CATERPILLAR INC
Form 11-K
June 29, 2017

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

FORM 11-K

(Mark One)

[X]	ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2016
OR	
[ ]	TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from __________ to __________.

Commission File No. 1-768

CATERPILLAR 401(K) RETIREMENT PLAN
(Full title of the plan and the address of the plan, if different from that of the issuer named below)

CATERPILLAR INC.
100 NE Adams Street, Peoria, Illinois 61629
(Name of issuer of the securities held pursuant to the plan and the address of its principal executive office)

Caterpillar 401(k) Retirement Plan
Financial Statements and Supplemental Schedule
December 31, 2016 and 2015

Caterpillar 401(k) Retirement Plan
Index

Note: Other schedules required

by 29 CFR 2520.103-10 of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.

Report of Independent Registered Public Accounting Firm
To the Administrator
of the Caterpillar 401(k) Retirement Plan

In our opinion, the accompanying statements of net assets available for benefits and the related statement of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of Caterpillar 401(k) Retirement Plan (the “Plan”) as of December 31, 2016 and 2015, and the changes in net assets available for benefits for the year ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The supplemental Schedule H, Line 4i Schedule of Assets (Held at End of Year) as of December 31, 2016 has been subjected to audit procedures performed in conjunction with the audit of the Plan’s financial statements. The supplemental schedule is the responsibility of the Plan’s management. Our audit procedures included determining whether the supplemental schedule reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedule. In forming our opinion on the supplemental schedule, we evaluated whether the supplemental schedule, including its form and content, is presented in conformity with the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the Schedule H, Line 4i Schedule of Assets (Held at End of Year) is fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ PricewaterhouseCoopers LLP

Peoria, Illinois
June 29, 2017

Caterpillar 401(k) Retirement Plan
Statements of Net Assets Available for Benefits
December 31, 2016 and 2015

(in thousands of dollars)	2016	2015
Investments		
Interest in the Master Trust	$2,618,554	$2,332,735
Other investments – participant directed brokerage accounts	78,006	67,398
Total investments	2,696,560	2,400,133
Receivables		
Notes receivable from participants	46,911	48,181
Participant contributions receivable	2,080	2,162
Employer contributions receivable	27,181	31,127
Other contributions receivable	—	557
Receivables for securities sold – participant directed brokerage accounts	1,825	2,077
Total receivables	77,997	84,104
Cash	36	176
Total assets	2,774,593	2,484,413
Liabilities		
Payables for securities purchased – participant directed brokerage accounts	(1,318)	(2,072)
Net assets available for benefits	$2,773,275	$2,482,341

The accompanying notes are an integral part of these financial statements.

Caterpillar 401(k) Retirement Plan
Statement of Changes in Net Assets Available for Benefits
Year Ended December 31, 2016

(in thousands of dollars)	2016
Investment income (loss)	
Plan interest in net investment income (loss) of the Master Trust	$379,080
Net appreciation (depreciation) in fair value of investments from participant directed brokerage accounts	3,545
Net investment income (loss)	382,625
Interest and dividend income	
Interest income on notes receivable from participants	1,873
Interest and dividend income from participant directed brokerage accounts	2,021
Total interest and dividend income	3,894
Contributions	
Participant	54,498
Employer	60,281
Total contributions	114,779
Deductions	
Participant withdrawals	(207,894)
Administrative expenses	(2,080)
Total deductions	(209,974)
Increase (decrease) in net assets available for benefits	291,324
Transfers	
Transfers from (to) other plans, net	(390)
Net increase (decrease) in net assets available for benefits	290,934
Net assets available for benefits	
Beginning of year	2,482,341
End of year	$2,773,275

The accompanying notes are an integral part of these financial statements.

Caterpillar 401(k) Retirement Plan
Notes to Financial Statements
December 31, 2016 and 2015

1. Plan Description
The following description of the Caterpillar 401(k) Retirement Plan (the “Plan”) provides only general information. Participants should refer to the Plan documents for more complete information regarding the Plan.

General
The Plan is a profit sharing plan that includes a cash or deferred arrangement under Section 401(k) of the Internal Revenue Code ("IRC") and is an "employee stock ownership plan", within the meaning of IRC Section 4975(e)(7). The Plan is maintained by Caterpillar Inc. (the “Company”), and enables eligible employees of the Company and its subsidiaries that adopt the Plan (the “participating employers”) to accumulate funds for retirement. The Plan is governed by the provisions of the Employee Retirement Income Security Act, as amended (“ERISA”).

Participation
Effective December 14, 2013, the Plan was closed for new entrants. Management, salaried and non-bargained hourly employees of the participating employers on U.S. payroll who meet certain age and service requirements and who are not eligible to participate in the Caterpillar 401(k) Savings Plan ("401(k) SP") are eligible to participate in the Plan. Participating eligible employees (the “participants”) elect to defer a portion of their eligible compensation through pre-tax and after-tax contributions. For determination of which contribution provisions of the Plan are applicable, participants are divided into “Group 1 Participants” and “Group 2 Participants”. These groups are described as follows:

Group 1 Participants - Plan participants who are not part of Group 2, as described below, are classified as Group 1 Participants.

Group 2 Participants - The following Plan participants are classified as Group 2 Participants:

- Plan participants who, as of January 1, 2011, continue to accrue pension benefits or are eligible to continue to accrue pension benefits upon returning from a leave of absence under the pension equity formula of the Caterpillar Inc. Retirement Income Plan ("RIP"). Pension benefit accruals under RIP for these participants will cease on January 1, 2020, at which time these participants will move into Group 1.

- Participants that were employed by participating employers that were in existence on December 31, 2010 that did not participate in RIP or the Solar Turbines Incorporated Retirement Plan.

- Participants at specified facilities that have adopted the Plan. Effective dates for these employees vary based on the adoption of the Plan. Participants should refer to the Plan documents for a complete list.

Contributions
All Plan participants (i.e., Group 1 Participants and Group 2 Participants) are eligible to make participant contributions through a pre-tax deferral arrangement and an after-tax Roth 401(k) arrangement as elected by each participant. Participants who are at least 50 years old by the end of the calendar year are allowed to make a catch-up contribution for that year. Contributions are subject to certain limitations set by the IRC. All Plan participants also are eligible for employer matching contributions which are 100 percent of participant 401(k) contributions up to a maximum of 6 percent of eligible compensation.

In addition, Group 1 Participants are also eligible for an annual employer non-elective contribution. The non-elective contribution is based on a point system calculated on the last day of each Plan year which is the sum of the participant's age plus years of benefit service. Based upon the participant's point total, a non-elective contribution of 3, 4 or 5 percent of base and annual incentive pay will be made after the close of the Plan year. In order to receive the annual non-elective contribution, the participant must complete a year of benefit service and be employed by the Company or a participating employer on December 31st of the Plan year for which the contribution relates. The non-elective contribution is included as an Employer contributions receivable on the Statements of Net Assets Available for Benefits and was $23.1 million and $25.6 million for the 2016 and 2015 Plan years, respectively. Group 2 Participants are not eligible for the annual employer non-elective contribution.

Participants direct the investment of their contributions, employer matching and employer non-elective contributions into various investment options offered by the Plan as discussed in Note 3. Participants generally may change their contribution elections and prospective investment elections on a daily basis and reallocate the investment of their existing account balance either daily or every seven business days (if subject to applicable trading restrictions) depending on the investment.

Newly eligible employees are subject to an automatic enrollment process. Unless electing otherwise, employees who become newly eligible will be enrolled with a default 6 percent deferral of their eligible base and incentive pay, and their default investment election is the Target Retirement Fund closest to the year in which the employee turns age 65. The automatic enrollment process has an automatic escalation feature whereby newly eligible employees will have their default 6 percent deferral of base pay increase 1 percent each year until the employee is contributing 15 percent, unless the employee elects otherwise.

Participant Accounts

Accounts are separately maintained for each participant. The participant's account is credited with the participant's contributions, employer matching contributions, employer non-elective contributions, Plan earnings/losses and charged with administrative expenses. Participants are entitled to the benefit that can be provided from the participant's vested account.

Vesting and Distribution Provisions

Participants are fully vested in their participant contributions, employer matching contributions and related earnings thereon. Participants fully vest in the employer non-elective contributions and the earnings thereon after being credited with three years of benefit service. The Plan provides for 100 percent vesting of the employer non-elective contributions and the earnings thereon, upon a participant's death while actively employed or a participant's death while performing qualified military service. Company contributions forfeited by terminated participants are used to reduce future Company contributions to the Plan. Upon termination of employment for any reason, including death or retirement, the balance in participants' accounts is distributable in a single lump sum cash payment unless the participant (or beneficiary) elects to receive periodic withdrawals. Participants also have the option to leave their vested account balance in the Plan, subject to certain limitations. A participant also may elect to receive a distribution of Company shares up to the amount of the participant's balance in the Caterpillar Stock Fund. The value of any full or fractional shares paid in cash will be based upon the average price per share the Trustee receives from sales of Company shares for the purpose of making the distribution.

Company contributions forfeited by terminated participants are used to reduce future Company contributions to the Plan. The amount forfeited and used to reduce future Company contributions for the year ended December 31, 2016 was $183 thousand.

Notes Receivable from Participants
The Plan provides for participant loans against eligible participant account balances. Eligible participants obtain loans by filing a loan application with the Plan's recordkeeper and receiving all requisite approvals. Loan amounts are generally limited to the lesser of $50,000 or 50 percent of the individual participant's vested account balance, with certain regulatory restrictions. Each loan specifies a repayment period that cannot extend beyond five years. However, the five-year limit shall not apply to any loan used to acquire any dwelling unit which within a reasonable time is to be used (determined at the time the loan is made) as the principal residence of the participant. Loans bear interest at the prime interest rate plus 1 percent, as determined at the time of loan origination. Loans that transferred to the Plan due to acquisitions are based upon the terms of the plan agreement in effect at the time of loan origination. Repayments, including interest, are made through payroll deductions and are credited to the individual participant's account balance. Participant loans are measured at their unpaid principal balance plus any accrued but unpaid interest.

Administration
The Plan is administered by the Company. Pursuant to procedures adopted by the Company, responsibility for the Plan's non-financial matters has been delegated to the U.S. Benefits Manager and responsibility for the Plan's financial matters has been delegated to the Caterpillar Inc. Benefit Funds Committee. The Company and the Benefit Funds Committee have entered into a trust agreement with The Northern Trust Company (the “Trustee”) to receive contributions, administer the assets of the Plan and distribute withdrawals pursuant to the Plan. The Company has retained Aon Hewitt to provide recordkeeping and administrative services as part of the administration of the Plan.

Plan Termination
The Company has the right under the Plan at any time to terminate the Plan, subject to provisions of ERISA. In the event of Plan termination, participants will become fully vested in all benefits which have been accrued up to date of termination and Plan assets will be distributed in accordance with the provisions of the Plan.

Plan Qualification
The Plan obtained its latest determination letter on March 16, 2015, in which the Internal Revenue Service ("IRS") stated that the Plan and related trust, as then designed, were in compliance with the applicable requirements of the IRC. Although the Plan has been amended subsequent to the period covered by the determination letter, the Plan Administrator and the Plan's counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC, and therefore, believe that the Plan is qualified and the related trust is tax-exempt.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Plan and recognize a tax liability if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The Company has analyzed the tax positions taken by the Plan and has concluded that, as of December 31, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Company believes the Plan is no longer subject to income tax examinations for years prior to 2007.

2. Summary of Significant Accounting Policies

New Accounting Guidance

Employee Benefit Plan Master Trust Reporting - In February 2017, the Financial Accounting Standards Board issued accounting guidance to improve the usefulness of information reported to users of employee benefit plan financial statements and to provide clarity to preparers and auditors. The guidance primarily relates to the reporting by a plan for its interest in a master trust and includes the following updates: requires that a plan's interest in each master trust and changes in those interests be reported in separate line items in the statement of net assets available for benefits and statement of changes in net assets available for benefits, respectively, removes the requirement to disclose the percentage interest for plans with a divided interest in a master trust, requires all plans to disclose the dollar amount of their interest in each general investment type of the master trust, and requires plans to disclose the master trust's other asset and liability balances and the dollar amount of the plan's interest in each of those balances. In addition, the guidance also eliminates redundancy relating to 401(h) account asset disclosures which is not applicable to the Plan. This guidance is effective for the Plan year ending December 31, 2019, with retrospective application required. Early adoption is permitted. The Plan's management is currently reviewing the impact of this guidance on the Plan's financial statements and notes to financial statements.

Basis of Accounting

The financial statements of the Plan are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Investments

The Plan's interest in the Master Trust and investments included in the participant directed brokerage accounts are valued as described in Note 4. Interest on investments is recorded as earned. Dividends are recorded on the ex-dividend date. Purchases and sales of securities are recorded on a trade-date basis.

Administrative Expenses

The Plan charges a $5 per month per participant fee, which is transferred monthly from the Caterpillar Investment Trust into a holding account to pay expenses as they come due. The amount accumulated in the holding account is used to pay certain administrative expenses that have been approved by the Benefit Funds Committee including recordkeeping fees, trustee fees, plan education and audit fees. The Company pays any administrative expenses, excluding applicable expenses paid directly from participant accounts described below, which exceed amounts collected from participants annually by the Plan. If amounts collected from participants exceed certain administrative expenses, the Company determines whether a corrective action is appropriate which could include a reallocation of funds back to participant accounts or a structural change to the participant fees.

In addition, certain administrative expenses are paid directly from participant accounts. These administrative expenses include quarterly fees for participants invested in the participant directed brokerage option, quarterly fees for participants that utilize managed account services and processing fees for qualified domestic relations orders.

Participant Withdrawals

Participant withdrawals are recorded when paid.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. The Company believes the techniques and assumptions used in establishing these amounts are appropriate.

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Risks and Uncertainties

The Plan invests in a combination of stocks, bonds, fixed income securities, common collective trusts, mutual funds and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities could occur in the near term and that such changes could materially affect participant account balances and the amounts reported in the Statements of Net Assets Available for Benefits.

3. Investment Programs

Investment options that are currently available to participants consist of three main categories: Target Retirement Funds, core investment options (including the Caterpillar Stock Fund) and a participant directed brokerage option.

The Target Retirement Funds are portfolios created primarily from the Plan's core investment options. The goal of these funds is to give participants investment options that provide an age appropriate asset allocation. Each Target Retirement Fund contains a blend of stock and bond investments. The proportion of stocks and bonds in each fund is based on an anticipated retirement date and will change over time. These funds automatically change the asset allocation over time to maintain an appropriate level of risk for the retirement horizon. Below are the Target Retirement Funds for participants based upon their birth year with the assumption that participants will retire at the age of 65.

Target Retirement Funds	Birth Years	Asset Allocation
Target Retirement Income Fund	Before 1954	37% stocks, 53% bonds and 10% cash equivalents
Target Retirement 2020 Fund	1954-1958	51% stocks, 47% bonds and 2% cash equivalents
Target Retirement 2025 Fund	1959-1963	63% stocks and 37% bonds
Target Retirement 2030 Fund	1964-1968	73% stocks and 27% bonds
Target Retirement 2035 Fund	1969-1973	80% stocks and 20% bonds
Target Retirement 2040 Fund	1974-1978	85% stocks and 15% bonds
Target Retirement 2045 Fund	1979-1983	86% stocks and 14% bonds
Target Retirement 2050 Fund	1984-1988	86% stocks and 14% bonds
Target Retirement 2055 Fund	After 1988	86% stocks and 14% bonds

In addition to the Target Retirement Funds, the Plan also provides participants with core investment options which are made up of actively managed investment funds and index funds. The following table provides the current lineup of investment funds and index funds that are currently available to participants.

Menu of Core Investment Options

U.S. Large Cap Equity Funds	Capital Preservation Funds
1 Caterpillar Stock Fund 2 U.S. Large Cap Equity Fund 3 U.S. Large Cap Equity Index Fund	8 Stable Principal Fund 9 Money Market Fund
U.S. Small/Mid Cap Equity Funds	Fixed Income Fund
4 U.S. Small/Mid Cap Equity Fund	10 Bond Fund
5 U.S. Small/Mid Cap Index Fund	11 Bond Index Fund
International Equity Funds	
6 International Equity Fund	
7 International Equity Index Fund	

The Caterpillar Stock Fund consists of Caterpillar Inc. common stock and a small amount of cash and/or cash equivalents.

The participant directed brokerage option allows participants to invest outside of the standard Plan options. Hewitt Financial Services is the custodian for funds invested through this participant directed brokerage option. The types of investments offered through the participant directed brokerage option are individual company stocks (excluding Caterpillar Inc. common stock), exchange traded funds, registered investment companies and fixed income securities such as bonds.

Participants also have the option to enroll in professional account management through the Plan's recordkeeper for additional, separately charged fees.

4. Master Trust

Substantially all of the Plan's investments are held in the Caterpillar Investment Trust, which was established for the investment of the Plan and other Company sponsored retirement plans. The Northern Trust Company is the Trustee of the Caterpillar Investment Trust and the custodian for funds invested through the core investments and the Target Retirement Funds (the funds invested through the core investments and the Target Retirement Funds are referred to as the "Master Trust" herein). The Plan and the other Company sponsored retirement plans pool their investments in the Master Trust in exchange for a percentage of participation in the Master Trust.

The percentage of the Plan's participation in the Master Trust was determined based on the December 31, 2016 and 2015 net asset values for the investment fund options chosen by participants of each plan. At December 31, 2016 and 2015, the Plan's interest in the net assets of the Master Trust was 29.32 percent and 28.87 percent, respectively.

The following table presents the net assets of the Master Trust as of December 31, 2016 and 2015.

(in thousands of dollars)	2016	2015
ASSETS		
Investments, at fair value		
Caterpillar Inc. common stock	$1,974,515	$1,792,897
Common stocks	1,483,469	2,003,873
Preferred stocks	12,290	10,973
Preferred corporate bonds and notes	17,645	15,958
Other corporate bonds and notes	530,559	517,205
U.S. government securities	492,975	444,729
Common collective trusts	3,633,576	2,690,638
Registered investment companies	2,862	825
Interest bearing cash	77,808	28,653
Other investments, net	118,242	106,204
	8,343,941	7,611,955
Investments, at contract value		
Fully benefit-responsive synthetic guaranteed investment contracts	626,007	502,144
Other assets		
Cash	674	1,073
Receivable for plan transfers [1]	4,987	—
Receivables for securities sold	60,017	66,531
Accrued income	12,695	13,339
	78,373	80,943
Total Master Trust assets	9,048,321	8,195,042
LIABILITIES		
Payables for securities purchased	(115,208)	(114,968)
Net Master Trust assets	$8,933,113	$8,080,074
Plan's interest in net Master Trust assets with fully benefit-responsive synthetic guaranteed investment contracts at contract value	$2,618,554	$2,332,735

[1] On December 31, 2016, the RDS Manufacturing, Inc. 401(k) Savings Plan merged with and into the Caterpillar 401(k) Savings Plan. Plan assets were not transferred into the Master Trust until January 2017.

As the Plan has a specific interest in the Master Trust, the below table provides the investment risk specific to the Plan based upon the investment programs available to participants as of December 31, 2016 and 2015.

Investment Program	2016	2015
Caterpillar Stock Fund	29.4%	28.3%
U.S. Large Cap Equity Funds	11.5%	11.3%
U.S. Small / Mid Cap Equity Funds	5.0%	4.3%
International Equity Funds	6.3%	6.2%
Capital Preservation Funds	8.7%	7.8%
Fixed Income Funds	7.3%	6.9%
Target Retirement Funds	31.8%	35.2%

The fully benefit-responsive synthetic guaranteed investment contracts are valued at contract value as described in the Investment Contracts section of Note 4. All other investments are stated at fair value and are valued as described below:

- Common and preferred stocks: Primarily valued at quoted market prices.
- Preferred and other corporate bonds and notes: Valued based on matrices or models from reputable pricing vendors and may be determined by factors which include, but are not limited to market quotations, yields, maturities, call features, ratings, institutional size trading in similar groups of securities and developments related to specific securities.
- U.S. government securities: Valued based on matrices or models from reputable pricing vendors.
- Common collective trusts: Primarily stated at net asset value using the practical expedient, which represents the fair value of the underlying investments.
- Registered investment companies: Valued at quoted market prices that represent the net asset value of shares held by the Master Trust.
- Interest bearing cash: Stated at cost which approximates fair value.
- Other investments, net: Primarily valued at quoted market prices, when available, or are valued based on matrices or models from reputable pricing vendors.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables summarize investments measured at fair value based on net asset value per share using the practical expedient that have unfunded commitments or redemption restrictions as of December 31, 2016 and 2015.

(in thousands of dollars)

December 31, 2016	Fair Value	Unfunded Commitments	Redemption Restrictions	Redemption Frequency (if currently eligible)	Redemption Notice Period
Common collective trusts:					
Stocks	$2,802,212	—	None	Daily	None
Short-term investments	$317,384	—	None	Daily	None
U.S. Government securities	$485,911	—	None	Daily	None
Private placement - Mortgages	$28,069	—	Yes [1]	Monthly [1]	Yes [1]

[1] Redemptions allowed once per month and are restricted to available cash on hand as determined by the trustee of the fund. A notice of redemptions required five days prior to the last business day of the month.

(in thousands of dollars)

December 31, 2015	Fair Value	Unfunded Commitments	Redemption Restrictions	Redemption Frequency (if currently eligible)	Redemption Notice Period
Common collective trusts:					
Stocks	$1,944,244	—	None	Daily	None
Short-term investments	$295,233	—	None	Daily	None
U.S. Government securities	$419,900	—			