

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549



**FORM 10-Q**

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

For the Quarterly Period Ended September 29, 2013

Commission File Number 1-4949

**CUMMINS INC.**

(Exact name of registrant as specified in its charter)

**Indiana**  
(State of Incorporation)

**35-0257090**  
(IRS Employer Identification No.)

**500 Jackson Street  
Box 3005  
Columbus, Indiana 47202-3005**  
(Address of principal executive offices)

**Telephone (812) 377-5000**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

As of September 29, 2013, there were 187,364,208 shares of common stock outstanding with a par value of \$2.50 per share.

**Website Access to Company's Reports**

Cummins maintains an internet website at [www.cummins.com](http://www.cummins.com). Investors can obtain copies of our filings from this website free of charge as soon as reasonably practicable after they are electronically filed with, or furnished, to the Securities and Exchange Commission.

---

---

**CUMMINS INC. AND SUBSIDIARIES**  
**TABLE OF CONTENTS**  
**QUARTERLY REPORT ON FORM 10-Q**

	<u>Page</u>	
<b><u>PART I. FINANCIAL INFORMATION</u></b>		
<a href="#">ITEM 1.</a>	<a href="#">Condensed Consolidated Financial Statements (Unaudited)</a>	<a href="#">3</a>
	<a href="#">Condensed Consolidated Statements of Income for the three and nine months ended September 29, 2013 and September 30, 2012</a>	<a href="#">3</a>
	<a href="#">Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 29, 2013 and September 30, 2012</a>	<a href="#">4</a>
	<a href="#">Condensed Consolidated Balance Sheets at September 29, 2013 and December 31, 2012</a>	<a href="#">5</a>
	<a href="#">Condensed Consolidated Statements of Cash Flows for the nine months ended September 29, 2013 and September 30, 2012</a>	<a href="#">6</a>
	<a href="#">Condensed Consolidated Statements of Changes in Equity for the nine months ended September 29, 2013 and September 30, 2012</a>	<a href="#">7</a>
	<a href="#">Notes to Condensed Consolidated Financial Statements</a>	<a href="#">8</a>
<a href="#">ITEM 2.</a>	<a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">30</a>
<a href="#">ITEM 3.</a>	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">55</a>
<a href="#">ITEM 4.</a>	<a href="#">Controls and Procedures</a>	<a href="#">55</a>
<b><u>PART II. OTHER INFORMATION</u></b>		
<a href="#">ITEM 1.</a>	<a href="#">Legal Proceedings</a>	<a href="#">56</a>
<a href="#">ITEM 1A.</a>	<a href="#">Risk Factors</a>	<a href="#">56</a>
<a href="#">ITEM 2.</a>	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	<a href="#">58</a>
<a href="#">ITEM 3.</a>	<a href="#">Defaults Upon Senior Securities</a>	<a href="#">58</a>
<a href="#">ITEM 4.</a>	<a href="#">Mine Safety Disclosures</a>	<a href="#">59</a>
<a href="#">ITEM 5.</a>	<a href="#">Other Information</a>	<a href="#">59</a>
<a href="#">ITEM 6.</a>	<a href="#">Exhibits</a>	<a href="#">59</a>
	<a href="#">Signatures</a>	<a href="#">60</a>
	<a href="#">Cummins Inc. Exhibit Index</a>	<a href="#">61</a>

**PART I. FINANCIAL INFORMATION**

**ITEM 1. Condensed Consolidated Financial Statements**

**CUMMINS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**

In millions, except per share amounts	Three months ended		Nine months ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
<b>NET SALES</b> <sup>(a)</sup>	\$ 4,266	\$ 4,118	\$ 12,713	\$ 13,042
Cost of sales	3,157	3,076	9,494	9,592
<b>GROSS MARGIN</b>	<b>1,109</b>	<b>1,042</b>	<b>3,219</b>	<b>3,450</b>
<b>OPERATING EXPENSES AND INCOME</b>				
Selling, general and administrative expenses	492	456	1,420	1,418
Research, development and engineering expenses	173	186	532	554
Equity, royalty and interest income from investees (Note 5)	91	94	281	302
Gain on sale of businesses (Note 3)	—	—	—	6
Other operating income (expense), net	(11)	(1)	—	3
<b>OPERATING INCOME</b>	<b>524</b>	<b>493</b>	<b>1,548</b>	<b>1,789</b>
Interest income	6	5	21	20
Interest expense	8	9	22	25
Other income (expense), net	6	(2)	25	14
<b>INCOME BEFORE INCOME TAXES</b>	<b>528</b>	<b>487</b>	<b>1,572</b>	<b>1,798</b>
Income tax expense (Note 6)	154	117	445	458
<b>CONSOLIDATED NET INCOME</b>	<b>374</b>	<b>370</b>	<b>1,127</b>	<b>1,340</b>
Less: Net income attributable to noncontrolling interests	19	18	76	64
<b>NET INCOME ATTRIBUTABLE TO CUMMINS INC.</b>	<b>\$ 355</b>	<b>\$ 352</b>	<b>\$ 1,051</b>	<b>\$ 1,276</b>
<b>EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.</b>				
Basic	\$ 1.91	\$ 1.87	\$ 5.61	\$ 6.73
Diluted	\$ 1.90	\$ 1.86	\$ 5.60	\$ 6.72
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>				
Basic	186.0	188.6	187.4	189.6
Dilutive effect of stock compensation awards	0.5	0.4	0.4	0.4
Diluted	<b>186.5</b>	<b>189.0</b>	<b>187.8</b>	<b>190.0</b>
<b>CASH DIVIDENDS DECLARED PER COMMON SHARE</b>	<b>\$ 0.625</b>	<b>\$ 0.50</b>	<b>\$ 1.625</b>	<b>\$ 1.30</b>

<sup>(a)</sup> Includes sales to nonconsolidated equity investees of \$553 million and \$1,681 million and \$579 million and \$1,870 million for the three and nine month periods ended September 29, 2013 and September 30, 2012, respectively.

*The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.*

**CUMMINS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**

In millions	Three months ended		Nine months ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
<b>CONSOLIDATED NET INCOME</b>	<b>\$ 374</b>	<b>\$ 370</b>	<b>\$ 1,127</b>	<b>\$ 1,340</b>
Other comprehensive income (loss), net of tax (Note 14)				
Foreign currency translation adjustments	95	131	(101)	78
Unrealized gain (loss) on derivatives	10	13	(2)	24
Change in pension and other postretirement defined benefit plans	16	9	56	30
Unrealized gain (loss) on marketable securities	1	2	(2)	1
Total other comprehensive income (loss), net of tax	122	155	(49)	133
<b>COMPREHENSIVE INCOME</b>	<b>496</b>	<b>525</b>	<b>1,078</b>	<b>1,473</b>
Less: Comprehensive income attributable to noncontrolling interest	10	35	45	67
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO CUMMINS INC.</b>	<b>\$ 486</b>	<b>\$ 490</b>	<b>\$ 1,033</b>	<b>\$ 1,406</b>

*The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.*

**CUMMINS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

In millions, except par value	September 29, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 2,499	\$ 1,369
Marketable securities (Note 7)	162	247
Total cash, cash equivalents and marketable securities	2,661	1,616
Accounts and notes receivable, net		
Trade and other	2,449	2,235
Nonconsolidated equity investees	260	240
Inventories (Note 9)	2,513	2,221
Prepaid expenses and other current assets	643	855
Total current assets	8,526	7,167
Long-term assets		
Property, plant and equipment	6,182	5,876
Accumulated depreciation	(3,234)	(3,152)
Property, plant and equipment, net	2,948	2,724
Investments and advances related to equity method investees	966	897
Goodwill	457	445
Other intangible assets, net	362	369
Other assets	1,077	946
Total assets	\$ 14,336	\$ 12,548
<b>LIABILITIES</b>		
Current liabilities		
Loans payable	\$ 15	\$ 16
Accounts payable (principally trade)	1,613	1,339
Current maturities of long-term debt (Note 10)	47	61
Current portion of accrued product warranty (Note 11)	374	386
Accrued compensation, benefits and retirement costs	413	400
Deferred revenue	269	215
Taxes payable (including taxes on income)	112	173
Other accrued expenses	547	546
Total current liabilities	3,390	3,136
Long-term liabilities		
Long-term debt (Note 10)	1,731	698
Postretirement benefits other than pensions	407	432
Other liabilities and deferred revenue	1,344	1,308
Total liabilities	6,872	5,574
Commitments and contingencies (Note 12)	—	—
<b>EQUITY</b>		
Cummins Inc. shareholders' equity		
Common stock, \$2.50 par value, 500 shares authorized, 222.3 and 222.4 shares issued	2,095	2,058
Retained earnings	8,089	7,343
Treasury stock, at cost, 34.9 and 32.6 shares	(2,104)	(1,830)
Common stock held by employee benefits trust, at cost, 1.3 and 1.5 shares	(16)	(18)
Accumulated other comprehensive loss (Note 14)		
Defined benefit postretirement plans	(738)	(794)
Other	(230)	(156)
Total accumulated other comprehensive loss	(968)	(950)
Total Cummins Inc. shareholders' equity	7,096	6,603
Noncontrolling interests	368	371
Total equity	7,464	6,974
Total liabilities and equity	\$ 14,336	\$ 12,548

*The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.*

**CUMMINS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

In millions	Nine months ended	
	September 29, 2013	September 30, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income	\$ 1,127	\$ 1,340
Adjustments to reconcile consolidated net income to net cash provided by operating activities		
Depreciation and amortization	305	262
Restructuring payments, net (Note 15)	(25)	—
Gain on sale of businesses (Note 3)	—	(6)
Gain on fair value adjustment for consolidated investees (Note 3)	(12)	(7)
Deferred income taxes	78	91
Equity in income of investees, net of dividends	(98)	(51)
Pension contributions in excess of expense (Note 4)	(96)	(74)
Other post-retirement benefits payments in excess of expense (Note 4)	(20)	(16)
Stock-based compensation expense	29	29
Excess tax benefits on stock-based awards	(13)	(12)
Translation and hedging activities	26	16
Changes in current assets and liabilities, net of acquisitions:		
Accounts and notes receivable	(216)	66
Inventories	(206)	(367)
Other current assets	182	(54)
Accounts payable	252	(145)
Accrued expenses	(146)	(398)
Changes in other liabilities and deferred revenue	147	154
Other, net	19	(41)
Net cash provided by operating activities	1,333	787
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(417)	(424)
Investments in internal use software	(43)	(62)
Investments in and advances to equity investees	(12)	(92)
Acquisition of businesses, net of cash acquired (Note 3)	(145)	(215)
Proceeds from sale of business, net of cash sold	—	10
Investments in marketable securities—acquisitions (Note 7)	(360)	(433)
Investments in marketable securities—liquidations (Note 7)	433	475
Cash flows from derivatives not designated as hedges	(15)	13
Other, net	14	9
Net cash used in investing activities	(545)	(719)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings (Note 10)	987	64
Payments on borrowings and capital lease obligations	(62)	(120)
Net borrowings under short-term credit agreements	34	5
Distributions to noncontrolling interests	(53)	(50)
Dividend payments on common stock	(305)	(246)
Repurchases of common stock	(289)	(231)
Excess tax benefits on stock-based awards	13	12
Other, net	19	16
Net cash provided by (used in) financing activities	344	(550)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	(2)	31
Net increase (decrease) in cash and cash equivalents	1,130	(451)
Cash and cash equivalents at beginning of year	1,369	1,484
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	\$ 2,499	\$ 1,033

*The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.*

**CUMMINS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(Unaudited)

In millions	Common Stock	Additional paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Common Stock Held in Trust	Total Cummins Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
<b>BALANCE AT DECEMBER 31, 2011</b>	\$ 555	\$ 1,446	\$ 6,038	\$ (938)	\$ (1,587)	\$ (22)	\$ 5,492	\$ 339	\$ 5,831
Net income			1,276				1,276	64	1,340
Other comprehensive income (loss)				130			130	3	133
Issuance of shares	1	5					6	—	6
Employee benefits trust activity		22				3	25	—	25
Acquisition of shares					(231)		(231)	—	(231)
Cash dividends on common stock			(246)				(246)	—	(246)
Distribution to noncontrolling interests							—	(71)	(71)
Stock option exercises					9		9	—	9
Other shareholder transactions		17					17	21	38
<b>BALANCE AT SEPTEMBER 30, 2012</b>	<u>\$ 556</u>	<u>\$ 1,490</u>	<u>\$ 7,068</u>	<u>\$ (808)</u>	<u>\$ (1,809)</u>	<u>\$ (19)</u>	<u>\$ 6,478</u>	<u>\$ 356</u>	<u>\$ 6,834</u>
<b>BALANCE AT DECEMBER 31, 2012</b>	\$ 556	\$ 1,502	\$ 7,343	\$ (950)	\$ (1,830)	\$ (18)	\$ 6,603	\$ 371	\$ 6,974
Net income			1,051				1,051	76	1,127
Other comprehensive income (loss)				(18)			(18)	(31)	(49)
Issuance of shares		5					5	—	5
Employee benefits trust activity		18				2	20	—	20
Acquisition of shares					(289)		(289)	—	(289)
Cash dividends on common stock			(305)				(305)	—	(305)
Distribution to noncontrolling interests							—	(53)	(53)
Stock option exercises		1			15		16	—	16
Other shareholder transactions		13					13	5	18
<b>BALANCE AT SEPTEMBER 29, 2013</b>	<u>\$ 556</u>	<u>\$ 1,539</u>	<u>\$ 8,089</u>	<u>\$ (968)</u>	<u>\$ (2,104)</u>	<u>\$ (16)</u>	<u>\$ 7,096</u>	<u>\$ 368</u>	<u>\$ 7,464</u>

*The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.*

**CUMMINS INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**NOTE 1. NATURE OF OPERATIONS**

Cummins Inc. (“Cummins,” “we,” “our” or “us”) was founded in 1919 as a corporation in Columbus, Indiana, as one of the first diesel engine manufacturers. We are a global power leader that designs, manufactures, distributes and services diesel and natural gas engines and engine-related component products, including filtration, aftertreatment, turbochargers, fuel systems, controls systems, air handling systems and electric power generation systems. We sell our products to original equipment manufacturers (OEMs), distributors and other customers worldwide. We serve our customers through a network of approximately 600 company-owned and independent distributor locations and approximately 6,500 dealer locations in more than 190 countries and territories.

**NOTE 2. BASIS OF PRESENTATION**

The unaudited *Condensed Consolidated Financial Statements* reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results of operations, financial position and cash flows. All such adjustments are of a normal recurring nature. The *Condensed Consolidated Financial Statements* have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted as permitted by such rules and regulations. Certain reclassifications have been made to prior period amounts to conform to the presentation of the current period condensed financial statements.

Our reporting period usually ends on the Sunday closest to the last day of the quarterly calendar period. The third quarters of 2013 and 2012 ended on September 29 and September 30, respectively. The interim periods for both 2013 and 2012 contained 13 weeks, while the nine month periods both contained 39 weeks. Our fiscal year ends on December 31, regardless of the day of the week on which December 31 falls.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts in the *Condensed Consolidated Financial Statements*. Significant estimates and assumptions in these *Condensed Consolidated Financial Statements* require the exercise of judgment and are used for, but not limited to, allowance for doubtful accounts, estimates of future cash flows and other assumptions associated with goodwill and long-lived asset impairment tests, useful lives for depreciation and amortization, warranty programs, determination of discount and other rate assumptions for pension and other postretirement benefit expenses, income taxes and deferred tax valuation allowances, lease classifications and contingencies. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be different from these estimates.

The weighted-average diluted common shares outstanding exclude the anti-dilutive effect of certain stock options since such options had an exercise price in excess of the monthly average market value of our common stock. The options excluded from diluted earnings per share for the three and nine month periods ended September 29, 2013 and September 30, 2012, were as follows:

	Three months ended		Nine months ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Options excluded	184,775	599,637	479,276	412,318

You should read these interim condensed financial statements in conjunction with the *Consolidated Financial Statements* included in our Annual Report on Form 10-K for the year ended December 31, 2012. Our interim period financial results for the three and nine month interim periods presented are not necessarily indicative of results to be expected for any other interim period or for the entire year. The year-end *Condensed Consolidated Balance Sheet* data was derived from audited financial statements, but does not include all disclosures required by GAAP.



**NOTE 3. ACQUISITIONS AND DIVESTITURES****Cummins Rocky Mountain LLC**

In May 2013, we acquired the remaining 67 percent interest in Cummins Rocky Mountain LLC (Rocky Mountain) from the former principal for consideration of approximately \$62 million in cash and an additional \$74 million in cash paid to creditors to eliminate all debt related to the entity. The purchase price was approximately \$136 million as presented below. The intangible assets are primarily customer related and are being amortized over periods ranging from one to four years. The acquisition was accounted for as a business combination, with the results of the acquired entity included in the Distribution operating segment in the second quarter of 2013.

Distribution segment results also included a \$5 million gain, as we were required to re-measure our pre-existing 33 percent ownership interest in Rocky Mountain to fair value in accordance with GAAP. Net sales for Rocky Mountain were \$384 million for the 12 months ended December 31, 2012. This amount is not fully incremental to Cummins Inc. as the amount would be reduced by the elimination of sales to the previously unconsolidated entity. Approximately \$11 million of the \$14 million deferred purchase price was distributed in the third quarter of 2013. The remaining balance is expected to be paid in future quarters.

The updated purchase price allocation at September 29, 2013, was as follows:

In millions	
Accounts receivable	\$ 48
Inventory	100
Fixed assets	34
Intangible assets	8
Goodwill	9
Other assets	8
Current liabilities	(40)
Total business valuation	167
Fair value of pre-existing 33 percent interest	(31)
Purchase price	\$ 136

**Cummins Northwest LLC**

In January 2013, we acquired an additional 50 percent interest in Cummins Northwest LLC (Northwest) from the former principal for consideration of approximately \$18 million. We formed a new partnership with a new distributor principal. We owned 79.99 percent of Northwest and the new distributor principal owned 20.01 percent. The acquisition was accounted for as a business combination, with the results of the acquired entity included in the Distribution segment in the first quarter of 2013. Distribution segment results also included a \$7 million gain, as we were required to re-measure our pre-existing 50 percent ownership interest in Northwest to fair value in accordance with GAAP. The transaction generated \$3 million of goodwill. Net sales for Northwest were \$137 million for the 12 months ended December 31, 2012. This amount is not fully incremental to Cummins Inc. as the amount would be reduced by the elimination of sales to the previously unconsolidated entity.

In July 2013, we acquired the remaining 20.01 percent from the former distributor principal for an additional \$4 million. Since the entity was already consolidated, this was accounted for as an equity transaction.

**Hilite Germany GmbH**

In July 2012, we purchased the doser technology and business assets from Hilite Germany GmbH (Hilite) in a cash transaction. Dosers are products that enable compliance with emission standards in certain aftertreatment systems and complement our current product offerings. The purchase price was \$176 million and is summarized below. There was no contingent consideration associated with this transaction. During the first nine months of 2012, we expensed approximately \$4 million of acquisition related costs.

[Table of Contents](#)

The acquisition of Hilite was accounted for as a business combination, with the results of the acquired entity and the goodwill included in the Components segment in the third quarter of 2012. The majority of the purchase price was allocated to technology and customer related intangible assets and goodwill, most of which was fully deductible for tax purposes. We expect the Hilite acquisition to strengthen our aftertreatment product offerings. This acquisition enhances our technical capabilities and keeps us in a strong position to meet the needs of current customers and grow into new markets, especially as an increasing number of regions around the world adopt tougher emission standards.

Intangible assets by asset class, including weighted average amortization life, were as follows:

Dollars in millions	Purchase price allocation	Weighted average amortization life in years
Technology	\$ 52	10.6
Customer	23	4.5
License arrangements	8	6.0
Total intangible assets	<u>\$ 83</u>	8.5

The purchase price allocation was as follows:

In millions	
Inventory	\$ 5
Fixed assets	5
Intangible assets	83
Goodwill	91
Liabilities	(8)
Total purchase price	<u>\$ 176</u>

#### Cummins Central Power

In July 2012, we acquired an additional 45 percent interest in Cummins Central Power from the former principal for consideration of approximately \$20 million. The acquisition was accounted for as a business combination, with the results of the acquired entity included in the Distribution segment in the third quarter of 2012. Distribution segment results also included a \$7 million gain, as we were required to re-measure our pre-existing 35 percent ownership interest in Cummins Central Power to fair value in accordance with GAAP. Net sales for Cummins Central Power were \$209 million for the 12 months ended December 31, 2011. This amount is not fully incremental to Cummins Inc. as the amount would be reduced by the elimination of sales to the previously unconsolidated entity.

#### Divestitures

In the second quarter of 2012, we recorded an additional \$6 million gain (\$4 million after-tax) related to final purchase price adjustments for our 2011 divestitures. The gain was excluded from segment results as it was not considered in our evaluation of operating results for the nine months ended September 30, 2012.

#### NOTE 4. PENSION AND OTHER POSTRETIREMENT BENEFITS

We sponsor funded and unfunded domestic and foreign defined benefit pension and other postretirement plans. Contributions to these plans were as follows:

In millions	Three months ended		Nine months ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
<b>Defined benefit pension and other postretirement plans</b>				
Voluntary contribution	\$ 33	\$ 34	\$ 110	\$ 107
Mandatory contribution	7	4	51	15
Defined benefit pension contributions	40	38	161	122
Other postretirement plans	11	14	37	31
Total defined benefit plans	\$ 51	\$ 52	\$ 198	\$ 153
Defined contribution pension plans	\$ 14	\$ 15	\$ 50	\$ 59

We made \$161 million of pension contributions in the nine months ended September 29, 2013 and we anticipate making an additional \$9 million of contributions during the remainder of 2013. We paid \$37 million of claims and premiums for other postretirement benefits in the nine months ended September 29, 2013; payments for the remainder of 2013 are expected to be \$10 million. The \$170 million of pension contributions for the full year include voluntary contributions of approximately \$115 million. These contributions and payments may be made from trusts or company funds either to increase pension assets or to make direct benefit payments to plan participants. Our expected pension expense for 2013 was reduced by \$10 million, to \$87 million, from the amount we had expected at December 31, 2012, due to a remeasurement of the U.S. plan for changes in employee census data in the first quarter of 2013.

The components of net periodic pension and other postretirement benefit costs under our plans were as follows:

In millions	Pension					
	U.S. Plans		U.K. Plans		Other Postretirement Benefits	
	Three months ended					
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Service cost	\$ 17	\$ 15	\$ 5	\$ 5	\$ —	\$ —
Interest cost	23	25	14	15	4	6
Expected return on plan assets	(42)	(40)	(17)	(20)	—	—
Amortization of prior service credit	—	—	—	—	—	(1)
Recognized net actuarial loss	16	12	6	4	2	—
Net periodic benefit cost	\$ 14	\$ 12	\$ 8	\$ 4	\$ 6	\$ 5

In millions	Pension					
	U.S. Plans		U.K. Plans		Other Postretirement Benefits	
	Nine months ended					
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Service cost	\$ 52	\$ 44	\$ 15	\$ 16	\$ —	\$ —
Interest cost	70	77	42	44	12	16
Expected return on plan assets	(126)	(118)	(53)	(61)	—	—
Amortization of prior service credit	—	—	—	—	—	(3)
Recognized net actuarial loss	47	35	18	11	5	2
Net periodic benefit cost	\$ 43	\$ 38	\$ 22	\$ 10	\$ 17	\$ 15

**NOTE 5. EQUITY, ROYALTY AND INTEREST INCOME FROM INVESTEEES**

Equity, royalty and interest income from investees included in our *Condensed Consolidated Statements of Income* for the interim reporting periods was as follows:

In millions	Three months ended		Nine months ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
<b>Distribution Entities</b>				
North American distributors	\$ 34	\$ 37	\$ 98	\$ 115
Komatsu Cummins Chile, Ltda.	6	9	17	20
All other distributors	1	—	1	3
<b>Manufacturing Entities</b>				
Chongqing Cummins Engine Company, Ltd.	15	14	44	49
Dongfeng Cummins Engine Company, Ltd.	13	9	45	42
Beijing Foton Cummins Engine Co., Ltd.	4	3	14	3
Shanghai Fleetguard Filter Co., Ltd.	4	3	11	10
Cummins Westport, Inc.	2	2	5	11
Tata Cummins, Ltd.	1	—	4	7
Komatsu manufacturing alliances	—	(1)	3	(1)
Valvoline Cummins, Ltd.	—	2	5	6
Xian Cummins Engine Company Ltd.	—	1	1	(5)
All other manufacturers	3	6	6	12
Cummins share of net income	83	85	254	272
Royalty and interest income	8	9	27	30
Equity, royalty and interest income from investees	\$ 91	\$ 94	\$ 281	\$ 302

**NOTE 6. INCOME TAXES**

Our effective tax rate for the year is expected to approximate 28.5 percent, excluding any one-time items that may arise. Our tax rate is generally less than the 35 percent U.S. statutory income tax rate primarily due to lower tax rates on foreign income and research tax credits. The tax rates for the three and nine month periods ended September 29, 2013, were 29.2 percent and 28.3 percent, respectively. These tax rates include a \$7 million discrete net tax expense for the third quarter tax adjustments: \$4 million expense attributable to prior year tax return true-up adjustments, \$1 million benefit related to release of prior year tax reserves and a discrete tax charge of \$4 million related to a third quarter enactment of U.K. tax law changes. In addition, the nine month tax rate includes a discrete tax benefit in the first quarter of 2013 of \$28 million attributable to the reinstatement of the research credit back to 2012, as well as a discrete tax expense in the first quarter of 2013 of \$17 million, which primarily relates to the write-off of a deferred tax asset deemed unrecoverable. On January 2, 2013, the American Taxpayer Relief Act of 2012 was signed into law and reinstated the research tax credit. As tax law changes are accounted for in the period of enactment, we recognized the discrete tax benefit in the first quarter of 2013.

Our tax rates for the three and nine month periods ended September 30, 2012, were 24.1 percent and 25.5 percent, respectively. These tax rates include a \$16 million tax benefit for third quarter discrete tax adjustments, \$6 million of which related to a dividend distribution of accumulated foreign income earned in prior years. These discrete tax adjustments also included a discrete tax benefit of \$13 million for prior year tax return true-up adjustments and a discrete tax charge of \$3 million related to the third quarter enactment of U.K. tax law changes. The increase in the 2013 effective tax rates compared to 2012 is primarily due to unfavorable changes in the pre-tax mix of income taxed in higher rate jurisdictions and discrete tax items.

In September 2013, the Internal Revenue Service released final tangible personal property regulations regarding the deduction and capitalization of expenditures related to tangible property. The new rules will become effective for taxable years beginning on or after January 1, 2014. While we are still finalizing our analysis, we do not believe that these regulations will have a material impact on our *Consolidated Financial Statements*.

**NOTE 7. MARKETABLE SECURITIES**

A summary of marketable securities, all of which are classified as current, was as follows:

In millions	September 29, 2013			December 31, 2012		
	Cost	Gross unrealized gains/(losses)	Estimated fair value	Cost	Gross unrealized gains/(losses)	Estimated fair value
<b>Available-for-sale</b>						
Debt mutual funds <sup>(1)</sup>	\$ 91	\$ 1	\$ 92	\$ 139	\$ 3	\$ 142
Bank debentures	9	—	9	45	—	45
Certificates of deposit	36	—	36	47	—	47
Government debt securities-non-U.S.	3	—	3	3	—	3
Corporate debt securities	—	—	—	1	—	1
Equity securities and other <sup>(2)</sup>	12	10	22	—	9	9
Total marketable securities	<u>\$ 151</u>	<u>\$ 11</u>	<u>\$ 162</u>	<u>\$ 235</u>	<u>\$ 12</u>	<u>\$ 247</u>

<sup>(1)</sup>Contractual maturities are only applicable to debt mutual funds that utilize a Level 2 fair value.

<sup>(2)</sup>In the first quarter of 2013, we realized a \$9 million gain on the sale of equity securities.

The proceeds from sales and maturities of marketable securities and gross realized gains and losses from the sale of available-for-sale securities were as follows:

In millions	Three months ended		Nine months ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Proceeds from sales and maturities of marketable securities	\$ 153	\$ 195	\$ 433	\$ 475
Gross realized gains from the sale of available-for-sale securities	1	1	12	4

At September 29, 2013, the fair value of available-for-sale investments with contractual maturities was as follows:

Maturity date	Fair value (in millions)
1 year or less	\$ 68
1-5 years	1
5-10 years	10
Total	<u>\$ 79</u>

**NOTE 8. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The majority of the assets and liabilities we carry at fair value are available-for-sale (AFS) securities and derivatives. AFS securities are derived from Level 1 or Level 2 inputs. Derivative assets and liabilities are derived from Level 2 inputs. The predominance of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. When material, we adjust the values of our derivative contracts for counter-party or our credit risk. There were no transfers into or out of Levels 2 or 3 in the first nine months of 2013 and 2012.

The following table summarizes our financial instruments recorded at fair value in our *Condensed Consolidated Balance Sheets* at September 29, 2013:

In millions	Fair Value Measurements Using			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Available-for-sale debt securities</b>				
Debt mutual funds	\$ 61	\$ 31	\$ —	\$ 92
Bank debentures	—	9	—	9
Certificates of deposit	—	36	—	36
Government debt securities-non-U.S.	—	3	—	3
<b>Available-for-sale equity securities</b>				
Information technology industry	22	—	—	22
<b>Derivative assets</b>				
Interest rate contracts	—	54	—	54
Foreign currency forward contracts	—	5	—	5
Commodity call option contracts	—	1	—	1
Total assets	\$ 83	\$ 139	\$ —	\$ 222
<b>Derivative liabilities</b>				
Commodity swap contracts	—	5	—	5
Foreign currency forward contracts	—	2	—	2
Commodity put option contracts	—	1	—	1
Total liabilities	\$ —	\$ 8	\$ —	\$ 8

The following table summarizes our financial instruments recorded at fair value in our *Condensed Consolidated Balance Sheets* at December 31, 2012:

In millions	Fair Value Measurements Using			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Available-for-sale debt securities</b>				
Debt mutual funds	\$ 100	\$ 42	\$ —	\$ 142
Bank debentures	—	45	—	45
Certificates of deposit	—	47	—	47
Government debt securities-non-U.S.	—	3	—	3
Corporate debt securities	—	1	—	1
<b>Available-for-sale equity securities</b>				
Financial services industry	9	—	—	9
<b>Derivative assets</b>				
Interest rate contracts	—	88	—	88
Foreign currency forward contracts	—	3	—	3
Commodity swap contracts	—	1	—	1
Commodity call option contracts	—	1	—	1
Total assets	\$ 109	\$ 231	\$ —	\$ 340
<b>Derivative liabilities</b>				
Commodity swap contracts	—	2	—	2
Commodity put option contracts	—	1	—	1
Total liabilities	\$ —	\$ 3	\$ —	\$ 3

The substantial majority of our assets were valued utilizing a market approach. A description of the valuation techniques and inputs used for our level 2 fair value measures was as follows:

- *Debt mutual funds* — Assets in Level 2 consist of exchange traded mutual funds that lack sufficient trading volume to be classified at Level 1. The fair value measure for these investments is the daily net asset value published on a regulated governmental website. Daily quoted prices are available from the issuing brokerage and are used on a test basis to corroborate this Level 2 input.
- *Bank debentures and Certificates of deposit* — These investments provide us with a fixed rate of return and generally range in maturity from six months to five years. The counter-parties to these investments are reputable financial institutions with investment grade credit ratings. Since these instruments are not tradable and must be settled directly by us with the respective financial institution, our fair value measure is the financial institutions' month-end statement.
- *Government debt securities-non-U.S. and Corporate debt securities* — The fair value measure for these securities are broker quotes received from reputable firms. These securities are infrequently traded on a national stock exchange and these values are used on a test basis to corroborate our Level 2 input measure.
- *Foreign currency forward contracts* — The fair value measure for these contracts are determined based on forward foreign exchange rates received from third-party pricing services. These rates are based upon market transactions and are periodically corroborated by comparing to third-party broker quotes.
- *Commodity swap contracts* — The fair value measure for these contracts are current spot market data adjusted for the appropriate current forward curves provided by external financial institutions. The current spot price is the most

significant component of this valuation and is based upon market transactions. We use third-party pricing services for the spot price component of this valuation which is periodically corroborated by market data from broker quotes.

- *Commodity call and put option contracts*— We utilize the month-end statement from the issuing financial institution as our fair value measure for this investment. We corroborate this valuation through the use of a third-party pricing service for similar assets and liabilities.
- *Interest rate contracts*— We currently have only one interest rate contract. We utilize the month-end statement from the issuing financial institution as our fair value measure for this investment. We corroborate this valuation through the use of a third-party pricing service for similar assets and liabilities.

#### Fair Value of Other Financial Instruments

Based on borrowing rates currently available to us for bank loans with similar terms and average maturities, considering our risk premium, the fair value and carrying value of total debt, including current maturities, at September 29, 2013 and December 31, 2012, are set forth in the table below. The carrying values of all other receivables and liabilities approximated fair values. The fair value of financial instruments is derived from Level 2 inputs.

In millions	September 29, 2013	December 31, 2012
Fair value of total debt	\$ 1,952	\$ 926
Carrying value of total debt	1,793	775

#### NOTE 9. INVENTORIES

Inventories are stated at the lower of cost or market. Inventories included the following:

In millions	September 29, 2013	December 31, 2012
Finished products	\$ 1,581	\$ 1,393
Work-in-process and raw materials	1,045	939
Inventories at FIFO cost	2,626	2,332
Excess of FIFO over LIFO	(113)	(111)
Total inventories	\$ 2,513	\$ 2,221



**NOTE 10. DEBT**

As a well-known seasoned issuer, we filed an automatic shelf registration for an undetermined amount of debt and equity securities with the SEC on September 16, 2013. Under this shelf registration we may offer, from time to time, debt securities, common stock, preferred and preference stock, depositary shares, warrants, stock purchase contracts and stock purchase units.

In September 2013, we issued \$1 billion aggregate principal amount of senior notes consisting of \$500 million aggregate principal amount of 3.65% senior unsecured notes due in 2023 and \$500 million aggregate principal amount of 4.875% senior unsecured notes due in 2043. We received net proceeds of \$979 million. The senior notes pay interest semi-annually on April 1 and October 1, commencing on April 1, 2014. The indenture governing the senior notes contains covenants that, among other matters, limit (i) our ability to consolidate or merge into, or sell, assign, convey, lease, transfer or otherwise dispose of all or substantially all of our and our subsidiaries' assets to another person, (ii) our and certain of our subsidiaries' ability to create or assume liens and (iii) our and certain of our subsidiaries' ability to engage in sale and leaseback transactions.

A summary of long-term debt was as follows:

In millions	September 29, 2013	December 31, 2012
<b>Long-term debt</b>		
Export financing loan, 4.5%, due 2013	\$ —	\$ 23
Senior notes, 3.65%, due 2023	500	—
Debentures, 6.75%, due 2027	58	58
Debentures, 7.125%, due 2028 <sup>(1)</sup>	250	250
Senior notes, 4.875%, due 2043	500	—
Debentures, 5.65%, due 2098 (effective interest rate 7.48%)	165	165
Credit facilities related to consolidated joint ventures	129	88
Other	73	69
	<u>1,675</u>	<u>653</u>
Unamortized discount	(48)	(35)
Fair value adjustments due to hedge on indebtedness	54	88
Capital leases	97	53
Total long-term debt	1,778	759
Less: Current maturities of long-term debt	(47)	(61)
Long-term debt	<u>\$ 1,731</u>	<u>\$ 698</u>

<sup>(1)</sup>In November 2005, we entered into an interest rate swap to effectively convert our \$250 million debt issue, due in 2028, from a fixed rate of 7.125 percent to a floating rate based on a LIBOR spread (see Note 13).

Principal payments required on long-term debt during the next five years are as follows:

In millions	Required Principal Payments				
	2013	2014	2015	2016	2017
Payment	\$ 16	\$ 45	\$ 85	\$ 63	\$ 14

**NOTE 11. PRODUCT WARRANTY LIABILITY**

We charge the estimated costs of warranty programs, other than product recalls, to income at the time products are shipped to customers. We use historical claims experience to develop the estimated liability. We review product recall programs on a quarterly basis and, if necessary, record a liability when we commit to an action, or when they become probable and estimable, which is reflected in the provision for warranties issued line. We also sell extended warranty coverage on several engines. The following is a tabular reconciliation of the product warranty liability, including the deferred revenue related to our extended warranty coverage and accrued recall programs:

In millions	Nine months ended	
	September 29, 2013	September 30, 2012
Balance, beginning of year	\$ 1,088	\$ 1,014
Provision for warranties issued	317	320
Deferred revenue on extended warranty contracts sold	138	154
Payments	(312)	(294)
Amortization of deferred revenue on extended warranty contracts	(84)	(77)
Changes in estimates for pre-existing warranties	(26)	(36)
Foreign currency translation	(3)	2
Balance, end of period	\$ 1,118	\$ 1,083

Warranty related deferred revenue, supplier recovery receivables and the long-term portion of the warranty liability on our September 29, 2013, balance sheet were as follows:

In millions	September 29, 2013	Balance Sheet Location
Deferred revenue related to extended coverage programs		
Current portion	\$ 133	Deferred revenue
Long-term portion	341	Other liabilities and deferred revenue
Total	\$ 474	
Receivables related to estimated supplier recoveries		
Current portion	\$ 6	Trade and other receivables
Long-term portion	5	Other assets
Total	\$ 11	
Long-term portion of warranty liability	\$ 270	Other liabilities and deferred revenue

## NOTE 12. COMMITMENTS AND CONTINGENCIES

We are subject to numerous lawsuits and claims arising out of the ordinary course of our business, including actions related to product liability; personal injury; the use and performance of our products; warranty matters; patent, trademark or other intellectual property infringement; contractual liability; the conduct of our business; tax reporting in foreign jurisdictions; distributor termination; workplace safety; and environmental matters. We also have been identified as a potentially responsible party at multiple waste disposal sites under U.S. federal and related state environmental statutes and regulations and may have joint and several liability for any investigation and remediation costs incurred with respect to such sites. We have denied liability with respect to many of these lawsuits, claims and proceedings and are vigorously defending such lawsuits, claims and proceedings. We carry various forms of commercial, property and casualty, product liability and other forms of insurance; however, such insurance may not be applicable or adequate to cover the costs associated with a judgment against us with respect to these lawsuits, claims and proceedings. We do not believe that these lawsuits are material individually or in the aggregate. While we believe we have also established adequate accruals for our expected future liability with respect to pending lawsuits, claims and proceedings, where the nature and extent of any such liability can be reasonably estimated based upon then presently available information, there can be no assurance that the final resolution of any existing or future lawsuits, claims or proceedings will not have a material adverse effect on our business, results of operations, financial condition or cash flows.

We conduct significant business operations in Brazil that are subject to the Brazilian federal, state and local labor, social security, tax and customs laws. While we believe we comply with such laws, they are complex, subject to varying interpretations and we are often engaged in litigation regarding the application of these laws to particular circumstances.

## **U.S. Distributor Commitments**

Our distribution agreements with independent and partially-owned distributors generally have a renewable three-year term and are restricted to specified territories. Our distributors develop and maintain a network of dealers with which we have no direct relationship. Our distributors are permitted to sell other, noncompetitive products only with our consent. We license all of our distributors to use our name and logo in connection with the sale and service of our products, with no right to assign or sublicense the trademarks, except to authorized dealers, without our consent. Products are sold to the distributors at standard domestic or international distributor net prices, as applicable. Net prices are wholesale prices we establish to permit our distributors an adequate margin on their sales. Subject to local laws, we can generally refuse to renew these agreements upon expiration or terminate them upon written notice for inadequate sales, change in principal ownership and certain other reasons. Distributors also have the right to terminate the agreements upon 60-day notice without cause, or 30-day notice for cause. Upon termination or failure to renew, we are required to purchase the distributor's current inventory, signage and special tools and may, at our option purchase other assets of the distributor, but are under no obligation to do so.

## **Other Guarantees and Commitments**

In addition to the matters discussed above, from time to time we periodically enter into other guarantee arrangements, including guarantees of non-U.S. distributor financing, residual value guarantees on equipment under operating leases and other miscellaneous guarantees of third-party obligations. As of September 29, 2013, the maximum potential loss related to these other guarantees was \$8 million. The amount of liabilities related to the guarantees was less than \$1 million.

We have arrangements with certain suppliers that require us to purchase minimum volumes or be subject to monetary penalties. The penalty amounts are less than our purchase commitments and essentially allow the supplier to recover their tooling costs in most instances. As of September 29, 2013, if we were to stop purchasing from each of these suppliers, the aggregate amount of the penalty would be approximately \$109 million, of which \$67 million relates to a contract with an engine parts supplier that extends to 2016. These arrangements enable us to secure critical components. We do not currently anticipate paying any penalties under these contracts.

We have guarantees with certain customers that require us to satisfactorily honor contractual or regulatory obligations, or compensate for monetary losses related to nonperformance. These performance bonds and other performance-related guarantees were \$66 million at September 29, 2013 and \$70 million at December 31, 2012.

## **Indemnifications**

Periodically, we enter into various contractual arrangements where we agree to indemnify a third-party against certain types of losses. Common types of indemnities include:

- product liability and license, patent or trademark indemnifications.
- asset sale agreements where we agree to indemnify the purchaser against future environmental exposures related to the asset sold and
- any contractual agreement where we agree to indemnify the counter-party for losses suffered as a result of a misrepresentation in the contract.

We regularly evaluate the probability of having to incur costs associated with these indemnities and accrue for expected losses that are probable. Because the indemnifications are not related to specified known liabilities and due to their uncertain nature, we are unable to estimate the maximum amount of the potential loss associated with these indemnifications.

## **Joint Venture Commitments**

As of September 29, 2013, we have committed to invest an additional \$59 million into existing joint ventures, of which \$11 million is expected to be funded in 2013.

**NOTE 13. DERIVATIVES**

We are exposed to financial risk resulting from volatility in foreign exchange rates, commodity prices and interest rates. This risk is closely monitored and managed through the use of financial derivative instruments including foreign currency forward contracts, commodity swap contracts, commodity zero-cost collars and interest rate swaps. As stated in our policies and procedures, financial derivatives are used expressly for hedging purposes and under no circumstances are they used for speculative purposes. When material, we adjust the value of our derivative contracts for counter-party or our credit risk. None of our derivative instruments are subject to collateral requirements. Substantially all of our derivative contracts are subject to master netting arrangements which provide us with the option to settle certain contracts on a net basis when they settle on the same day with the same currency. In addition, these arrangements provide for a net settlement of all contracts with a given counterparty in the event that the arrangement is terminated due to the occurrence of default or a termination event.

**Foreign Exchange Rates**

As a result of our international business presence, we are exposed to foreign currency exchange risks. We transact business in foreign currencies and, as a result, our income experiences some volatility related to movements in foreign currency exchange rates. To help manage our exposure to exchange rate volatility, we use foreign currency forward contracts on a regular basis to hedge forecasted intercompany and third-party sales and purchases denominated in non-functional currencies. Our internal policy allows for managing anticipated foreign currency cash flows for up to one year. These foreign currency forward contracts are designated and qualify as foreign currency cash flow hedges under GAAP. The effective portion of the unrealized gain or loss on the forward contract is deferred and reported as a component of "Accumulated other comprehensive loss" (AOCL). When the hedged forecasted transaction (sale or purchase) occurs, the unrealized gain or loss is reclassified into income in the same line item associated with the hedged transaction in the same period or periods during which the hedged transaction affects income. The ineffective portion of the hedge, if any, is recognized in current income during the period of change. As of September 29, 2013, the amount we expect to reclassify from AOCL to income over the next year is an unrealized net gain of \$2 million. For the nine month periods ended September 29, 2013 and September 30, 2012, there were no circumstances that would have resulted in the discontinuance of a foreign currency cash flow hedge.

To minimize the income volatility resulting from the remeasurement of net monetary assets and payables denominated in a currency other than the functional currency, we enter into foreign currency forward contracts, which are considered economic hedges. The objective is to offset the gain or loss from remeasurement with the gain or loss from the fair market valuation of the forward contract. These derivative instruments are not designated as hedges under GAAP.

The table below summarizes our outstanding foreign currency forward contracts. Only the U.S. dollar forward contracts are designated and qualify for hedge accounting as of each period presented below. The currencies in this table represent 93 percent and 95 percent of the notional amounts of contracts outstanding as of September 29, 2013 and December 31, 2012, respectively.

Currency denomination	Notional amount in millions	
	September 29, 2013	December 31, 2012
United States Dollar (USD)	105	110
British Pound Sterling (GBP)	193	227
Euro (EUR)	30	28
Singapore Dollar (SGD)	—	3
Indian Rupee (INR)	3,025	1,943
Japanese Yen (JPY)	1,987	384
Canadian Dollar (CAD)	65	59
South Korea Won (KRW)	32,822	35,266
Chinese Renmimbi (CNY)	74	45
Brazilian Real (BRL)	92	—

**Commodity Price Risk**

We are exposed to fluctuations in commodity prices due to contractual agreements with component suppliers. In order to protect ourselves against future price volatility and, consequently, fluctuations in gross margins, we periodically enter into commodity swap contracts with designated banks to fix the cost of certain raw material purchases with the objective of minimizing changes in inventory cost due to market price fluctuations. Certain commodity swap contracts are derivative contracts that are designated as cash flow hedges under GAAP. We also have commodity swap contracts that represent an economic hedge, but are not designated for hedge accounting and are marked to market through earnings. For those contracts that qualify for hedge accounting, the effective portion of the unrealized gain or loss is deferred and reported as a component of AOCL. When the hedged forecasted transaction (purchase) occurs, the unrealized gain or loss is reclassified into income in the same line item associated with the hedged transaction in the same period or periods during which the hedged transaction affects income. The ineffective portion of the hedge, if any, is recognized in current income in the period in which the ineffectiveness occurs. As of September 29, 2013, we expect to reclassify an unrealized net loss of \$3 million from AOCL to income over the next year. Our internal policy allows for managing these cash flow hedges for up to three years.

The following table summarizes our outstanding commodity swap contracts that were entered into to hedge the cost of certain raw material purchases:

Dollars in millions Commodity	September 29, 2013		December 31, 2012	
	Notional Amount	Quantity	Notional Amount	Quantity
Copper	\$ —	— (1)	\$ 24	3,025 metric tons (1)
Platinum	62	41,076 troy ounces (2)	71	45,126 troy ounces (2)
Palladium	18	24,251 troy ounces (2)	10	14,855 troy ounces (2)

(1) A metric ton is a measurement of mass equal to 1,000 kilograms.

(2) A troy ounce is a measurement of mass equal to approximately 31 grams.

In 2012, we began to use a combination of call and put option contracts for copper in net-zero-cost collar arrangements (zero-cost collars) that establish ceiling and floor prices for copper. These contracts are used strictly for hedging and not for speculative purposes. For these zero-cost collars, if the average price of the copper during the calculation period is within the call and put price, the call and put contracts expire at no cost to us. If the price falls below the floor, the counter-party to the collar receives the difference from us and if the price rises above the ceiling, the counter-party pays the difference to us. We believe that these zero-cost collars will act as economic hedges; however we have chosen not to designate them as hedges for accounting purposes, therefore we present the calls and puts on a gross basis on our *Condensed Consolidated Balance Sheets*.

The following table summarizes our outstanding commodity zero-cost collar contracts that were entered into to hedge the cost of copper purchases:

Commodity	September 29, 2013		December 31, 2012	
	Average Floor or Cap	Quantity in metric tons (1)	Average Floor or Cap	Quantity in metric tons (1)
Copper call options	\$ 7,852	5,062	\$ 8,196	4,100
Copper put options	7,052	5,062	7,005	4,100

(1) A metric ton is a measurement of mass equal to 1,000 kilograms.

**Interest Rate Risk**

We are exposed to market risk from fluctuations in interest rates. We manage our exposure to interest rate fluctuations through the use of interest rate swaps. The objective of the swaps is to more effectively balance our borrowing costs and interest rate risk.

[Table of Contents](#)

In November 2005, we entered into an interest rate swap to effectively convert our \$250 million debt issue, due in 2028, from a fixed rate of 7.125 percent to a floating rate based on a LIBOR spread. The terms of the swap mirror those of the debt, with interest paid semi-annually. This swap qualifies as a fair value hedge under GAAP. The gain or loss on this derivative instrument as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in current income as "Interest expense." The following table summarizes these gains and losses for the three and nine month periods presented below:

In millions Income Statement Classification	Three months ended				Nine months ended			
	September 29, 2013		September 30, 2012		September 29, 2013		September 30, 2012	
	Gain/(Loss) on Swaps	Gain/(Loss) on Borrowings	Gain/(Loss) on Swaps	Gain/(Loss) on Borrowings	Gain/(Loss) on Swaps	Gain/(Loss) on Borrowings	Gain/(Loss) on Swaps	Gain/(Loss) on Borrowings
Interest expense	\$ (6)	\$ 6	\$ 1	\$ (1)	\$ (34)	\$ 34	\$ 6	\$ (6)

**Cash Flow Hedging**

The following table summarizes the effect on our *Condensed Consolidated Statements of Income* for derivative instruments classified as cash flow hedges for the three and nine month periods presented below: The table does not include amounts related to ineffectiveness as it was not material for the periods presented.

In millions Derivatives in Cash Flow Hedging Relationships	Location of Gain/(Loss) Reclassified into Income (Effective Portion)	Three months ended				Nine months ended			
		Amount of Gain/(Loss) Recognized in AOCL on Derivative (Effective Portion)		Amount of Gain/(Loss) Reclassified from AOCL into Income (Effective Portion)		Amount of Gain/(Loss) Recognized in AOCL on Derivative (Effective Portion)		Amount of Gain/(Loss) Reclassified from AOCL into Income (Effective Portion)	
		September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Foreign currency forward contracts	Net sales	\$ 5	\$ 5	\$ (2)	\$ (1)	\$ (3)	\$ 8	\$ (4)	\$ (3)
Commodity swap contracts	Cost of sales	5	10	(2)	(3)	(4)	13	1	(8)
<b>Total</b>		<b>\$ 10</b>	<b>\$ 15</b>	<b>\$ (4)</b>	<b>\$ (4)</b>	<b>\$ (7)</b>	<b>\$ 21</b>	<b>\$ (3)</b>	<b>\$ (11)</b>

**Derivatives Not Designated as Hedging Instruments**

The following table summarizes the effect on our *Condensed Consolidated Statements of Income* for derivative instruments not classified as cash flow hedges for the three and nine month periods presented below:

In millions Derivatives Not Designated as Hedging Instruments	Location of Gain/(Loss) Recognized in Income on Derivatives	Three months ended		Nine months ended	
		Amount of Gain/(Loss) Recognized in Income on Derivatives		Amount of Gain/(Loss) Recognized in Income on Derivatives	
		September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Foreign currency forward contracts	Cost of sales	\$ (3)	\$ (1)	\$ —	\$ (4)
Foreign currency forward contracts	Other income (expense), net	19	13	(3)	18
Commodity swap contracts	Cost of sales	—	2	—	1
Commodity zero-cost collars	Cost of sales	2	1	(2)	1

**Fair Value Amount and Location of Derivative Instruments**

The following tables summarize the location and fair value of derivative instruments on our *Condensed Consolidated Balance Sheets*:

In millions	Fair Value		Balance Sheet Location
	Derivative Assets		
	September 29, 2013	December 31, 2012	
<b>Derivatives designated as hedging instruments</b>			
Interest rate contract	\$ 54	\$ 88	Other assets
Foreign currency forward contracts	4	2	Prepaid expenses and other current assets
Commodity swap contracts	—	1	Prepaid expenses and other current assets
Total derivatives designated as hedging instruments	<u>58</u>	<u>91</u>	
<b>Derivatives not designated as hedging instruments</b>			
Foreign currency forward contracts	1	1	Prepaid expenses and other current assets
Commodity call option contracts	1	1	Other assets
Total derivatives not designated as hedging instruments	<u>2</u>	<u>2</u>	
Total derivative assets	<u>\$ 60</u>	<u>\$ 93</u>	

In millions	Fair Value		Balance Sheet Location
	Derivative Liabilities		
	September 29, 2013	December 31, 2012	
<b>Derivatives designated as hedging instruments</b>			
Commodity swap contracts	\$ 5	\$ 2	Other accrued expenses
Total derivatives designated as hedging instruments	<u>5</u>	<u>2</u>	
<b>Derivatives not designated as hedging instruments</b>			
Foreign currency forward contracts	2	—	Other accrued expenses
Commodity put option contracts	1	1	Other accrued expenses
Total derivatives not designated as hedging instruments	<u>3</u>	<u>1</u>	
Total derivative liabilities	<u>\$ 8</u>	<u>\$ 3</u>	

We have elected to present our derivative contracts on a gross basis in our *Condensed Consolidated Balance Sheets*. Had we chosen to present on a net basis, we would have derivatives in a net asset position of \$55 million and derivatives in a net liability position of \$3 million.

**NOTE 14. OTHER COMPREHENSIVE INCOME (LOSS)**

Following are the changes in accumulated other comprehensive income (loss) by component for the three and nine months ended:

In millions	Three months ended						Noncontrolling interests	Total
	Change in pensions and other postretirement defined benefit plans	Foreign currency translation adjustment	Unrealized gain (loss) on marketable securities	Unrealized gain (loss) on derivatives	Total attributable to Cummins Inc.			
Balance at July 1, 2012	\$ (703)	\$ (237)	\$ 3	\$ (9)	\$ (946)			
Other comprehensive income before reclassifications								
Before tax amount	—	152	4	15	171	\$ 16	\$ 187	
Tax (provision) benefit	—	(37)	(2)	(4)	(43)	—	(43)	
After tax amount	—	115	2	11	128	16	144	
Amounts reclassified from accumulated other comprehensive income <sup>(1)</sup>	9	—	(1)	2	10	1	11	
Net current period other comprehensive income (loss)	9	115	1	13	138	\$ 17	\$ 155	
Balance at September 30, 2012	\$ (694)	\$ (122)	\$ 4	\$ 4	\$ (808)			
Balance at June 30, 2013	\$ (754)	\$ (338)	\$ 5	\$ (12)	\$ (1,099)			
Other comprehensive income before reclassifications								
Before tax amount	—	105	2	10	117	\$ (9)	\$ 108	
Tax (provision) benefit	—	(1)	1	(3)	(3)	—	(3)	
After tax amount	—	104	3	7	114	(9)	105	
Amounts reclassified from accumulated other comprehensive income <sup>(1)(2)</sup>	16	—	(2)	3	17	—	17	
Net current period other comprehensive income (loss)	16	104	1	10	131	\$ (9)	\$ 122	
Balance at September 29, 2013	\$ (738)	\$ (234)	\$ 6	\$ (2)	\$ (968)			

<sup>(1)</sup>Amounts are net of tax.

<sup>(2)</sup>See reclassifications out of accumulated other comprehensive income (loss) disclosure for details.



In millions	Nine months ended						
	Change in pensions and other postretirement defined benefit plans	Foreign currency translation adjustment	Unrealized gain (loss) on marketable securities	Unrealized gain (loss) on derivatives	Total attributable to Cummins Inc.	Noncontrolling interests	Total
Balance at December 31, 2011	\$ (724)	\$ (198)	\$ 4	\$ (20)	\$ (938)		
Other comprehensive income before reclassifications							
Before tax amount	2	90	6	21	119	\$ 2	\$ 121
Tax (provision) benefit	(1)	(14)	(3)	(6)	(24)	—	(24)
After tax amount	1	76	3	15	95	2	97
Amounts reclassified from accumulated other comprehensive income <sup>(1)</sup>	29	—	(3)	9	35	1	36
Net current period other comprehensive income (loss)	30	76	—	24	130	\$ 3	\$ 133
Balance at September 30, 2012	\$ (694)	\$ (122)	\$ 4	\$ 4	\$ (808)		
Balance at December 31, 2012	\$ (794)	\$ (161)	\$ 5	\$ —	\$ (950)		
Other comprehensive income before reclassifications							
Before tax amount	13	(86)	10	(7)	(70)	\$ (28)	\$ (98)
Tax (provision) benefit	(5)	13	(1)	2	9	—	9
After tax amount	8	(73)	9	(5)	(61)	(28)	(89)
Amounts reclassified from accumulated other comprehensive income <sup>(1)(2)</sup>	48	—	(8)	3	43	(3)	40
Net current period other comprehensive income (loss)	56	(73)	1	(2)	(18)	\$ (31)	\$ (49)
Balance at September 29, 2013	\$ (738)	\$ (234)	\$ 6	\$ (2)	\$ (968)		

<sup>(1)</sup>Amounts are net of tax.

<sup>(2)</sup>See reclassifications out of accumulated other comprehensive income (loss) disclosure for details.

[Table of Contents](#)

Following are the items reclassified out of accumulated other comprehensive income (loss) and the related tax effects:

In millions (Gain)/Loss Components	September 29, 2013		Statement of Income Location
	Three months ended	Nine months ended	
Realized (gain) loss on marketable securities	\$ (1)	\$ (12)	Other income (expense), net
Income tax expense	(1)	1	Income tax expense
Net realized (gain) loss on marketable securities	(2)	(11)	
Realized (gain) loss on derivatives			
Foreign currency forward contracts	2	4	Net sales
Commodity swap contracts	2	(1)	Cost of sales
Total before taxes	4	3	
Income tax expense	(1)	—	Income tax expense
Net realized (gain) loss on derivatives	3	3	
Change in pension and other postretirement defined benefit plans			
Recognized actuarial loss	24	71	(1)
Total before taxes	24	71	
Income tax expense	(8)	(23)	Income tax expense
Net change in pensions and other postretirement defined benefit plans	16	48	
Total reclassifications for the period	\$ 17	\$ 40	

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 4).

**NOTE 15. RESTRUCTURING AND OTHER CHARGES**

We executed restructuring actions primarily in the form of involuntary separation programs in the fourth quarter of 2012. These actions were in response to reduced demand in our U.S. businesses and most key markets around the world in the second half of 2012, as well as a reduction in orders in most U.S. and global markets for 2013. We reduced our worldwide professional workforce by approximately 650 employees, or 3 percent. We also reduced our hourly workforce by approximately 650 employees. During 2012, we incurred a pre-tax charge related to the professional and hourly workforce reductions of approximately \$49 million.

Employee termination and severance costs were recorded based on approved plans developed by the businesses and corporate management which specified positions to be eliminated, benefits to be paid under existing severance plans or statutory requirements and the expected timetable for completion of the plan. Estimates of restructuring were made based on information available at the time charges were recorded.

At September 29, 2013, of the approximately 1,300 employees affected by this plan, substantially all terminations have been completed.

During 2012, we recorded restructuring and other charges of \$52 million (\$35 million after-tax). The restructuring related accruals were recorded in “Other accrued expenses” in our *Condensed Consolidated Balance Sheets*. The following table summarizes the changes in the balance of accrued restructuring charges:

In millions	Workforce reductions
Balance at December 31, 2012	\$ 25
Cash payments for 2012 actions	(22)
Change in estimate	(3)
Balance at September 29, 2013	\$ —

**NOTE 16. OPERATING SEGMENTS**

Operating segments under GAAP are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Cummins chief operating decision-maker (CODM) is the Chief Executive Officer.

Our reportable operating segments consist of the following: Engine, Components, Power Generation and Distribution. This reporting structure is organized according to the products and markets each segment serves and allows management to focus its efforts on providing enhanced service to a wide range of customers. The Engine segment produces engines and parts for sale to customers in on-highway and various industrial markets. Our engines are used in trucks of all sizes, buses and recreational vehicles, as well as in various industrial applications, including construction, mining, agriculture, marine, oil and gas, rail and military equipment. The Components segment sells filtration products, aftertreatment systems, turbochargers and fuel systems. The Power Generation segment is an integrated provider of power systems, which sells engines, generator sets and alternators. The Distribution segment includes wholly-owned and partially-owned distributorships engaged in wholesaling engines, generator sets and service parts, as well as performing service and repair activities on our products and maintaining relationships with various OEMs throughout the world.

We use segment EBIT (defined as earnings before interest expense, taxes and noncontrolling interests) as a primary basis for the CODM to evaluate the performance of each of our operating segments. Segment amounts exclude certain expenses not specifically identifiable to segments.

The accounting policies of our operating segments are the same as those applied in our *Condensed Consolidated Financial Statements*. We prepared the financial results of our operating segments on a basis that is consistent with the manner in which we internally disaggregate financial information to assist in making internal operating decisions. We have allocated certain common costs and expenses, primarily corporate functions, among segments differently than we would for stand-alone financial information prepared in accordance with GAAP. These include certain costs and expenses of shared services, such as information technology, human resources, legal and finance. We also do not allocate debt-related items, actuarial gains or losses, prior service costs or credits, changes in cash surrender value of corporate owned life insurance, divestiture gains or losses or income taxes to individual segments. Segment EBIT may not be consistent with measures used by other companies.

Summarized financial information regarding our reportable operating segments for the three and nine month periods is shown in the table below:

In millions	Engine	Components	Power Generation	Distribution	Non-segment Items <sup>(1)</sup>	Total
<b>Three months ended September 29, 2013</b>						
External sales	\$ 2,045	\$ 784	\$ 499	\$ 938	\$ —	\$ 4,266
Intersegment sales	447	288	213	6	(954)	—
Total sales	2,492	1,072	712	944	(954)	4,266
Depreciation and amortization <sup>(2)</sup>	53	24	13	15	—	105
Research, development and engineering expenses	103	51	18	1	—	173
Equity, royalty and interest income from investees	31	5	13	42	—	91
Interest income	4	1	1	—	—	6
Segment EBIT	272	132	45	86	1	536
<b>Three months ended September 30, 2012</b>						
External sales	\$ 2,131	\$ 663	\$ 526	\$ 798	\$ —	\$ 4,118
Intersegment sales	396	275	288	3	(962)	—
Total sales	2,527	938	814	801	(962)	4,118
Depreciation and amortization <sup>(2)</sup>	48	21	12	8	—	89
Research, development and engineering expenses	115	51	19	1	—	186
Equity, royalty and interest income from investees	25	7	12	50	—	94
Interest income	2	1	2	—	—	5
Segment EBIT	239	89	73	99 <sup>(3)</sup>	(4)	496
<b>Nine months ended September 29, 2013</b>						
External sales	\$ 6,139	\$ 2,292	\$ 1,621	\$ 2,661	\$ —	\$ 12,713
Intersegment sales	1,312	915	651	15	(2,893)	—
Total sales	7,451	3,207	2,272	2,676	(2,893)	12,713
Depreciation and amortization <sup>(2)</sup>	156	71	37	40	—	304
Research, development and engineering expenses	310	165	53	4	—	532
Equity, royalty and interest income from investees	106	21	30	124	—	281
Interest income	13	2	5	1	—	21
Segment EBIT	806	387	172	281 <sup>(3)</sup>	(52)	1,594
<b>Nine months ended September 30, 2012</b>						
External sales	\$ 6,924	\$ 2,147	\$ 1,614	\$ 2,357	\$ —	\$ 13,042
Intersegment sales	1,303	926	889	13	(3,131)	—
Total sales	8,227	3,073	2,503	2,370	(3,131)	13,042
Depreciation and amortization <sup>(2)</sup>	142	59	34	23	—	258
Research, development and engineering expenses	341	153	56	4	—	554
Equity, royalty and interest income from investees	100	23	32	147	—	302
Interest income	9	3	7	1	—	20
Segment EBIT	996	348	243	285 <sup>(3)</sup>	(49)	1,823

<sup>(1)</sup>Includes intersegment sales and profit in inventory eliminations and unallocated corporate expenses. The three and nine months ended September 30, 2012, included a \$6 million gain (\$4 million after-tax) related to adjustments from our 2011 divestitures. The gain has been excluded from segment results as it was not considered in our evaluation of operating results for the corresponding periods. There were no other significant unallocated corporate expenses for the three and nine months ended September 29, 2013 and September 30, 2012.

<sup>(2)</sup>Depreciation and amortization as shown on a segment basis excludes the amortization of debt discount that is included in the *Condensed Consolidated Statements of Income* as "Interest expense."

<sup>(3)</sup>Distribution segment EBIT for the nine months ended September 29, 2013, included a \$7 million gain and \$5 million gain on the fair value adjustment resulting from the acquisitions of a controlling interest in Northwest and Rocky Mountain, respectively. Distribution segment EBIT for the three and nine months ended September 30, 2012, included a \$7 million gain on the fair value adjustment resulting from the acquisition of a controlling interest in Cummins Central Power.

A reconciliation of our segment information to the corresponding amounts in the *Condensed Consolidated Statements of Income* is shown in the table below:

In millions	Three months ended		Nine months ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Total EBIT	\$ 536	\$ 496	\$ 1,594	\$ 1,823
Less: Interest expense	8	9	22	25
Income before income taxes	\$ 528	\$ 487	\$ 1,572	\$ 1,798

#### NOTE 17. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In February 2013, the Financial Accounting Standards Board (FASB) amended its standards on comprehensive income by requiring disclosure in the footnotes of information about amounts reclassified out of accumulated other comprehensive income by component. Specifically, the amendment requires disclosure of the line items on net income in which the item was reclassified only if it is reclassified to net income in its entirety in the same reporting period. It also requires cross reference to other disclosures for amounts that are not reclassified in their entirety in the same reporting period. The new rules became effective for us beginning January 1, 2013 and were adopted prospectively in accordance with the standard. The standard resulted in new disclosures in NOTE 14, "OTHER COMPREHENSIVE INCOME (LOSS)."

In December 2011, the FASB amended its standards related to offsetting assets and liabilities. This amendment requires entities to disclose both gross and net information about certain instruments and transactions eligible for offset in the statement of financial position and certain instruments and transactions subject to an agreement similar to a master netting agreement. This information enables users of the financial statements to understand the effect of those arrangements on our financial position. The new rules became effective on January 1, 2013. In January 2013, the FASB further amended this standard to limit its scope to derivatives, repurchase and reverse repurchase agreements, securities borrowings and lending transactions. This standard resulted in new disclosures in NOTE 13, "DERIVATIVES."

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

Cummins Inc. and its consolidated subsidiaries are hereinafter sometimes referred to as "Cummins," "we," "our" or "us."

### CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

Certain parts of this quarterly report contain forward-looking statements intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements include those that are based on current expectations, estimates and projections about the industries in which we operate and management's beliefs and assumptions. Forward-looking statements are generally accompanied by words such as "anticipates," "expects," "forecasts," "intends," "plans," "believes," "seeks," "estimates," "could," "should" or words of similar meaning. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which we refer to as "future factors," which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Some future factors that could cause our results to differ materially from the results discussed in such forward-looking statements are discussed below and shareholders, potential investors and other readers are urged to consider these future factors carefully in evaluating forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. Future factors that could affect the outcome of forward-looking statements include the following:

- a sustained slowdown or significant downturn in our markets;
- a slowdown in infrastructure development;
- unpredictability in the adoption, implementation and enforcement of emission standards around the world;
- the actions of, and income from, joint ventures and other investees that we do not directly control;
- changes in the engine outsourcing practices of significant customers;
- a downturn in the North American truck industry or financial distress of a major truck customer;
- a major customer experiencing financial distress;
- any significant problems in our new engine platforms;
- currency exchange rate changes;
- supply shortages and supplier financial risk, particularly from any of our single-sourced suppliers;
- variability in material and commodity costs;
- product recalls;
- competitor pricing activity;
- increasing competition, including increased global competition among our customers in emerging markets;
- political, economic and other risks from operations in numerous countries;
- changes in taxation;
- the price and availability of energy;
- global legal and ethical compliance costs and risks;
- aligning our capacity and production with our demand;
- product liability claims;

[Table of Contents](#)

- the development of new technologies;
- obtaining customers for our new light-duty diesel engine platform and avoiding any related write-down in our investments in such platform;
- increasingly stringent environmental laws and regulations;
- the performance of our pension plan assets;
- labor relations;
- changes in accounting standards;
- our sales mix of products;
- protection and validity of our patent and other intellectual property rights;
- technological implementation and cost/financial risks in our increasing use of large, multi-year contracts;
- the cyclical nature of some of our markets;
- the outcome of pending and future litigation and governmental proceedings;
- continued availability of financing, financial instruments and financial resources in the amounts, at the times and on the terms required to support our future business;
- the consummation and integration of the planned acquisitions of our partially-owned United States and Canadian distributors and
- other risk factors described in our Form 10-K, Part I, Item 1A under the caption "Risk Factors" and in this Form 10-Q, Part II, Item 1A under the caption "Risk Factors."

Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are made only as of the date of this quarterly report and we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

**ORGANIZATION OF INFORMATION**

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) was prepared to provide the reader with a view and perspective of our business through the eyes of management and should be read in conjunction with our *Consolidated Financial Statements* and accompanying *Notes to Consolidated Financial Statements* in the “Financial Statements” section of our 2012 Form 10-K. Our MD&A is presented in the following sections:

- Executive Summary and Financial Highlights
- Outlook
- Results of Operations
- Operating Segment Results
- Liquidity and Capital Resources
- Application of Critical Accounting Estimates
- Recently Adopted Accounting Pronouncements



## EXECUTIVE SUMMARY AND FINANCIAL HIGHLIGHTS

We are a global power leader that designs, manufactures, distributes and services diesel and natural gas engines and engine-related component products, including filtration, aftertreatment, turbochargers, fuel systems, controls systems, air handling systems and electric power generation systems. We sell our products to original equipment manufacturers (OEMs), distributors and other customers worldwide. We have long-standing relationships with many of the leading manufacturers in the markets we serve, including PACCAR Inc, Daimler Trucks North America, Chrysler Group, LLC, Volvo AB, Komatsu, Navistar International Corporation, Aggreko plc, Ford Motor Company and MAN Nutzfahrzeuge AG. We serve our customers through a network of approximately 600 company-owned and independent distributor locations and approximately 6,500 dealer locations in more than 190 countries and territories.

Our reportable operating segments consist of the following: Engine, Components, Power Generation and Distribution. This reporting structure is organized according to the products and markets each segment serves and allows management to focus its efforts on providing enhanced service to a wide range of customers. The Engine segment produces engines and parts for sale to customers in on-highway and various industrial markets. Our engines are used in trucks of all sizes, buses and recreational vehicles, as well as in various industrial applications, including construction, mining, agriculture, marine, oil and gas, rail and military equipment. The Components segment sells filtration products, aftertreatment systems, turbochargers and fuel systems. The Power Generation segment is an integrated provider of power systems, which sells engines, generator sets and alternators. The Distribution segment includes wholly-owned and partially-owned distributorships engaged in wholesaling engines, generator sets and service parts, as well as performing service and repair activities on our products and maintaining relationships with various OEMs throughout the world.

Our financial performance depends, in large part, on varying conditions in the markets we serve, particularly the on-highway, construction and general industrial markets. Demand in these markets tends to fluctuate in response to overall economic conditions. Our sales may also be impacted by OEM inventory levels and production schedules and stoppages. Economic downturns in markets we serve generally result in reductions in sales and pricing of our products. As a worldwide business, our operations are also affected by currency, political, economic and regulatory matters, including adoption and enforcement of environmental and emission standards, in the countries we serve. As part of our growth strategy, we invest in businesses in certain countries that carry high levels of these risks such as China, Brazil, India, Mexico, Russia and countries in the Middle East and Africa. At the same time, our geographic diversity and broad product and service offerings have helped limit the impact from a drop in demand in any one industry or customer or the economy of any single country on our consolidated results.

Worldwide revenues increased 4 percent in the three months ended September 29, 2013, as compared to the same period in 2012, despite continued global economic uncertainty. Revenue in the U.S. and Canada improved by 11 percent driven by improved Distribution segment sales related to the consolidation of two partially-owned North American distributors since June of 2012 and an increase in Components segment sales driven by improved demand in the North American on-highway market. These increases were mostly offset by the reduced demand in the on-highway light-duty automotive and medium-duty bus markets as well as the off-highway construction and mining markets with reduced unit shipments of 23 percent, 1 percent, 31 percent and 9 percent, respectively, compared to the same period last year. International (excludes the United States and Canada) revenues declined by 4 percent primarily due to global economic uncertainty with sales down or relatively flat in most international markets. Declines were led by the off-highway mining market with reduced unit shipments of 43 percent, partially offset by growth in the medium-duty Brazilian truck market resulting in improved engine and component demand.

Worldwide revenues declined 3 percent in the first nine months of 2013 as compared to the same period in 2012, as global economic uncertainty continued during the period. International revenues declined by 6 percent primarily due to global economic uncertainty with sales down or relatively flat in most international markets. Declines were led by the off-highway mining market with reduced unit shipments of 39 percent, partially offset by growth in the medium-duty Brazilian truck market resulting in improved engine and component demand. Revenue in the U.S. and Canada improved by 1 percent driven by improved Distribution segment sales related to the consolidation of two partially-owned North American distributors since June of 2012 and an increase in Components segment sales driven by the acquisition of the doser technology from Hilite Germany GmbH (Hilite) in the third quarter of 2012. These increases were mostly offset by the reduced demand in the on-highway heavy-duty truck and medium-duty bus markets as well as the off-highway oil and gas and mining markets with reduced unit shipments of 19 percent, 21 percent, 41 percent and 28 percent, respectively, compared to the same period last year.

The European economy remains uncertain, however volatility in the Euro zone countries stabilized somewhat in the third quarter of 2013. Although we do not have any significant direct exposure to European sovereign debt, we generated approximately 8 percent of our net sales from Euro zone countries in 2012 and approximately 8 percent in the first nine months of 2013.

[Table of Contents](#)

The following tables contain sales and earnings before interest expense, income taxes and noncontrolling interests (EBIT) results by operating segment for three and nine month periods ended September 29, 2013 and September 30, 2012. Refer to the section titled "Operating Segment Results" for a more detailed discussion of net sales and EBIT by operating segment, including the reconciliation of segment EBIT to income before taxes.

Operating Segments	Three months ended							
	September 29, 2013			September 30, 2012			Percent change	
	In millions	Percent		Sales	Percent		2013 vs. 2012	
Sales		of Total	EBIT		Sales	of Total	Sales	EBIT
Engine	\$ 2,492	58 %	\$ 272	\$ 2,527	61 %	\$ 239	(1)%	14 %
Components	1,072	25 %	132	938	23 %	89	14 %	48 %
Power Generation	712	17 %	45	814	20 %	73	(13)%	(38)%
Distribution	944	22 %	86	801	19 %	99	18 %	(13)%
Intersegment eliminations	(954)	(22)%	—	(962)	(23)%	—	(1)%	—
Non-segment	—	—	1	—	—	(4)	—	NM
<b>Total</b>	<b>\$ 4,266</b>	<b>100 %</b>	<b>\$ 536</b>	<b>\$ 4,118</b>	<b>100 %</b>	<b>\$ 496</b>	<b>4 %</b>	<b>8 %</b>

"NM" - not meaningful information

Net income attributable to Cummins was \$355 million, or \$1.90 per diluted share, on sales of \$4.3 billion for the three month interim reporting period ended September 29, 2013, versus the comparable prior year period with net income attributable to Cummins of \$352 million, or \$1.86 per diluted share, on sales of \$4.1 billion. The increase in income and earnings per share was driven by improved gross margin as a percentage of sales, partially offset by a higher effective tax rate of 29.2 percent versus 24.1 percent in the comparable prior year period and higher selling, general and administrative expenses. The improved gross margin was the result of favorable price realization, lower material and commodity costs and higher volumes, partially offset by unfavorable product mix.

Operating Segments	Nine months ended							
	September 29, 2013			September 30, 2012			Percent change	
	In millions	Percent		Sales	Percent		2013 vs. 2012	
Sales		of Total	EBIT		Sales	of Total	Sales	EBIT
Engine	\$ 7,451	59 %	\$ 806	\$ 8,227	63 %	\$ 996	(9)%	(19)%
Components	3,207	25 %	387	3,073	24 %	348	4 %	11 %
Power Generation	2,272	18 %	172	2,503	19 %	243	(9)%	(29)%
Distribution	2,676	21 %	281	2,370	18 %	285	13 %	(1)%
Intersegment eliminations	(2,893)	(23)%	—	(3,131)	(24)%	—	(8)%	—
Non-segment	—	—	(52)	—	—	(49)	—	6 %
<b>Total</b>	<b>\$ 12,713</b>	<b>100 %</b>	<b>\$ 1,594</b>	<b>\$ 13,042</b>	<b>100 %</b>	<b>\$ 1,823</b>	<b>(3)%</b>	<b>(13)%</b>

Net income attributable to Cummins was \$1,051 million, or \$5.60 per diluted share, on sales of \$12.7 billion for the nine month interim reporting period ended September 29, 2013, versus the comparable prior year period with net income attributable to Cummins of \$1,276 million, or \$6.72 per diluted share, on sales of \$13.0 billion. The decrease in income was driven by lower gross margin as a percentage of sales, a higher effective tax rate of 28.3 percent versus 25.5 percent in the comparable prior year period and lower equity, royalty and interest income from investees. The decrease in gross margin was due to unfavorable product mix and lower volumes, partially offset by favorable price realization and lower material and commodity costs.

Diluted earnings per share for the nine months ended September 29, 2013, benefited \$0.04 from lower shares outstanding, primarily due to purchases under the stock repurchase program.

We generated \$1,333 million of operating cash flows for the nine months ended September 29, 2013, compared to \$787 million for the nine months ended September 30, 2012. Refer to the section titled "Operating Activities" in the "Liquidity and Capital Resources" section for a discussion of items impacting cash flows.

In the second quarter of 2013, we repurchased the remaining \$226 million of common stock under the February 2011, \$1 billion Board of Directors authorization, completing the program. In December 2012, the Board of Directors authorized the acquisition of up to \$1 billion of additional common stock upon completion of the 2011 repurchase plan. We repurchased \$63 million under this new plan during 2013.

On September 16, 2013, we filed an automatic shelf registration for an undetermined amount of debt and equity securities. On September 19, 2013, we issued \$1 billion aggregate principal amount of senior notes consisting of \$500 million of 3.65% senior unsecured notes due in 2023 and \$500 million of 4.875% senior unsecured notes due in 2043. Standard & Poor's Rating Services, Fitch Ratings and Moody's Investors Service, Inc. confirmed our credit ratings as 'A', 'A' and 'A3', respectively, subsequent to the third quarter issuance of \$1 billion in senior notes.

Our debt to capital ratio (total capital defined as debt plus equity) at September 29, 2013, was 19.4 percent, compared to 10.0 percent at December 31, 2012. In addition to the \$2.7 billion in cash and marketable securities on hand, we also have access to our credit facilities, if necessary, to meet currently anticipated investment and funding needs.

In July 2013, the Board of Directors authorized a dividend increase of 25 percent from \$0.50 per share to \$0.625 per share on a quarterly basis.

Our global pension plans, including our unfunded and non-qualified plans, were 98 percent funded at December 31, 2012. Our U.S. qualified plan, which represents approximately 60 percent of the worldwide pension obligation, was 106 percent funded and our United Kingdom (U.K.) plan was 104 percent funded. We expect to contribute \$170 million to our global pension plans in 2013.

## **OUTLOOK**

### **Near-Term**

In the third quarter of 2013, demand continued to improve in several end markets in North America compared to the same period in the prior year, led by increased demand in our emission solutions business and market share gains in the North American medium-duty truck market. Demand remained weak in most international markets due to lower demand for power generation equipment and engines for mining applications.

We currently expect the following positive trends for the remainder of 2013:

- Our market share gains in the North American medium-duty truck market are expected to continue through the remainder of the year and should positively impact sales in both the Engine segment and Components businesses.
- Demand in our North American on-highway markets is expected to remain steady.

We currently expect the following challenges to our business that may reduce our earnings potential for the remainder of 2013:

- Demand for engines for mining applications will remain weak.
- Demand in most end markets in India is expected to remain weak.
- Demand for power generation equipment in our international markets is expected to remain weak.
- Demand in certain European markets could continue to remain sluggish due to economic uncertainty.
- Currency volatility could put pressure on earnings.

**Long-Term**

We believe that, over the longer term, there will be economic improvements in most of our current markets and that our opportunities for long-term profitable growth will continue in the future as the result of the following four macroeconomic trends that should benefit our businesses:

- tightening emissions standards across the world;
- infrastructure needs in emerging markets;
- energy availability and cost issues and
- globalization of industries like ours.

**RESULTS OF OPERATIONS**

In millions (except per share amounts)	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 29,	September 30,	Amount	Percent	September 29,	September 30,	Amount	Percent
	2013	2012			2013	2012		
<b>NET SALES</b>	\$ 4,266	\$ 4,118	\$ 148	4 %	\$ 12,713	\$ 13,042	\$ (329)	(3)%
Cost of sales	3,157	3,076	(81)	(3)%	9,494	9,592	98	1 %
<b>GROSS MARGIN</b>	<b>1,109</b>	<b>1,042</b>	<b>67</b>	<b>6 %</b>	<b>3,219</b>	<b>3,450</b>	<b>(231)</b>	<b>(7)%</b>
<b>OPERATING EXPENSES AND INCOME</b>								
Selling, general and administrative expenses	492	456	(36)	(8)%	1,420	1,418	(2)	— %
Research, development and engineering expenses	173	186	13	7 %	532	554	22	4 %
Equity, royalty and interest income from investees	91	94	(3)	(3)%	281	302	(21)	(7)%
Gain on sale of businesses	—	—	—	— %	—	6	(6)	(100)%
Other operating income (expense), net	(11)	(1)	(10)	NM	—	3	(3)	(100)%
<b>OPERATING INCOME</b>	<b>524</b>	<b>493</b>	<b>31</b>	<b>6 %</b>	<b>1,548</b>	<b>1,789</b>	<b>(241)</b>	<b>(13)%</b>
Interest income	6	5	1	20 %	21	20	1	5 %
Interest expense	8	9	1	11 %	22	25	3	12 %
Other income (expense), net	6	(2)	8	NM	25	14	11	79 %
<b>INCOME BEFORE INCOME TAXES</b>	<b>528</b>	<b>487</b>	<b>41</b>	<b>8 %</b>	<b>1,572</b>	<b>1,798</b>	<b>(226)</b>	<b>(13)%</b>
Income tax expense	154	117	(37)	(32)%	445	458	13	3 %
<b>CONSOLIDATED NET INCOME</b>	<b>374</b>	<b>370</b>	<b>4</b>	<b>1 %</b>	<b>1,127</b>	<b>1,340</b>	<b>(213)</b>	<b>(16)%</b>
Less: Net income attributable to noncontrolling interests	19	18	(1)	(6)%	76	64	(12)	(19)%
<b>NET INCOME ATTRIBUTABLE TO CUMMINS INC.</b>	<b>\$ 355</b>	<b>\$ 352</b>	<b>\$ 3</b>	<b>1 %</b>	<b>\$ 1,051</b>	<b>\$ 1,276</b>	<b>\$ (225)</b>	<b>(18)%</b>
<b>Diluted earnings per common share attributable to Cummins Inc.</b>	<b>\$ 1.90</b>	<b>\$ 1.86</b>	<b>\$ 0.04</b>	<b>2 %</b>	<b>\$ 5.60</b>	<b>\$ 6.72</b>	<b>\$ (1.12)</b>	<b>(17)%</b>

Percent of sales	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 29,	September 30,	Percentage Points	Percentage Points	September 29,	September 30,	Percentage Points	Percentage Points
	2013	2012			2013	2012		
Gross margin	26.0%	25.3%	0.7	25.3%	26.5%	(1.2)		
Selling, general and administrative expenses	11.5%	11.1%	(0.4)	11.2%	10.9%	(0.3)		
Research, development and engineering expenses	4.1%	4.5%	0.4	4.2%	4.2%	—		

**Net Sales**

Net sales for the three months ended September 29, 2013, increased slightly versus the comparable period in 2012, primarily due to the impacts from the acquisitions of two partially-owned North American distributors, Cummins Northwest LLC (Northwest) in the first quarter of 2013 and Cummins Rocky Mountain LLC (Rocky Mountain) in the second quarter of 2013. The primary drivers by segment were as follows:

- Distribution segment sales increased by 18 percent primarily due to the acquisitions of two North American distributors.
- Components segment sales increased by 14 percent due to improved demand in the North American on-highway markets and the impact from the 2012 acquisition of Hilite.

These increases were partially offset by the following:

- Engine segment sales decreased by 1 percent due to lower demand in power generation markets and industrial markets, primarily in global mining and North American construction markets, partially offset by increased demand in

the North American, European and Brazilian medium-duty truck markets and the North American heavy-duty truck markets.

- Power Generation segment sales decreased by 13 percent across all business, mainly due to lower volumes within the power systems and the power solutions businesses.
- Foreign currency fluctuations unfavorably impacted sales.

Net sales for the nine months ended September 29, 2013, decreased versus the comparable period in 2012. The decrease in sales by segment was primarily driven by the following:

- Engine segment sales decreased by 9 percent due to weakness in industrial demand, especially in global mining and North American oil and gas markets, weaker demand in the North American heavy-duty truck market and lower demand in power generation markets.
- Power Generation segment sales decreased by 9 percent due to lower demand in the power solutions business, primarily in the U.K., and lower demand in the power systems and the generator technologies businesses, which were partially offset by improvements in the North American power products business.

These decreases were partially offset by the following:

- Distribution segment sales increased 13 percent primarily due to the acquisitions of two North American distributors.
- Components segment sales increased by 4 percent due to sales related to the 2012 acquisition of Hilite and improved demand in the emissions solutions business, as the result of increased on-highway OEM and aftermarket demand in North America and higher demand in Brazil and Russia.

A more detailed discussion of sales by segment is presented in the “OPERATING SEGMENT RESULTS” section.

Sales to international markets, based on location of customers, for the three and nine month periods ended September 29, 2013 were 46 percent and 48 percent, respectively, of total net sales compared with 50 percent of total net sales for both of the comparable periods in 2012.

### **Gross Margin**

Gross margin increased for the three months ended September 29, 2013, versus the comparable period in 2012, and increased as a percentage of sales by 0.7 percentage points as improved price realization, lower material and commodity costs and higher volumes were partially offset by unfavorable product mix. Gross margin decreased for the nine months ended September 29, 2013, versus the comparable period in 2012, and decreased as a percentage of sales by 1.2 percentage points as unfavorable product mix and lower volumes were partially offset by improved price realization and lower material and commodity costs.

The provision for warranties issued as a percent of sales for the three and nine month periods ended September 29, 2013 were 2.0 percent and 2.2 percent, respectively, compared to 2.0 percent and 2.3 percent for the comparable periods in 2012. A more detailed discussion of margin by segment is presented in the “OPERATING SEGMENT RESULTS” section.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses for the three month period ended September 29, 2013, increased versus the comparable period in 2012, primarily due to increased compensation and related expenses of \$18 million and higher consulting of \$6 million. Compensation and related expenses include salaries, fringe benefits and variable compensation.

Selling, general and administrative expenses for the nine month period ended September 29, 2013, increased versus the comparable period in 2012, primarily due to increased compensation and related expenses of \$46 million, partially offset by lower consulting of \$22 million, reduced discretionary spending and lower variable compensation.

**Research, Development and Engineering Expenses**

Research, development and engineering expenses for the three and nine month periods ended September 29, 2013, decreased versus the comparable periods in 2012, primarily due to a decreased number of engineering programs of \$18 million and \$23 million, respectively and decreased consulting of \$10 million and \$23 million, respectively, partially offset by increases of \$12 million and \$41 million, respectively, in compensation related expenses. Compensation and related expenses include salaries, fringe benefits and variable compensation. Research activities continue to focus on development of new products to meet future emission standards around the world and improvements in fuel economy performance.

**Equity, Royalty and Interest Income From Investees**

Equity, royalty and interest income from investees decreased for the three months ended September 29, 2013, versus the comparable period in 2012. Equity, royalty and interest income from investees decreased for the nine months ended September 29, 2013, versus the comparable period in 2012. The primary drivers were as follows:

In millions	Increase/(Decrease)	
	September 29, 2013 vs. September 30, 2012	
	Three months ended	Nine months ended
North American distributors	\$ (3)	\$ (17)
Komatsu Cummins Chile, Ltda.	(3)	(3)
Valvoline Cummins, Ltd.	(2)	(1)
Xian Cummins Engine Company Ltd.	(1)	6
Cummins Westport, Inc.	—	(6)
Beijing Foton Cummins Engine Co., Ltd.	1	11
Chongqing Cummins Engine Company, Ltd.	1	(5)
Tata Cummins, Ltd.	1	(3)
Komatsu manufacturing alliances	1	4
Dongfeng Cummins Engine Company, Ltd.	4	3
Other equity income	(1)	(7)
Cummins share of net income	(2)	(18)
Royalty and interest income	(1)	(3)
Equity, royalty and interest income from investees	\$ (3)	\$ (21)

The overall decrease for the three months ended September 29, 2013, was primarily due to the consolidation of two partially-owned North American distributors and decreased demand at Komatsu Cummins Chile, Ltda., partially offset by increased demand at Dongfeng Cummins Engine Company, Ltd.

The overall decrease for the nine months ended September 29, 2013, was primarily due to the consolidation of two partially-owned North American distributors, partially offset by increased demand at Beijing Foton Cummins Engine Co., Ltd.

As we execute our plan to acquire partially-owned distributors over the next three to five years, over time equity earnings for our North American distributors will decrease.

See Note 3, "ACQUISITIONS AND DIVESTITURES," to the *Condensed Consolidated Financial Statements* for further information.

**Gain on Sale of Businesses**

In the second quarter of 2012, we recorded an additional \$6 million gain (\$4 million after-tax) related to final purchase adjustments for our 2011 divestitures. The gain was excluded from segment results as it was not considered in our evaluation of operating results for the nine months ended September 30, 2012.

### Other Operating Income (Expense), net

Other operating income (expense) was as follows:

In millions	Three months ended		Nine months ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Legal settlement	\$ (8)	\$ —	\$ (2)	\$ —
Amortization of intangible assets	(3)	(2)	(8)	(5)
Royalty expense	(2)	(1)	(3)	(3)
Gain (loss) on sale of fixed assets	(2)	—	(2)	—
Royalty income	5	3	15	11
Other, net	(1)	(1)	—	—
Total other operating income (expense), net	\$ (11)	\$ (1)	\$ —	\$ 3

### Interest Income

Interest income was relatively flat for both the three and nine months ended September 29, 2013, versus the comparable periods in 2012.

### Interest Expense

Interest expense was relatively flat for the three months ended September 29, 2013, versus the comparable period in 2012. Interest expense for the nine months ended September 29, 2013, decreased versus the comparable period in 2012, primarily due to the \$45 million repayment of Brazilian debt in the second half of 2012 and lower amortization of prepaid revolver fees. Interest expense will increase in future periods as a result of the \$1 billion debt issuance in September 2013.

### Other Income (Expense), net

Other income (expense) was as follows:

In millions	Three months ended		Nine months ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Change in cash surrender value of corporate owned life insurance	\$ 7	\$ (7)	\$ 5	\$ 3
Gain (loss) on marketable securities, net	1	1	12	4
Dividend income	1	2	4	5
Gain on fair value adjustment for consolidated investee (1)	—	7	12	7
Bank charges	(3)	(4)	(8)	(12)
Foreign currency gains (losses), net	(6)	(8)	(21)	(9)
Other, net	6	7	21	16
Total other income (expense), net	\$ 6	\$ (2)	\$ 25	\$ 14

(1) See Note 3, "ACQUISITIONS AND DIVESTITURES," to the *Condensed Consolidated Financial Statements* for further information.

### Income Tax Expense

Our effective tax rate for the year is expected to approximate 28.5 percent, excluding any one-time items that may arise. Our tax rate is generally less than the 35 percent U.S. statutory income tax rate primarily due to lower tax rates on foreign income and research tax credits. The tax rates for the three and nine month periods ended September 29, 2013, were 29.2 percent and 28.3 percent, respectively. These tax rates include a \$7 million discrete net tax expense for the third quarter tax adjustments: \$4 million expense attributable to prior year tax return true-up adjustments, \$1 million benefit related to release of prior year tax reserves and a discrete tax charge for \$4 million related to a third quarter enactment of U.K. tax law changes. In addition,



the nine month tax rate includes a discrete tax benefit in the first quarter of 2013 of \$28 million attributable to the reinstatement of the research credit back to 2012, as well as a discrete tax expense in the first quarter of 2013 of \$17 million, which primarily relates to the write-off of a deferred tax asset deemed unrecoverable. On January 2, 2013, the American Taxpayer Relief Act of 2012 was signed into law and reinstated the research tax credit. As tax law changes are accounted for in the period of enactment, we recognized the discrete tax benefit in the first quarter of 2013.

Our tax rates for the three and nine month periods ended September 30, 2012, were 24.1 percent and 25.5 percent, respectively. These tax rates include a \$16 million tax benefit for third quarter discrete tax adjustments, \$6 million of which related to a dividend distribution of accumulated foreign income earned in prior years. These discrete tax adjustments also included a discrete tax benefit of \$13 million for prior year tax return true-up adjustments and a discrete tax charge of \$3 million related to the third quarter enactment of U.K. tax law changes. The increase in the 2013 effective tax rates compared to 2012 is primarily due to unfavorable changes in the pre-tax mix of income taxed in higher rate jurisdictions and discrete tax items.

In September 2013, the Internal Revenue Service released final tangible personal property regulations regarding the deduction and capitalization of expenditures related to tangible property. The new rules will become effective for taxable years beginning on or after January 1, 2014. While we are still finalizing our analysis, we do not believe that these regulations will have a material impact on our Consolidated Financial Statements.

#### **Net Income Attributable to Cummins Inc. and Diluted Earnings Per Share Attributable to Cummins Inc.**

Net income and diluted earnings per share attributable to Cummins for the three months ended September 29, 2013, increased versus the comparable period in 2012, primarily due to higher gross margin as a percentage of sales, mainly driven by higher price realization, favorable changes in cash surrender value of corporate owned life insurance and lower research, development and engineering expenses, which were partially offset by increased selling, general and administrative expenses, a higher effective tax rate and a legal settlement.

Net income and diluted earnings per share attributable to Cummins for the nine months ended September 29, 2013, decreased versus the comparable period in 2012, primarily due to lower gross margin as a percentage of sales, mainly driven by unfavorable product mix and lower volumes, a higher effective tax rate and lower equity, royalty and interest income from investees. These decreases were partially offset by lower research, development and engineering expenses. Diluted earnings per share for the nine months ended September 29, 2013, benefited \$0.04 from lower shares outstanding, primarily due to purchases under the stock repurchase program.

#### **OPERATING SEGMENT RESULTS**

Our reportable operating segments consist of the following: Engine, Components, Power Generation and Distribution. This reporting structure is organized according to the products and markets each segment serves. We use segment EBIT as the primary basis for the chief operating decision-maker to evaluate the performance of each operating segment.

Following is a discussion of results for each of our operating segments.

## Engine Segment Results

Financial data for the Engine segment was as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 29,	September 30,	Amount	Percent	September 29,	September 30,	Amount	Percent
	2013	2012			2013	2012		
External sales	\$ 2,045	\$ 2,131	\$ (86)	(4)%	\$ 6,139	\$ 6,924	\$ (785)	(11)%
Intersegment sales	447	396	51	13 %	1,312	1,303	9	1 %
Total sales	2,492	2,527	(35)	(1)%	7,451	8,227	(776)	(9)%
Depreciation and amortization	53	48	(5)	(10)%	156	142	(14)	(10)%
Research, development and engineering expenses	103	115	12	10 %	310	341	31	9 %
Equity, royalty and interest income from investees	31	25	6	24 %	106	100	6	6 %
Interest income	4	2	2	100 %	13	9	4	44 %
Segment EBIT	272	239	33	14 %	806	996	(190)	(19)%
			Percentage Points				Percentage Points	
Segment EBIT as a percentage of total sales	10.9%	9.5%		1.4	10.8%	12.1%		(1.3)

Engine segment net sales by market were as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 29,	September 30,	Amount	Percent	September 29,	September 30,	Amount	Percent
	2013	2012			2013	2012		
Heavy-duty truck	\$ 690	\$ 656	\$ 34	5 %	\$ 2,067	\$ 2,355	\$ (288)	(12)%
Medium-duty truck and bus	570	478	92	19 %	1,613	1,516	97	6 %
Light-duty automotive and RV	330	353	(23)	(7)%	935	936	(1)	— %
Total on-highway	1,590	1,487	103	7 %	4,615	4,807	(192)	(4)%
Industrial	709	766	(57)	(7)%	2,185	2,486	(301)	(12)%
Stationary power	193	274	(81)	(30)%	651	934	(283)	(30)%
Total sales	\$ 2,492	\$ 2,527	\$ (35)	(1)%	\$ 7,451	\$ 8,227	\$ (776)	(9)%

Unit shipments by engine classification (including unit shipments to Power Generation) were as follows:

	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 29,	September 30,	Amount	Percent	September 29,	September 30,	Amount	Percent
	2013	2012			2013	2012		
Midrange	113,800	113,000	800	1 %	330,300	332,000	(1,700)	(1)%
Heavy-duty	26,500	26,000	500	2 %	79,700	95,000	(15,300)	(16)%
High-horsepower	3,500	4,600	(1,100)	(24)%	11,300	15,900	(4,600)	(29)%
Total unit shipments	143,800	143,600	200	— %	421,300	442,900	(21,600)	(5)%

## Sales

Engine segment sales for the three months ended September 29, 2013, decreased slightly versus the comparable period in 2012. The following were the primary drivers by market:

- Stationary power engine sales decreased due to lower demand in power generation markets.

[Table of Contents](#)

- Industrial market sales decreased primarily due to a 38 percent reduction in global mining shipments due to lower commodity prices and a 31 percent decline in engine shipments to the North American construction markets.

The decreases above were partially offset by the following:

- Medium-duty truck sales increased due to market share gains in the North American medium-duty truck market and increased demand in the Brazilian and European truck markets.
- Heavy-duty truck engine sales increased due to higher demand in North America and East Asia on-highway markets, which were partially offset by decreased sales in Mexico.

Total on-highway-related sales for the three months ended September 29, 2013, were 64 percent of total engine segment sales, compared to 59 percent for the comparable period in 2012.

Engine segment sales for the nine months ended September 29, 2013, decreased versus the comparable period in 2012. The following were the primary drivers:

- Industrial market sales decreased primarily due to a 37 percent reduction in global mining shipments due to lower commodity prices and a 41 percent decline in engine shipments to the North American oil and gas markets.
- Heavy-duty truck engine sales decreased due to weaker demand in North American on-highway markets during the first half of the year.
- Stationary power engine sales decreased due to lower demand in power generation markets.

These decreases were partially offset by increased medium-duty truck sales due to market share gains in the North American medium-duty truck market and improved demand in the Brazilian and European truck markets. The improved sales in Brazil were due to lower sales in the second quarter of 2012 as the result of pre-buy activity in 2011 ahead of the implementation of the Euro V emission regulations beginning in the first quarter of 2012.

Total on-highway-related sales for the nine months ended September 29, 2013, were 62 percent of total engine segment sales, compared to 58 percent for the comparable period in 2012.

**Segment EBIT**

Engine segment EBIT for the three months ended September 29, 2013, increased versus the comparable period in 2012. Higher gross margin, lower research, development and engineering expenses and higher equity, royalty and interest income from investees were partially offset by higher selling, general and administrative expenses. Engine segment EBIT for the nine months ended September 29, 2013, decreased versus the comparable period in 2012, primarily due to lower gross margin, partially offset by lower research, development and engineering expenses, higher equity, royalty and interest income from investees and lower selling, general and administrative expenses. Changes in Engine segment EBIT and EBIT as a percentage of sales were as follows:

In millions	Three months ended			Nine months ended		
	September 29, 2013 vs. September 30, 2012			September 29, 2013 vs. September 30, 2012		
	Favorable/(Unfavorable) Change			Favorable/(Unfavorable) Change		
	Amount	Percent	Percentage point change as a percent of sales	Amount	Percent	Percentage point change as a percent of sales
Gross margin	\$ 39	8 %	1.8	\$ (240)	(13)%	(0.9)
Selling, general and administrative expenses	(18)	(10)%	(0.8)	4	1 %	(0.7)
Research, development and engineering expenses	12	10 %	0.5	31	9 %	(0.1)
Equity, royalty and interest income from investees	6	24 %	0.2	6	6 %	0.2

The increase in gross margin for the three months ended September 29, 2013, versus the comparable period in 2012, was primarily due to improved price realization, lower material and commodity costs, lower product coverage costs and favorable foreign currency fluctuations, partially offset by unfavorable product mix. The increase in selling, general and administrative expenses was primarily due to increased headcount, higher variable compensation and higher discretionary spending. The decrease in research, development and engineering expenses was primarily due to lower discretionary spending in the third

quarter of 2013, partially offset by higher variable compensation and increased headcount. The increase in equity, royalty and interest income from investees was primarily due to increased earnings at Dongfeng Cummins Engine Company, Ltd.

The decrease in gross margin for the nine months ended September 29, 2013, versus the comparable period in 2012, was primarily due to unfavorable product mix and decreased volumes, partially offset by improved price realization, decreased material and commodity costs, lower product coverage costs and favorable foreign currency fluctuations. The decrease in selling, general and administrative expenses was primarily due to lower discretionary spending and decreased variable compensation, partially offset by increased headcount. The decrease in research, development and engineering expenses was primarily due to lower discretionary spending in 2013. The increase in equity, royalty and interest income from investees was primarily due to increased earnings at Beijing Foton Cummins Engine Co., Ltd., Xian Cummins Engine Company Ltd. and Dongfeng Cummins Engine Company, Ltd.

### Components Segment Results

Financial data for the Components segment was as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 29, 2013	September 30, 2012	Amount	Percent	September 29, 2013	September 30, 2012	Amount	Percent
External sales	\$ 784	\$ 663	\$ 121	18 %	\$ 2,292	\$ 2,147	\$ 145	7 %
Intersegment sales	288	275	13	5 %	915	926	(11)	(1)%
Total sales	1,072	938	134	14 %	3,207	3,073	134	4 %
Depreciation and amortization	24	21	(3)	(14)%	71	59	(12)	(20)%
Research, development and engineering expenses	51	51	—	— %	165	153	(12)	(8)%
Equity, royalty and interest income from investees	5	7	(2)	(29)%	21	23	(2)	(9)%
Interest income	1	1	—	— %	2	3	(1)	(33)%
Segment EBIT	132	89	43	48 %	387	348	39	11 %
			Percentage Points				Percentage Points	
Segment EBIT as a percentage of total sales	12.3%	9.5%		2.8	12.1%	11.3%		0.8

Sales for our Components segment by business were as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 29, 2013	September 30, 2012	Amount	Percent	September 29, 2013	September 30, 2012	Amount	Percent
Emission solutions	\$ 458	\$ 325	\$ 133	41 %	\$ 1,302	\$ 1,078	\$ 224	21 %
Turbo technologies	263	257	6	2 %	823	852	(29)	(3)%
Filtration	248	260	(12)	(5)%	774	796	(22)	(3)%
Fuel systems	103	96	7	7 %	308	347	(39)	(11)%
Total sales	\$ 1,072	\$ 938	\$ 134	14 %	\$ 3,207	\$ 3,073	\$ 134	4 %

### Sales

Components segment sales for the three months ended September 29, 2013, increased versus the comparable period in 2012 as emission solutions business sales increased primarily due to improved demand in the North American and international on-highway markets and the impact of our 2012 acquisition of Hilite. These increases were partially offset by unfavorable foreign currency fluctuations. Acquisition related sales were \$36 million in the third quarter of 2013, compared to \$21 million recognized in the third quarter of 2012 following the Hilite acquisition.

The increase in the emission solutions business was partially offset by lower filtration business sales, primarily due to weaker aftermarket demand in Brazil, Australia, Europe and North America and unfavorable foreign currency fluctuations.

Components segment sales for the nine months ended September 29, 2013, increased versus the comparable period in 2012 as emission solutions business sales increased primarily due to the impact of our 2012 acquisition of Hilite, improved on-highway OEM and aftermarket demand in North America and increased demand in Russia and Brazil, partially offset by unfavorable foreign currency fluctuations. Incremental Hilite related sales were \$70 million in the first nine months of 2013, compared to the same period in 2012.

The increase in the emission solutions business was partially offset by the following:

- Fuel systems business sales decreased primarily due to lower demand in North American on-highway markets and lower demand in Europe, partially offset by increased aftermarket demand.
- Turbo technologies business sales decreased primarily due to a decline in North American OEM demand, partially offset by higher demand in China and Brazil.
- Filtration business sales decreased primarily due to unfavorable foreign currency fluctuations and lower aftermarket demand.

**Segment EBIT**

Components segment EBIT for the three months ended September 29, 2013, increased versus the comparable period in 2012, primarily due to higher gross margin, partially offset by higher selling, general and administrative expenses and lower equity, royalty and interest income. Components segment EBIT for the nine months ended September 29, 2013, increased versus the comparable period in 2012, primarily due to higher gross margin and lower selling, general and administrative expenses, partially offset by higher research, development and engineering expenses, lower equity, royalty and interest income and unfavorable currency fluctuations. Changes in Components segment EBIT and EBIT as a percentage of sales were as follows:

In millions	Three months ended September 29, 2013 vs. September 30, 2012			Nine months ended September 29, 2013 vs. September 30, 2012		
	Favorable/(Unfavorable) Change			Favorable/(Unfavorable) Change		
	Amount	Percent	Percentage point change as a percent of sales	Amount	Percent	Percentage point change as a percent of sales
Gross margin	\$ 47	24 %	1.7	\$ 53	8 %	0.8
Selling, general and administrative expenses	(3)	(4)%	0.6	7	3 %	0.5
Research, development and engineering expenses	—	— %	0.6	(12)	(8)%	(0.1)
Equity, royalty and interest income from investees	(2)	(29)%	(0.2)	(2)	(9)%	—

The increase in gross margin for the three months ended September 29, 2013, was primarily due to higher volumes in the emission solutions business and lower material and commodity costs, partially offset by increased product coverage costs and unfavorable foreign currency fluctuations. The increase in selling, general and administrative expenses for the three months ended September 29, 2013, was primarily due to higher variable compensation.

The increase in gross margin for the nine months ended September 29, 2013, was primarily due to lower material and commodity costs and higher volumes in the emissions solutions business, partially offset by increased product coverage costs and unfavorable foreign currency fluctuations. The decrease in selling, general and administrative expenses was primarily due to lower discretionary spending in the first nine months of 2013, partially offset by increased headcount to support our strategic growth initiatives. The increase in research, development and engineering expenses was primarily due to increased headcount to support our strategic growth initiatives and new product development spending, partially offset by lower consulting expenses.

## Power Generation Segment Results

Financial data for the Power Generation segment was as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 29, 2013	September 30, 2012	Amount	Percent	September 29, 2013	September 30, 2012	Amount	Percent
	External sales	\$ 499	\$ 526	\$ (27)	(5)%	\$ 1,621	\$ 1,614	\$ 7
Intersegment sales	213	288	(75)	(26)%	651	889	(238)	(27)%
Total sales	712	814	(102)	(13)%	2,272	2,503	(231)	(9)%
Depreciation and amortization	13	12	(1)	(8)%	37	34	(3)	(9)%
Research, development and engineering expenses	18	19	1	5 %	53	56	3	5 %
Equity, royalty and interest income from investees	13	12	1	8 %	30	32	(2)	(6)%
Interest income	1	2	(1)	(50)%	5	7	(2)	(29)%
Segment EBIT	45	73	(28)	(38)%	172	243	(71)	(29)%
			Percentage Points				Percentage Points	
Segment EBIT as a percentage of total sales	6.3%	9.0%		(2.7)	7.6%	9.7%		(2.1)

Sales for our Power Generation segment by business were as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 29, 2013	September 30, 2012	Amount	Percent	September 29, 2013	September 30, 2012	Amount	Percent
	Power products	\$ 421	\$ 425	\$ (4)	(1)%	\$ 1,304	\$ 1,259	\$ 45
Generator technologies	126	138	(12)	(9)%	377	439	(62)	(14)%
Power systems	122	174	(52)	(30)%	488	579	(91)	(16)%
Power solutions	43	77	(34)	(44)%	103	226	(123)	(54)%
Total sales	\$ 712	\$ 814	\$ (102)	(13)%	\$ 2,272	\$ 2,503	\$ (231)	(9)%

### Sales

Power Generation segment sales for the three months ended September 29, 2013, decreased versus the comparable period in 2012 across all markets. The following were the primary drivers by business:

- Power systems sales decreased primarily due to reduced demand in China, India, the Middle East and North America.
- Power solutions sales decreased primarily due to lower volumes in the U.K., partially offset by increased sales in Asia.
- Generator technologies sales decreased primarily due to lower demand in Europe, India and the U.K., partially offset by increases in North America.
- Power products sales decreased primarily due to lower demand in India, Asia, Mexico and Africa, partially offset by increased demand in North America and improved price realization.

Power Generation segment sales for the nine months ended September 29, 2013, decreased versus the comparable period in 2012. The following were the primary drivers:

- Power solutions sales decreased primarily due to lower volumes in the U.K.
- Power systems sales decreased primarily due to reduced demand in the Middle East, India, China and Russia, partially offset by stronger demand in Western Europe.

- Generator technologies sales decreased primarily due to demand reductions in Europe, the U.K. and India.

The decreases above were partially offset by an increase in power product sales primarily due to higher volumes in North America and improved price realization.

### Segment EBIT

Power Generation segment EBIT for the three months ended September 29, 2013, decreased versus the comparable period in 2012 primarily due to lower gross margin. Power Generation segment EBIT for the nine months ended September 29, 2013, decreased versus the comparable period in 2012 primarily due to lower gross margin, partially offset by lower selling, general and administrative expenses. EBIT results for the three and nine months ended September 29, 2013, included an \$8 million legal settlement. Changes in Power Generation segment EBIT and EBIT as a percentage of sales were as follows:

In millions	Three months ended September 29, 2013 vs. September 30, 2012			Nine months ended September 29, 2013 vs. September 30, 2012		
	Favorable/(Unfavorable) Change			Favorable/(Unfavorable) Change		
	Amount	Percent	Percentage point change as a percent of sales	Amount	Percent	Percentage point change as a percent of sales
Gross margin	\$ (27)	(17)%	(1.0)	\$ (84)	(17)%	(1.7)
Selling, general and administrative expenses	—	— %	(1.3)	19	8 %	(0.1)
Research, development and engineering expenses	1	5 %	(0.2)	3	5 %	(0.1)
Equity, royalty and interest income from investees	1	8 %	0.3	(2)	(6)%	—

The decrease in gross margin for the three months ended September 29, 2013, was primarily due to lower volumes, unfavorable product mix, and higher warranty accruals, partially offset by improved price realization and favorable foreign currency fluctuations.

The decrease in gross margin for the nine months ended September 29, 2013, was due to lower volumes, unfavorable product mix and higher absorption costs, partially offset by improved price realization and favorable foreign currency fluctuations. The decreases in selling, general and administrative expenses and research, development and engineering expenses were primarily due to lower discretionary spending to align with slowing demand in key markets. Equity, royalty and interest income from investees decreased primarily due to lower profitability at Chongqing Cummins Engine Company, Ltd.

### Distribution Segment Results

Financial data for the Distribution segment was as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 29, 2013	September 30, 2012	Amount	Percent	September 29, 2013	September 30, 2012	Amount	Percent
	External sales	\$ 938	\$ 798	\$ 140	18 %	\$ 2,661	\$ 2,357	\$ 304
Intersegment sales	6	3	3	100 %	15	13	2	15 %
Total sales	944	801	143	18 %	2,676	2,370	306	13 %
Depreciation and amortization	15	8	(7)	(88)%	40	23	(17)	(74)%
Research, development and engineering expenses	1	1	—	— %	4	4	—	— %
Equity, royalty and interest income from investees	42	50	(8)	(16)%	124	147	(23)	(16)%
Interest income	—	—	—	— %	1	1	—	— %
Segment EBIT <sup>(1)</sup>	86	99	(13)	(13)%	281	285	(4)	(1)%
			Percentage Points				Percentage Points	
Segment EBIT as a percentage of total sales	9.1%	12.4%		(3.3)	10.5%	12.0%		(1.5)

(1) Segment EBIT for the nine months ended September 29, 2013, included gains of \$5 million and \$7 million gain related to the remeasurement of our pre-existing 33 percent and 50 percent ownership in Rocky Mountain and Northwest, respectively, to fair value in accordance with accounting principles generally accepted in the United States of America (GAAP). Segment EBIT for the three and nine months ended September 30, 2012, included a \$7 million gain related to the remeasurement of our pre-existing 35 percent ownership in Cummins Central Power to fair value in accordance with GAAP. See Note 3, "ACQUISITIONS AND DIVESTITURES," to the *Condensed Consolidated Financial Statements* for further information.

Sales for our Distribution segment by region were as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 29,	September 30,	Amount	Percent	September 29,	September 30,	Amount	Percent
	2013	2012			2013	2012		
North & Central America	\$ 395	\$ 235	\$ 160	68 %	\$ 1,028	\$ 629	\$ 399	63 %
Europe and Middle East	185	168	17	10 %	542	563	(21)	(4)%
Other Asia/Australia	174	200	(26)	(13)%	548	602	(54)	(9)%
China	77	85	(8)	(9)%	220	233	(13)	(6)%
India	40	47	(7)	(15)%	127	132	(5)	(4)%
Latin America	40	36	4	11 %	112	99	13	13 %
Africa	33	30	3	10 %	99	112	(13)	(12)%
Total sales	\$ 944	\$ 801	\$ 143	18 %	\$ 2,676	\$ 2,370	\$ 306	13 %

Sales for our Distribution segment by product were as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 29,	September 30,	Amount	Percent	September 29,	September 30,	Amount	Percent
	2013	2012			2013	2012		
Parts and filtration	\$ 377	\$ 326	\$ 51	16%	\$ 1,068	\$ 916	\$ 152	17%
Power generation	234	178	56	31%	638	565	73	13%
Engines	170	157	13	8%	505	470	35	7%
Service	163	140	23	16%	465	419	46	11%
Total sales	\$ 944	\$ 801	\$ 143	18%	\$ 2,676	\$ 2,370	\$ 306	13%

### Sales

Distribution segment sales for the three months ended September 29, 2013, increased versus the comparable period in 2012 primarily due to \$130 million of segment sales related to the consolidation of partially-owned North American distributors. This increase was partially offset by decreased demand in Other Asia/Australia and unfavorable foreign currency fluctuations.

Distribution segment sales for the nine months ended September 29, 2013, increased versus the comparable period in 2012 primarily due to \$369 million of segment sales related to the consolidation of partially-owned North American distributors. This increase was partially offset by decreased demand in most international markets and unfavorable foreign currency impacts.

### Segment EBIT

Distribution segment EBIT for the three and nine months ended September 29, 2013, decreased versus the comparable periods in 2012, primarily due to the acquisition of two North American distributors since September 2012 and unfavorable foreign currency fluctuations. The consolidation of North American distributors increased gross margin, reduced equity, royalty and interest income from investees and increased selling, general and administrative expenses. Amortization of acquisition related intangible assets also negatively impacted EBIT for the three and nine months ended September 29, 2013. These acquisitions resulted in a \$12 million gain for the nine months ended September 29, 2013, related to the remeasurement of our pre-existing ownership interest in the distributors acquired in 2013, compared to a \$7 million gain related to the remeasurement of our pre-existing 35 percent ownership interest in Cummins Central Power in the three and nine months ended September 30, 2012.



[Table of Contents](#)

The gains are included in Other income (expense), net in the *Condensed Consolidated Statements of Income*. EBIT as a percentage of sales for the three months and nine months ended September 29, 2013, was 9.1 percent and 10.5 percent, respectively as compared to 12.4 percent and 12.0 percent for the comparable periods in 2012. Changes in Distribution segment EBIT and EBIT as a percentage of sales were as follows:

In millions	Three months ended			Nine months ended		
	September 29, 2013 vs. September 30, 2012			September 29, 2013 vs. September 30, 2012		
	Favorable/(Unfavorable) Change			Favorable/(Unfavorable) Change		
	Amount	Percent	Percentage point change as a percent of sales	Amount	Percent	Percentage point change as a percent of sales
Gross margin	\$ 17	10 %	(1.4)	\$ 45	9 %	(0.7)
Selling, general and administrative expenses	(14)	(11)%	0.9	(31)	(8)%	0.6
Equity, royalty and interest income from investees	(8)	(16)%	(1.8)	(23)	(16)%	(1.6)

**Reconciliation of Segment EBIT to Income Before Income Taxes**

The table below reconciles the segment information to the corresponding amounts in the *Condensed Consolidated Statements of Income*:

In millions	Three months ended		Nine months ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Total segment EBIT	\$ 535	\$ 500	\$ 1,646	\$ 1,872
Non-segment EBIT <sup>(1)</sup>	1	(4)	(52)	(49)
Total EBIT	536	496	1,594	1,823
Less: Interest expense	8	9	22	25
Income before income taxes	\$ 528	\$ 487	\$ 1,572	\$ 1,798

<sup>(1)</sup> Includes intersegment sales and profit in inventory eliminations and unallocated corporate expenses. The nine months ended September 30, 2012, include a \$6 million gain (\$4 million after-tax) related to adjustments from our 2011 divestitures. The gain has been excluded from segment results as it was not considered in our evaluation of operating results for the corresponding periods. There were no other significant unallocated corporate expenses for the three and nine months ended September 29, 2013 and September 30, 2012.

## LIQUIDITY AND CAPITAL RESOURCES

### Management's Assessment of Liquidity

Our financial condition and liquidity remain strong. Our solid balance sheet and credit ratings enable us to continue to have ready access to credit and the capital markets.

As a well-known seasoned issuer, we filed an automatic shelf registration for an undetermined amount of debt and equity securities with the SEC on September 16, 2013. Under this shelf registration we may offer, from time to time, debt securities, common stock, preferred and preference stock, depositary shares, warrants, stock purchase contracts and stock purchase units.

In September 2013, we issued \$1 billion aggregate principal amount of senior notes consisting of \$500 million aggregate principal amount of 3.65% senior unsecured notes due in 2023 and \$500 million aggregate principal amount of 4.875% senior unsecured notes due in 2043. We received net proceeds of \$979 million. The senior notes pay interest semi-annually on April 1 and October 1, commencing on April 1, 2014. The indenture governing the senior notes contains covenants that, among other matters, limit (i) our ability to consolidate or merge into, or sell, assign, convey, lease, transfer or otherwise dispose of all or substantially all of our and our subsidiaries' assets to another person, (ii) our and certain of our subsidiaries' ability to create or assume liens and (iii) our and certain of our subsidiaries' ability to engage in sale and leaseback transactions. We currently anticipate using a portion of the net proceeds from the sale of the notes for the planned acquisitions of the equity that we do not already own in our partially-owned United States and Canadian distributors, as well as for general corporate purposes.

We assess our liquidity in terms of our ability to generate adequate cash to fund our operating, investing and financing activities. We generate significant ongoing cash flow, which has been used, in part, to fund capital expenditures, pay dividends on our common stock, fund repurchases of common stock and make acquisitions. Cash provided by operations is our principal source of liquidity. As of September 29, 2013, other sources of liquidity include:

- cash and cash equivalents of \$2.5 billion, of which approximately 58 percent is located in the U.S. and 42 percent is located primarily in the U.K., China, Singapore, India and Brazil,
- marketable securities of \$162 million, of which 77 percent is located in India, 18 percent is located in the U.S. and 5 percent is located in Brazil and the majority of which could be liquidated into cash within a few days,
- revolving credit facility with \$1.7 billion available, net of letters of credit and
- international and other domestic credit facilities with \$279 million available.

We believe our liquidity provides us with the financial flexibility needed to fund working capital, capital expenditures, projected pension obligations, dividend payments, common stock repurchases, acquisitions of our North American distributors and debt service obligations. We continue to generate cash from operations in the U.S. and maintain access to \$1.7 billion of our revolver as noted above.

A significant portion of our cash flows is generated outside the U.S. As of September 29, 2013, the total of cash, cash equivalents and marketable securities held by foreign subsidiaries was \$1.2 billion, the majority of which was located in the U.K., China, India, Singapore and Brazil. The geographic location of our cash and marketable securities aligns well with our business growth strategy. We manage our worldwide cash requirements considering available funds among the many subsidiaries through which we conduct our business and the cost effectiveness with which those funds can be accessed. As a result, we do not anticipate any local liquidity restrictions to preclude us from funding our targeted expansion or operating needs with local resources.

If we distribute our foreign cash balances to the U.S. or to other foreign subsidiaries, we could be required to accrue and pay U.S. taxes. For example, we would be required to accrue and pay additional U.S. taxes if we repatriated cash from certain foreign subsidiaries whose earnings we have asserted are permanently reinvested outside of the U.S. Foreign earnings for which we assert permanent reinvestment outside the U.S. consist primarily of earnings of our China and U.K. domiciled subsidiaries. At present, we do not foresee a need to repatriate any earnings from these subsidiaries for which we have asserted permanent reinvestment. However, to help fund cash needs of the U.S. or other international subsidiaries as they arise, we repatriate available cash from certain foreign subsidiaries whose earnings are not permanently reinvested when it is cost effective to do so. Our 2012 and subsequent earnings from our China operations are considered permanently reinvested, while earnings generated prior to 2012, for which U.S. deferred tax liabilities have been recorded, are expected to be repatriated in future years.

### Working Capital Summary

We fund our working capital with cash from operations and short-term borrowings when necessary. Various assets and liabilities, including short-term debt, can fluctuate significantly from month to month depending on short-term liquidity needs. As a result, working capital is a prime focus of management attention.

In millions	September 29, 2013	December 31, 2012	Change
Cash and cash equivalents	\$ 2,499	\$ 1,369	\$ 1,130
Marketable securities	162	247	(85)
Accounts and notes receivable	2,709	2,475	234
Inventories	2,513	2,221	292
Other current assets	643	855	(212)
Current assets	<u>8,526</u>	<u>7,167</u>	<u>1,359</u>
Current maturity of long-term debt, accounts and loans payable	1,675	1,416	259
Current portion of accrued product warranty	374	386	(12)
Accrued compensation, benefits and retirement costs	413	400	13
Taxes payable (including taxes on income)	112	173	(61)
Other accrued expenses	816	761	55
Current liabilities	<u>3,390</u>	<u>3,136</u>	<u>254</u>
Working capital	<u>\$ 5,136</u>	<u>\$ 4,031</u>	
Current ratio	<u>2.52</u>	<u>2.29</u>	
Days' sales in receivables	56	53	
Inventory turnover	5.2	5.7	

Current assets increased 19 percent compared to December 31, 2012, primarily due to increases in cash and cash equivalents as a result of the \$1 billion debt issuance in September of 2013, inventories and accounts and notes receivable, partially offset by a decline in other current assets (primarily related to refundable income taxes received in the first quarter of 2013) and marketable securities.

Current liabilities increased 8 percent compared to December 31, 2012, primarily due to an increase in accounts payable trade and an increase in other accrued expenses, partially offset by a decrease in taxes payable.

Days' sales in receivables increased 3 days versus the comparable period in 2012. The increase was primarily due to lower sales in the first nine months of 2013.

Inventory turnover decreased 0.5 turns versus the comparable period in 2012. The decrease was due to inventory acquired as part of the acquisitions of Rocky Mountain and Northwest in 2013 and certain businesses restocking from lower inventory levels in December.

### Cash Flows

Cash and cash equivalents increased \$1,130 million during the nine months ended September 29, 2013, compared to a \$451 million decrease in cash and cash equivalents during the comparable period in 2012. Cash and cash equivalents were impacted as follows.

**Operating Activities**

In millions	Nine months ended		Change
	September 29, 2013	September 30, 2012	
Consolidated net income	\$ 1,127	\$ 1,340	\$ (213)
Depreciation and amortization	305	262	43
Restructuring payments, net	(25)	—	(25)
Gain on sale of businesses	—	(6)	6
Gain on fair value adjustment for consolidated investees	(12)	(7)	(5)
Deferred income taxes	78	91	(13)
Equity in income of investees, net of dividends	(98)	(51)	(47)
Pension contributions in excess of expense	(96)	(74)	(22)
Other post-retirement benefits payments in excess of expense	(20)	(16)	(4)
Stock-based compensation expense	29	29	—
Excess tax benefits on stock-based awards	(13)	(12)	(1)
Translation and hedging activities	26	16	10
Changes in current assets and liabilities, net of acquisitions:			
Accounts and notes receivable	(216)	66	(282)
Inventories	(206)	(367)	161
Other current assets	182	(54)	236
Accounts payable	252	(145)	397
Accrued expenses	(146)	(398)	252
Changes in other liabilities and deferred revenue	147	154	(7)
Other, net	19	(41)	60
Net cash provided by operating activities	\$ 1,333	\$ 787	\$ 546

Net cash provided by operating activities increased for the nine months ended September 29, 2013, versus the comparable period in 2012, primarily due to favorable working capital fluctuations, partially offset by lower consolidated net income. During the first nine months of 2013, the lower working capital requirements resulted in a cash outflow of \$134 million compared to a cash outflow of \$898 million in the comparable period in 2012. This positive change of \$764 million was primarily driven by an increase in accounts payable, lower net tax payments of \$322 million due to the receipt of an income tax refund, which was partially offset by our tax payments in the first nine months of 2013, a smaller decrease in accrued expenses and a smaller increase in inventories, partially offset by an increase in accounts and notes receivable in the nine months ended September 29, 2013, versus the comparable period in 2012.

**Pensions**

The funded status of our pension plans is dependent upon a variety of variables and assumptions including return on invested assets, market interest rates and levels of voluntary contributions to the plans. In the first nine months of 2013, the return for our U.S. plan was 3.7 percent while our U.K. plan return was 7.8 percent. Approximately 76 percent of our pension plan assets are invested in highly liquid investments such as equity and fixed income securities. The remaining 24 percent of our plan assets are invested in less liquid, but market valued investments, including real estate, private equity and insurance contracts. We made \$161 million of pension contributions in the nine months ended September 29, 2013, and we anticipate making total contributions of approximately \$170 million to our pension plans in 2013, which include voluntary contributions of approximately \$115 million. Expected contributions to our defined benefit pension plans in 2013 will meet or exceed the current funding requirements. Claims and premiums for other postretirement benefits are expected to approximate \$47 million in 2013. The \$161 million of pension contributions in the nine months ended September 29, 2013, included voluntary contributions of \$110 million. These contributions and payments include payments from our funds either to increase pension plan assets or to make direct payments to plan participants.

**Investing Activities**

In millions	Nine months ended		Change
	September 29, 2013	September 30, 2012	
Capital expenditures	\$ (417)	\$ (424)	\$ 7
Investments in internal use software	(43)	(62)	19
Investments in and advances to equity investees	(12)	(92)	80
Acquisition of businesses, net of cash acquired	(145)	(215)	70
Proceeds from sale of business, net of cash sold	—	10	(10)
Investments in marketable securities—acquisitions	(360)	(433)	73
Investments in marketable securities—liquidations	433	475	(42)
Cash flows from derivatives not designated as hedges	(15)	13	(28)
Other, net	14	9	5
Net cash used in investing activities	\$ (545)	\$ (719)	\$ 174

Net cash used in investing activities decreased for the nine months ended September 29, 2013, versus the comparable period in 2012, primarily due to lower investments in and advances to equity investees, lower cash investment for the acquisition of businesses and lower net investments in marketable securities, partially offset by unfavorable settlement of derivatives not designated as hedges.

On September 17, 2013, we announced our intention to acquire the equity that we do not already own in most of our partially-owned United States and Canadian distributors over the next three to five years.

Capital expenditures for the nine months ended September 29, 2013, were \$417 million compared to \$424 million in the comparable period in 2012. Despite the challenging economies around the world, we continue to invest in new product lines and targeted capacity expansions. We now plan to spend approximately \$700 million in 2013 as we continue with product launches, facility improvements and prepare for future emission standards. Over 50 percent of our capital expenditures will be invested outside of the U.S. in 2013. As of September 29, 2013, we have committed to invest an additional \$59 million into existing joint ventures, of which \$11 million is expected to be funded in 2013.

**Financing Activities**

In millions	Nine months ended		Change
	September 29, 2013	September 30, 2012	
Proceeds from borrowings	\$ 987	\$ 64	\$ 923
Payments on borrowings and capital lease obligations	(62)	(120)	58
Net borrowings under short-term credit agreements	34	5	29
Distributions to noncontrolling interests	(53)	(50)	(3)
Dividend payments on common stock	(305)	(246)	(59)
Repurchases of common stock	(289)	(231)	(58)
Excess tax benefits on stock-based awards	13	12	1
Other, net	19	16	3
Net cash provided by (used in) financing activities	\$ 344	\$ (550)	\$ 894

In September 2013, we issued \$1 billion aggregate principal amount of senior notes consisting of \$500 million aggregate principal amount of 3.65% senior unsecured notes due in 2023 and \$500 million aggregate principal amount of 4.875% senior unsecured notes due in 2043. Net proceeds from the issuance were \$979 million.

Net cash provided by financing activities increased for the nine months ended September 29, 2013, versus the comparable period in 2012, primarily due to the proceeds from our issuance of senior notes and lower payments on borrowings and capital lease obligations, partially offset by higher dividend payments and higher repurchases of common stock.

[Table of Contents](#)

In July 2013, the Board of Directors authorized a dividend increase of 25 percent from \$0.50 per share to \$0.625 per share on a quarterly basis.

Our total debt was \$1,793 million as of September 29, 2013, compared with \$775 million as of December 31, 2012. Total debt as a percent of our total capital (total capital defined as debt plus equity) was 19.4 percent at September 29, 2013, compared with 10.0 percent at December 31, 2012.

In February 2011, the Board of Directors approved a share repurchase program and authorized the acquisition of up to \$1 billion of our common stock, which was completed in June 2013. In December 2012, the Board of Directors authorized the acquisition of up to \$1 billion of additional common stock upon completion of the 2011 repurchase plan. In 2013, we made the following quarterly purchases under the repurchase programs indicated:

In millions (except per share amounts) For each quarter ended	Shares Purchased	Average Cost Per Share	Total Cost of Repurchases	Remaining Authorized Capacity
<b>February 2011, \$1 billion repurchase program</b>				
March 31	—	\$ —	\$ —	\$ 226
June 30	2.0	113.44	226	—
Subtotal	2.0	113.44	226	—
<b>December 2012, \$1 billion repurchase program</b>				
June 30	0.6	\$ 107.74	\$ 63	\$ 937
September 29	—	—	—	\$ 937
Subtotal	0.6	107.74	63	\$ 937
<b>Total</b>	<b>2.6</b>	<b>112.15</b>	<b>\$ 289</b>	<b>\$ 937</b>

We may continue to repurchase outstanding shares from time to time during 2013 to offset the dilutive impact of employee stock based compensation plans and to enhance shareholder value.

**Credit Ratings**

A number of our contractual obligations and financing agreements, such as our revolving credit facility have restrictive covenants and/or pricing modifications that may be triggered in the event of downward revisions to our corporate credit rating. There were no downgrades of our credit ratings in the third quarter of 2013 that have impacted these covenants or pricing modifications. Standard & Poor's Rating Services, Fitch Ratings and Moody's Investors Service, Inc. confirmed our credit ratings as 'A', 'A' and 'A3', respectively, subsequent to the third quarter issuance of \$1 billion in senior notes.

Credit ratings are not recommendations to buy, are subject to change and each rating should be evaluated independently of any other rating. In addition, we undertake no obligation to update disclosures concerning our credit ratings, whether as a result of new information, future events or otherwise. Our ratings and outlook from each of the credit rating agencies as of the date of filing are shown in the table below.

Credit Rating Agency	Senior L-T Debt Rating	Outlook
Standard & Poor's Rating Services	A	Stable
Fitch Ratings	A	Stable
Moody's Investors Service, Inc.	A3	Stable

## **APPLICATION OF CRITICAL ACCOUNTING ESTIMATES**

A summary of our significant accounting policies is included in Note 1, “SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,” of the *Notes to the Consolidated Financial Statements* of our 2012 Form 10-K which discusses accounting policies that we have selected from acceptable alternatives.

Our *Condensed Consolidated Financial Statements* are prepared in accordance with generally accepted accounting principles that often require management to make judgments, estimates and assumptions regarding uncertainties that affect the reported amounts presented and disclosed in the financial statements. Management reviews these estimates and assumptions based on historical experience, changes in business conditions and other relevant factors they believe to be reasonable under the circumstances. In any given reporting period, our actual results may differ from the estimates and assumptions used in preparing our *Condensed Consolidated Financial Statements*.

Critical accounting estimates are defined as follows: the estimate requires management to make assumptions about matters that were highly uncertain at the time the estimate was made; different estimates reasonably could have been used; or if changes in the estimate are reasonably likely to occur from period to period and the change would have a material impact on our financial condition or results of operations. Our senior management has discussed the development and selection of our accounting policies, related accounting estimates and the disclosures set forth below with the Audit Committee of our Board of Directors. We believe our critical accounting estimates include those addressing the estimation of liabilities for warranty programs, recoverability of investment related to new products, accounting for income taxes and pension benefits.

A discussion of our critical accounting estimates may be found in the “Management’s Discussion and Analysis” section of our 2012 Form 10-K under the caption “APPLICATION OF CRITICAL ACCOUNTING ESTIMATES.” Within the context of these critical accounting estimates, we are not currently aware of any reasonably likely events or circumstances that would result in different policies or estimates being reported in the first nine months of 2013.

## **RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS**

See Note 17, “RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS,” in the *Notes to Condensed Consolidated Financial Statements*.

### **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

A discussion of quantitative and qualitative disclosures about market risk may be found in Item 7A of our 2012 Form 10-K. There have been no material changes in this information since the filing of our 2012 Form 10-K. Further information regarding financial instruments and risk management is discussed in Note 13, “DERIVATIVES,” in the *Notes to the Condensed Consolidated Financial Statements*.

### **ITEM 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is (1) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and (2) accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

#### **Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting during the quarter ended September 29, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. Legal Proceedings

We are subject to numerous lawsuits and claims arising out of the ordinary course of our business, including actions related to product liability; personal injury; the use and performance of our products; warranty matters; patent, trademark or other intellectual property infringement; contractual liability; the conduct of our business; tax reporting in foreign jurisdictions; distributor termination; workplace safety; and environmental matters. We also have been identified as a potentially responsible party at multiple waste disposal sites under U.S. federal and related state environmental statutes and regulations and may have joint and several liability for any investigation and remediation costs incurred with respect to such sites. We have denied liability with respect to many of these lawsuits, claims and proceedings and are vigorously defending such lawsuits, claims and proceedings. We carry various forms of commercial, property and casualty, product liability and other forms of insurance; however, such insurance may not be applicable or adequate to cover the costs associated with a judgment against us with respect to these lawsuits, claims and proceedings. We do not believe that these lawsuits are material individually or in the aggregate. While we believe we have also established adequate accruals for our expected future liability with respect to pending lawsuits, claims and proceedings, where the nature and extent of any such liability can be reasonably estimated based upon then presently available information, there can be no assurance that the final resolution of any existing or future lawsuits, claims or proceedings will not have a material adverse effect on our business, results of operations, financial condition or cash flows.

We conduct significant business operations in Brazil that are subject to the Brazilian federal, state and local labor, social security, tax and customs laws. While we believe we comply with such laws, they are complex, subject to varying interpretations and we are often engaged in litigation regarding the application of these laws to particular circumstances.

### ITEM 1A. Risk Factors

In addition to other information set forth in this report, including the risk factors below, you should consider other risk factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K or the "CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION" in this Quarterly report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently judge to be immaterial also may materially adversely affect our business, financial condition or operating results.

***Failure to successfully integrate the planned acquisitions of the equity we do not already own of our partially-owned United States and Canadian distributors could have an adverse impact on our realization of expected benefits to our financial condition and results of operations.***

The completion of our plan to acquire all of the equity we do not already own of our partially-owned United States and Canadian distributors, (each, an "Acquisition," and collectively, the "Acquisitions"), is subject to various risks, including, among other things, our ability to realize the full extent of the incremental revenue, earnings, cash flow, cost savings and other benefits that we expect to realize as a result of the completion of the Acquisitions within the anticipated time frame, or at all; the costs that are expected to be incurred in connection with evaluating, negotiating, consummating and integrating the Acquisitions; the ability of management to focus adequate time and attention on evaluating, negotiating, consummating and integrating the Acquisitions; and diversion of management's attention from base strategies and objectives, both during and after the acquisition process. Further, as with all merger and acquisition activity, there can be no assurance that we will be able to negotiate, consummate and integrate the Acquisitions in accordance with our plans. Those persons holding the third-party ownership of our partially-owned United States and Canadian distributors may not agree to our acquisition proposals, including the terms and conditions thereof, and may claim that our proposals to exercise certain contractual rights that we have with respect to acquiring such distributors may violate applicable state franchise and distributor laws, which may result in the consummation of such Acquisitions on terms and conditions that are less favorable to us than we currently anticipate, or not at all.

***After completion of the Acquisitions, we may fail to realize the expected enhanced revenue, earnings, cash flow, cost savings and other benefits.***

The financial success of the Acquisitions will depend, in substantial part, on our ability to successfully combine our business with the businesses of our partially-owned United States and Canadian distributors, transition operations and realize the expected enhanced revenue, earnings, cash flow, cost savings and other benefits from such Acquisitions. While we currently believe that these enhanced revenue, earnings, cash flow, cost savings and other benefits estimates are achievable, it is possible



that we will be unable to achieve these objectives within the anticipated time frame, or at all. Our enhanced revenue, earnings, cash flow, cost savings and other benefits estimates also depend on our ability to execute and integrate the Acquisitions in a manner that permits those benefits to be realized. If these estimates turn out to be incorrect or we are not able to execute our integration strategy successfully, the anticipated enhanced revenue, earnings, cash flow, cost savings and other benefits, resulting from the Acquisitions may not be realized fully, or at all, or may take longer to realize than expected.

Specifically, issues that must be addressed in integration in order to realize the anticipated benefits and costs savings of the Acquisitions include, among other things:

- maintaining and improving management and employee engagement, morale, motivation and productivity;
- recruiting and retaining executives and key employees;
- retaining and strengthening relationships with existing customers and attracting new customers;
- conforming standards, controls, procedures and policies, business cultures and compensation structures among the companies;
- consolidating and streamlining corporate and administrative infrastructures;
- consolidating sales, customer service and marketing operations;
- identifying and eliminating redundant and underperforming operations and assets;
- integrating the distribution, sales, customer service and administrative support activities among the companies;
- integrating information technology systems, including those systems managing data security for sensitive employee, customer and vendor information, and diverse network applications across the companies;
- managing the broadened competitive landscape, including responding to the actions taken by competitors in response to the Acquisitions;
- coordinating geographically dispersed organizations;
- managing the additional business risks of businesses that we have not previously directly managed; and
- managing tax costs or inefficiencies associated with integrating our operations following completion of the Acquisitions.

Delays encountered in the process of integrating the Acquisitions could negatively impact our revenues, expenses, operating results, cash flow and financial condition after completion of the Acquisitions, including through the loss of current customers or suppliers. Although significant benefits, such as enhanced revenue, earnings, cash flow and cost savings, are expected to result from the Acquisitions, there can be no assurance that we will realize any of these anticipated benefits after completion of any or all of the Acquisitions.

Additionally, significant costs are expected to be incurred in connection with the integration of the Acquisitions. We continue to assess the magnitude of these costs and additional unanticipated costs may be incurred, including costs associated with assuming our partially-owned United States and Canadian distributors' exposure to outstanding and anticipated legal claims and other liabilities. Although we believe that the elimination of duplicative costs, as well as the realization of other synergies and efficiencies related to the integration of the Acquisitions, will offset incremental integration-related costs over time, no assurances can be given that this net benefit will be achieved in the near term, or at all. In addition, the process of integrating the operations of our partially- owned United States and Canadian distributors may distract management and employees from delivering against base strategies and objectives, which could negatively impact other segments of our business following the completion of the Acquisitions.

Furthermore, the Acquisitions and the related integration efforts, could result in the departure of key managers and employees, and we may fail to identify managerial resources to fill both executive-level and lower-level managerial positions and replace key employees, including those who oversee customer relationships, any of which could have a negative impact on our

business, and, prior to the completion of the Acquisitions, the businesses of our partially-owned United States and Canadian distributors.

*The completion of the Acquisitions may be subject to the receipt of certain required clearances or approvals from governmental entities that could prevent or delay their completion or impose conditions that could have an adverse effect on us.*

Completion of each of the Acquisitions may be conditioned upon the receipt of certain governmental clearances or approvals, including, but not limited to, the expiration or termination of any applicable waiting periods under U.S. competition and trade laws with respect to such Acquisitions. There can be no assurance that these clearances and approvals will be obtained, and, additionally, government authorities from which these clearances and approvals are required may impose conditions on the completion of any, or all, of the Acquisitions or require changes to their respective terms. If, in order to obtain any clearances or approvals required to complete any of the Acquisitions, we become subject to any material conditions after completion of any of such Acquisitions, our business and results of operations after completion of any of such Acquisitions may be adversely affected.

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

The following information is provided pursuant to Item 703 of Regulation S-K:

Period	Issuer Purchases of Equity Securities			
	(a) Total Number of Shares Purchased <sup>(1)</sup>	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
July 1 - August 4, 2013	2,297	\$ 121.43	—	93,071
August 5 - September 1, 2013	4,744	124.96	—	88,203
September 2 - September 29, 2013	10,303	130.61	—	77,030
Total	17,344	127.85	—	

<sup>(1)</sup> Shares purchased represent shares under our Key Employee Stock Investment Plan established in 1969 (there is no maximum repurchase limitation in this plan) and our share repurchase plan.

<sup>(2)</sup> These values reflect the sum of shares held in loan status under our Key Employee Stock Investment Plan. The repurchase program authorized by the Board of Directors does not limit the number of shares that may be purchased and was excluded from this column.

In February 2011, the Board of Directors approved a share repurchase program and authorized the acquisition of up to \$1 billion of our common stock, which was completed in June 2013.

In December 2012, the Board of Directors authorized the acquisition of up to \$1 billion of additional common stock upon completion of the 2011 repurchase plan. As of September 29, 2013, we have \$937 million available for purchase under this authorization.

During the three months ended September 29, 2013, we repurchased 17,344 shares from employees in connection with the Key Employee Stock Investment Plan which allows certain employees, other than officers, to purchase shares of common stock on an installment basis up to an established credit limit. Loans are issued for five-year terms at a fixed interest rate established at the date of purchase and may be refinanced after its initial five-year period for an additional five-year period. Participants must hold shares for a minimum of six months from date of purchase and after shares are sold must wait six months before another share purchase may be made. We hold participants' shares as security for the loans and would, in effect repurchase shares if the participant defaulted in repayment of the loan. There is no maximum amount of shares that we may purchase under this plan.

## ITEM 3. Defaults Upon Senior Securities

Not applicable.

**ITEM 4. Mine Safety Disclosures**

Not applicable.

**ITEM 5. Other Information**

Not applicable.

**ITEM 6. Exhibits**

See Exhibit Index at the end of this Quarterly Report on Form 10-Q.



**CUMMINS INC.  
EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
4(a)	Indenture, dated as of September 16, 2013, by and between Cummins Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-3 filed with the SEC on September 26, 2013 (Registration Statement No. 333-191189)).
4(b)	First Supplemental Indenture, dated as of September 24, 2013, between Cummins Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 of the Current Report on 8-K, filed by Cummins Inc. with the SEC on September 24, 2013 (File No. 001-04949)).
4(c)	Second Supplemental Indenture, dated as of September 24, 2013, between Cummins Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 4.2 of the Current Report on 8-K, filed by Cummins Inc. with the SEC on September 24, 2013 (File No. 001-04949)).
12	Calculation of Ratio of Earnings to Fixed Charges.
31(a)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31(b)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

**CUMMINS INC. AND SUBSIDIARIES**  
**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**

In millions	Nine months ended	
	September 29, 2013	September 30, 2012
<b>Earnings</b>		
Earnings before income taxes and noncontrolling interests	\$ 1,572	\$ 1,798
<b>Add</b>		
Fixed charges	79	77
Amortization of capitalized interest	1	1
Distributed income of equity investees	162	218
<b>Less</b>		
Equity in earnings of investees	254	272
Capitalized interest	5	5
Noncontrolling interest in pre-tax income of subsidiaries that have not incurred fixed charges	—	1
Earnings before fixed charges	\$ 1,555	\$ 1,816
<b>Fixed charges</b>		
Interest expense	\$ 22	\$ 25
Capitalized interest	5	5
Amortization of debt discount	8	3
Interest portion of rental expense <sup>(1)</sup>	44	44
Total fixed charges	\$ 79	\$ 77
Ratio of earnings to fixed charges	19.7	23.6

<sup>(1)</sup> Amounts represent those portions of rent expense that are reasonable approximations of interest costs.

**Certification**

I, N. Thomas Linebarger, certify that:

1. I have reviewed this report on Form 10-Q of Cummins Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the periods in which the report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: October 30, 2013

/s/ N. THOMAS LINEBARGER

N. Thomas Linebarger

*Chairman and Chief Executive Officer*

Certification

I, Patrick J. Ward, certify that:

1. I have reviewed this report on Form 10-Q of Cummins Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the periods in which the report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: October 30, 2013

/s/ PATRICK J. WARD

Patrick J. Ward

*Vice President and Chief Financial Officer*



**Cummins Inc.**  
**CERTIFICATION PURSUANT TO**  
**18 U.S.C. SECTION 1350,**  
**AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Cummins Inc. (the "Company") on Form 10-Q for the period ended September 29, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, N. Thomas Linebarger, Chairman and Chief Executive Officer of the Company, and Patrick J. Ward, Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934;  
and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

October 30, 2013

/s/ N. THOMAS LINEBARGER

N. Thomas Linebarger  
*Chairman and Chief Executive Officer*

October 30, 2013

/s/ PATRICK J. WARD

Patrick J. Ward  
*Vice President and Chief Financial Officer*