CATERPILLAR INC
Form 10-Q
May 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 1-768
CATERPILLAR INC.
(Exact name of registrant as specified in its charter)

Delaware	37-0602744
(State or other jurisdiction of incorporation)	(IRS Employer I.D. No.)
100 NE Adams Street, Peoria, Illinois	61629
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (309) 675-1000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer	o
Non-accelerated filer o	(Do not check if a smaller reporting company)	
	Smaller reporting company	o
	Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

At March 31, 2017, 589,090,308 shares of common stock of the registrant were outstanding.

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

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended March 31	
	2017	2016
Sales and revenues:		
Sales of Machinery, Energy & Transportation	$9,130	$8,780
Revenues of Financial Products	692	681
Total sales and revenues	9,822	9,461
Operating costs:		
Cost of goods sold	6,758	6,822
Selling, general and administrative expenses	1,045	1,088
Research and development expenses	418	508
Interest expense of Financial Products	159	152
Other operating (income) expenses	1,025	397
Total operating costs	9,405	8,967
Operating profit	417	494
Interest expense excluding Financial Products	123	129
Other income (expense)	(5)	—
Consolidated profit before taxes	289	365
Provision (benefit) for income taxes	90	92
Profit of consolidated companies	199	273
Equity in profit (loss) of unconsolidated affiliated companies	(5)	(1)
Profit of consolidated and affiliated companies	194	272
Less: Profit (loss) attributable to noncontrolling interests	2	1
Profit [1]	$192	$271
Profit per common share	$0.33	$0.46
Profit per common share – diluted [2]	$0.32	$0.46
Weighted-average common shares outstanding (millions)		
– Basic	587.5	582.8

– Diluted[2]	593.2	587.7
Cash dividends declared per common share	$—	$—

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

See accompanying notes to Consolidated Financial Statements.

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

	Three Months Ended March 31	
	2017	2016
Profit of consolidated and affiliated companies	$194	$272
Other comprehensive income (loss), net of tax:		
Foreign currency translation, net of tax (provision)/benefit of: 2017 - $7; 2016 - $32	147	408
Pension and other postretirement benefits:		
Current year prior service credit (cost), net of tax (provision)/benefit of: 2017 - $(4); 2016 - $(69)	8	118
Amortization of prior service (credit) cost, net of tax (provision)/benefit of: 2017 - $1; 2016 - $5	(4)	(10)
Derivative financial instruments:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2017 - $(5); 2016 - $(6)	10	9
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2017 - $(22); 2016 - $(5)	40	9
Available-for-sale securities:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2017 - $(6); 2016 - $(5)	8	6
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2017 - $(1); 2016 - $(1)	3	2
Total other comprehensive income (loss), net of tax	212	542
Comprehensive income	406	814
Less: comprehensive income attributable to the noncontrolling interests	(2)	(1)
Comprehensive income attributable to shareholders	$404	$813

See accompanying notes to Consolidated Financial Statements.

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

	March 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and short-term investments	$ 9,472	$ 7,168
Receivables – trade and other	6,533	5,981
Receivables – finance	8,684	8,522
Prepaid expenses and other current assets	1,777	1,682
Inventories	9,082	8,614
Total current assets	35,548	31,967
Property, plant and equipment – net	14,727	15,322
Long-term receivables – trade and other	944	1,029
Long-term receivables – finance	13,426	13,556
Noncurrent deferred and refundable income taxes	2,940	2,790
Intangible assets	2,287	2,349
Goodwill	6,051	6,020
Other assets	1,626	1,671
Total assets	$ 77,549	$ 74,704
Liabilities		
Current liabilities:		
Short-term borrowings:		
Machinery, Energy & Transportation	$ 436	$ 209
Financial Products	7,385	7,094
Accounts payable	5,302	4,614
Accrued expenses	3,086	3,003
Accrued wages, salaries and employee benefits	1,666	1,296
Customer advances	1,383	1,167
Dividends payable	—	452
Other current liabilities	1,641	1,635
Long-term debt due within one year:		
Machinery, Energy & Transportation	505	507
Financial Products	6,231	6,155
Total current liabilities	27,635	26,132
Long-term debt due after one year:		
Machinery, Energy & Transportation	8,804	8,436
Financial Products	14,921	14,382
Liability for postemployment benefits	9,291	9,357
Other liabilities	3,238	3,184
Total liabilities	63,889	61,491
Commitments and contingencies (Notes 10 and 13)		
Shareholders' equity		

Common stock of $1.00 par value:		
Authorized shares: 2,000,000,000 Issued shares: (3/31/17 and 12/31/16 – 814,894,624) at paid-in amount	5,222	5,277
Treasury stock (3/31/17 – 225,804,316 shares; 12/31/16 – 228,408,600 shares) at cost	(17,391)	(17,478)
Profit employed in the business	27,584	27,377
Accumulated other comprehensive income (loss)	(1,827)	(2,039)
Noncontrolling interests	72	76
Total shareholders’ equity	13,660	13,213
Total liabilities and shareholders’ equity	$ 77,549	$ 74,704

See accompanying notes to Consolidated Financial Statements.

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Caterpillar Inc.
Consolidated Statement of Changes in Shareholders' Equity
(Unaudited)
(Dollars in millions)

	Common stock	Treasury stock	Profit employed in the business	Accumulated other comprehensive income (loss)	Noncontrolling interests	Total
Three Months Ended March 31, 2016						
Balance at December 31, 2015	$5,238	$(17,640)	$29,246	$(2,035)	$76	$14,885
Profit of consolidated and affiliated companies	—	—	271	—	1	272
Foreign currency translation, net of tax	—	—	—	408	—	408
Pension and other postretirement benefits, net of tax	—	—	—	108	—	108
Derivative financial instruments, net of tax	—	—	—	18	—	18
Available-for-sale securities, net of tax	—	—	—	8	—	8
Distribution to noncontrolling interests	—	—	—	—	(1)	(1)
Common shares issued from treasury stock for stock-based compensation: 1,546,856	(90)	45	—	—	—	(45)
Stock-based compensation expense	101	—	—	—	—	101
Net excess tax benefits from stock-based compensation	(6)	—	—	—	—	(6)
Other	4	—	—	—	1	5
Balance at March 31, 2016	$5,247	$(17,595)	$29,517	$(1,493)	$77	$15,753
Three Months Ended March 31, 2017						
Balance at December 31, 2016	$5,277	$(17,478)	$27,377	$(2,039)	$76	$13,213
Adjustment to adopt stock-based compensation guidance[1]	—	—	15	—	—	15
Balance at January 1, 2017	$5,277	$(17,478)	$27,392	$(2,039)	$76	$13,228
Profit of consolidated and affiliated companies	—	—	192	—	2	194
Foreign currency translation, net of tax	—	—	—	147	—	147
Pension and other postretirement benefits, net of tax	—	—	—	4	—	4
Derivative financial instruments, net of tax	—	—	—	50	—	50
Available-for-sale securities, net of tax	—	—	—	11	—	11
Distribution to noncontrolling interests	—	—	—	—	(6)	(6)
Common shares issued from treasury stock for stock-based compensation: 2,604,284	(106)	87	—	—	—	(19)
Stock-based compensation expense	49	—	—	—	—	49
Other	2	—	—	—	—	2
Balance at March 31, 2017	$5,222	$(17,391)	$27,584	$(1,827)	$72	$13,660

[1] See Note 2 for additional information.

See accompanying notes to Consolidated Financial Statements.

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

	Three Months Ended March 31	
	2017	2016
Cash flow from operating activities:		
Profit of consolidated and affiliated companies	$194	$272
Adjustments for non-cash items:		
Depreciation and amortization	710	740
Other	301	269
Changes in assets and liabilities, net of acquisitions and divestitures:		
Receivables – trade and other	(353)	14
Inventories	(444)	(74)
Accounts payable	732	211
Accrued expenses	132	33
Accrued wages, salaries and employee benefits	360	(852)
Customer advances	193	174
Other assets – net	(261)	(145)
Other liabilities – net	(23)	(152)
Net cash provided by (used for) operating activities	1,541	490
Cash flow from investing activities:		
Capital expenditures – excluding equipment leased to others	(204)	(357)
Expenditures for equipment leased to others	(305)	(383)
Proceeds from disposals of leased assets and property, plant and equipment	234	173
Additions to finance receivables	(2,122)	(2,014)
Collections of finance receivables	2,272	2,047
Proceeds from sale of finance receivables	17	10
Investments and acquisitions (net of cash acquired)	(18)	(12)
Proceeds from sale of securities	89	49
Investments in securities	(65)	(62)
Other – net	(23)	(23)
Net cash provided by (used for) investing activities	(125)	(572)
Cash flow from financing activities:		
Dividends paid	(452)	(448)
Distribution to noncontrolling interests	(6)	(1)
Common stock issued, including treasury shares reissued	(19)	(45)
Proceeds from debt issued (original maturities greater than three months):		
Machinery, Energy & Transportation	360	1
Financial Products	2,355	1,210
Payments on debt (original maturities greater than three months):		
Machinery, Energy & Transportation	(4)	(3)
Financial Products	(1,973)	(1,703)
Short-term borrowings – net (original maturities three months or less)	618	486

Net cash provided by (used for) financing activities	879	(503)
Effect of exchange rate changes on cash	9	11
Increase (decrease) in cash and short-term investments	2,304	(574)
Cash and short-term investments at beginning of period	7,168	6,460
Cash and short-term investments at end of period	$9,472	$5,886

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

See accompanying notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. A. Nature of operations

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

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

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

B. Basis of presentation

In the opinion of management, the accompanying unaudited financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of (a) the consolidated results of operations for the three months ended March 31, 2017 and 2016, (b) the consolidated comprehensive income for the three months ended March 31, 2017 and 2016, (c) the consolidated financial position at March 31, 2017 and December 31, 2016, (d) the consolidated changes in shareholders' equity for the three months ended March 31, 2017 and 2016 and (e) the consolidated cash flow for the three months ended March 31, 2017 and 2016. The financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC).

Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with the audited financial statements and notes thereto included in our company's annual report on Form 10-K for the year ended December 31, 2016 (2016 Form 10-K).

The December 31, 2016 financial position data included herein is derived from the audited consolidated financial statements included in the 2016 Form 10-K but does not include all disclosures required by U.S. GAAP. Certain amounts for prior periods have been reclassified to conform to the current period financial statement presentation. See Note 2 for more information.

Unconsolidated Variable Interest Entities (VIEs)

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

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

(Millions of dollars)	March 31, 2017	December 31, 2016
Receivables - trade and other	$ 64	$ 55
Receivables - finance	147	174
Long-term receivables - finance	233	246
Investments in unconsolidated affiliated companies	36	31
Guarantees	216	210

Total	$ 696	$ 716

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In addition, Cat Financial has end-user customers that are VIEs of which we are not the primary beneficiary. Although we have provided financial support to these entities and therefore have a variable interest, we do not have the power to direct the activities that most significantly impact their economic performance. Our maximum exposure to loss from our involvement with these VIEs is limited to the credit risk inherently present in the financial support that we have provided. These risks are evaluated and reflected in our financial statements as part of our overall portfolio of finance receivables and related allowance for credit losses.

2. New accounting guidance

Revenue recognition - In May 2014, the Financial Accounting Standards Board (FASB) issued new revenue recognition guidance to provide a single, comprehensive revenue recognition model for all contracts with customers. Under the new guidance, an entity will recognize revenue to depict the transfer of promised goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. A five step model has been introduced for an entity to apply when recognizing revenue. The new guidance also includes enhanced disclosure requirements, and is effective January 1, 2018, with early adoption permitted for January 1, 2017. Entities have the option to apply the new guidance under a retrospective approach to each prior reporting period presented, or a modified retrospective approach with the cumulative effect of initially applying the new guidance recognized at the date of initial application within the Consolidated Statement of Changes in Shareholders' Equity. We plan to adopt the new guidance effective January 1, 2018. We have made substantial progress in our evaluation of the impact of the new standard. Under the new guidance, we anticipate sales of certain turbine machinery units will change to a point-in-time recognition model. Under current guidance, we account for these sales under an over-time model following the percentage-of-completion method as the product is manufactured. In addition, under the new guidance we will begin to recognize an asset for the value of expected replacement part returns. At this time we have not identified any impacts to our financial statements that we believe will be material in the year of adoption. We are still evaluating the impact to certain revenue streams within our Energy & Transportation and Resource Industries segments and expect that evaluation to be completed during the second quarter of 2017. Based on the current estimated impact to our financial statements, we plan to adopt the new guidance under the modified retrospective approach.

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

Recognition and measurement of financial assets and financial liabilities – In January 2016, the FASB issued accounting guidance that affects the accounting for equity investments, financial liabilities accounted for under the fair value option and the presentation and disclosure requirements for financial instruments. Under the new guidance, all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) will generally be measured at fair value through earnings. There will no longer be an available-for-sale classification for equity securities with readily determinable fair values. For financial liabilities when the fair value option has been elected, changes in fair value due to instrument-specific credit risk will be recognized separately in other comprehensive income. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The new guidance is effective January 1, 2018, with the cumulative effect adjustment from initially applying the new guidance recognized in the Consolidated Statement of Financial Position as of the beginning of the year of adoption. The impact on our financial statements at the time of adoption will primarily be based on changes in the fair value of our available-for-sale equity securities subsequent to January 1, 2018, which will be recorded through earnings.

Lease accounting – In February 2016, the FASB issued accounting guidance that revises the accounting for leases. Under the new guidance, lessees are required to recognize a right-of-use asset and a lease liability for all leases. The new guidance will continue to classify leases as either financing or operating, with classification affecting the pattern of expense recognition. The accounting applied by a lessor under the new guidance will be substantially equivalent to current lease accounting guidance. The new guidance is effective January 1, 2019, with early adoption permitted. The new standard is required to be applied with a modified retrospective approach to each prior reporting period presented and provides for certain practical expedients. We are in the process of evaluating the effect of the new guidance on our financial statements.

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Stock-based compensation – In March 2016, the FASB issued accounting guidance to simplify several aspects of the accounting for share-based payments. The new guidance changes how reporting entities account for certain aspects of share-based payments, including the accounting for income taxes and the classification of the tax impact on the Consolidated Statement of Cash Flow. Under the new guidance all excess tax benefits and deficiencies during the period are to be recognized in income (rather than equity) on a prospective basis. The guidance removes the requirement to delay recognition of excess tax benefits until it reduces income taxes currently payable. This change was required to be applied on a modified retrospective basis, resulting in a cumulative-effect adjustment to opening retained earnings in the period of adoption. In addition, Cash flows related to excess tax benefits will be included in Cash provided by operating activities and will no longer be separately classified as a financing activity. This change was adopted retrospectively. The guidance was effective January 1, 2017, and did not have a material impact on our financial statements.

Measurement of credit losses on financial instruments – In June 2016, the FASB issued accounting guidance to introduce a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The new guidance will apply to loans, accounts receivable, trade receivables, other financial assets measured at amortized cost, loan commitments and other off-balance sheet credit exposures. The new guidance will also apply to debt securities and other financial assets measured at fair value through other comprehensive income. The new guidance is effective January 1, 2020, with early adoption permitted beginning January 1, 2019. We are in the process of evaluating the effect of the new guidance on our financial statements.

Classification for certain cash receipts and cash payments – In August 2016, the FASB issued accounting guidance related to the presentation and classification of certain transactions in the statement of cash flows where diversity in practice exists. The guidance is effective January 1, 2018, with early adoption permitted. We do not expect the adoption to have a material impact on our financial statements.

Tax accounting for intra-entity asset transfers – In October 2016, the FASB issued accounting guidance that will require the tax effects of intra-entity asset transfers to be recognized in the period when the transfer occurs. Under current guidance, the tax effects of intra-entity sales of assets are deferred until the transferred asset is sold to a third party or otherwise recovered through use. The new guidance does not apply to intra-entity transfers of inventory. The guidance is effective January 1, 2018, and is required to be applied on a modified retrospective basis through a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. We are in the process of evaluating the effect of the new guidance on our financial statements.

Classification of restricted cash – In November 2016, the FASB issued accounting guidance related to the presentation and classification of changes in restricted cash on the statement of cash flows where diversity in practice exists. The new standard is required to be applied with a retrospective approach. The guidance is effective January 1, 2018, with early adoption permitted. We do not expect the adoption to have a material impact on our financial statements.

Clarification on the definition of a business – In January 2017, the FASB issued accounting guidance to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance is effective January 1, 2018, with early adoption permitted. We adopted the guidance effective January 1, 2017, and the adoption did not have a material impact on our financial statements.

Simplifying the measurement for goodwill – In January 2017, the FASB issued guidance to simplify the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The new guidance will be applied prospectively and is effective January 1, 2020, with early adoption permitted beginning January 1, 2017. We adopted the guidance

effective January 1, 2017. The adoption did not have a material impact on our financial statements.

Presentation of net periodic pension costs and net periodic postretirement benefit costs – In March 2017, the FASB issued accounting guidance that will require that an employer disaggregate the service cost component from the other components of net benefit cost. Service cost is required to be reported in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit cost are required to be reported outside the subtotal for income from operations. Additionally, only the service cost component of net benefit costs are eligible for capitalization. The guidance is effective January 1, 2018, with early adoption permitted. We will adopt this guidance on January 1, 2018, and apply the presentation changes retrospectively and the capitalization change prospectively. The impact on our financial statements at the time of adoption will primarily

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be reclassification of other components of net periodic benefit cost outside of Operating profit in the Consolidated Statement of Results of Operations.

Premium amortization on purchased callable debt securities – In March 2017, the FASB issued accounting guidance related to the amortization period for certain purchased callable debt securities held at a premium. Securities held at a premium will be required to be amortized to the earliest call date rather than the maturity date. The new standard is required to be applied with a modified retrospective approach through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The guidance is effective January 1, 2019, with early adoption permitted. We do not expect the adoption to have a material impact on our financial statements.

3. Stock-based compensation

Accounting for stock-based compensation requires that the cost resulting from all stock-based payments be recognized in the financial statements based on the grant date fair value of the award. Our stock-based compensation primarily consists of stock options, restricted stock units (RSUs), performance-based restricted stock units (PRSUs) and stock-settled stock appreciation rights (SARs).

Upon separation from service, if the participant is 55 years of age or older with more than five years of service, the participant meets the criteria for a "Long Service Separation." Award terms for awards granted prior to 2017 allow for immediate vesting upon separation of all outstanding options and RSUs with no requisite service period for employees who meet the criteria for a "Long Service Separation." Compensation expense was fully recognized immediately on the grant date for these employees. Award terms for the 2017 grant allow for continued vesting as of each vesting date specified in the award document for employees who meet the criteria for a "Long Service Separation" and fulfill a requisite service period of six months. Compensation expense for eligible employees for the 2017 grant is recognized over the period from the grant date to the end date of the six-month requisite service period. For employees who become eligible for a "Long Service Separation" subsequent to the end date of the six-month requisite service period and prior to the completion of the vesting period, compensation expense is recognized over the period from the grant date to the date eligibility is achieved.

Prior to 2017, all outstanding PRSU awards granted to employees with a "Long Service Separation" may vest at the end of the performance period based upon achievement of the performance target. For PRSU awards granted in 2017, only a prorated number of shares may vest at the end of the performance period based upon achievement of the performance target, with the proration based upon the number of months of continuous employment during the three-year performance period. Employees with a "Long Service Separation" must also fulfill a six-month requisite service period in order to be eligible for the prorated vesting of outstanding PRSU awards granted in 2017.

We recognized pretax stock-based compensation expense in the amount of $49 million and $101 million for the three months ended March 31, 2017 and 2016, respectively. The decrease in stock-based compensation expense was primarily due to the change in award terms for participants that meet the criteria for a "Long Service Separation", as the establishment of the six-month requisite service period results in lower expense in the first quarter (period of grant) and higher expense over the following two quarters.

The following table illustrates the type and fair value of the stock-based compensation awards granted during the three months ended March 31, 2017 and 2016, respectively:

Three Months Ended March 31, 2017			Three Months Ended March 31, 2016		
Shares Granted	Weighted-Average Fair Value Per	Weighted-Average Grant Date Stock	Shares Granted	Weighted-Average Fair Value Per	Weighted-Average Grant Date Stock

		Share	Price		Share	Price
Stock options	2,701,644	$ 25.01	$ 95.66	4,243,272	$ 20.64	$ 74.77
RSUs	906,068	$ 89.76	$ 95.63	1,085,505	$ 68.04	$ 74.77
PRSUs	437,385	$ 86.78	$ 95.66	614,347	$ 64.71	$ 74.77

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The following table provides the assumptions used in determining the fair value of the stock-based awards for the three months ended March 31, 2017 and 2016, respectively:

	Grant Year	
	2017	2016
Weighted-average dividend yield	3.42%	3.23%
Weighted-average volatility	29.2%	31.1%
Range of volatilities	22.1-33.0%	22.5-33.4%
Range of risk-free interest rates	0.81-2.35%	0.62-1.73%
Weighted-average expected lives	8 years	8 years

As of March 31, 2017, the total remaining unrecognized compensation expense related to nonvested stock-based compensation awards was $306 million, which will be amortized over the weighted-average remaining requisite service periods of approximately 1.8 years.

4. Derivative financial instruments and risk management

Our earnings and cash flow are subject to fluctuations due to changes in foreign currency exchange rates, interest rates and commodity prices. Our Risk Management Policy (policy) allows for the use of derivative financial instruments to prudently manage foreign currency exchange rate, interest rate and commodity price exposures. Our policy specifies that derivatives are not to be used for speculative purposes. Derivatives that we use are primarily foreign currency forward, option and cross currency contracts, interest rate contracts and commodity forward and option contracts. Our derivative activities are subject to the management, direction and control of our senior financial officers. Risk management practices, including the use of financial derivative instruments, are presented to the Audit Committee of the Board of Directors at least annually.

All derivatives are recognized on the Consolidated Statement of Financial Position at their fair value. On the date the derivative contract is entered into, we designate the derivative as (1) a hedge of the fair value of a recognized asset or liability (fair value hedge), (2) a hedge of a forecasted transaction or the variability of cash flow (cash flow hedge) or (3) an undesignated instrument. Changes in the fair value of a derivative that is qualified, designated and highly effective as a fair value hedge, along with the gain or loss on the hedged recognized asset or liability that is attributable to the hedged risk, are recorded in current earnings. Changes in the fair value of a derivative that is qualified, designated and highly effective as a cash flow hedge are recorded in Accumulated other comprehensive income (loss) (AOCI), to the extent effective, on the Consolidated Statement of Financial Position until they are reclassified to earnings in the same period or periods during which the hedged transaction affects earnings. Changes in the fair value of undesignated derivative instruments and the ineffective portion of designated derivative instruments are reported in current earnings. Cash flows from designated derivative financial instruments are classified within the same category as the item being hedged on the Consolidated Statement of Cash Flow. Cash flows from undesignated derivative financial instruments are included in the investing category on the Consolidated Statement of Cash Flow.

We formally document all relationships between hedging instruments and hedged items, as well as the risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value hedges to specific assets and liabilities on the Consolidated Statement of Financial Position and linking cash flow hedges to specific forecasted transactions or variability of cash flow.

We also formally assess, both at the hedge's inception and on an ongoing basis, whether the designated derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flow of hedged items. When a derivative is determined not to be highly effective as a hedge or the underlying hedged transaction is no longer probable, we discontinue hedge accounting prospectively, in accordance with the derecognition criteria for hedge accounting.

Foreign Currency Exchange Rate Risk

Foreign currency exchange rate movements create a degree of risk by affecting the U.S. dollar value of sales made and costs incurred in foreign currencies. Movements in foreign currency rates also affect our competitive position as these changes may affect business practices and/or pricing strategies of non-U.S.-based competitors. Additionally, we have balance sheet positions denominated in foreign currencies, thereby creating exposure to movements in exchange rates.

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Our Machinery, Energy & Transportation operations purchase, manufacture and sell products in many locations around the world. As we have a diversified revenue and cost base, we manage our future foreign currency cash flow exposure on a net basis. We use foreign currency forward and option contracts to manage unmatched foreign currency cash inflow and outflow. Our objective is to minimize the risk of exchange rate movements that would reduce the U.S. dollar value of our foreign currency cash flow. Our policy allows for managing anticipated foreign currency cash flow for up to five years. As of March 31, 2017, the maximum term of these outstanding contracts was approximately 51 months.

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

As of March 31, 2017, $11 million of deferred net losses, net of tax, included in equity (AOCI in the Consolidated Statement of Financial Position), are expected to be reclassified to current earnings (Other income (expense) in the Consolidated Statement of Results of Operations) over the next twelve months when earnings are affected by the hedged transactions. The actual amount recorded in Other income (expense) will vary based on exchange rates at the time the hedged transactions impact earnings.

In managing foreign currency risk for our Financial Products operations, our objective is to minimize earnings volatility resulting from conversion and the remeasurement of net foreign currency balance sheet positions, and future transactions denominated in foreign currencies. Our policy allows the use of foreign currency forward, option and cross currency contracts to offset the risk of currency mismatch between our assets and liabilities, and exchange rate risk associated with future transactions denominated in foreign currencies. Our foreign currency forward, option and cross currency contracts are primarily undesignated. We designate fixed-to-fixed cross currency contracts as cash flow hedges to protect against movements in exchange rates on foreign currency fixed rate assets and liabilities.

Interest Rate Risk

Interest rate movements create a degree of risk by affecting the amount of our interest payments and the value of our fixed-rate debt. Our practice is to use interest rate contracts to manage our exposure to interest rate changes.

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

Financial Products operations has a match-funding policy that addresses interest rate risk by aligning the interest rate profile (fixed or floating rate) of Cat Financial’s debt portfolio with the interest rate profile of their receivables portfolio within predetermined ranges on an ongoing basis. In connection with that policy, we use interest rate derivative instruments to modify the debt structure to match assets within the receivables portfolio. This matched funding reduces the volatility of margins between interest-bearing assets and interest-bearing liabilities, regardless of which direction interest rates move.

Our policy allows us to use fixed-to-floating, floating-to-fixed and floating-to-floating interest rate contracts to meet the match-funding objective. We designate fixed-to-floating interest rate contracts as fair value hedges to protect debt

against changes in fair value due to changes in the benchmark interest rate. We designate most floating-to-fixed interest rate contracts as cash flow hedges to protect against the variability of cash flows due to changes in the benchmark interest rate.

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

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Commodity Price Risk

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

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

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

The location and fair value of derivative instruments reported in the Consolidated Statement of Financial Position are as follows:

(Millions of dollars)	Consolidated Statement of Financial Position Location	Asset (Liability) Fair Value March 31, 2017	Asset (Liability) Fair Value December 31, 2016
Designated derivatives			
Foreign exchange contracts			
Machinery, Energy & Transportation	Receivables – trade and other	$14	$ 13
Machinery, Energy & Transportation	Accrued expenses	(32)	(93)
Machinery, Energy & Transportation	Other liabilities	(27)	(36)
Financial Products	Long-term receivables – trade and other	24	29
Financial Products	Accrued expenses	(16)	(3)
Interest rate contracts			
Financial Products	Long-term receivables – trade and other	3	4
Financial Products	Accrued expenses	(1)	(1)
		$(35)	$ (87)
Undesignated derivatives			
Foreign exchange contracts			
Machinery, Energy & Transportation	Receivables – trade and other	$4	$ —
Machinery, Energy & Transportation	Accrued expenses	(15)	(30)
Financial Products	Receivables – trade and other	28	39
Financial Products	Accrued expenses	(10)	(4)
Commodity contracts			
Machinery, Energy & Transportation	Receivables – trade and other	7	10
		$14	$ 15

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

(Millions of dollars)

	March 31, 2017	December 31, 2016
Machinery, Energy & Transportation	$ 2,412	$ 2,530
Financial Products	$ 3,008	$ 2,626

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

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The effect of derivatives designated as hedging instruments on the Consolidated Statement of Results of Operations is as follows:

Fair Value Hedges

(Millions of dollars)	Classification	Three Months Ended March 31, 2017 Gains (Losses) on Derivatives	Three Months Ended March 31, 2017 Gains (Losses) on Borrowings	Three Months Ended March 31, 2016 Gains (Losses) on Derivatives	Three Months Ended March 31, 2016 Gains (Losses) on Borrowings
Interest rate contracts					
Financial Products	Other income (expense)	$ (1)	$ 1	$ 3	$ (4)
		$ (1)	$ 1	$ 3	$ (4)

Cash Flow Hedges

	Three Months Ended March 31, 2017			
		Recognized in Earnings		
(Millions of dollars)	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)	Classification of Gains (Losses)	Amount of Gains (Losses) Reclassified from AOCI to Earnings	Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts				
Machinery, Energy & Transportation	$33	Other income (expense)	$ (39)	$ —
Financial Products	(18)	Other income (expense)	(22)	—
Interest rate contracts				
Machinery, Energy & Transportation	—	Interest expense excluding Financial Products	(2)	—
Financial Products	—	Interest expense of Financial Products	1	—
	$15		$ (62)	$ —

	Three Months Ended March 31, 2016			
		Recognized in Earnings		
	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)	Classification of Gains (Losses)	Amount of Gains (Losses) Reclassified from AOCI to Earnings	Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts				

Machinery, Energy & Transportation	$16	Other income (expense)	$ (10)	$ —
Interest rate contracts				
Machinery, Energy & Transportation	—	Interest expense excluding Financial Products	(2)	—
Financial Products	(1)	Interest expense of Financial Products	(2)	—
	$15		$ (14)	$ —

The effect of derivatives not designated as hedging instruments on the Consolidated Statement of Results of Operations is as follows:

(Millions of dollars)	Classification of Gains (Losses)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Foreign exchange contracts			
Machinery, Energy & Transportation	Other income (expense)	$ 13	$ 22
Financial Products	Other income (expense)	(7)	(4)
Commodity contracts			
Machinery, Energy & Transportation	Other income (expense)	1	—
		$ 7	$ 18

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

Collateral is generally not required of the counterparties or of our company under the master netting agreements. As of March 31, 2017 and December 31, 2016, no cash collateral was received or pledged under the master netting agreements.

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The effect of the net settlement provisions of the master netting agreements on our derivative balances upon an event of default or termination event is as follows:

March 31, 2017				Gross Amounts Not Offset in the Statement of Financial Position		
(Millions of dollars)	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Assets Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount of Assets
Derivatives						
Machinery, Energy & Transportation	$ 25	$ —	$ 25	$ (23)	$ —	$ 2
Financial Products	55	—	55	(5)	—	50
Total	$ 80	$ —	$ 80	$ (28)	$ —	$ 52

March 31, 2017				Gross Amounts Not Offset in the Statement of Financial Position		
(Millions of dollars)	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Liabilities Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Pledged	Net Amount of Liabilities
Derivatives						
Machinery, Energy & Transportation	$ (74)	$ —	$ (74)	$ 23	$ —	$ (51)
Financial Products	(27)	—	(27)	5	—	(22)
Total	$ (101)	$ —	$ (101)	$ 28	$ —	$ (73)

December 31, 2016				Gross Amounts Not Offset in the Statement of Financial Position		
(Millions of dollars)	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Assets Presented in the Statement of Financial	Financial Instruments	Cash Collateral Received	Net Amount of Assets

			Position			
Derivatives						
Machinery, Energy & Transportation	$ 23	$ —	$ 23	$ (21)	$ —	$ 2
Financial Products	72	—	72	(7)	—	65
Total	$ 95	$ —	$ 95	$ (28)	$ —	$ 67

December 31, 2016				Gross Amounts Not Offset in the Statement of Financial Position		
(Millions of dollars)	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Liabilities Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Pledged	Net Amount of Liabilities
Derivatives						
Machinery, Energy & Transportation	$ (159)	$ —	$ (159)	$ 21	$ —	$ (138)
Financial Products	(8)	—	(8)	7	—	(1)
Total	$ (167)	$ —	$ (167)	$ 28	$ —	$ (139)

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5. Inventories

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

(Millions of dollars)	March 31, 2017	December 31, 2016
Raw materials	$ 2,325	$ 2,102
Work-in-process	1,850	1,719
Finished goods	4,698	4,576
Supplies	209	217
Total inventories	$ 9,082	$ 8,614

6. Investments in unconsolidated affiliated companies

Investments in unconsolidated affiliated companies, included in Other assets in the Consolidated Statement of Financial Position, were as follows:

(Millions of dollars)	March 31, 2017	December 31, 2016
Investments in equity method companies	$ 193	$ 192
Plus: Investments in cost method companies	37	57
Total investments in unconsolidated affiliated companies	$ 230	$ 249

7. Intangible assets and goodwill

A. Intangible assets

Intangible assets are comprised of the following:

		March 31, 2017		
(Millions of dollars)	Weighted Amortizable Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	15	$2,388	$ (978)	$1,410
Intellectual property	11	1,497	(729)	768
Other	13	191	(82)	109
Total finite-lived intangible assets	14	$4,076	$ (1,789)	$2,287
		December 31, 2016		
	Weighted Amortizable Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	15	$2,378	$ (934)	$1,444
Intellectual property	11	1,496	(706)	790
Other	14	192	(77)	115
Total finite-lived intangible assets	14	$4,066	$ (1,717)	$2,349

Amortization expense for the three months ended March 31, 2017 and 2016 was $79 million and $82 million, respectively.
Amortization expense related to intangible assets is expected to be:

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(Millions of dollars)

Remaining Nine Months of 2017	2018	2019	2020	2021	Thereafter
$237	$311	$305	$295	$277	$862

B. Goodwill

No goodwill was impaired during the three months ended March 31, 2017 or 2016.

The changes in carrying amount of goodwill by reportable segment for the three months ended March 31, 2017 were as follows:

(Millions of dollars)	December 31, 2016	Other Adjustments [1]	March 31, 2017
Construction Industries			
Goodwill	$ 296	$ 3	$ 299
Impairments	(22)	—	(22)
Net goodwill	274	3	277
Resource Industries			
Goodwill	4,110	21	4,131
Impairments	(1,175)	—	(1,175)
Net goodwill	2,935	21	2,956
Energy & Transportation			
Goodwill	2,756	7	2,763
All Other [2]			
Goodwill	55	—	55
Consolidated total			
Goodwill	7,217	31	7,248
Impairments	(1,197)	—	(1,197)
Net goodwill	$ 6,020	$ 31	$ 6,051

[1] Other adjustments are comprised primarily of foreign currency translation.
[2] Includes All Other operating segments (See Note 15).

8. Investments in debt and equity securities

We have investments in certain debt and equity securities, primarily at Insurance Services, that have been classified as available-for-sale and recorded at fair value. In addition, Insurance Services has an equity security investment in a real estate investment trust (REIT) which is recorded at fair value based on the net asset value (NAV) of the investment. These investments are primarily included in Other assets in the Consolidated Statement of Financial Position. Unrealized gains and losses arising from the revaluation of debt and equity securities are included, net of applicable deferred income taxes, in equity (Accumulated other comprehensive income (loss) in the Consolidated Statement of Financial Position). Realized gains and losses on sales of investments are generally determined using the specific identification method for debt and equity securities and are included in Other income (expense) in the Consolidated Statement of Results of Operations.

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The cost basis and fair value of debt and equity securities were as follows:

(Millions of dollars)	March 31, 2017			December 31, 2016		
	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value
Government debt						
U.S. treasury bonds	$9	$ —	$9	$9	$ —	$9
Other U.S. and non-U.S. government bonds	58	—	58	60	—	60
Corporate bonds						
Corporate bonds	479	3	482	489	3	492
Asset-backed securities	88	—	88	90	—	90
Mortgage-backed debt securities						
U.S. governmental agency	214	(2)	212	225	(2)	223
Residential	9	—	9	10	—	10
Commercial	31	—	31	36	—	36
Equity securities						
Large capitalization value	281	44	325	280	32	312
Real estate investment trust (REIT)	84	4	88	77	2	79
Smaller company growth	41	19	60	41	15	56
Total	$1,294	$ 68	$1,362	$1,317	$ 50	$1,367

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Available-for-sale investments in an unrealized loss position that are not other-than-temporarily impaired:

(Millions of dollars)	March 31, 2017					
	Less than 12 months [1]		12 months or more [1]		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds						
Corporate bonds	$121	$ 1	$12	$ —	$133	$ 1
Mortgage-backed debt securities						
U.S. governmental agency	140	2	12	—	152	2
Equity securities						
Large capitalization value	42	5	8	1	50	6
Small company growth	6	1	2	—	8	1
Total	$309	$ 9	$34	$ 1	$343	$ 10

(Millions of dollars)	December 31, 2016					
	Less than 12 months [1]		12 months or more [1]		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds						
Corporate bonds	$131	$ 1	$13	$ —	$144	$ 1
Mortgage-backed debt securities						
U.S. governmental agency	167	2	11	—	178	2
Equity securities						
Large capitalization value	68	6	11	2	79	8
Smaller company growth	10	1	3	1	13	2
Total	$376	$ 10	$38	$ 3	$414	$ 13

[1] Indicates length of time that individual securities have been in a continuous unrealized loss position.

Corporate Bonds. The unrealized losses on our investments in corporate bonds relate to changes in interest rates and credit-related yield spreads since time of purchase. We do not intend to sell the investments and it is not likely that we will be required to sell the investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of March 31, 2017.

Mortgage-Backed Debt Securities. The unrealized losses on our investments in U.S. government agency mortgage-backed securities relate to changes in interest rates and credit-related yield spreads since time of purchase. We do not intend to sell the investments and it is not likely that we will be required to sell the investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of March 31, 2017.

Equity Securities. The unrealized losses on our investments in equity securities relate to inherent risks of individual holdings and/or their respective sectors. We do not consider these investments to be other-than-temporarily impaired as of March 31, 2017.

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The cost basis and fair value of the available-for-sale debt securities at March 31, 2017, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay and creditors may have the right to call obligations.

	March 31, 2017	
(Millions of dollars)	Cost Basis	Fair Value
Due in one year or less	$198	$ 200
Due after one year through five years	386	387
Due after five years through ten years	24	24
Due after ten years	26	26
U.S. governmental agency mortgage-backed securities	214	212
Residential mortgage-backed securities	9	9
Commercial mortgage-backed securities	31	31
Total debt securities – available-for-sale	$888	$ 889

Sales of Securities:

	Three Months Ended March 31	
(Millions of dollars)	2017	2016
Proceeds from the sale of available-for-sale securities	$89	$ 49
Gross gains from the sale of available-for-sale securities	$1	$ 1
Gross losses from the sale of available-for-sale securities	$1	$ 1

9. Postretirement benefits

A. Pension and postretirement benefit costs

In the first quarter of 2017, we announced the closure of our Gosselies, Belgium, facility. This announcement impacted certain employees that participate in a defined benefit pension plan and resulted in a curtailment and the recognition of termination benefits. In March 2017, we recognized a net loss of $20 million for the curtailment and termination benefits. In addition, we announced the decision to phase out production at our Aurora, Illinois, facility which resulted in termination benefits of $9 million for certain hourly employees that participate in our U.S. hourly defined benefit pension plan.
See Note 18 for more information on the Gosselies and Aurora announcements.

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(Millions of dollars)	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	March 31		March 31		March 31	
	2017	2016	2017	2016	2017	2016
For the three months ended:						
Components of net periodic benefit cost:						
Service cost	$29	$30	$23	$23	$19	$20
Interest cost	131	129	25	30	33	33
Expected return on plan assets	(184)	(189)	(57)	(58)	(9)	(11)
Amortization of prior service cost (credit) [1]	—	—	—	—	(5)	(15)
Net periodic benefit cost (benefit)	(24)	(30)	(9)	(5)	38	27
Curtailments and termination benefits [2]	9	—	20	—	—	(2)
Total cost (benefit) included in operating profit	$(15)	$(30)	$11	$(5)	$38	$25
Weighted-average assumptions used to determine net cost:						
Discount rate used to measure service cost	4.2%	4.5%	2.3%	2.9%	3.9%	4.4%
Discount rate used to measure interest cost	3.3%	3.4%	2.3%	2.8%	3.3%	3.3%
Expected rate of return on plan assets	6.7%	6.9%	5.9%	6.1%	7.5%	7.5%
Rate of compensation increase	4.0%	4.0%	4.0%	3.5%	4.0%	4.0%

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

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

We made $106 million of contributions to our pension and other postretirement plans during the three months ended March 31, 2017. We currently anticipate full-year 2017 contributions of approximately $610 million. We made $115 million of contributions to our pension and other postretirement plans during the three months ended March 31, 2016.

B. Defined contribution benefit costs

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

(Millions of dollars)	Three Months Ended March 31 2017	2016
U.S. Plans	$80	$85
Non-U.S. Plans	16	18

$96 $103

10. Guarantees and product warranty

Caterpillar dealer performance guarantees

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

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In 2016, we provided a guarantee to an end user related to the performance of contractual obligations by a Caterpillar dealer. Under the guarantee, which expires in 2025, non-performance by the Caterpillar dealer could require Caterpillar to satisfy the contractual obligations by providing goods, services or financial compensation to the end user up to an annual designated cap.

Customer loan guarantees

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

Supplier consortium performance guarantee

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

Third party logistics business lease guarantees

We have provided guarantees to third-party lessors for certain properties leased by a third party logistics business, formerly Caterpillar Logistics Services LCC, in which we sold our 35 percent equity interest in the first quarter of 2015. The guarantees are for the possibility that the third party logistics business would default on real estate lease payments. The guarantees were granted at lease inception and generally will expire at the end of the lease terms.

We have dealer performance guarantees and third party performance guarantees that do not limit potential payment to end users related to indemnities and other commercial contractual obligations. For these unlimited guarantees, we are unable to estimate a maximum potential amount of future payments that could result from claims made.

No significant loss has been experienced or is anticipated under any of these guarantees. At both March 31, 2017 and December 31, 2016, the related liability was $8 million. The maximum potential amount of future payments (undiscounted and without reduction for any amounts that may possibly be recovered under recourse or collateralized provisions) we could be required to make under the guarantees are as follows:

(Millions of dollars)	March 31, 2017	December 31, 2016
Caterpillar dealer performance guarantees	$ 1,436	$ 1,384
Customer loan guarantees	42	51
Supplier consortium performance guarantee	282	278
Third party logistics business lease guarantees	82	87
Other guarantees	77	56
Total guarantees	$ 1,919	$ 1,856

Cat Financial provides guarantees to repurchase certain loans of Caterpillar dealers from a special-purpose corporation (SPC) that qualifies as a variable interest entity. The purpose of the SPC is to provide short-term working capital loans to Caterpillar dealers. This SPC issues commercial paper and uses the proceeds to fund its loan program. Cat Financial has a loan purchase agreement with the SPC that obligates Cat Financial to purchase certain loans that are not paid at maturity. Cat Financial receives a fee for providing this guarantee, which provides a source of liquidity for the SPC. Cat Financial is the primary beneficiary of the SPC as its guarantees result in Cat Financial having both the

power to direct the activities that most significantly impact the SPC's economic performance and the obligation to absorb losses, and therefore Cat Financial has consolidated the financial statements of the SPC. As of March 31, 2017 and December 31, 2016, the SPC's assets of $1,153 million and $1,088 million, respectively, were primarily comprised of loans to dealers and the SPC's liabilities of $1,152 million and $1,087 million, respectively, were primarily comprised of commercial paper. The assets of the SPC are not available to pay Cat Financial's creditors. Cat Financial may be obligated to perform under the guarantee if the SPC experiences losses. No loss has been experienced or is anticipated under this loan purchase agreement.

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Our product warranty liability is determined by applying historical claim rate experience to the current field population and dealer inventory. Generally, historical claim rates are based on actual warranty experience for each product by machine model/engine size by customer or dealer location (inside or outside North America). Specific rates are developed for each product shipment month and are updated monthly based on actual warranty claim experience.

(Millions of dollars)	2017
Warranty liability, January 1	$1,258
Reduction in liability (payments)	(206)
Increase in liability (new warranties)	220
Warranty liability, March 31	$1,272

(Millions of dollars)	2016
Warranty liability, January 1	$1,354
Reduction in liability (payments)	(909)
Increase in liability (new warranties)	813
Warranty liability, December 31	$1,258

11. Profit per share

Computations of profit per share:	Three Months Ended March 31	
(Dollars in millions except per share data)	2017	2016
Profit for the period (A) [1]	$ 192	$ 271
Determination of shares (in millions):		
Weighted-average number	587.5	582.8

of common shares outstanding (B)		
Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price	5.7	4.9
Average common shares outstanding for fully diluted computation (C) [2]	593.2	587.7
Profit per share of common stock:		
Assuming no dilution (A/B)	$ 0.33	$ 0.46
Assuming full dilution (A/C) [2]	$ 0.32	$ 0.46
Shares outstanding	589.1	583.9

as
of
March
31
(in
millions)

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

SARs and stock options to purchase 12,644,654 and 29,093,289 common shares were outstanding for the three months ended March 31, 2017 and 2016, respectively, which were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

In January 2014, the Board authorized the repurchase of up to $10.0 billion of Caterpillar common stock, which will expire on December 31, 2018. As of March 31, 2017, approximately $4.5 billion of the $10.0 billion authorization was spent.

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12. Accumulated other comprehensive income (loss)

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

(Millions of dollars)	Foreign currency translation	Pension and other postretirement benefits	Derivative financial instruments	Available-for-sale securities	Total
Three Months Ended March 31, 2017					
Balance at December 31, 2016	$ (1,970)	$ 14	$ (115)	$ 32	$ (2,039)
Other comprehensive income (loss) before reclassifications	145	8	10	8	171
Amounts reclassified from accumulated other comprehensive (income) loss	2	(4)	40	3	41
Other comprehensive income (loss)	147	4	50	11	212
Balance at March 31, 2017	$ (1,823)	$ 18	$ (65)	$ 43	$ (1,827)
Three Months Ended March 31, 2016					
Balance at December 31, 2015	$ (1,953)	$ (69)	$ (50)	$ 37	$ (2,035)
Other comprehensive income (loss) before reclassifications	408	118	9	6	541
Amounts reclassified from accumulated other comprehensive (income) loss	—	(10)	9	2	1
Other comprehensive income (loss)	408	108	18	8	542
Balance at March 31, 2016	$ (1,545)	$ 39	$ (32)	$ 45	$ (1,493)

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

(Millions of dollars)	Classification of income (expense)	Three Months Ended March 31 2017	2016
Foreign currency translation			
Gain (loss) on foreign currency translation	Other income (expense)	$(2)	$—
Tax (provision) benefit		—	—
Reclassifications net of tax		$(2)	$—
Pension and other postretirement benefits:			
Amortization of prior service credit (cost)	Note 9 [1]	$5	$15
Tax (provision) benefit		(1)	(5)
Reclassifications net of tax		$4	$10
Derivative financial instruments:			
Foreign exchange contracts	Other income (expense)	$(61)	$(10)
Interest rate contracts	Interest expense excluding Financial Products	(2)	(2)
Interest rate contracts	Interest expense of Financial Products	1	(2)
Reclassifications before tax		(62)	(14)
Tax (provision) benefit		22	5
Reclassifications net of tax		$(40)	$(9)
Available-for-sale securities:			
Realized gain (loss)	Other income (expense)	$(4)	$(3)
Tax (provision) benefit		1	1
Reclassifications net of tax		$(3)	$(2)
Total reclassifications from Accumulated other comprehensive income (loss)		$(41)	$(1)

[1] Amounts are included in the calculation of net periodic benefit cost. See Note 9 for additional information.

13. Environmental and legal matters

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

We are engaged in remedial activities at a number of locations, often with other companies, pursuant to federal and state laws. When it is probable we will pay remedial costs at a site, and those costs can be reasonably estimated, the investigation, remediation, and operating and maintenance costs are accrued against our earnings. Costs are accrued based on consideration of currently available data and information with respect to each individual site, including

available technologies, current applicable laws and regulations, and prior remediation experience. Where no amount within a range of estimates is more likely, we accrue the minimum. Where multiple potentially responsible parties are involved, we consider our proportionate share of the probable costs. In formulating the estimate of probable costs, we do not consider amounts expected to be recovered from insurance companies or others. We reassess these accrued amounts on a quarterly

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basis. The amount recorded for environmental remediation is not material and is included in Accrued expenses. We believe there is no more than a remote chance that a material amount for remedial activities at any individual site, or at all the sites in the aggregate, will be required.

On January 7, 2015, the Company received a grand jury subpoena from the U.S. District Court for the Central District of Illinois. The subpoena requests documents and information from the Company relating to, among other things, financial information concerning U.S. and non-U.S. Caterpillar subsidiaries (including undistributed profits of non-U.S. subsidiaries and the movement of cash among U.S. and non-U.S. subsidiaries). The Company has received additional subpoenas relating to this investigation requesting additional documents and information relating to, among other things, the purchase and resale of replacement parts by Caterpillar Inc. and non-U.S. Caterpillar subsidiaries, dividend distributions of certain non-U.S. Caterpillar subsidiaries, and Caterpillar SARL and related structures. On March 2-3, 2017, agents with the Department of Commerce, the Federal Deposit Insurance Corporation and the Internal Revenue Service executed search and seizure warrants at three facilities of the Company in the Peoria, Illinois area, including its corporate headquarters. The warrants identify, and agents seized, documents and information related to, among other things, the export of products from the United States, the movement of products between the United States and Switzerland, the relationship between Caterpillar Inc. and Caterpillar SARL, and sales outside the United States. It is the Company’s understanding that the warrants, which concern both tax and export activities, are related to the ongoing grand jury investigation. The Company is continuing to cooperate with this investigation. The Company is unable to predict the outcome or reasonably estimate any potential loss; however, we currently believe that this matter will not have a material adverse effect on the Company’s consolidated results of operations, financial position or liquidity.

Beginning on September 10, 2014, the SEC issued to Caterpillar subpoenas seeking information concerning the Company’s accounting for the goodwill relating to its acquisition of Bucyrus International Inc. in 2011 and related matters. On February 17, 2017, the Company was notified by the SEC that it concluded its investigation and that it did not intend to recommend an enforcement action against Caterpillar in these matters.

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

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

In addition, we are involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance liability (including claimed asbestos and welding fumes exposure), contracts, employment issues, environmental matters, intellectual property rights, and securities laws. The aggregate range of reasonably possible losses in excess of accrued liabilities, if any, associated with these unresolved legal actions is not material. In some cases, we cannot reasonably estimate a range of loss because there is insufficient information regarding the matter. However, we believe there is no more than a remote chance that any liability arising from these matters would be material. Although it is not possible to predict with certainty the outcome of these unresolved legal actions, we believe that these actions will not individually or in the aggregate have a material adverse effect on our consolidated results of operations, financial position or liquidity.

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14. Income taxes

The provision for income taxes in the first quarter reflects an estimated annual tax rate of 32 percent, which excludes the discrete items discussed in the following paragraph, compared to 25 percent for the first quarter of 2016. The increase is primarily due to higher non-U.S. restructuring costs in 2017 that are taxed at relatively lower non-U.S. tax rates, along with other changes in the geographic mix of profits from a tax perspective. Under the terms of a manufacturing service agreement, Caterpillar SARL (CSARL) will bear substantially all of the restructuring costs related to the closure of our Gosselies, Belgium, facility, reducing CSARL's profits taxable in Switzerland.

In addition, during first quarter of 2017, a tax benefit of $17 million was recorded for the settlement of stock-based compensation awards with tax deductions in excess of cumulative U.S. GAAP compensation expense. This benefit was offset by a $15 million increase to prior year taxes related to Gosselies, Belgium restructuring costs.

In January 2015, we received a Revenue Agent's Report from the Internal Revenue Service (IRS) indicating the end of the field examination of our U.S. income tax returns for 2007 to 2009 including the impact of a loss carryback to 2005. The IRS field examination for 2010 to 2012 that began in 2015 is expected to be completed in 2017. In November 2016, we received notices of proposed adjustments from the IRS for the 2010 to 2012 exam. In both these audits, the IRS has proposed to tax in the United States profits earned from certain parts transactions by CSARL, based on the IRS examination team's application of the "substance-over-form" or "assignment-of-income" judicial doctrines. We are vigorously contesting the proposed increases to tax and penalties for these years of approximately $2 billion. We believe that the relevant transactions complied with applicable tax laws and did not violate judicial doctrines. We have filed U.S. income tax returns on this same basis for years after 2012. Based on the information currently available, we do not anticipate a significant increase or decrease to our unrecognized tax benefits for this matter within the next 12 months. We currently believe the ultimate disposition of this matter will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

15. Segment information

A. Basis for segment information

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

Three of our operating segments, Construction Industries, Resource Industries and Energy & Transportation are led by Group Presidents. One operating segment, Financial Products, is led by a Group President who also has responsibility for Corporate Services. Corporate Services is a cost center primarily responsible for the performance of certain support functions globally and to provide centralized services; it does not meet the definition of an operating segment. One Group President leads two smaller operating segments that are included in the All Other operating segments. The Law and Public Policy Division is a cost center and does not meet the definition of an operating segment.

B. Description of segments

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

Construction Industries: A segment primarily responsible for supporting customers using machinery in infrastructure, forestry and building construction applications. Responsibilities include business strategy, product design, product management and development, manufacturing, marketing and sales and product support. The product portfolio includes backhoe loaders, small wheel loaders, small track-type tractors, skid steer loaders, multi-terrain loaders, mini excavators, compact wheel loaders, telehandlers, select work tools, small, medium and large track excavators, wheel excavators, medium wheel loaders, compact track loaders, medium track-type tractors, track-type loaders, motor graders, pipelayers, forestry and paving products and related parts. Inter-segment sales are a source of revenue for this segment.

Resource Industries: A segment primarily responsible for supporting customers using machinery in mining, quarry, waste, and material handling applications. Responsibilities include business strategy, product design, product management

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and development, manufacturing, marketing and sales and product support. The product portfolio includes large track-type tractors, large mining trucks, hard rock vehicles, longwall miners, electric rope shovels, draglines, hydraulic shovels, track and rotary drills, highwall miners, large wheel loaders, off-highway trucks, articulated trucks, wheel tractor scrapers, wheel dozers, landfill compactors, soil compactors, material handlers, continuous miners, scoops and haulers, hardrock continuous mining systems, select work tools, machinery components, electronics and control systems and related parts. In addition to equipment, Resource Industries also develops and sells technology products and services to provide customers fleet management, equipment management analytics and autonomous machine capabilities. Resource Industries also manages areas that provide services to other parts of the company, including integrated manufacturing and research and development. Inter-segment sales are a source of revenue for this segment.

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

Financial Products Segment: Provides financing alternatives to customers and dealers around the world for Caterpillar products, as well as financing for vehicles, power generation facilities and marine vessels that, in most cases, incorporate Caterpillar products. Financing plans include operating and finance leases, installment sale contracts, working capital loans and wholesale financing plans. The segment also provides insurance and risk management products and services that help customers and dealers manage their business risk. Insurance and risk management products offered include physical damage insurance, inventory protection plans, extended service coverage for machines and engines, and dealer property and casualty insurance. The various forms of financing, insurance and risk management products offered to customers and dealers help support the purchase and lease of our equipment.

All Other operating segments: Primarily includes activities such as: business strategy, product management and development, and manufacturing of filters and fluids, undercarriage, tires and rims, ground engaging tools, fluid transfer products, precision seals, and rubber sealing and connecting components primarily for Cat products; parts distribution; distribution services responsible for dealer development and administration including a wholly-owned dealer in Japan, dealer portfolio management and ensuring the most efficient and effective distribution of machines, engines and parts; digital investments for new customer and dealer solutions that integrate data analytics with state-of-the art digital technologies while transforming the buying experience. Results for the All Other operating segments are included as a reconciling item between reportable segments and consolidated external reporting.

C. Segment measurement and reconciliations

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

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

operations. Financial Products Segment assets generally include all categories of assets.

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

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

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

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- Currency exposures for Machinery, Energy & Transportation are generally managed at the corporate level and the effects of changes in exchange rates on results of operations within the year are not included in segment profit. The net difference created in the translation of revenues and costs between exchange rates used for U.S. GAAP reporting and exchange rates used for segment reporting is recorded as a methodology difference.
- Stock-based compensation expense is not included in segment profit.
- Postretirement benefit expenses are split; segments are generally responsible for service and prior service costs, with the remaining elements of net periodic benefit cost included as a methodology difference.
- Machinery, Energy & Transportation segment profit is determined on a pretax basis and excludes interest expense and other income/expense items. Financial Products Segment profit is determined on a pretax basis and includes other income/expense items.

Reconciling items are created based on accounting differences between segment reporting and our consolidated external reporting. Please refer to pages 33 to 37 for financial information regarding significant reconciling items. Most of our reconciling items are self-explanatory given the above explanations. For the reconciliation of profit, we have grouped the reconciling items as follows:

- Corporate costs: These costs are related to corporate requirements primarily for compliance and legal functions for the benefit of the entire organization.
- Restructuring costs: Primarily costs for employee separation costs, long-lived asset impairments and contract terminations. These costs are included in Other Operating (Income) Expenses. Restructuring costs also include other exit-related costs primarily for accelerated depreciation, inventory write-downs, equipment relocation, and project management. A table, Reconciliation of Restructuring costs on page 35, has been included to illustrate how segment profit would have been impacted by the restructuring costs. See Note 18 for more information.
- Methodology differences: See previous discussion of significant accounting differences between segment reporting and consolidated external reporting.
- Timing: Timing differences in the recognition of costs between segment reporting and consolidated external reporting. For example, certain costs are reported on the cash basis for segment reporting and the accrual basis for consolidated external reporting.

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Reportable Segments
Three Months Ended March 31
(Millions of dollars)

2017	External sales and revenues	Inter-segment sales and revenues	Total sales and revenues	Depreciation and amortization	Segment profit (loss)	Segment assets at March 31	Capital expenditures
Construction Industries	$4,091	$ 25	$4,116	$ 102	$635	$ 4,826	$ 21
Resource Industries	1,670	91	1,761	127	158	6,797	21
Energy & Transportation	3,356	780	4,136	158	552	7,490	116
Machinery, Energy & Transportation	$9,117	$ 896	$10,013	$ 387	$1,345	$ 19,113	$ 158
Financial Products Segment	760	—	760	208	183	36,367	246
Total	$9,877	$ 896	$10,773	$ 595	$1,528	$ 55,480	$ 404

2016	External sales and revenues	Inter-segment sales and revenues	Total sales and revenues	Depreciation and amortization	Segment profit (loss)	Segment assets at December 31	Capital expenditures
Construction Industries	$4,043	$ 8	$4,051	$ 113	$440	$ 5,367	$ 28
Resource Industries	1,449	71	1,520	155	(96)	7,135	35
Energy & Transportation	3,278	632	3,910	166	410	7,791	147
Machinery, Energy & Transportation	$8,770	$ 711	$9,481	$ 434	$754	$ 20,293	$ 210
Financial Products Segment	743	—	743	205	168	35,224	297
Total	$9,513	$ 711	$10,224	$ 639	$922	$ 55,517	$ 507

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Reconciliation of Sales and revenues:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total
Three Months Ended March 31, 2017				
Total external sales and revenues from reportable segments	$ 9,117	$ 760	$ —	$ 9,877
All Other operating segments	37	—	—	37
Other	(24)	17	(85) [1]	(92)
Total sales and revenues	$ 9,130	$ 777	$ (85)	$ 9,822
Three Months Ended March 31, 2016				
Total external sales and revenues from reportable segments	$ 8,770	$ 743	$ —	$ 9,513
All Other operating segments	38	—	—	38
Other	(28)	16	(78) [1]	(90)
Total sales and revenues	$ 8,780	$ 759	$ (78)	$ 9,461

[1] Elimination of Financial Products revenues from Machinery, Energy & Transportation.

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Reconciliation of Consolidated profit before taxes:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidated Total
Three Months Ended March 31, 2017			
Total profit from reportable segments	$ 1,345	$ 183	$ 1,528
All Other operating segments	(13)	—	(13)
Cost centers	7	—	7
Corporate costs	(115)	—	(115)
Timing	(38)	—	(38)
Restructuring costs	(751)	(1)	(752)
Methodology differences:			
Inventory/cost of sales	(68)	—	(68)
Postretirement benefit expense	41	—	41
Stock-based compensation expense	(47)	(2)	(49)
Financing costs	(130)	—	(130)
Currency	(39)	—	(39)
Other income/expense methodology differences	(55)	—	(55)
Other methodology differences	(32)	4	(28)
Total consolidated profit before taxes	$ 105	$ 184	$ 289
Three Months Ended March 31, 2016			
Total profit from reportable segments	$ 754	$ 168	$ 922
All Other operating segments	(7)	—	(7)
Cost centers	25	—	25
Corporate costs	(159)	—	(159)
Timing	32	—	32
Restructuring costs	(159)	(2)	(161)
Methodology differences:			—
Inventory/cost of sales	(3)	—	(3)
Postretirement benefit expense	55	—	55
Stock-based compensation expense	(97)	(4)	(101)
Financing costs	(135)	—	(135)
Currency	(40)	—	(40)
Other income/expense methodology differences	(56)	—	(56)
Other methodology differences	(12)	5	(7)
Total consolidated profit before taxes	$ 198	$ 167	$ 365

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Reconciliation of Restructuring costs:

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

(Millions of dollars)	Segment profit (loss)	Restructuring costs	Segment profit (loss) with restructuring costs
Three Months Ended March 31, 2017			
Construction Industries	$ 635	$ (667)	$ (32)
Resource Industries	158	(59)	99
Energy & Transportation	552	(14)	538
Financial Products Segment	183	(1)	182
All Other operating segments	(13)	(6)	(19)
Total	$ 1,515	$ (747)	$ 768
Three Months Ended March 31, 2016			
Construction Industries	$ 440	$ (22)	$ 418
Resource Industries	(96)	(25)	(121)
Energy & Transportation	410	(100)	310
Financial Products Segment	168	(2)	166
All Other operating segments	(7)	(5)	(12)
Total	$ 915	$ (154)	$ 761

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Reconciliation of Assets:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total
March 31, 2017				
Total assets from reportable segments	$ 19,113	$36,367	$ —	$ 55,480
All Other operating segments	1,355	—	—	1,355
Items not included in segment assets:				
Cash and short-term investments	8,223	—	—	8,223
Intercompany receivables	1,671	—	(1,671)	—
Investment in Financial Products	3,863	—	(3,863)	—
Deferred income taxes	3,766	—	(920)	2,846
Goodwill and intangible assets	4,001	—	—	4,001
Property, plant and equipment – net and other assets	1,885	—	—	1,885
Operating lease methodology difference	(179)	—	—	(179)
Inventory methodology differences	(2,320)	—	—	(2,320)
Intercompany loan included in Financial Products' assets	—	—	(1,500)	(1,500)
Liabilities included in segment assets	8,312	—	—	8,312
Other	(484)	(21)	(49)	(554)
Total assets	$ 49,206	$36,346	$ (8,003)	$ 77,549
December 31, 2016				
Total assets from reportable segments	$ 20,293	$35,224	$ —	$ 55,517
All Other operating segments	1,381	—	—	1,381
Items not included in segment assets:				
Cash and short-term investments	5,257	—	—	5,257
Intercompany receivables	1,713	—	(1,713)	—
Investment in Financial Products	3,638	—	(3,638)	—
Deferred income taxes	3,648	—	(947)	2,701
Goodwill and intangible assets	3,883	—	—	3,883
Property, plant and equipment – net and other assets	1,645	—	—	1,645
Operating lease methodology difference	(186)	—	—	(186)
Inventory methodology differences	(2,373)	—	—	(2,373)
Liabilities included in segment assets	7,400	—	—	7,400
Other	(436)	(29)	(56)	(521)
Total assets	$ 45,863	$35,195	$ (6,354)	$ 74,704

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Reconciliations of Depreciation and amortization:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidated Total
Three Months Ended March 31, 2017			
Total depreciation and amortization from reportable segments	$ 387	$ 208	$ 595
Items not included in segment depreciation and amortization:			
All Other operating segments	54	—	54
Cost centers	35	—	35
Other	15	11	26
Total depreciation and amortization	$ 491	$ 219	$ 710
Three Months Ended March 31, 2016			
Total depreciation and amortization from reportable segments	$ 434	$ 205	$ 639
Items not included in segment depreciation and amortization:			
All Other operating segments	52	—	52
Cost centers	40	—	40
Other	(1)	10	9
Total depreciation and amortization	$ 525	$ 215	$ 740

Reconciliations of Capital expenditures:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total
Three Months Ended March 31, 2017				
Total capital expenditures from reportable segments	$ 158	$ 246	$ —	$ 404
Items not included in segment capital expenditures:				
All Other operating segments	20	—	—	20
Cost centers	9	—	—	9
Timing	88	—	—	88
Other	(66)	57	(3)	(12)
Total capital expenditures	$ 209	$ 303	$ (3)	$ 509
Three Months Ended March 31, 2016				
Total capital expenditures from reportable segments	$ 210	$ 297	$ —	$ 507
Items not included in segment capital expenditures:				
All Other operating segments	16	—	—	16
Cost centers	12	—	—	12
Timing	217	—	—	217
Other	(76)	73	(9)	(12)
Total capital expenditures	$ 379	$ 370	$ (9)	$ 740

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16. Cat Financial financing activities

Allowance for credit losses

The allowance for credit losses is an estimate of the losses inherent in Cat Financial's finance receivable portfolio and includes consideration of accounts that have been individually identified as impaired, as well as pools of finance receivables where it is probable that certain receivables in the pool are impaired but the individual accounts cannot yet be identified. In identifying and measuring impairment, management takes into consideration past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of underlying collateral and current economic conditions.

Accounts are identified for individual review based on past-due status and using information available about the customer, such as financial statements, news reports and published credit ratings, as well as general information regarding industry trends and the economic environment in which Cat Financial's customers operate. The allowance for credit losses attributable to finance receivables that are individually evaluated and determined to be impaired is based either on the present value of expected future cash flows discounted at the receivables' effective interest rate or the fair value of the collateral for collateral-dependent receivables. In determining collateral value, Cat Financial estimates the current fair market value of the collateral less selling costs. Cat Financial also considers credit enhancements such as additional collateral and contractual third-party guarantees. The allowance for credit losses attributable to the remaining accounts not yet individually identified as impaired is estimated based on loss forecast models utilizing probabilities of default, our estimate of the loss emergence period and the estimated loss given default. In addition, qualitative factors not able to be fully captured in the loss forecast models including industry trends, macroeconomic factors and model imprecision are considered in the evaluation of the adequacy of the allowance for credit losses. These qualitative factors are subjective and require a degree of management judgment.

Cat Financial's allowance for credit losses is segregated into two portfolio segments:

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

A portfolio segment is the level at which the company develops a systematic methodology for determining its allowance for credit losses.

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

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

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

(Millions of dollars)	March 31, 2017		
Allowance for Credit Losses:	Customer	Dealer	Total
Balance at beginning of year	$331	$ 10	$341
Receivables written off	(24)	—	(24)
Recoveries on receivables previously written off	9	—	9
Provision for credit losses	12	2	14
Other	3	—	3
Balance at end of period	$331	$ 12	$343
Individually evaluated for impairment	$98	$ —	$98
Collectively evaluated for impairment	233	12	245
Ending Balance	$331	$ 12	$343
Recorded Investment in Finance Receivables:			
Individually evaluated for impairment	$858		