CONTEXT

BUSINESS ENVIRONMENT AND MANAGEMENT S RESPONSE

Financial results were negatively impacted by severe weakness in mining, the steep drop in oil prices and difficulties in emerging market economies, particularly China and Brazil. These economic factors weighed on sales, profit and TSR. In the opinion of the Committee, management s response to these difficult market conditions was both aggressive and effective. Management has taken significant restructuring and operating actions to reduce costs and maintain variable margins, gain market position and expand the Company s service businesses to preserve value for Caterpillar stockholders and dealers and maintain ample liquidity for the future.

STOCKHOLDERS

Low commodity prices and weakness in emerging economies have been negative for stock prices in general, and Caterpillar in particular. As a result, Caterpillar s TSR in 2015 was in the bottom quartile of the S&P Industrials and the compensation peer group. That was despite about $2 billion of share repurchases, a 10 percent increase in the quarterly dividend and a dividend yield near 5 percent.

	TOTAL SHAREHOLDER RETURN		
	1 YEAR	**3 YEAR**	**5 YEAR**
Caterpillar Inc.	-23%	-6%	-4%
Direct Competitors Median	-24%	-2%	-2%
Compensation Peer Group Median	-10%	11%	8%
S&P Industrials Median	-7%	14%	11%

Table represents Total Shareholder Return for the Company and the median of the comparator groups that the Committee considers. They include the Compensation peer group (reference page 35), the S&P Industrials and the Company s competitor peer group (reference page 36).

Table of Contents

2015 OPERATIONAL PERFORMANCE

Dealing with peaks and troughs is a key part of the Company s strategy. Managing the cost structure and maintaining a strong balance sheet throughout business cycles are important elements. That was certainly important in 2015 with sales and revenues down nearly 15 percent from 2014.

- **Cost Structure** The Company continued to lower costs in 2015 and in September announced substantial new restructuring and cost reduction actions. These actions are expected to lower annual operating costs by about $1.5 billion and should reduce the manufacturing footprint about 10 percent when complete in 2018. The Company acted quickly at the end of 2015 and as a result, we expect to recognize about half of the $1.5 billion of operating cost reduction in 2016.
- **Strong Balance Sheet and Cash Flow** In 2015, Machinery, Energy & Transportation (ME&T) operating cash flow was $5.2 billion, enterprise cash on hand at the end of the year was $6.5 billion and the ME&T debt-to-capital ratio was 39.1 percent, well within the targeted range of 30 to 45 percent. The Company s captive finance company, Cat Financial, remained healthy and strong in 2015. Key portfolio metrics, such as past dues and credit losses, were near historic averages despite weakness in many of the industries served, and are an indication of how well the finance business is managed. In fact, past dues improved slightly from year-end 2014 to year-end 2015.
- **Operational Performance** 2015 was the fifth consecutive year of improved market position for Cat machines, the quality of our machines and engines continued at high levels, inventory declined over 20 percent and employee safety improved again in 2015. Safety is a high priority and has improved substantially over the past 10 years, including in 2015. We believe the Company s safety is at world-class levels for similar manufacturing companies.

INVESTING FOR THE LONG TERM

Despite difficult economic conditions across Caterpillar s businesses, the Company remains focused on investment for the long term. Broadly, the Company s strategy is based on the Caterpillar Business Model and is focused on helping customers be more successful with Caterpillar than with our competitors.

The Caterpillar Business Model is based on:

- Gaining market position by delivering high value products and services that provide customers with the lowest owning and operating costs.
- The resulting growth in field population drives aftermarket sales, which tend to be relatively stable through the ups and downs of the new equipment business cycle and that has helped sustain the Company for over 90 years. This model, along with the Company s unparalleled distribution network including 175 dealers around the world, has helped maintain our leadership.

The Company has continued to commit resources to support the Caterpillar Business Model and drive long-term stockholder value:

- **Investment in Research and Development (R&D)** Spending has been relatively stable at historically high levels for the past few years despite challenging economic conditions. In 2015, spending increased $30 million from 2014 and, as a percent of sales and revenues, 2015 was the highest in over a decade. The continued investment in R&D has resulted in an excellent product lineup with improving fuel economy, highly productive machines and engines and intelligent fleets. It has been an important driver in improving the Company s equipment market position and aftermarket service opportunity.
- **Lean Manufacturing and Engineered Value Chains** This strategic initiative was launched to substantially improve operations, drive velocity and lower costs. Since the launch of the Lean initiative in 2013, product quality has improved, delivery times have improved and annual material costs have improved by over $1 billion.
- **Across the Table** This collaborative initiative between Caterpillar and Cat dealers includes ten interrelated work streams designed to improve how we jointly serve customers and improve dealer performance. It is expected that Across the Table will improve market position, aftermarket sales and dealer profitability.
- **Digital Strategy** The Company is accelerating investment in its digital vision by increasing investment in sensors, control and communications technology and data analytics. In addition, we are partnering with innovative companies outside Caterpillar to bring the best available technologies to the Cat operating environment.

Table of Contents

IV. COMPENSATION PROGRAM STRUCTURE FOR 2015 AND 2016

The executive compensation program is based on a mix of variable and fixed compensation with a focus on performance-based annual and long-term incentives. It includes:

Base Salary Competitive pay to attract and retain talented executives;

Annual Incentive An opportunity to earn annual cash awards based on the Company s financial performance and strategic business initiatives;

Long-Term Incentive A mix of performance-based restricted stock units and stock options to align management with long-term stockholder interests.

V. PAY OUTCOME DEMONSTRATES ALIGNMENT WITH COMPANY PERFORMANCE

2015

No annual incentive was paid to the CEO or NEOs in 2015. Despite management s strong response, the market downturn took its toll on stockholders and, therefore the NEOs.

The long-term cash plan for the 2013-2015 cycle paid at 30 percent of target.

Stock options in 2013, 2014 and 2015 were granted at strike prices of $89.75, $96.31 and $83.00, respectively. The exercise price exceeds current market value. As valued on the date of grant, stock options represented approximately 70 percent and 55 percent of CEO and NEO total compensation, respectively.

2016

The Company s TSR was in the bottom quartile of the peer group in 2015. Therefore, CEO and NEO equity grants under the long-term incentive program for 2016 were reduced to the 25th percentile of the peer group. NEOs may be further adjusted by the Committee to reflect individual performance taking into consideration the consistency of their performance against goals and their strategic goal performance as assessed by the CEO.

The NEOs' annual incentive opportunity for 2016 will be reduced by 20.9percent, in proportion to the reduction in operating profit at target versus 2015 actual. There will be no upside opportunity beyond target level.

Based on performance to date, the long-term cash plan for the 2014-2016 cycle is tracking to pay out at 40 percent of target.

VI. STRONG COMPENSATION GOVERNANCE PRACTICES AND POLICIES

The Committee engages in an ongoing review of the Company s executive compensation programs to evaluate whether the structure supports the Company s compensation philosophy and objectives, and is closely aligned to the Company s business objectives. In connection with this ongoing review, and based on feedback received through stockholder outreach, the Committee continues to implement and maintain what the Committee believes to be best practices for executive compensation, each of which reinforces the Company s compensation philosophy.

Robust stock ownership and retention requirements	Caterpillar stock ownership requirements include 6x base salary for the CEO and 3x base salary for other NEOs; shares to be held until after retirement.

Beginning with the 2015 grant, the Company implemented post-retirement holding requirements that require the CEO to maintain the target ownership for one year following retirement and six months following retirement for the other NEOs.

Benchmark process

The Committee reviews the external marketplace to best reflect current market practices in setting market-based pay levels and in making compensation decisions, focusing on the median of the peer group.

Table of Contents

No individual change in control agreements	The Company does not have any individual change in control agreements with its NEOs. In addition, the Company does not use employment contracts with its NEOs. Under the Company s annual and long-term incentive plans, a termination of employment, in addition to a change in control, is required to trigger benefits a double-trigger change in control.
Clawback policy	The Company may seek reimbursement of bonus and incentive compensation or cancel unvested or deferred awards based on the misconduct of an executive officer that causes the Company to restate all or a portion of its financial statements.
Prohibition on hedging, pledging and related transactions	The Company prohibits NEOs, directors and employees from engaging in any transactions involving the Company s securities that hedge or offset any decreases in the market value of such securities, including put or call options, pledges, any other form of hedging transactions, margin purchases of the Company s stock or short sales. Additionally, the Company s Board has adopted a written process governing the approval of transactions that are expected to exceed $120,000 in any calendar year and that involve both the Company and any director, executive officer or their immediate family members. Pursuant to this process, all such related party transactions must be approved in advance by the Public Policy and Governance Committee of the Board.
No tax gross-ups	The Company does not pay tax gross-ups for payments relating to a change in control or with respect to perquisites, with the exception of certain benefits relating to international assignment or relocation.
Equity grant policies	The Company does not backdate, re-price or grant equity awards retroactively. The grant date for annual equity awards is the first Monday in March.
Independent compensation consultant	The Committee retains an independent compensation consultant. The Committee regularly meets with the consultant without management present.

Table of Contents

COMPENSATION DISCUSSION & ANALYSIS IN DETAIL

NAMED EXECUTIVE OFFICERS AND EXECUTIVE COMPENSATION OBJECTIVES

The objectives of the Company s executive compensation program are to attract and retain talented executive officers and to incentivize NEOs to improve Company performance and provide strategic leadership over the long term. The majority of targeted annual compensation is equity-based, vests over multiple years and is tied directly to long-term value creation for stockholders.

We are committed to developing and implementing an executive compensation program that directly aligns the interests of the NEOs with the long-term interests of stockholders.

NAMED EXECUTIVE OFFICERS FOR 2015

This CD&A discusses the compensation of the following NEOs.

Douglas R. Oberhelman Chairman and Chief Executive Officer (CEO)	**Robert B. Charter** Group President, Customer & Dealer Support
Bradley M. Halverson Group President, Corporate Services and Chief Financial Officer (CFO)	**Edward J. Rapp** Group President, Resource Industries
D. James Umpleby III Group President, Energy & Transportation	

NEO compensation is delivered in three primary forms: base salary, annual incentives and long-term incentives, with a focus on variable compensation tied to Company performance. Approximately 85 percent of the CEO s **targeted annual total compensation** is variable, at-risk compensation, with 50 percent of long-term incentives in the form of performance-based restricted stock units beginning in 2016.

COMPONENTS OF EXECUTIVE COMPENSATION

NEOs receive a mix of fixed and variable compensation with a focus on components that are performance-based. This section describes each component and demonstrates that approximately 85 percent of NEO compensation is targeted to be variable and tied to Company performance.

BASE SALARY

Base salary is the only fixed component of the Company s NEOs cash compensation. The Committee targets the base salary midpoint at the size-adjusted median level of the peer group. An NEO s base salary is related to the individual s level of responsibility and historic performance with reference to the market median. Annual increases, if any, are based on achievement of individual and Company objectives, contributions to Caterpillar s performance and leadership accomplishments and a comparison of executive base salaries to those in comparable positions at peer companies.

The CEO s base salary has not increased since 2012 and remains in line with the median base salary of CEOs in the Company s peer group. Other NEOs base salaries are below the peer group median except for Mr. Rapp s base salary. Mr. Rapp is one of the longest tenured NEOs and has had multiple years of exceptional performance.

Table of Contents

ANNUAL INCENTIVE

2015 ANNUAL INCENTIVE AWARD

The 2015 annual incentive was designed to provide NEOs with an annual cash payout based on the short-term performance of the Company and their respective business units. The annual incentive places the majority of each NEO s annual cash compensation at risk and is designed to align the interests of executives and stockholders.

The CEO and other NEOs did not receive an annual incentive payment for 2015 based primarily on severe market downturns in mining, energy and oil and gas and the Committee s assessment of the Company s declining financial performance.

CHANGES TO DETERMINATION OF ANNUAL INCENTIVE AWARD (EXAMPLE: 2016)

As summarized below, the Committee has enhanced the annual incentive award following extensive stockholder engagement. Beginning in 2016, if the targeted operating profit performance level for the year is set below the prior year s actual results, the target award opportunity for all NEOs will be reduced proportionately and payouts, if any, will be capped at the target level as described below. For example, in 2016, the CEO s annual incentive award will be based on Company financial and operating performance metrics and will have performance adjustments as described below:

METRICS AND WEIGHTING

	Financial Metric	Operating Performance Metrics
EXAMPLE: 2016 CEO annual incentive award	70% Operating Profit Performance	10% Cost Reduction 5% Machine PINS 5% Parts Sales 5% Cat Financial ROE 5% Inventory

Determined by

2016 CEO and NEO Performance Adjustments
Down Year

20.9% reduction in annual incentive award opportunity
No upside opportunity above target level for 2016
Threshold performance set at 87% of target

For all NEOs, the largest portion of their annual incentive award opportunity (ranging from 50 percent to 90 percent of the award) will be based on the profitability of the total enterprise and an NEO s respective business segment. For this component, the Committee reviews the Company s OPACC performance and business plan in establishing an operating profit performance target for the year.

Once the operating profit performance target has been set, it is used to determine whether the current year is an up year or down year versus the prior year s operating profit actual results.

If the operating profit target is above the prior year s actual operating profit results (up year), the threshold performance level will be set at no less than 87 percent of the operating profit target. Performance at threshold will result in a payout of 50 percent of the target award opportunity for the year. Performance below threshold will result in no annual incentive payout. Achievement of the target level operating profit performance goal will result in a payout of 100 percent of the target award opportunity. **The payout for**

achievement of the maximum performance level will be capped at 150 percent of the target award opportunity, down from 200 percent in prior years.

Table of Contents

If the operating profit goal is below the prior year s actual operating profit results (down year), the target incentive award opportunity for each NEO for that year will be reduced. The reduction in incentive award opportunity will be in proportion to the decline in the operating profit target relative to the prior year s actual operating profit results. In addition, in a down year , there will be no upside opportunity beyond the target level. For down years , the threshold performance level will also be set at no less than 87 percent of the operating profit target which will correspond with a payout factor of 50 percent of the reduced target award opportunity. Performance below threshold will result in no annual incentive payout.

In addition to operating profit performance, a portion of each NEO s annual incentive will be based on operational performance metrics related to their responsibilities, such as cost reduction, machine PINS (market position), aftermarket parts sales, Cat Financial ROE and inventory performance.

LONG-TERM INCENTIVE

HISTORICAL PERSPECTIVE

In years before 2015, long-term incentive compensation design was based on two components a rolling 3-year cash plan and market-based stock option grants. As described below, starting in 2015, the Committee revised the long-term incentive plan, eliminating the cash portion and replacing it with PRSUs.

While the Committee believes PRSUs are better aligned with stockholder interests going forward, NEOs pay in 2015 includes results of the legacy 2013-2015 performance-based cash plan, as well as PRSUs granted in 2015. Next year s NEO compensation will include results from the 2014-2016 performance-based cash plan which will be the final year for maturing 3-year cash plans.

The Committee recognizes that there have been numerous changes to the long-term incentive plan design over the past four cycles. Stockholder outreach over the past year has confirmed that simple, easy to understand plans that align with stockholder interests and are stable year to year are preferred. Consequently, no further changes are expected at this time.

The Committee s objective in providing long-term incentive compensation is to align the interests of the Company s NEOs with the interests of the Company s stockholders. Stock options reward increasing stockholder value and PRSUs only vest upon attainment of an ROE hurdle. The Committee believes that ROE is an appropriate vesting hurdle because it is an effective measure of capital allocation and value received by stockholders. In addition, long-term incentive awards, as a significant portion of total direct compensation, and stock ownership guidelines are structured to align management with risk management principles and to maintain focus on the Company s long-term success.

LONG-TERM AWARD SIZING

The Committee bases long-term incentive grants for NEOs by starting with the peer group median of long-term incentive awards, then adjusts award sizing from the peer group median based on relative performance and current business conditions. The Committee considers financial results; 1, 3 and 5-year TSR; operational performance; market conditions and strategy execution when sizing awards. Individual adjustments may be made by the Committee to reflect individual performance, taking into consideration the consistency of performance against goals and strategic goal performance as assessed by the CEO.

Table of Contents

LONG-TERM AWARD FORM OF PAYMENT

Starting in 2015 and continuing in 2016, long-term incentive compensation is awarded with two forms of equity PRSUs and stock options. In the 2015 plan, 33 percent of the award value was in PRSUs and 67 percent stock options. Based on feedback from stockholder engagement over the past year, the Committee changed the weighting in 2016 to 50 percent PRSUs and 50 percent stock options.

At Target Grant

Equity Awards (Non-qualified Stock Options)

Performance-Based Awards (Restricted Stock Units (PRSUs))

DESIGN AND STATUS OF LONG-TERM PLANS

2013 2015 CYCLE

This 3-year cycle concluded in 2015 with a weighted-average performance factor well below target at 0.30. The plan for this 3-year cycle was based on two components **ME&T Return on Assets (ROA)** and **relative TSR** (versus S&P 500). As a result of substantial declines in mining activity and generally weak conditions in many of the industries the Company serves, performance for both metrics was well below target. The ROA metric result was below target, but was above the minimum performance threshold. Relative TSR was in the 11th percentile of the S&P 500 and, as a result, was below the minimum required for a payout.

Performance-Based Cash Award (1/3) / Stock Options (2/3)

- Initial grant size based on peer group market data.
- Performance-based cash award based on metrics ROA and relative TSR demonstrates strong alignment with Company performance outcomes.
- Designed to ensure management s long-term focus on effective use of Company assets to generate returns.
- Relative TSR aligns management with stockholder returns on a relative basis.
- Stock options vest over a 3-year period and have a 10-year term.
- Stock option grant price was $89.75 and the exercise price exceeds current market value.

	WEIGHTING	0.3 THRESHOLD	1.0 TARGET	2.0 MAXIMUM	RESULT	FACTOR
ME&T ROA	50%	4.0%	8.3%	10.2%	5.9%	0.60
Relative TSR vs. S&P 500	50%	25th Percentile	55th Percentile	75th Percentile	11th Percentile	0.00
				Overall Weighted Factor:		**0.30**

Table of Contents

PAYOUTS FOR NEOs FROM THE 2013 2015 CYCLE (Included in the 2015 Summary Compensation Table)

Douglas R. Oberhelman	$822,804
Bradley M. Halverson	$244,440
Robert B. Charter	$190,994
Edward J. Rapp	$292,114
D. James Umpleby III	$247,726

2014 2016 CYCLE

This 3-year cycle will conclude in 2016 and is currently tracking, after two years, at a weighted-average performance factor well below target at 0.40, and is not reflected in 2015 NEO compensation. The plan for this 3-year cycle was based on two components **EPS** and **relative TSR** (versus S&P Industrials). As in the 2013-2015 cycle, declines in mining activity and economic conditions in many of the industries the Company serves are well below expectations. As a result, performance for both metrics, after completing the first two years of the 3-year cycle, are well below target. Should this 3-year cycle pay out, the results would be included in NEO compensation in 2016.

Performance-Based Cash Award (1/3) / Stock Options (2/3)

- Initial grant size based on peer group market data.
- Performance-based cash award based on metrics EPS and relative TSR designed to ensure management s long-term focus on profitability and stockholder returns.
- Relative TSR aligns management with stockholder returns on a relative basis.
- Stock options vest over a 3-year period and have a 10-year term.
- Stock option grant price was $96.31 and the exercise price exceeds current market value.

The 2014 2016 factor to date includes 2014 and 2015 actual results and the 2016 profit outlook as provided on January 28, 2016.

	WEIGHTING	0.3 THRESHOLD	1.0 TARGET	2.0 MAXIMUM	RESULTS/OUTLOOK	FACTOR
EPS	75%	$3.50	$5.85	$7.02	$4.29	0.54
Relative TSR vs. S&P Industrials	25%	25th Percentile	55th Percentile	75th Percentile	17th Percentile	0.00
				Overall Weighted Factor:		**0.40**

2015 2017 CYCLE

In 2015, the cash portion of long-term incentive was replaced with PRSUs. For the 2015 grant, one-third of the PRSUs is eligible to vest annually based on three annual 18 percent ROE hurdles. In addition, PRSUs that do not vest based on the annual performance hurdle have the opportunity to vest based on the achievement of an average 18 percent ROE performance hurdle over the 3-year performance period. In setting this ROE hurdle percentage, the Committee considered the Company s history, current business conditions and the long-term forecast. The Company s long-term forecast takes into account many financial and operational factors, including share repurchases.

For 2015, the Company did not achieve the ROE performance hurdle and accordingly **none of the PRSUs vested based on 2015 actual ROE performance. However, the value of the PRSUs is included in 2015 NEO compensation**. In light of the first year results and the Company s current outlook for 2016, provided on January 28, 2016, the degree of difficulty in achieving the 3-year hurdle has increased significantly. The annual vesting opportunity was eliminated in the 2016-2018 plan.

PRSUs with an ROE Performance Hurdle (1/3) / Stock Options (2/3)

Initial grant size based on peer group market data with adjustments for individual performance. As shown in the Summary Compensation Table (on page 40), granted in 2015, based on 2014 performance, two Group President awards were above median and two Group President awards were below median, with awards ranging from the 40th to the 65th percentile.

Aligns management with profitability goals by measuring and rewarding profitability relative to stockholders investment in the business.

Aligns management with stockholder returns on a relative basis.

Table of Contents

Stock options vest over a 3-year period and have a 10-year term.

Stock option grant price was $83.00 and the exercise price exceeds current market value.

These grants are included in NEO compensation in 2015 (reference Executive Compensation Tables beginning on page 40).

2016 2018 CYCLE

The plan was modified in 2016 based on feedback from stockholder outreach that was conducted over the past year and to reflect the cyclicality of the Company s business and long-term business drivers.

The plan design has moved to 50 percent PRSUs with a 3-year ROE hurdle and 50 percent stock options.

Reduced the 2016 long-term incentive grant for the CEO and NEOs to the 25th percentile of the peer group following a review of the Company s 1, 3 and 5-year relative TSR performance versus peers, the S&P Industrials and competitors that the Committee has determined compete directly with the Company. NEO grants were further adjusted to reflect individual performance. The 2016 grant date fair value for the CEO on the date of the grant was $10.80 million, as compared to the 2015 grant date fair value on the date of the grant of $12.99 million.

PRSUs cliff vest at the end of the 3-year period based on average ROE over the full 3-year performance period; the retesting feature has been eliminated.

Aligns management with profitability goals by measuring and rewarding profitability relative to stockholders investment in the business.

Aligns management with stockholder returns on a relative basis.

Stock option grant price was $74.77 and was based on the closing price on the first Monday of March 2016.

NEO PERFORMANCE GOALS AND RESULTS FOR 2015

Douglas R. Oberhelman

Goals:	Deliver against the enterprise-wide financial plan for the Company. Reinforce Caterpillar s long-term focus on growth by investing in new products and services to improve strategic competitiveness. Strengthen operational execution of the Company by improving market position, cost management, product quality and employee safety through the continuing cyclical decline in key end markets.
Results:	Caterpillar TSR in 2015 was in the bottom quartile of the S&P Industrials and the compensation peer group. Results fell short of the financial plan as the Company continued to face declining demand. Sales and Revenues for 2015 were $47 billion, a decline of $3 billion from the plan, while profit after tax excluding restructuring costs was only down approximately $100 million. Substantial restructuring actions were also taken to improve the cost structure in the future. The Company continued with R&D investment at high levels and increased investment and focus on digital technology solutions designed to deliver better value to customers through equipment connectivity and data analytics. Market position was slightly below planned levels (but improved for the fifth consecutive year), product quality continued at high levels and safety improved in 2015.

Bradley M. Halverson

Goals:	Maintain a strong financial position for the Company through the continuing cyclical decline in key end markets, deliver targeted ROE for the Company s captive finance company, Caterpillar Financial Services, and manage credit metrics within sustained long-term target ranges.
Results:	

Sales and Revenues were lower than expected in 2015. However, ME&T operating cash flow of $5.2 billion was slightly better than planned, and the ME&T debt-to-capital ratio of 39.1 percent was within the targeted range of 30 percent to 45 percent. Financial Products Division ROE was higher than target and Cat Financial credit metrics were near historic averages despite difficult conditions in the Company s key end markets.

Table of Contents

Edward J. Rapp

Goals:	For Resource Industries (RI): deliver against the RI financial plan, deploy the Operating and Execution Model, accelerate restructuring activities as a result of the prolonged downturn in the mining industry and improve operational performance by improving market position, quality and safety.
Results:	Sales were 4 percent below plan, but operating profit exceeded planned levels. Inventory turns achieved targeted levels. The Operating and Execution Model has resulted in detailed action plans to improve OPACC over the next few years. Restructuring activities were carried out with a comprehensive reorganization of the business, reduced manufacturing footprint and lower costs and headcount. Operational metrics improved market position, employee safety and quality were all better in 2015.

D. James Umpleby III

Goals:	For Energy & Transportation (E&T): deliver against the E&T financial plan, improve operational performance and accelerate future profitable growth.
Results:	Financial results were below plan. Operating profit was close to planned levels despite a 7 percent decline in sales. Inventory turns were below targeted levels. Return on sales (ROS) was the second highest in E&T history and four of the six divisions within E&T achieved record ROS. Also, E&T delivered solid improvements in product quality, safety and material costs in 2015; and, continued to focus on future profitable growth through the introduction of new products and through acquisitions and strategic alliances, specifically in the areas of digital technologies, Power Generation and Transportation.

Robert B. Charter

Goals:	For Customer & Dealer Support (C&DS): deliver against the C&DS financial plan, execute the Across the Table initiative with our dealers to improve performance and drive the enterprise digital strategy.
Results:	Financial results were below plan. Sales were 9 percent below plan and operating profit fell 10 percent below planned levels. Inventory turns were below targeted levels. C&DS achieved significant operational improvement in parts distribution operations, parts availability and on-time supplier delivery. Execution continued on plan for the Across the Table work streams. Significant progress was made on advancing the Company s digital strategy including progress on strategic alliances to expand analytics capabilities.

THE COMPENSATION PROCESS

THE COMPENSATION COMMITTEE

The Committee is responsible for the executive compensation program design and decision-making process for NEO compensation. The Committee regularly reviews executive compensation practices, including the methodologies for setting NEO total compensation, the goals of the program and the underlying compensation philosophy. The Committee also considers the recommendations and market data provided by its independent compensation consultant and makes decisions, as it deems appropriate, on executive compensation based on its assessment of performance and achievement of Company goals. The

Committee also exercises its judgment as to what is in the best interests of the Company and its stockholders. The responsibilities of the Committee are described more fully in its charter, which is available at www.caterpillar.com/governance.

INDEPENDENT COMPENSATION CONSULTANT

The Committee retained Meridian Compensation Partners, LLC as its independent compensation consultant. Meridian provides executive and director compensation consulting services to the Committee, including advice regarding the design and implementation of compensation programs, market information, regulatory updates and analyses and trends on

Table of Contents

executive base salary, short-term incentives, long-term incentives, benefits and perquisites. Interactions between Meridian and management are generally limited to discussions on behalf of the Committee or as required to compile information at the Committee s direction. During 2015, Meridian did not provide any other services to the Company. Based on these factors, its own evaluation of Meridian s independence pursuant to the requirements approved and adopted by the SEC and NYSE, and information provided by Meridian, the Committee has determined that the work performed by Meridian does not raise any conflicts of interest.

BENCHMARKING COMPENSATION TO PEERS

Peer Group Selection The Committee regularly assesses the market competitiveness of the Company s executive compensation programs based on peer group data. The 2015 peer group was established based on the following criteria:

- Total revenue and market capitalization of the peer company relative to Caterpillar
- Global presence with a significant portion of non-U.S. revenue

The peer group used for 2015 compensation decisions is shown below, which was changed from the 2014 peer group by the removal of Dell, Inc. as it ceased to be a public company:

2015 PEER GROUP*		
3M Company	E.I. du Pont de Nemours and Company	Illinois Tool Works Inc.
Alcoa Inc.	Emerson Electric Co.	Intel Corporation
Archer-Daniels-Midland Company	FedEx Corporation	Johnson Controls, Inc.
The Boeing Company	Fluor Corporation	Parker-Hannifin Corporation
Cisco Systems, Inc.	Ford Motor Company	The Procter & Gamble Company
Coca-Cola Company	General Dynamics Corporation	Raytheon Company
Cummins Inc.	General Electric Company	United Technologies Corporation
Deere & Company	Halliburton Company	
	Honeywell International Inc.	

** The 2016 peer group has been modified to add Paccar Inc. and remove Parker-Hannifin Corporation and United Technologies Corporation.*

Benchmarking to Similarly Sized Firms and Adjusting for Large Variances To account for differences in the size of the peer group companies, market data is statistically adjusted (using a regression analysis) by the Committee s independent compensation consultant allowing for a comparison of the compensation levels to similarly sized companies. Each element of the Company s NEOs compensation is then targeted to the median of the peer group. To the extent an NEO s total actual compensation exceeds the peer group median, it is due to outstanding performance, critical skills, experience and tenure. If an NEO s compensation is below the median, it is generally due to underperformance against relevant metrics or an individual who is newer in the role.

2016 Direct Competitor Peer Group Selection for Performance Comparisons For 2016, the Committee also assessed the market competitiveness of the Company s executive compensation programs against a group of competitors that it deems to compete directly with the Company. The Committee noted that although the Company s peer group described above is an appropriate benchmark for executive compensation at other similarly sized companies, the peer group data does not always provide useful comparisons to other companies that might be experiencing similar business conditions. To that end, and consistent with its pay-for-performance philosophy, in 2016, the Committee further sought to compare the Company s business performance with that of our competitors by establishing a Competitor Peer Group.

The Committee formed the 2016 Direct Competitor Peer Group by selecting seven of the Company s competitors that, in the opinion of the Committee, compete in the same markets as the Company, or offer similar products and services as the Company, or serve the same, or similar, industries or end-users as the Company.

Table of Contents

The competitor peer group used for 2016 performance comparisons is shown below:

2016 COMPETITOR GROUP
Deere & Company
Joy Global Inc.
Cummins Inc.
Komatsu Ltd.
Volvo AB
Sany Heavy Equipment International Holdings Company Limited
Hitachi Ltd.

ROLE OF EXECUTIVE OFFICERS IN DETERMINING EXECUTIVE COMPENSATION

CHAIRMAN AND CEO PERFORMANCE REVIEW

The Board, excluding the CEO, all of whom are independent directors, conducts the CEO s performance evaluation. Prior to the Board s evaluation of the CEO s performance and its approval of CEO compensation, the Committee makes a preliminary compensation recommendation to the Board based on the Committee s initial evaluation and performance review of the CEO. In February 2016, the Board reviewed the Committee s assessment of Mr. Oberhelman s performance and ratified the decision not to award an annual incentive payment.

OTHER NEO PERFORMANCE CONSIDERATIONS

For each NEO, the CEO presents a performance evaluation and makes compensation recommendations to the Committee. In February 2016, the CEO met with the Committee to share his evaluations of each NEO and as discussed above, the Committee determined not to award any annual incentive payment to the NEOs for 2015 performance.

COMPENSATION DETERMINATION: PERFORMANCE THAT REFLECTS ALIGNMENT WITH BUSINESS ENVIRONMENT

The Committee, with the support of management and the independent compensation consultant, considers the Company s financial and market performance in the context of global market conditions when making executive compensation decisions including the payouts under the annual incentive plan.

CONSIDERATIONS WHEN DETERMINING COMPENSATION

In setting compensation levels for the year, the Committee considered many factors, including:

- Long-term stockholder value creation
- The cyclical nature of the business
- Enhancements made to Company strategy
- Performance relative to financial guidance provided throughout the year
- Operational and business unit performance
- Performance relative to peers and competitors
- Historic absolute and relative performance
- Key areas management can influence over the short and long term

EXECUTIVE COMPENSATION AND RISK MANAGEMENT

The Committee assesses the Company s risk profile relative to the executive compensation program and confirms that NEOs are not incentivized to focus on short-term stock performance or take excessive risk in managing the business. In particular, long-term incentive awards, as a significant portion of total direct compensation and stock ownership guidelines, are structured to align management with principles of risk management and to maintain focus on the long term.

Table of Contents

OTHER COMPENSATION, BENEFITS AND CONSIDERATIONS

RETIREMENT OF EDWARD J. RAPP

Mr. Rapp will be retiring from the Company in 2016 and will be stepping down as the Group President with responsibility for Resource Industries as of April 1, 2016. He will remain on special assignment until his retirement on June 30, 2016.

TRANSFER AND RELOCATION PAYMENT FOR ROBERT B. CHARTER

The Committee approved a transfer and relocation payment in connection with Mr. Charter s appointment to Group President of the Company and his transfer from Singapore to the United States due to his required relocation to Peoria, Illinois. As a result, in 2015, Mr. Charter received a payment of $300,000. In approving this payment, the Committee considered that the transfer and relocation were expected to result in adverse income tax c